ECONOMISTI ASSOCIATI

INVESTMENT CLIMATE IN AFRICA PROGRAM

FOUR-COUNTRY IMPACT ASSESSMENT

RWANDA COUNTRY REPORT

Submitted by

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ABBREVIATIONS AND ACRONYMS

CSR	Social Security Fund of Rwanda
DB	Doing Business
DFID	Department for International Development
EAC	East Africa Community
EU	European Union
GOR	Government of Rwanda
ICF	Investment Climate Facility for Africa
IFC	International Finance Corporation
KFTZ	Kigali Free Trade Zone
KIP	Kigali Industrial Park
MINICOM	Ministry of Industry and Commerce
NBR	National Bank of Rwanda
OSC	One Stop Center
ORG	Office of the Registrar General (part of RDB)
PCR	Project Completion Reports
PM	Program Manager
PPD	Private – Public Dialogue
PR	Progress Reports
PSCS	Private Sector Cost Savings
PSIG	Private Sector Investment Generated
RBS	Rwanda Bureau of Standards
RCEDP	Rwanda Competitiveness and Enterprise Development Project
RDB	Rwanda Development Board
REMA	Rwanda Environment Management Authority
RICP	Rwanda Investment Climate Project
RICRP	Rwanda Investment Climate Reform Project
RIEPA	Rwanda Investment and Export Promotion Agency (incorporated into RDB)
RPPDP	Rwanda Private Public Dialogue
RPSF	Rwanda Private Sector Foundation
RRA	Rwanda Revenue Authority
RURA	Rwanda Utilities Regulatory Agency
SCM	Standard Cost Model
SEZ	Special Economic Zones
SME	Small and Medium Enterprises
SR	Supervision Reports
TCC	Tax Clearance Certificates
WB	World Bank
WBES	World Bank Enterprise Survey

Currency
Rwanda Franc (RWF)

Exchange Rates
2007 US$ 1.00 = RWF 547.01
2008 US$ 1.00 = RWF 546.85
2009 US$ 1.00 = RWF 568.27
2010 US$ 1.00 = RWF 575.76

EXECUTIVE SUMMARY

Introduction

The purpose of the Report is to provide an evaluation of the ***Rwanda Investment Climate Reform Project*** (RICRP or the "Project") implemented by the IFC over the 2007 – 2010 period. In line with the Terms of Reference (TOR), the analysis is aimed at assessing "*both the efficacy of [the] program in achieving its initial objectives; and the quantitative impacts generated from program achievements*" (page 2 and 3). In particular, the exercise involves (i) a ***qualitative part***, focusing on the relevance, effectiveness (outputs and outcomes), and efficiency of the IFC intervention, and (ii) a ***quantitative part***, aimed at quantifying the impacts achieved by the Project.

Project Overview

Objective and Approach. The Project's ***overall objective*** was "*to assist the Government of Rwanda (GOR) to improve the regulatory environment, build institutions, and reduce the cost of doing business in Rwanda. In doing so, the project intends to create an investment climate that is competitive, attractive to the private sector (in areas where Rwanda has a comparative advantage) and distinctively different compared to the competing investment destinations in sub-Saharan Africa.*" In pursuing this objective a ***two pronged approach*** was adopted. On the one hand the Project aimed at improving Rwanda's ranking in the annual Doing Business (DB) surveys by assisting the GOR "*in implementing the Doing Business … reform action plan.*" On the other hand, the Project aimed at addressing a series of other issues affecting Rwanda's investment climate including themes not linked to the DB rankings.

Timeline and Budget. The Project was ***approved in October 2007*** and became operational on January 16, 2008, with a 23 month duration and expected completion date of December 15, 2009. During implementation, the duration was first extended to March 2010, then to June 2010 and finally to December 2010, bringing the total duration to ***35 months***. At approval the Project had an estimated budget of US$ 2,725,000, raised to US$ 2,833,000 towards the end of 2009. To this amount it is necessary to add the funding for the parallel "Rwanda Private Public Dialogue" project, which was later incorporated into the Project. Combining the two initiatives, the total amount of resources available was ***US$ 3,321,000***.

Components. Initially, the Project was structured into four components, one supporting reforms targeted to improve DB rankings; the other three dealing with business licensing, trade logistics and investment promotion. During implementation, four additional components were added dealing with tax administration, special economic zones, access to land, and private – public dialogue (PPD) and communication. The latter resulted from the *de facto* incorporation of the "Rwanda Private Public Dialogue" into the Project.[1] As a result, the Project can now be seen to include ***eight components***, whose objectives are summarized in the table below.

Project Components

Component	Objectives
#1 – Doing Business Reform	Improve Rwanda's rankings in the DB indicators in general
#2 – Business Licensing Reform	Streamline and improve information about existing licenses, and improve the quality of new regulation impacting businesses.
#3 – Improving Trade Logistics	Provide advice on the simplification and improvement of import export trade procedures
#4 – Investment Promotion	Develop and implement a strategy for promoting and facilitating private sector

[1] The RPPDP (number 552887) was approved on March 9, 2007. Implementation appears to have started on December 1, 2007 (but supervision reports also indicate implementation of certain activities in the Spring/Summer of 2007). The project was supposed to end in March 2009, but implementation was extended in parallel with the RICRP until December 31, 2010.

& Facilitation	investment
#5 – Improving Business Tax Administration	Improve the administrative efficiency of tax authorities and the relations with the business community
#6 – Special Economic Zones	Develop a legal framework for special economic zones and advise government on related investment decisions
#7 – Simplifying Access to Business Land	Advise on policy, legal and institutional impediments to business access to land (procedural simplification, land information system, etc.)
#8 – Facilitating PPD and Reform Communication	Support the development of a formal mechanism for structured PPD on critical issues affecting the business environment.

Project Environment. The Project was implemented ***in parallel with a number of other donor initiatives*** also aimed at improving specific aspects of the investment climate. In particular, the creation of a one-stop-shop structure for business registration was largely supported by the Investment Climate Facility for Africa (ICF), while reform in business taxation and customs administration benefited from extensive assistance from Britain's Department for International Development (DFID), with additional support provided by the International Monetary Fund (IMF). In addition, during Project implementation, ***Rwanda became a full member of the East African Community (EAC) Customs Union***, which *per se* entailed the adoption of a number of measures to align the country's legislative and regulatory framework with that of other EAC members. The presence of various forces all pointing in the same direction definitely contributed to hasten the pace of reforms. However, for the purposes of this evaluation exercise, this creates a serious analytical issue, as it makes it ***more difficult to disentangle the contribution of the Project from that of other concomitant factors***.

Evaluation

Strategic Relevance. Rwanda's long term strategy, enshrined in the *Vision 2020*, largely relies on private sector development to achieve the ambitious GDP growth targets. As private sector growth depends crucially on the existence of a favorable business environment the Project is generally ***well aligned with the country's needs***. However, there are doubts about the appropriateness of specific components or actions, which are not always attuned with the country's real conditions. Initially, the Project was primarily ***geared towards the achievement of 'quick wins,'*** which, in turn, were expected to yield positive results in terms of DB indicators. However, this orientation was modified over time, with ***progressively greater emphasis placed on structural reforms***, as witnessed by the inclusion of components (e.g. Component #5 on tax administration and Component #6 on special economic zones) that were clearly not aimed at achieving 'quick' results. The Project enjoyed substantial backing from key decision makers, including the country's political leadership. However, in some cases the ***operational cooperation with counterpart institutions proved less than ideal***, and in the early stages was considered a significant risk. In the case of Component #4, the situation was further complicated by discrete changes in the institutional setting, with the creation of the Rwanda Development Board (RDB) that incorporated the previous investment promotion agency.

Delivery of Outputs. The Project delivered a ***high number of outputs, most of them of good, if not excellent, quality and usually submitted on time***. In the case of some components, tangible deliverables in the form of reports, manuals, etc. were accompanied and to some extent replaced by the direct provision of advice to counterparts, through field visits and personal & group discussions. The assistance provided by the Project is ***positively assessed by counterparts***, with virtually all beneficiary institutions declaring themselves highly satisfied or satisfied, with only a few cases of neutral assessment.

Achievement of Development Outcomes. The degree of acceptance and implementation of recommendations formulated under the Project is fairly high, although there are differences depending upon the nature of the actions. Somewhat counter intuitively, the success rate was particularly high in the case of ***legislative reforms***, with more than a dozen major pieces of legislation passed and/or amended in less than three years. The high success rate in legislative reform is clearly an indication of the strong backing received from the country's political leadership. The degree of acceptance was also high in the case of ***administrative reforms***, involving the modification of internal procedures and/or the restructuring of certain bodies, as symbolized by the creation of two one-stop-shop structures, one for business registration and the other for the handling of construction permits in Kigali. The record is mixed in the case of ***capacity building actions*** related to the adoption of improved organizational models and working methods. In this case the, the weaknesses displayed by several counterparts proved to be a powerful obstacle, and in several cases the pace of implementation was less than ideal. As a result of these reforms, ***between 2007 and 2010 Rwanda recorded a major improvement in DB rankings, jumping from the 150th to the 58th position***. Improvements were recorded in nine out of the ten DB indicators, and in five cases there was major progress, with a gain of more than 40 positions in the overall world ranking. However, progress in terms of DB rankings did not always translate into improved conditions for private enterprise. For instance in the case of credit access, Rwanda's outstanding DB ranking (32nd worldwide, i.e. better than France and Spain) is at odds with a ratio of private sector lending to GDP of only 11-13%, much lower than the 18%-24% recorded in Benin, Togo and Senegal, all countries ranking well below Rwanda in the DB rankings

Efficiency. Average expenditures have been on the order of US$ 95,000/month, compared with the US$ 140,000 initially planned, and the difference suggests that ***there might have been some over budgeting and/or an excessively ambitious setting of targets***. The situation was rectified by a mid term review carried out in mid 2009, involving a significant reallocation of funds that favored best performing components. ***Travel costs are the main cost item***, accounting for 35% of actual expenditure, followed by the cost of IFC staff and long term consultants. The high incidence of travel costs appears to largely be due to the extensive use of IFC staff based in distant locations. The ***Project team was characterized by a remarkable stability***, with the same people being involved in Project activities for a fairly long period of time which greatly ensured continuity of action. However, in the early stages, the team could not count on effective in-country operational and logistical support, due to the ***lack of a full time resident coordinator***. This negatively impacted Project activities, especially regarding the establishment of an effective working relationship with counterpart organizations.

Impact Assessment

Introduction. The impact assessment exercise focused on 7 types of impact, namely:

- two ***overall impacts***, relevant for all components or product areas, including: (i) the aggregate private sector cost savings, and (ii) the private sector investment generated;
- five ***product-specific impacts***, including: (i) the number of new businesses registered, (ii) the number of new jobs created, (iii) the number of new businesses complying with tax regime, (iv) the tax revenue generated, and (v) the increase in trade flows.

Three methodological issues must be highlighted at the outset. First, the exercise required the use of a variety of data, both of a micro and macro-economic nature, collected from a variety of sources. Unfortunately, in a number of cases, the quality of data is less than ideal and, therefore, ***sometimes only rough estimates could be produced***. Second, the notion of 'product-specific' impact (i.e. related to work carried out in a specific area of intervention) is at times diminutive, as some impacts are in fact the result of more than one strand of activities or components (as well as by other external factors). Therefore, ***whenever feasible the analysis was extended to consider all the main contributing factors***. Third, the impact assessment exercise covers the period until the end of 2010.

It is well known that in many cases investment climate reforms take time to produce effects, which become visible only in the medium term. This is particularly the case for impacts on investment and employment, as economic agents tend to respond with a time lag to the opportunities created by changes in the legislative and regulatory framework. Therefore, it is important to stress that the quantitative estimates provided in this Report refer only to ***the initial impacts of the IFC intervention, and do not consider the effects that could materialize in the future***.

Private Sector Cost Savings. Private sector cost savings (PSCS) are defined as the savings accruing to private economic agents as a result of reforms in the investment climate. They include: (i) ***cost savings***, associated with the reduction in <u>out of pocket expenses</u> incurred by private enterprises thanks to the elimination/reduction of certain fees (stamp duties, service fees, etc.) and/or of the need to rely on service providers for certain formalities (e.g. elimination of notarization for articles of incorporation); (ii) ***time savings***, which refer to the gains in terms of <u>opportunity costs of labor</u> resulting from regulatory simplification and/or from the adoption of improved organizational models for certain services; and (iii) ***financial savings***, related to the reduction in the <u>financial burden</u> shouldered by private operators as a result of changes in the payment modalities for a certain fee or tax, with ensuing cash flow advantages. Over the 2008 – 2010 period the PSCS generated by the reforms supported by the Project can be estimated at ***about US$ 5.1 million***. Overall about 70% of total PSCS are connected with two reforms, namely: the elimination of the *ad valorem* tax on the declared capital of companies and the adoption of a series of simplifications in customs documents and procedures. Another 23% of benefits are linked to the elimination of the tax on property transactions and to the change in filing and payment modalities for VAT.

Private Sector Investment Generated. The impact on private investment is primarily the result of the ***acceleration in the enterprise formation process***, which was facilitated (but by no means solely determined) by the reforms that simplified the business registration system. Based on average investment parameters in newly formed enterprises, the value of incremental private sector investment associated with the reforms promoted by the Project can be estimated at around US$ 39 to 46 million. The contribution of ***investment promotion activities*** was much lower, with an estimated US$ 5 million mobilized. Overall, the Project is estimated to have contributed to incremental investments on the order of ***US$ 44 to 51 million over the 2008 – 2010 period***. Although this is an inevitable approximation, it appears fairly realistic and compatible with overall trends in private investment, as it accounts for about 3% - 4% of annual private investment.

Number of New Businesses Registered. In Rwanda the pace of business registration quickened considerably during the period of Project implementation, with the quadrupling of newly registered enterprises. When allowance is made for non-operational firms and for firms previously operating informally, the number of operational new businesses whose establishment can be linked in some way to the Project can be estimated at ***some 4,400 – 5,200 for the 2008 – 2010 period***.

Number of Jobs Created. The increase in the number of new businesses also reverberates on employment levels. Based on average parameters for employment levels in newly established enterprises, the ***acceleration in the enterprise formation process*** is estimated to have led to about 14,900 to 17,700 incremental jobs. Adding some 300 jobs attributable to ***investment promotion activities***, the additional employment associated with Project supported reforms can be estimated on the order of ***15,000 to 17,600 jobs***. This accounts for between 1.5% and 1.8% of total employment in the country.

Other Impacts. The higher level of formalization associated with reform of the business registration system contributed to an increase in the ***number of businesses complying with tax***

regulations and ***tax revenues***. However in this case, no quantification of impact is possible, due to the presence of several concomitant factors. Similar considerations apply to ***trade flows***, where the impact of the Project cannot be disambiguated from that of macro economic developments that exerted a dominating influence on Rwanda's import export flows.

Recommendations

The Project is expected to be followed by another initiative whose preparation is currently ongoing. Evaluation results provide suggestions that might be considered in the design of such new initiatives. In particular:

- in order to enhance strategic relevance it appears appropriate to deepen the scope of investment climate reforms by ***focusing on more operationally oriented aspects***. This could involve the adoption of a sector or value chain approach that would allow the constraints affecting some specific line(s) of business to be addressed in a coherent and systematic manner;
- a ***strong in-country presence*** appears advisable concerning operational aspects. This would prove very useful for activities (namely, capacity building) involving a constant interaction with local counterparts and would also help to ***reduce travel costs***;
- an effort should be made to ***increase the clarity and information content of project reporting*** to improve project monitoring. This should be paralleled by an effort to (i) improve the ***collection of baseline data*** in order to understand whether a certain action is worth pursuing, and (ii) ***track the resources used by various components and product lines*** in order to properly assess cost effectiveness;
- finally, in order to create a solid basis for sustaining the reform process over time, ***more resources should be invested to strengthen local capabilities in the analysis and quantification of reform impacts***, particularly the assessment of benefits associated with regulatory reform.

MAIN TEXT

1 INTRODUCTION

This Rwanda Country Report (the "Report") is submitted to the International Finance Corporation (IFC) within the framework of the "Investment Climate in Africa Program - Four-Country Impact Assessment" (hereinafter referred to as "the Assignment" or "the Study"). The Report was prepared by *Economisti Associati*, in collaboration with the *Center for Economic and Social Research* and *The Africa Group*, collectively referred to as "the Consultant."

The purpose of the Report is to provide an evaluation of the ***Rwanda Investment Climate Reform Project*** (RICRP or the "Project") implemented by the IFC over the 2007 – 2010 period. In line with the Terms of Reference (TOR), the analysis is aimed at assessing "*both the efficacy of [the] program in achieving its initial objectives; and the quantitative impacts generated from program achievements*" (page 2 and 3). In particular, the exercise involves (i) a ***qualitative part***, focusing on the relevance, effectiveness (outputs and outcomes), and efficiency of the IFC intervention, and (ii) a ***quantitative part***, aimed at quantifying the impacts achieved by the Project.

The Report is based on a combination of primary and secondary sources. Secondary sources consist of a variety of ***project documents***, including approval documents, Supervision Reports (SR), Progress Reports to Donors (PR), as well as ***substantive reports*** on various topics produced by IFC staff or consultants during implementation. Primary information was collected during a ***field mission*** carried out in June – July 2010 as well as on subsequent fact finding work carried out by local consultants in August – October 2010. During field work, the Consultant greatly benefited from the support of the IFC Local Program Manager, Ms. Fanja Ravoavy, who was instrumental in the organization of the field mission and, more generally, provided valuable support in collecting data on various aspects, and of most importance, interpreting them. Additional support was received by additional IFC staff who kindly supplied background documents, provided clarifications and contributed their views on various aspects of Project activities.

An earlier version of this Report, submitted in October 2010,[2] was extensively commented on by IFC staff. In some cases comments were accompanied by the provision of additional documentation, which had not been made available at earlier stages. As a result, several parts of the Report were extensively reworked.

The Report is structured as follows:
- Section 2 provides an overall presentation of the RICRP (timeline, budget, components, etc.);
- Section 3 analyzes in some detail project activities, looking at individual components;
- Section 4 provides a qualitative evaluation of the Project, focusing on issues related to relevance, effectiveness and efficiency;
- Section 5 provides a quantification of Project's impacts;
- Section 6 summarizes the key findings and formulates some recommendations.

The Report also includes four Annexes. In particular:
- Annex A, listing the documentary sources used;
- Annex B, listing the persons and entities interviewed during fieldwork;
- Annex C, providing a detailed analysis of one of the impacts analyzed, the so called private sector cost savings;
- Annex D, providing a detailed analysis of other impacts.

[2] Report #3 – Rwanda Country Report, October 24, 2010.

The Report was written by Roberto Zavatta (Team Leader) with substantial support from Enrico Giannotti (Senior Evaluator) and research assistance from Tommaso Grassi (Senior Evaluator), Elena Esposito (Research Assistant) and Elisa Farri (Research Assistant). Fact finding work in Rwanda was carried out by Roberto Zavatta, with the assistance of John Bosco Kanyangoga and Bernis Byamukama (Local Consultants). As indicated above, the Consultant benefited from inputs and comments provided by IFC staff involved in various capacities of the Project. However, as is customary for consulting reports, especially in the case of independent evaluation assignments, the views expressed in this Report are those of the authors only and should not be attributed in any way to the IFC, its staff and, in general, the World Bank Group.

2 PROJECT OVERVIEW

2.1 Objective, Timeline and Scope

Objective. RICRP is one of the initiatives of the Investment Climate Advisory Services program of the World Bank Group, which provides technical assistance and advice to countries seeking to improve their investment climate. As indicated in the approval document, the Project's ***overall objective*** is "*to assist the Government of Rwanda (GOR) to improve the regulatory environment, build institutions, and reduce the cost of doing business in Rwanda. In doing so, the project intends to create an investment climate that is competitive, attractive to the private sector (in areas where Rwanda has a comparative advantage) and distinctively different compared to the competing investment destinations in sub-Saharan Africa*." In pursuing this objective, a ***two pronged approach*** was adopted. On the one hand, as is the case for all initiatives covered by this Assignment, the Project was aimed at improving Rwanda's rankings in the annual Doing Business (DB) surveys, by assisting the GOR "*in implementing the Doing Business … reform action plan*." On the other hand, the Project also aimed to address other issues affecting Rwanda's investment climate, including themes not immediately linked to DB rankings. As will be demonstrated later, the initial emphasis was focused primarily on DB-related reforms, while attention to other aspects increased over time.

Timeline.[3] The formulation of the Project was preceded by some ***preparatory analytical work*** carried out by FIAS in 2005 and 2006, and included an investment climate quick diagnostic,[4] a study on effective taxation,[5] and a survey of informal activities.[6] An early review was prepared in mid-late 2007 and the Project was ***approved in October 2007***. After a pre-implementation phase covering the last quarter of 2007, the Project became operational on January 16, 2008, with a 23 month duration and expected completion date of December 15, 2009. A review was carried out in mid 2009, when some new components were added. During implementation, the duration was extended first to March 2010, then to June 2010 and finally to December 2010, bringing the total duration to ***35 months***.

Components. Initially, the Project included four components, one which supported reforms targeted to improve DB rankings, and three covering more specific aspects: business licensing, trade logistics, and investment promotion. During implementation four new components were added dealing with tax administration, special economic zones, access to land, and private – public dialogue (PPD) and communication. The latter resulted from *de facto* incorporation of the "Rwanda Private Public Dialogue" (RPPDP) into the Project, which was largely implemented in parallel.[7] As a result, the Project included ***eight components*** in the end, whose objectives are summarized in Table 2.1 below.

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[3] There are some uncertainties regarding the timeline, as some documents are not dated and/or the date of key steps is not explicitly indicated (e.g. we were unable to locate the precise approval and review dates). However, this does not significantly impact the analysis.

[4] FIAS, *Rwanda - Mini-Diagnostic Analysis of the Investment Climate*, April 2005.

[5] FIAS, *Sector Study of the Effective Tax Burden – Rwanda*, January 2006.

[6] FIAS, *Sources of Informal Economic Activity in Rwanda*, November 2006.

[7] The RPPDP (number 552887) was approved on March 9, 2007. Implementation appears to have started on December 1, 2007 (but supervision reports also indicate implementation of certain activities in the Spring/Summer of 2007). The project was supposed to end March 2009, but implementation was extended in parallel with the RICRP until December 31, 2010.

Table 2.1 Project Components

Component	Objectives
#1 – Doing Business Reform	Improve Rwanda's rankings in the DB indicators in general
#2 – Business Licensing Reform	Streamline and improve information about existing licenses, and improve the quality of new regulation impacting businesses.
#3 – Improving Trade Logistics	Provide advice on the simplification and improvement of import export trade procedures
#4 – Investment Promotion Facilitation	Develop and implement a strategy for promoting and facilitating private sector investment
#5 – Improving Business Tax Administration	Improve the administrative efficiency of tax authorities and relations with the business community
#6 – Special Economic Zones	Develop a legal framework for special economic zones and advise government on related investment decisions
#7 – Simplifying Access to Business Land	Provide advice on policy, legal and institutional impediments to business access to land (procedural simplification, land information system, etc.)
#8 – Facilitating PPD and Reform Communication	Support the development of a formal mechanism for structured PPD on critical issues affecting the business environment

Source: Project Approval Documents

2.2 Organization and Budget

Project Counterparts. Project documents indicate the Ministry of Industry and Commerce (MINICOM) as the ***Project 'client.'*** However, in line with its very broad scope, the Project interacted with a variety of other government and private sector counterparts. Key counterparts include:

- the President's Office – Strategy Policy Unit, regarding overall coordination and DB-related reforms;
- the Rwanda Development Board (RDB) and its predecessor Rwanda Investment and Export Promotion Agency (RIEPA), regarding DB-related reforms (and in particular business entry), investment promotion, special economic zones, and later, PPD;
- the Ministry of Trade and Industry (MINICOM), regarding DB-related reforms and business licensing;
- the Rwanda Revenue Authority (RRA), regarding tax administration and trade logistics;
- the Rwanda Private Sector Foundation (RPSF), in connection with various PPD-related and communication activities.

Project Organization. The Project was implemented by a core team of about ***10 IFC staff*** from various units, coordinated by a Program Manager (PM). The core team was supported by several consultants recruited for specific tasks. The same PM was in charge of preparation and implementation until April 2010, when a new PM was appointed. The PM and other team members were based in Washington or in regional offices (Johannesburg, Nairobi) and for about 18 months the ***Project did not have a direct permanent presence in the country***. In fact, at approval it was envisaged that the Project would benefit from the support of another IFC project. However, as the level of activity increased the need for an in country presence mounted and a Local Program Coordinator was hired in May 2009.

Budget. At approval, the Project had an estimated budget of US$ 2,725,000 of which US$ 1,450,000 was funded by donors (DFID $800,000, The Netherlands $400,000 and Italy $250,000). The rest came from various IFC funds or IFC-managed facilities (FIAS, PEP-Africa, etc.). The budget was revised downward to US$ 2,443,000 on March 26, 2008 and then increased to ***US$ 2,833,000*** towards the end of 2009 to include funding for newly added components (namely, the

SEZ component). To this amount it is necessary to add funding for the parallel "Rwanda Private Public Dialogue" project, which corresponds with Component #8. This project had an initial budget of US$ 496,480, later reduced to ***US$ 488,000***. Combining the two initiatives, the total amount of resources available was ***US$ 3,321,000***.

The budget composition by component is shown in Table 2.2 below, which presents data from both the budget at approval and the revised budget adopted in mid 2009. At approval, Components #2 and #3 were by far the most important, each accounting for 25% of funding, followed by Component #4 with 17%. Component #1 was allocated a mere 2% of resources, while Program Management and Component #8 had allocations on the order of 15-16%. The review performed in mid 2009 also led to a significant reallocation of resources from Components #2, #3 and, to a lesser extent Program Management, to the new components and Component #1. Reallocations to Components #4 and #8 recorded only minor reductions.

Table 2.2 Budget Composition by Component

Component	At Approval		Mid 2009	
	Amount (US$)	Share (%)	Amount (US$)	Share (%)
#1 – Doing Business Reform	75,000	2%	217,000	7%
#2 – Business Licensing Reform	800,000	25%	429,000	13%
#3 – Improving Trade Logistics	800,000	25%	596,000	18%
#4 – Investment Promotion Facilitation	550,000	17%	494,000	15%
#5 – Improving Business Tax Administration		0%	350,000	11%
#6 – Special Economic Zones		0%	350,000	11%
#7 – Simplifying Access to Business Land		0%	..	0%
#8 – Facilitating PPD and Reform Communication	496,000	15%	488,000	15%
Program Management	500,000	16%	397,000	12%
Total	**3,221,000**	**100%**	**3,321,000**	**100%**

Source: various project Documents
NB No information is available on the budget for Component #7. Data on Component #8 corresponds to the budget for the "Rwanda Private Public Dialogue" project. The amount for Program Management in mid 2009 is an estimate.

2.3 Project Environment

The Project operated in a fairly crowded environment, as many of the areas and issues tackled by the IFC also saw the active involvement of other donors. In particular:

- Rwanda's investment climate reform efforts have been substantially supported by the Investment Climate Facility for Africa (ICF) through the ***Rwanda Investment Climate Project*** (RICP). Launched in 2007 (i.e. before the start of the IFC project) with a budget of US$ 9 million, the ICF project provided substantial assistance in three areas, namely: (i) business registration system, by supporting the creation of the Rwanda Commercial Registration Services Agency, the first one-stop-shop established in Rwanda, (ii) land reform and registration, and (ii) strengthening of commercial courts;
- investment climate reform has also been actively supported by another World Bank Group initiative, the ***Rwanda Competitiveness and Enterprise Development Project*** (RCEDP). In particular, RCEDP activities in legal and regulatory reform contributed to pave the road for some of the legislative initiatives implemented under the DB Reform component. RCEDP also supported improvements in other areas of relevance for the Project, including trade logistics (through the financing of some equipment, namely the scanners for border inspection) and investment promotion (some of the Project counterpart staff at RDB are reportedly paid out of RCEDP funds);
- reform in business taxation and in customs has been actively supported by Britain's ***Department for International Development*** (DFID), through a sequence of 'Support to RRA' projects

during the 2003 – 2010 period. DFID support was instrumental in improving the RRA's performance through the funding of capital investments that constituted the precondition for implementation of policy and regulatory reform. In taxation and customs administration, DFID support was complemented by support provided by the International Monetary Fund (IMF), through the ***East AFRITAC*** facility, which provided assistance in the fields of risk management for customs controls and small tax payer administration;

- in the area of land registration, one of the new components added in 2009, substantial support is also being provided to GOR by the ***DFID***, through the Land Tenure Regularization Program (which is more oriented towards rural areas however) as well as by ***Sweden*** and ***The Netherlands***, through their specialized land management agencies (Swedesurvey and Kadastre).

In addition to the above donor initiatives other factors played a role in fostering investment climate reform during Project implementation. This is particularly the case of the EAC Customs Union, which *per se* entailed the adoption of a number of measures to align Rwanda's legislative and regulatory framework with that of other EAC members. The presence of various forces all pushing in the same direction definitely contributed to hasten the pace of reform. However, for the purposes of this exercise, it makes it ***more difficult to disentangle the contribution of the Project from that of the other concomitant initiatives***. The existence of such an 'attribution problem' will be illustrated in some detail in the subsequent sections.

3 PROJECT COMPONENTS

3.1 Component #1 – Doing Business Reform

Objective and Scope. This component was specifically aimed at ***supporting reforms that would improve Rwanda's ranking in terms of DB indicators***. Initially attention was primarily focused on reforms related to four DB indicators, namely: 'starting a business,' 'registering property,' 'protecting investors,' and 'employing workers.' Overtime the scope was broadened to encompass the indicators on 'getting credit' and 'paying taxes.'

Activities. In line with the objective, work on this component appears to have concentrated at the beginning of each calendar year in order to achieve improvements before the Summer recess, so they could be reflected in the subsequent DB report. Work started immediately in January 2010, when a first ***DB reform memorandum*** was submitted to the GOR.[8] This detailed document included numerical examples of how various reform options could improve Rwanda's DB rankings, distinguishing between easily-implemented short terms measures relatively able to yield 'quick wins,' and medium term measures which would require some time to be implemented. A first set of legislative and administrative reforms were adopted in early 2008 and their results were reflected in the DB 2009 report. Reform efforts resumed after the parliamentary elections at the end of 2008, with a number of measures adopted within the first months of 2009. Beginning with the Project review carried out in August 2009, ***the scope of this component was broadened*** to include the theme of secured transactions ('getting credit' indicator) and VAT payment terms ('paying taxes' indicator). Work on these topics was carried out in late 2009 and early 2010 and involved provision of assistance for the drafting of secured transactions legislation, the implementation of a secured transactions registry, and the amendment of the VAT Law. In addition to providing advice on legislative and regulatory reform, ***the component also assisted in the creation of new structures***. In this respect, the main development was the creation of the Office of the Registrar General (ORG), a one-stop-shop structure in charge of business registration (as well as of keeping the registers of pledges and patents), whose establishment was also supported by a parallel ICF-funded project (see Box 3.1 below).

Box 3.1 Component #1 - Attribution Problem in Business Registration Reform

One of the main themes covered by Component #1, the simplification of business registration procedures, offers an excellent example of the 'attribution problem,' i.e. of the difficulty of distinguishing the results achieved by the Project from those resulting from other initiatives. In fact, the decision to reform the business registration system was made in 2007 and, therefore, predates the launch of the IFC project. This decision was the result of preparatory work done by an earlier FIAS mission and a World Bank project and was supported by ICF, which assisted with the creation of the Rwanda Commercial Registration Services Agency (RCRSA), a one-stop-shop structure intended to take over responsibility for business registration from the courts. Therefore, when the reform of the business registration system was proposed by the IFC in early 2008, the ground had already been well prepared. Even more importantly, ICF assistance continued in subsequent years (namely, through the provision of equipment), when the RCRSA was transformed into the ORG. While there is no doubt that the impetus for legal and regulatory simplification came primarily from the IFC Project, it is clear that IFC recommendations could be taken into consideration and implemented because the proper infrastructure had been/was in the process of being created by the ICF project. In this sense, the results achieved by IFC and other donor projects are inextricably connected and their impacts cannot be estimated separately in any meaningful manner.[9]

[8] Doing Business in Rwanda: Reform Memorandum, January 2008

[9] The existence of an attribution problem became vividly manifest during interactions with ORG staff, as it was difficult to clearly understand what was done by whom. The problem was exacerbated by terminological aspects, as the Project's

3.2 Component #2 – Business Licensing Reform

Objective and Scope. This component aimed at ***improving the business licensing system, through the elimination/streamlining of various licenses***. At approval, significant emphasis was placed on selecting some 'quick wins,' through the identification of "*10-20 licenses, which are cumbersome, and at the same time relatively easy to simplify/eliminate*" (TAAS, page 6). However, the TAAS also envisaged other, more 'structural' measures, namely the design of a 'light' Regulatory Impact Assessment (RIA) system and the implementation of an electronic registry, providing 'positive legal security' to businesses.

Activities. Activities started with a workshop held in January 2008 ('Dealing with Licenses Doing Business Workshop') followed by the launch of an ***inventory of business related licenses***. The exercise, carried out by a local consultant, identified a total of 189 licenses issued by 31 agencies.[10] The theme of business licensing reform was discussed at a retreat held in October 2008. On that occasion it was acknowledged that "*Rwanda is not heavily regulated compared to other East African countries*." Nonetheless, it was considered that "*there were still scope to streamline, strengthen and simplify the licensing environment to make it attractive to do business while ensuring environmental safety, security and addressing public health concerns*" (SR #2). Accordingly, a ***Business Licenses Reform Committee*** (BLRC), anchored by the Ministry of Trade and Industry and consisting of representatives from the private sector and various public bodies, was established. Subsequent consultations led to the identification of 12 priority licenses deemed "*particularly cumbersome to the private sector*", and on which reform efforts should concentrate. The list of 12 priority licenses, subdivided by responsible body, is provided in Table 3.2 below.

Table 3.2 List of Licenses Targeted for Reform

Responsible Bodies	License Targeted for Reform
National Land Center	• Registration of land transfers
Districts	• Building permits • Authorization to transport charcoal
Rwanda Revenue Authority	• Clearing agents certificate • Tax clearance certificate
Rwanda Utilities Regulatory Agency (RURA)	• Authorization to utilize private land for telecommunication mast • Frequency allocation license • Individual communication license
Rwanda Police	• Road worthiness certificate • Driving license
Ministry of Health	• Import license for drugs
Rwanda Environment Management Authority and RDB	• Environmental impact assessment

Source: Supervision Reports

The selection of 12 licenses was endorsed by the GOR in February 2009. However, it was subsequently decided to exclude the three licenses placed under the responsibility of RURA as well as the authorization to transport charcoal, leaving a total of 8 licensing reforms to be sought under the Project. A diagnostic study, involving the detailed ***mapping of procedures and the calculation of costs incurred by private operators*** for the eight licenses, was carried out in April – June 2009.[11]

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acronym (RICRP) is often confused with that of the ICF project (RICP), while IFC is also sometimes confused with ICF. During interviews, the problem was eventually settled by making reference to the first names of project managers (e.g. "*it was Odette who did this*", Odette being the name of the ICF project manager).

[10] Business Licenses Inventory List (undated, but mid late 2008)

[11] Government of Rwanda – Ministry of Trade and Industry, Decision Memos – Rwanda Business Licensing Reform, s.d. (but end 2009), hereinafter referred to as the 'SCM Study.'

The decision to proceed with the reforms was finally made by the GOR in December 2009 which was eventually followed by the implementation of concrete measures. Work to address structural issues in the regulatory environment started comparatively late and was more limited in scope than initially envisaged. Training on techniques aimed at assessing the burden of regulation of businesses (the so called 'standard cost model') was provided to a dozen government bodies and agencies in the Spring of 2010, while the creation of a business licensing portal was still ongoing in mid-late 2010.

3.3 Component #3 – Improving Trade Logistics

Objective and Scope. This component focused on the ***improvement of the trade logistics chain***, primarily through (i) the simplification and harmonization of procedures and documentation, (ii) the implementation of more efficient operating modalities for border controls, and (iii) the provision of technical support to meet regional integration agreements. The first was largely geared towards improving Rwanda's ranking in the DB indicator 'trading across countries.' The other two work streams were broader in scope, encompassing a variety of themes, such as the extension of working hours at border posts, the introduction of risk management techniques allowing for a greater selectivity in border controls, the introduction of electronic processing/automation, a greater coordination among government agencies, etc.

Activities. An initial work plan aimed at achieving some 'quick wins' in view of the DB 2009 Report was developed in the first months of 2008. A more comprehensive work plan was established in July 2008,[12] focusing mainly on (i) the implementation of selective border controls, (ii) the abolishment of import export declaration forms, and (iii) a better integration between the Customs and the Rwanda Bureau of Standards (RBS). This was followed by the organization of a training workshop for RBS staff on risk management approaches and principles, which took place in September 2008.[13] During 2009 and 2010, the provision of assistance was progressively extended to other aspects, such as the consolidation of payment of the RBS fee into the Customs fee and duty collection process. In this context, the component also organized two events devoted to the discussion of possible, future improvements in customs and border controls (such as the introduction of an electronic cargo tracking system, electronic single window system, one stop border posts, etc.). The first event was one of the Business Roundtables periodically organized by the Project (see below Component #8), which took place in September 2009. The second event was a Trade Logistics Workshop organized in collaboration with RRA, held in March 2010.

3.4 Component #4 – Investment Promotion Facilitation

Objective and Scope. This component aimed to ***strengthen the capabilities of the investment promotion agency in order to increase the level of both foreign and domestic investment***. This was to be achieved through actions in four areas, namely: (i) increasing the quality of the facilitation services to interested investors; (ii) extending the range of services to ensure that projects could be converted into actual investment, (iii) developing effective advocacy capacity in regulatory issues constraining investors, and (iv) enhancing the efficiency in promoting the country as an investment destination in targeted sectors.

Activities. Work on this component started in January 2008, with the carrying out of some diagnostic work and the formulation of a corporate strategy document for the 2008 – 2012 period. However, the implementation of the strategy was severely delayed by the GOR's decision to restructure RIEPA and to merge it into RDB. Therefore, during 2008, work focused primarily on

[12] Trade Logistics Quick Win Action Plan, July 2008.
[13] Trade Logistics Reform: A snapshot, November 2008.

capacity building for operational staff (e.g. implementation of a staff e-Learning training in the design and management of investment promotion campaigns) and on the development of operational tools (i.e. creation of an internal database on investment climate and country & sector information). Overtime, the emphasis was progressively shifted from investment promotion to investment retention. This led to the carrying out of a survey of registered but non operational investors, whose results were presented in June 2009. In parallel, efforts were deployed to strengthen the capabilities of RDB's newly established Investor Aftercare Unit, through a training program, strategic workshops, and the procurement of a software for the tracking of contacts and related coaching. Building upon this assistance, RDB eventually started providing assistance to a group of about 50 investors who had encountered problems in implementing their projects.

The component was negatively affected by changes in the institutional setting, as the merging of RIEPA into RDB turned out to be a fairly laborious affair. Even after the establishment of RDB, the component continued to face challenges in its interactions with counterparts, due to different views regarding strategic orientations (investment attraction vs. investment retention) and to generally weak capabilities. Excerpts from supervision reports witnessing the problems encountered are presented in Box 3.2 below.

Box 3.2 Component #4 - Problems Encountered With Counterparts

Supervsion Report #1 "*the ongoing restructuring of the investment promotion agency in Rwanda and the impending creation and operationalizing of the Rwanda Development Board … has resulted in delays in adopting the RIEPA business plan and proceeding with implementation*."

Supervsion Report #2 "*Until Nov 2008 no appointment of the RDB CEO, nor confirmation of how RDB structure would affect the investment promotion dept. The merger had slowed down [activities], and put on hold the implementation of the corporate strategy … Lack of clarity of the management structure and the roles of various personnel in RDB over the supervision period had put the … component on hold and at risk for delays in timelines.*"

Supervsion Report #3 "*The process of restructuring investment promotion into RDB is still ongoing. RDB has limited management capacity and is overloaded with own work and other donor programs. Currently RDB is revisiting RIEPA's corporate strategy elaborated under the program to develop a strategy for RDB. This will require substantive managerial resources. The success of the aftercare program will depend on how much it is linked with the new strategy. During this period the bias of RDB senior management towards generating new investment proved a setback against prioritizing aftercare of existing investment.*"

Supervision Report #4 "*the key risk remains the protracted lack of strategic direction at RDB and the risk that internal reorganization affects the processes that have been put in place. Limited managerial capacity at RDB remains a risk for the sustainability of internal standards and implementation of good practices.*"

3.5 Component #5 – Improving Business Tax Administration

Objective and Scope. This component was added in the Spring of 2009, in reply to a specific request of assistance from GOR, which, in turn, was prompted by the concerns on business taxation voiced by private operators at the February 2009 Investors Roundtable. The component aimed at ***improving the administrative efficiency of tax authorities and the relations with the business community***. The request for assistance submitted by GOR mentioned six areas of possible intervention, namely: (i) improvement of tax administration processes; (ii) review of tax appeals mechanisms; (iii) review of the SME tax regime; (iv) review of existing tax incentive regimes; (v) capacity building in SME, and (vi) communication and taxpayer outreach strategies. These themes were discussed in a series of meetings with relevant stakeholders and in a workshop held in April 2009,[14] and the decision was made to focus on the first three areas.

Activities. Work on ***tax administration*** involved the detailed mapping of the key administrative processes (registration, audit, refunds, clearance certificates, appeals, etc) within RRA and the formulation of recommendations aimed at improving administrative efficiency. The mapping report was submitted to the GOR in July 2009,[15] and the implementation of recommendations started shortly afterwards. Work on ***tax appeals mechanisms*** aimed at devising solutions to enhance the independence of the process. Analytical work involving the analysis of the existing system and a review of relevant international experiences was carried out in the Spring/Summer 2009 and a report with recommendations was submitted to GOR in the second half of the year.[16] Regarding the ***SME taxation regime***, an assessment study was prepared in April 2010 followed by the presentation of various policy options to the GOR.

3.6 Component #6 – Special Economic Zones

Objective and Scope. This component was added in 2008 with the objective of ***supporting GOR in the formulation of an appropriate strategy for the creation of special economic zones*** (SEZ). The inclusion of this component was largely connected with the existence of two competing SEZ projects in the Kigali area, namely the Kigali Industrial Park (KIP) initiative and the Kigali Free Trade Zone (KFTZ) project, which entailed significant risk of cannibalization (as both projects hoped to significantly contribute to economic development andrequired public funding). This component attracted considerable attention from the GOR as witnessed *inter alia* by the decision to cover part of its costs through an in-kind contribution of US$ 75,000.

Activities. Operational work started in December 2008 with a review of Rwanda's SEZ program including an assessment of the two initiatives.[17] This was complemented by an assessment of fiscal incentives offered to investors which involved a comparison with international best practice.[18] The findings of this analytical work were presented at a high level workshop held in August 2009 during which key issues were extensively discussed. This led to the request from the GOR for a comprehensive ***market assessment and cost benefit analysis of various development options***. The study was completed in late 2009[19] and its results provided the basis for subsequent formulation of policy oriented documents. In particular, a strategic assessment paper recommending the merging of the two SEZ projects was completed at end May 2010 and endorsed by the GOR in June. Following this, the Project assisted in ***development of the so called 'SEZ package,'*** consisting of three documents, (i) the SEZ policy, (ii) the SEZ law, and (iii) the law establishing an authority supervising SEZ. The 'SEZ package' was submitted to GOR in June 2010 and approved by the Cabinet in July. The SEZ law was eventually approved by the Chamber of Deputies on January 6, 2011.[20]

3.7 Component #7 - Simplifying Access to Land

This was a relatively small component, added in late 2009 with the ***objective*** of providing a "*[f]ocused diagnosis to identify policy and institutional impediments to business access to land*" in

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[14] See the presentation Rwanda – Tax Simplification for Business: A Road Map for Reform, April 21, 2009.
[15] Tax Process Mapping: Recommendations Report, July 8, 2009.
[16] Review of Tax Appeal Framework and Recommendations for an Independent Tax Appeals System, s.d.
[17] Analysis of Rwanda's Special Economic Zone Program – Draft for Discussion, March 9, 2009.
[18] Rwanda – Cost of Fiscal Incentives, s.d. (but mid 2009).
[19] Special Economic Zones in Rwanda – Market Demand and Cost-Benefit Analysis, Second Draft Report, December 17, 2009.
[20] See http://www.parliament.gov.rw/re/index.php?option=com_content&task=view&id=752&Itemid=1.

order to "*provide recommendations regarding further procedural simplification, land information provision, access to land under the SEZ law and general industrial/commercial zoning and expropriation guidelines*" (Donor Report 2/2009). In practice this involved the carrying out of a ***mapping exercise*** covering various aspects related to business access to land.[21] Results and recommendations were submitted to the GOR at the 2010 Kivu retreat and were reportedly endorsed in February 2010. Additional work included the provision of comments on a draft 'Expropriation Regulation' and the development of specific land provisions for the SEZ law.

3.8 Component #8 - Facilitating PPD and Reform Communication

Objective and Scope. As mentioned in Section 2 above, this component started as a separate, stand alone project. Approved in September 2007, the project was initially expected to run from December 2007 through March 2010 with a total duration of 25 months. At approval, the objective was defined as "*To establish a productive dialogue forum on improving the investment climate and strengthen the private sector's effectiveness in advocating for reform, through the Rwanda Private Sector Federation*." At the outset, the project experienced problems with the recruitment of personnel which negatively impacted activities. In mid 2008, the decision was made to halt the project as a separate initiative and to incorporate it into the RICRP. Since then, work under the component has been focusing on two aspects, namely: (i) the promotion of PPD, through the creation of a new formal mechanism for policy dialogue, and (ii) the communication of reform efforts.

Activities. Regarding the ***PPD sub-component***, activities started towards the end of 2008 with the organization of a first Business Roundtable focusing on one of the themes dealt with under the DB Reform component, i.e. investors' protection. This was followed by four other events, the last of which occured in May 2010. In parallel, the need to create a formal mechanism for more structured dialogue between the GOR and the private sector emerged. This was supported by the Project through the carrying out of an audit of various PPD initiatives, completed in late 2009. In January 2010, the GOR decided to proceed with the creation of a new 'PPD platform,' consolidating under one roof all existing PPD mechanisms. In subsequent months, Project activities focused on the design of a structure and strategy for the new platform, which involved focus group meetings with the parties concerned. This sub-component saw a significant change in terms of Project counterparts. In fact the RPSF, initially retained as the key partner, was found to display "*capacity challenges and more importantly a substantial credibility deficit in terms of its relevance and ability to represent the voice of the business community*." Accordingly, the GOR decided to anchor the new PPD platform with RDB. The ***reform communication sub-component*** aimed to support the GOR's efforts to effectively communicate the results of DB reform initiatives. A communication strategy was developed and endorsed by the GOR in early 2010, and this was followed by a series of communication actions which also attracted financial support from some private actors. Specific initiatives included communication activities for the award of the DB 2010 Trophy, and the launch of the DB 2011.

[21] Business Access to Land in Rwanda: Issues and Recommendations, February 2010

4 PROJECT EVALUATION

4.1 Introduction

This Section is devoted to the 'qualitative' part of the Assignment, i.e. the evaluation of the Project in terms of ***four evaluation criteria***, namely: (i) strategic relevance, (ii) delivery of outputs, (iii) achievement of development outcomes, and (iv) efficiency. The aspects to be analyzed for each evaluation criterion (the so called "evaluation questions") are listed in Box 4.1 below.

Box 4.1 Evaluation Questions[22]

Strategic Relevance:
- Did the intervention fit the country's political and economic conditions? Was the right timing selected for the program's start?
- Did the program address the most acute problems in the business environment or it selected "low-hanging fruits?"
- Were the right partners selected given program objectives?

Delivery of Outputs:
- Were key outputs of the appropriate quality delivered in a timely fashion?
- To what extent were clients satisfied with the assistance received?

Achievement of Outcomes:
- Did the various government agencies implement the recommendations provided? Did the government pass new laws/regulations recommended by/drafted with assistance from the project?
- How did the recommendations implemented/new laws adopted translate into effective improvements in the investment climate and/or in other relevant variables (e.g. increased capability of entities receiving support)?

Efficiency:
- How reasonable were costs vs. benefits?
- How economically were funds, expertise, time, etc., used?
- Were there less costly ways to achieve objectives?

The aspects relevant to the above evaluation criteria are analyzed in the following four sections, while a fifth section summarizes the key results. Given the complex nature of the Project, encompassing a wide range of actions in several areas, whenever warranted and feasible, general considerations regarding the Project as a whole are complemented with a more detailed analysis for specific components. For each evaluation criterion, the analysis of findings is accompanied by an assessment, inspired by the approach used by IFC in the case of Project Completion Reports, which involves the use of a four-level rating system, ranging from "excellent" to 'unsatisfactory.'[23]

4.2 Strategic Relevance

Strategic relevance refers to the ***quality of project design at the moment of approval as well as to the ability to adjust to changing circumstances***. In this context, three aspects are of particular

[22] A list of standard evaluation questions was provided in the TOR. The list presented here is an adaptation of what found in the TOR, to reflect the nature of the project under consideration (e.g. elimination of questions related to capital investment, addition of reference to capacity building activities, etc.).

[23] For a summary presentation of the rating system, see Luba Shara, "How to Improve the Quality of Project Completion Reports," presentation at a PCR training workshop, Johannesburg, July 27, 2009.

importance, namely: (i) the appropriateness of the intervention to country conditions, (ii) the balance between 'quick wins' and structural reform efforts, and (iii) the appropriateness of institutional arrangements.

Appropriateness to Country Conditions. Rwanda's long term strategy, enshrined in the *Vision 2020* strategic document, identifies in the private sector one of the key engines to achieve the ambitious GDP growth targets. The important role of the private sector as a source of income and jobs is reiterated in the GOR's medium term planning documents, namely the Economic Development and Poverty Reduction Strategy.[24] As private sector growth depends crucially on the existence of a conducive business environment, ***the overall relevance of the IFC intervention can be hardly disputed***. However, this is ***subject to some important qualifications regarding specific components or actions***. In particular:

- the results of the World Bank Enterprise Survey (WBES) carried out in 2006 suggest that some of the reform areas targeted by the Project may have not constituted a severe obstacle to private enterprise. In particular, business licensing and customs & trade regulations ranked only as the ninth and tenth most severe constraints to business activity, each being mentioned by less than 2% of surveyed firms. As for labor regulations, they were not even included in the list of top ten constraints because they were scarcely mentioned by the firms surveyed (none of the firms surveyed qualified them as the 'most severe' constraint and only 2.8% qualified them as a 'major' constraint).[25] For practical and conceptual reasons, WBES results do not necessarily provide an accurate measure of the relevance of actions typically included in business climate reform projects.[26] Also, the situation might have evolved overtime, with some regulatory obstacles becoming progressively more serious.[27] Nonetheless, the very low percentages mentioned above raise concerns that the Project did not address the pressing needs of private operators (or at least the concerns they regarded as pressing);
- in some cases doubts originating from survey results are reinforced by qualitative considerations and it appears that in some instances the issues addressed by the Project are fairly distant from the reality of business life in Rwanda. For example, the reform related to the 'protecting investors' DB indicator, was deemed by an interlocutor as "*a fairly esoteric subject*" for Rwandan standards. Along similar lines, efforts to simplify business registration are certainly commendable, but the usefulness of investing resources in continuously reducing the time required for registration (from 4 days to 2 days, and then to only 1 day) appears somewhat debatable and, in fact, attracted some criticism during field interviews ("*it has become an*

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[24] See Ministry of Finance and Economic Planning, *Rwanda Vision 2020*, Kigali, July 2000 and Ministry of Finance and Economic Planning, *Economic Development and Poverty Reduction Strategy*, Kigali, September 2007.

[25] The full WBES results are as follows: business licensing and operating permits: most severe obstacle 1.4% and major obstacle 4.4%; labor regulations: most severe obstacle 0.0% and major obstacle 2.8%; customs and trade regulations: most severe obstacle 1.1% and major obstacle 13.5%. See World Bank, *Enterprise Surveys Country Profile – Rwanda 2006*, 2007.

[26] For instance, the standard list of constraints that interviewees are asked to rank in terms of severity includes aspects (availability of infrastructure, political situation, etc.) that are typically not covered by IFC business climate reform projects. As these aspects often attract the attention of many firms (e.g. in Rwanda, problems with electricity emerged as the most severe constraint, being mentioned by no less than 33% of interviewees), this inevitably reduces the importance attributed to constraints linked to the regulatory and legislative aspects that are at the core of business climate reform projects. Also, WBES typically focus on formal enterprises, and this may introduce some bias in the results.

[27] In particular, comments formulated by IFC staff on a earlier version of this Report suggest that business and trade licensing might have become a more serious constraint over time. In fact, an IFC staff involved in recent field missions pointed out that "*three issues that are being flagged by the private sector in all of my meetings so far:* <u>lack of coherent system for permits/trade licenses and inspections</u>*, new collateral law is not being used in practice by the credit institutions, and tax administration*" (email of November 25, 2010, emphasis added). A new WBES is scheduled to take place in 2011 and, subject to the above caveat, its findings could be useful to ascertain if and to what extent the situation has changed compared with the situation found in 2006.

obsession, as if waiting for a couple of days would make any difference in the decision of starting a business let alone on its success"). Finally, in the case of the business taxation component, in general the Project adopted a well balanced approach, in order to reconcile opposite but equally legitimate interests. However, some doubts emerge regarding the proposed establishment of an independent tribunal to review tax appeals. On the one hand, the proposed measure certainly has a non-negligible 'signaling value' towards the private sector. One the other, it may well end up encouraging (or rather exacerbating) the existing tendency to the file frivolous appeals, in the hope of getting a settlement on better terms;[28]

- a special case is represented by Component #2, dealing with business license reform.[29] In this case the list of 12 licenses initially targeted for reform included some items of very limited significance, such as three licenses in the telecom sector (which concerned very few operators) and the license for the transport of charcoal (which turned out to be used only in some areas). Also doubtful is the relevance of the driving license, which is not a business license, although it may impact the functioning of the transport sector. However, it should be highlighted that the initial list was developed by the BLRC and that the IFC team expressed reservations regarding the inclusion of the telecom and charcoal licenses (and, to some extent, the driving license). As a result, the most debatable licenses were removed from the list and subsequent reform efforts concentrated on eight licenses only.

Based on the above, the assessment regarding the appropriateness to country conditions can only be partly positive. It should be noted that IFC staff who commented on an earlier version of this Report expressed a different viewpoint, at least concerning some of the activities mentioned above. In particular, IFC staff noted that some reforms supported by the Project built upon earlier preparatory work (e.g. the work on labor legislation done by the World Bank's RCEDP) or were connected to other reforms (e.g. the provisions for investor protection which were part of the general reform of the Companies Act) and therefore, would have been a 'missed opportunity,' had they not proceeded with these reforms (regardless of their immediate relevance). The Consultant does not dispute this and notes the Project team undeniably demonstrated an excellent ability to steer the reform process and to seize all available opportunities for reform. However, the fact remains that some reforms did not address particularly critical needs at the time they were implemented and that for the time being their main 'tangible' result was to improve Rwanda's DB rankings.

Balance between 'Quick Wins' and Structural Reform Efforts. The ***balance between quick wins and structural reform efforts evolved overtime***. In the initial phase, the Project was largely geared towards the achievement of 'quick wins,' which, in turn, were often expected to yield positive results in terms of DB indicators. However this orientation was modified overtime, with progressively greater emphasis being placed on structural reforms, as witnessed by the inclusion of some components (namely, the SEZ and the tax administration components) that were clearly not aimed at achieving 'quick' results. In Project documents, the emphasis placed on 'quick wins' for

[28] The existence of this risk is mentioned in a DFID report on the assistance provided to RRA (DFID, *Rwanda Revenue Authority - Phase VI Output to Purpose Review - DFID Mission Aide Memoire*, May 2008) and was confirmed during meetings. The problem was <u>not</u> neglected in the report produced by the Project on the tax appeals mechanism, but the phenomenon of frivolous appeals was considered something that could be kept under control through the introduction of some safeguards (payment of part of the disputed amount, possibility for the proposed independent tax tribunal of imposing costs). The usefulness of these safeguards was regarded with some skepticism by some interviewees. Information provided by IFC staff commenting on an earlier draft of this Report indicate that at a workshop held in September 2010 "*the structure and substance of the proposed dispute resolution structure were approved by all stakeholders. However one issue remained outstanding. This is in relation to how, and in which organization, the tax revenue appeals system will be established*."

[29] The assessment of the relevance of business licensing reform presented in an earlier version of this Report was extensively commented upon by IFC staff. The present assessment benefits from materials and additional information made available after the preparation of the first version of the Report. See the personal communication from Matilde Bordon on February 23, 2011 and attached documents.

DB ranking purposes was sometimes 'justified' by making reference to ***the "power of metrics", which helped in catalyzing reform efforts***. The argument certainly has some merit, especially in the early stages of the reform process. However, in the long term, an excessive emphasis on DB indicators may create high expectations and, particularly if improvements in DB rankings are not accompanied by substantial improvement of 'real' variables (investment, jobs, etc.), may ultimately result in frustration. It is important to note that on this subject ***views among stakeholders interviewed are not unanimous***. Leaving aside private sector interviewees, who were typically not in a position to express a position due to lack of information, RDB counterparts usually considered the Project well balanced, whereas donors and representatives of other government bodies regarded the Project to be excessively geared towards 'quick wins.' The Consultant's opinion is definitely in line with the latter.

Appropriateness of Institutional Arrangements. The Project enjoyed substantial backing from key decision makers including the country's political leadership. However, in some cases the ***operational cooperation with counterpart institutions proved less than ideal***, to the point that in the early stages the poor functioning of the "*institutional arrangement in place for implementing the project*" was qualified as the "*key risk*" (SR #1). In fact, Project documents include recurrent references to the weak capabilities in counterpart institutions.[30] In the case of Component #4, the situation was made worse by a discrete change in institutional setting, namely the restructuring of RIEPA and its merging into RDB. It is impossible to tell whether these problems could have been diagnosed and/or anticipated at approval, but even if this had been the case, it is not clear what type of countermeasures, if any, could have been adopted. One aspect that raises some doubts is the ***progressive concentration of assistance on RDB***. In fact, in addition to being the beneficiary of assistance under Component #4 and extensively involved in Component #1 (business licensing and registry of pledges and mortgages), in late 2009 RDB was also appointed as the key counterpart for PPD activities under Component #8, in replacement of the RPSF. This decision was motivated by RPSF's notorious weakness in operational and outreach capabilities. However, RDB has also repeatedly demonstrated serious limitations, and this does not bode well for the effectiveness of the future PPD platform. Apart from operational considerations, the selection of RDB may also have wider negative consequences. Rwanda is already a fairly centralized and hierarchical society, characterized by a limited degree of autonomy of civil society organizations vis-à-vis political power. Under these conditions, the appointment of a state body, and a very powerful one like the RDB, to be the focus of all PPD activities inevitably raises doubts about the genuine nature of the 'dialogue' component of the acronym.

Overall Assessment. Overall, the strategic relevance of the Project can be considered ***satisfactory***. This assessment is positively influenced by the adding of additional components, following the review carried out in 2009.

4.3 Delivery of Outputs

This section reviews the ***quantity, quality and timeliness of the deliverables produced by the Project***. A quantitative overview of Project outputs is derived from the analysis of the indicators presented in Supervision Reports. This is complemented by an assessment of the quality and timeliness of the main outputs for the various components and by a brief discussion of client satisfaction.

[30] For instance, SR #2 indicates that "*Overall, the common risks cutting across components are severely overstretched capacities across all government levels and project counterparts …, and a plethora of working groups / task forces involving the same people spreading the scarce resources very thinly thereby making them ineffective*."

Overview of Project Outputs. Output indicators included in Supervision Reports are expressed in numerical terms and refer to various typologies of deliverables, such as the number of reports produced, the number of proposals made, the number of entities assisted and so on. An overall picture of Project outputs can be derived from SR #5, which covers the period through June 2010. In particular:

- out of the 35 indicators considered, only 2 were below target, 8 were on target and the remaining 25 were above target, including 11 exceeding the target by 100% or more;
- all in all, 46 reports were produced, with the formulation of 245 recommendations for reform, of which 226 concerned procedures, policies, practices or standards and 19 dealt with the drafting or amendment of laws or regulations;
- under the various components, a total of 71 entities received assistance, while workshops and other events organized by the Project were attended by 493 participants.

There is little doubt that the ***Project achieved a high level of output delivery and that in a number of cases initial targets were exceeded***. However, this conclusion is subject to some qualifications. ***First***, due to the addition of new components and activities, several indicators were selected (and the related targets set) not at the beginning of the Project but 'along the way,' often at a moment very close to the completion of a certain activity. This inevitably increases the ability to predict the likely result/reduces the difference between the target and the actual result. In this respect, out of the 35 indicators shown in SP #5, 15 were introduced in the second half of the Project. ***Second***, in some cases results are affected by the way in which deliverables were counted. In particular, the 98 recommendations for the improvement of tax procedures (which alone account for little less than half of all recommendations for procedural reform put forward by the Project), actually include a good deal of double counting, as the very same recommendation is counted twice (or more) simply because it is applicable to various processes.[31] This appears to be the consequence of a 'literal' interpretation of the relevant indicator ('number of recommended procedures/policies/practices/standards that were improved/eliminated'), with the practical effect of providing an 'inflated' impression of the volume of outputs produced.

Quality and Timeliness of Main Outputs. The analysis of the quality and timeliness of Project outputs is subject to two caveats. The first refers to the unavoidable element of subjectivity in the assessment of the quality of outputs. This is particularly the case for the Project under consideration, whose scope extends over a broad range of themes and issues, which (admittedly, and inevitably) are not all equally well mastered by the Consultant. The second caveat is of a practical nature, and refers to the fact that some deliverables could not be analyzed by the Consultant. Subject to the above, the main findings regarding the quality and timeliness of Project outputs are presented in Table 4.1 below.

Table 4.1 Quality and Timeliness of Outputs – Component Specific Considerations

Component	Description
#1 – Doing Business Reform	The main deliverables include the DB Reform memo developed in early 2008 and the ensuing action plans. These documents were very specific, with numerical examples showing the likely impact of the proposed reforms. Delivery could have hardly been more timely, as advice was typically concentrated in the early months of each calendar year, in order for the results to be taken into account in subsequent DB surveys. Additional outputs reportedly include some legal reviews.

[31] For instance, the recommendation "Consider sending the refund notification letter to the taxpayer through registered mail, fax, or e-mail" is formulated (and therefore counted) three times, once with reference to VAT Automatic Refund Processing (Process: 2.0.1.7a.2, recommendation #57), another with reference to VAT - Audit Refund Claim Processing (Process: 2.0.1.7b.2: recommendation # 69) and yet another one with reference to VAT - Privileged Persons Refund Processing (Process: 2.1.1.7c.2: recommendation #77).

#2 – Business Licensing Reform	This component produced a number of reports, including notably: (i) a mapping of business licenses; (ii) a report measuring the administrative burden associated with business regulation, using a SCM approach; (iii) a second SCM study focusing on the licenses identified as critical, which was also presented to the GOR in the form of a Decision Memo, (iv) a Cabinet Memo, focusing on the 8 licenses selected for priority action, and (v) an implementation plan. The mapping exercise was the first of its type in Rwanda, and consisted of a list of 189 regulations, with indication of the issuing authority, the legal basis, etc. The two SCM studies were fairly detailed exercises, based on considerable amounts of research work and timely prepared. Advisory work was accompanied by capacity building efforts, namely with the organization of a training workshop on SCM techniques. The e-registry platform was reportedly still in the process of being developed in late 2010.[32]
#3 - Improving Trade Logistics	The Project produced about 12 deliverables, in the form of mapping exercises, action plans and back-to-office-reports. These are mostly succinct documents, often in tabular format, listing the recommendations formulated by the team and/or the actions to be undertaken. In fact, the preferred operating modality for this component appears to have been the direct provision of advice to counterparts, through field visits and personal & group discussions. Other outputs produced by this component include three workshops/conferences, which seemed to be well-attended by a fair number of participants.
#4 – Investment Promotion Facilitation	Project files list several deliverables for this component (diagnostic studies, training courses, development of an investor tracking system, etc.), but the Consultant was in the position to review only the dataset used for the survey of non-operational investors. This is a rather basic tool, consisting of a simple listing of investment projects with some information on a few variables, such as the identity and nationality of the promoter, the investment envisaged, etc. Even more importantly, the dataset appears of limited usefulness for operational work, as the investment figures declared by prospective investors to investment promotion agencies are notoriously unreliable. As for timeliness, in the early stages delivery of outputs was delayed due to changes in the institutional setting. However, once the situation at RDB stabilized, outputs were delivered in a timely fashion.
#5 – Improving Business Tax Administration	This component produced three main deliverables, (i) a mapping of tax administrative procedures, (ii) a report on tax appeals mechanisms, and (iii) a study on SME taxation. The mapping exercise was swiftly carried out. The report is very detailed, providing clear indications about who should do what and how. The report on tax appeals mechanisms is a rather lean document prepared by FIAS, delineating the possible architecture of the new system, subject to further consultations with counterparts. The report on SME taxation could not be analyzed.[33]
#6 – Special Economic Zones	For this component, outputs include some analytical and policy-oriented reports, plus assistance in the drafting of new legislation on SEZ. There were some delays in delivery, but deadlines were probably too ambitious, given the complexity of the tasks at hand and the political sensitivity of certain aspects. Reports were well researched, and included very relevant recommendations.
#7 – Simplifying Access to Business Land	The component produced a report covering various issues in access to land. This is a study of excellent quality, formulating very sensible recommendations, including a series of warnings regarding the risks associated with well intentioned, sweeping reforms (e.g. inadvisability of adopting a silence-is-consent approach in land management).
#8 - Facilitating PPD and Reform Communication	No outputs were delivered under this component until late 2008, but since then work proceeded at a satisfactory pace. The five Business Roundtables implemented under the PPD subcomponent were well attended (some 240 participants by end 2009) and seemingly received adequate press coverage. Regarding the communication subcomponent, there were initiatives in connection with the DB 2010 report, while a comprehensive strategy to assist RDB in the effective communication of GOR reform efforts was timely delivered in early 2010.

Source: various project documents and interviews with stakeholders

[32] RDB is running (seemingly since late 2010 – beginning of 2011) an e-regulations portal providing information on various procedures. However, the website is indicated as being supported by UNDP and does not seem to be linked to Project activities. See http://rwanda.e-regulations.org/.

[33] The Consultant was provided with a document entitled “Assessing the taxation of SMEs in Rwanda - Encouraging tax compliance for SMEs” dated April 2010. However, based on the comments formulated by IFC staff on an earlier version of this Report, it appears that this document was not produced by the Project (the document itself does not include any reference whatsoever to whom commissioned it).

Client Satisfaction. The quality of the assistance provided by the Project was one of the topics discussed during interviews with counterparts. The ***overall assessment is definitely a positive one***, with virtually all beneficiary institutions declaring themselves highly satisfied or satisfied, with only a few cases of neutral assessment. Comments were particularly positive in the case of Component #6 ("*we mostly appreciated the promptness of the IFC response to the Government request for support, and the quality of work performed in such a short period was exemplary*") and, with reference to timeliness, in the case of Component #4 ("*work on the after care part was very timely, because we needed to get inputs for the Kivu Retreat*"). Mild criticism concerned the SCM training workshop, but this appears to be at odds with the evaluations provided by participants immediately after the workshop.[34] Some remarks were also made regarding aspects of the SEZ component, but in this case the objections concerned the solutions envisaged, reflecting different views on how the SEZ program should be implemented; not a negative assessment on the quality of the advice. A summary presentation of the opinions expressed is provided in Table 4.2 below.

Table 4.2 Client Satisfaction – Survey Results[35]

Type of Assistance	Very Good	Good	Neither	Bad	Very Bad	Not Applicable
Training & capacity building services						
• Quality	X	XX	X			XXX
• Timeliness	X	XX	X			XXX
Advisory services (diagnostic studies, recommendations, etc.)						
• Quality	XXX	XXX	X			
• Timeliness	XXX	XXXX				

Source: interviews with stakeholders

Overall Assessment. The Project delivered a high number of substantial outputs, most of them of good, if not excellent, quality and usually submitted on time. Overall, considering the positive views expressed by interviewees, the performance of the Project in terms of delivery of outputs can be regarded as ***highly satisfactory***.

4.4 Achievement of Development Outcomes

The evaluation of development outcomes refers to the achievement of the intended short and medium term effects. In practice, the analysis focuses on the ***level of acceptance and implementation of the recommendations provided*** (in terms of laws passed or amended, administrative procedures reformed or eliminated, improved organizational models adopted and the like) and on how this ***translated into improvements in the investment climate***, in particular with reference to DB rankings.

Acceptance and Implementation of Recommendations – Overview. In general, the degree of acceptance and implementation of recommendations formulated under the Project is fairly high, although there are differences depending upon the nature of the actions. Somewhat counter intuitively, the success rate was particularly high in the case of ***legislative reforms***, with more than a dozen laws passed and/or amended in less than three years. The high success rate in legislative reform is clearly an indication of the strong backing received from the country's political leadership, who was in the position to easily push proposals through parliament. The process was facilitated by the absence of opposition, as the legislative reforms proposed by the Project were usually rather neutral, not encroaching on powerful vested interests. Partial exceptions include the

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[34] This point was mentioned in the comments formulated by relevant IFC staff on an earlier version of the Report.

[35] Not all the interviewees answered the questionnaire used to asses client satisfaction. Therefore, the results shown in the table partly reflect the Consultant's interpretation of the qualitative comments formulated.

opposition manifested by parts of the legal profession in the case of business registration reform, which, however, was quickly silenced, and extensive review of the Company Law was carried out by the Parliament.

The success rate was also quite high in the case of ***administrative reform***, involving the modification of internal procedures and/or the restructuring of certain bodies. In Rwanda, the reformist attitude of the political leadership is widely (and genuinely) shared by the majority of civil servants and once recommendations had been discussed and agreed upon, were usually implemented. Whenever problems were encountered, they were due to limited capabilities, in terms of staff numbers and/or skills, rather than to more or less manifest bureaucratic opposition.

Instead, the record is mixed in the case of ***capacity building actions*** related to the adoption of improved organizational models and working methods. In this case the, the weaknesses displayed by several counterparts (from the RPSF to certain sections of RDB) proved to a powerful obstacle, and in several cases the quality and/or pace of implementation was less than ideal. In some instances, it was also possible that the resources invested were not fully in line with needs. For instance, the weaknesses detected in the SCM calculations performed to assess the impact of business licensing reform are hardly surprising, given the fairly sophisticated nature of the technique and the limited resources that could be deployed for training local personnel. This is an area where further and more systematic efforts are required in order to achieve tangible results, and this could possibly be done in the framework of a future follow-up project.[36]

Acceptance and Implementation of Recommendations - Component-Specific Considerations. Considerations regarding the development outcomes achieved by the various components are presented in Table 4.3 below.

Table 4.3 Development Outcomes – Component Specific Considerations

Component	Description
#1 – Doing Business Reform	No less than six main pieces of legislation were passed and/or amended in connection with the work done under this component, namely: the Business Registration Law, the Companies Law, the Labor Code, the Law on Security Interests on Movable Property, the Insolvency Law, and the VAT Law. Additionally, several changes were made in regulations, administrative procedures and institutional arrangements concerning the registration of new businesses, the registration of mortgages and pledges, and the checking of credit status. All these reforms translated into a major reduction in the number of steps, days required, and fees levied which, in turn, were at the core of the major improvement in Rwanda's DB rankings. As already indicated in Section 3, one of the more visible reforms supported by this component, the simplification of business registration procedures, was also supported by a parallel ICF project, which makes it difficult to distinguish the relative merits of the two initiatives.
#2 – Business Licensing Reform	The last implementation report indicates that by November 2010, 37.5% of recommendations had been implemented, 30% were in the process of being implemented, and no progress had been achieved for the remaining 32.5%.[37] In particular, significant results were achieved in reforming the transfer of land titles and the issuance of building permits, whereas the reform of the import license for drugs is the area where least progress was achieved.
#3 - Improving Trade Logistics	Over the last few years Rwanda recorded significant improvements in the area of trade logistics. For instance the DB Reports show a decline in the number of days to trade and in the number of documents required, although this was offset by an increase in transport costs. Data provided by Customs also show the average time of release from customs has

[36] This aspect was extensively discussed with the team members, Ms. Matilde Bordon and Mr. Petter Lundqvist, extensively involved in business licensing reform. Their kind cooperation is gratefully acknowledged.
[37] Business Licensing Reform Report November 2010.

	markedly declined, passing from 47 hours in 2007 to 26 hours in the first half of 2010, with an overall reduction of about 45%.[38] However, it is not easy to determine to what extent the improvements recorded can be ascribed to Project activities or are instead due to other concomitant factors such as the entry into force of the EAC Customs Union and the assistance in customs administration provided by other donors (DFID, IMF, World Bank). Based on available information, it appears the Project played a significant role in the simplification of customs documentation, in the elimination of the import export declarations, in the consolidation of certain payment procedures, and in promoting the adoption of risk management techniques (e.g. at RBS); whereas improvements in other areas (harmonization of procedures, adoption of selective borders controls, introduction of non intrusive controls, reconfiguration of IT systems, etc.) seem primarily attributable to other factors.
#4 – Investment Promotion Facilitation	Efforts to improve RDB capabilities have yielded fairly modest results. In the area of 'investor servicing,' some positive achievements were mentioned in early supervision documents, but were seemingly unrelated to Project activities. With reference to the ability to respond to investor inquiries, the 2009 Global Investment Promotion Benchmarking (GIPB) study classified RIEPA in the weak category. While this refers to the situation existing before the launch of the Project, an interim dummy test carried out during Project implementation confirmed this negative result, indicating the persistence of weaknesses in the utilization of the investor tracking tools provided by the Project. A new GIPB assessment is expected to take place in 2011. Some progress was achieved in the field of 'investor after care services,' handled by a newly established unit within RDB. In particular, during 2009, the new unit was reportedly able to revive some ten investment initiatives that had remained dormant for sometime. Project documents indicate that this led to the mobilization of investments for a total of US$ 127 million, with the creation of 517 jobs. However, further analysis showed that the bulk of investments refer to a single investment operation, whose implementation appears scarcely connected with the assistance provided by RDB (see below Section 5.3).
#5 – Improving Business Tax Administration	The implementation of recommendations on tax administrative procedures is still ongoing, but it seems to have already achieved a fairly advanced stage, with about three quarters of the recommendations implemented by late 2010. The proposal for the establishment of a tax appeal tribunal was accepted in principle by GOR, and the drafting of the relevant legislation is currently ongoing. In the area of SME taxation, findings of analytical work were presented to GOR and the theme is likely to be pursued in the future by a follow up operation.
#6 – Special Economic Zones	The recommendations developed by the Project were instrumental in reorienting government policy and in avoiding wasteful competition between the two SEZ projects under development in the Kigali area. The SEZ law was approved by the Chamber of Deputies in January 2011, paving the road for the effective implementation of a first development phase with a clear operational and legal structure in place. It is important to note that the component has already started producing some tangible results. In fact, following the approach suggested by the Project, in 2010 the GOR decided to turn down a request for cash infusion from the Kigali Industrial Park, with a saving on the order of US$ 9 million.
#7 – Simplifying Access to Land	Recommendations formulated under this component were endorsed by the GOR, and some were seemingly incorporated in the draft 'Expropriation Regulations' drafted by the NLC. Also, work under this component was used to develop specific land provisions for the SEZ legislation.
#8 - Facilitating PPD and Reform Communication	The Business Roundtables proved useful to increase awareness about investment climate reform needs, and in several cases synergies with other Project components emerged (e.g. Business Roundtable on Trade Logistics). As for the establishment of the 'unified' PPD mechanism, the proposed structure of the new platform was endorsed by GOR in mid 2010, with implementation to follow at the end of the year.

Source: various project documents and interviews with stakeholders

Improvement in DB Rankings. As a result of the numerous legislative and administrative reforms, ***Rwanda recorded a major improvement in DB rankings***, jumping from the 150th position in DB

[38] Data on the average time taken from lodging a declaration to the exit of goods from customs control are as follows: 2007: 3 days, 11 hours and 16 minutes; 2008: 2 days, 19 hours and 32 minutes; 2009: 1 day, 5 hours and 49 minutes; first six months of 2010: 1 days, 2 hours and 3 minutes.

2008 to the 58th position in DB 2011, well ahead of other Sub-Saharan countries, with the only exception of Botswana. As shown in Table 4.4 below, improvements are particularly notable in the case of the following indicators: starting a business, dealing with construction permits, registering property, getting credit, and protecting investors. Less marked, but still non negligible improvements were recorded in paying taxes and trading across barriers indicators. In DB 2010, a major improvement was also recorded in the employing workers indicator, which, however, was subsequently removed from the list of DB indicators.

Table 4.4 Progress Achieved in DB Rankings

Indicators	DB 2008 Ranking	DB 2009 Ranking	DB 2010 Ranking	DB 2011 Ranking
Starting a Business	71	64	11	9
Dealing with Construction Permits	125	89	89	82
Employing Workers	102	113	30	..
Registering Property	138	59	38	41
Getting Credit	141	147	61	32
Protecting Investors	168	171	27	28
Paying Taxes	54	58	60	43
Trading Across Borders	170	171	170	159
Enforcing Contracts	46	48	40	39
Closing a Business	178	181	183	183
Ease of Doing Business	***150***	***139***	***67***	***58***

NB Due to changes in methodology (elimination of the employing workers indicator), the DB2011 'ease of doing business' ranking is not comparable with the those of previous DB reports.
Source: DB Reports, various years

It is important to note that ***improvements in DB rankings do not necessarily translate into an improvement in the conditions in which private businesses actually operate***. This is vividly illustrated by the indicator 'getting credit,' where Rwanda's outstanding DB ranking (32nd worldwide in DB 2011, i.e. better than France and Spain, ranking 46th) is obviously at odds with a ratio of private sector lending to GDP of only 11-13%, which is much lower than the 18%-24% recorded in Benin, Togo and Senegal, all countries placed in the 152nd position in DB rankings.[39] The limitations of DB indicators in capturing aspects of the business environment that are really relevant for business operators has already been extensively analyzed and the point does not need to be further elaborated here.[40] However, this helps to explain the skepticism displayed by some private sector interviewees regarding the influence of Rwanda's exceptional performance in terms of DB indicators in 'real business life' ("*they have mistaken the journey for the destination*", "*Doing business is good for publicity, but in reality things are quite different*").

Overall Assessment. Overall, the performance of the Project in terms of development outcomes can be considered ***satisfactory***. Once again, there are variations across components, with Components #1 and #6 performing very well and others, especially Component #4, displaying a lower level of effectiveness.

[39] Data on private sector lending are from the World Development Indicators database, which in turn builds upon IMF data.
[40] The point was one of the issues addressed by the independent evaluation of DB indicators which noted that "*The DB exercise … measures selected dimensions of the regulatory environment, some of which are bound to be irrelevant in some countries*." See World Bank - Independent Evaluation Group, *Doing Business: An Independent Evaluation – Taking the Measure of the World Bank IFC Doing Business Indicators*, 2008, page 51. See also von Drachenfels C. and others, "Seven theses on Doing Business", German Development Institute, September 2008 and, for a much more critical view, Arruñada Benito, "How *Doing Business* Jeopardizes Institutional Reform", *European Business Organization Law Review*, 2009.

4.5 Efficiency

Efficiency measures the extent to which the ***resources devoted to a certain initiative are reasonable vis-à-vis the results achieved***. In principle, the analysis of efficiency would require the calculation of cost effectiveness ratios comparing the outputs delivered/outcomes achieved with the associated expenditures. However, this type of analysis is precluded by data limitations, as project expenditures are neither budgeted not tracked by component or activity stream. Under these conditions, the analysis can only be carried out at a more general level, focusing on selected budgetary and organizational aspects.

Budgetary Aspects - Planning and Management of Funds. At inception, the Project had a budget of US$ 2.8 million with a duration of 23 months, which implied an average expenditure of about US$ 120,000 per month. When the parallel PPD program is added, planned monthly expenditure was about US$ 140,000. As of mid 2010, i.e. 30 months after take off, actual expenditure (including the PPD component) totaled about US$ 2.8 million, with an average monthly expenditure on the order of about US$ 95,000. The 35% difference between planned and actual monthly expenditure could be interpreted as an indication that the Project had been over budgeted at approval While this is certainly a possibility, the problem appears to be primarily in the denominator of the ratio, i.e. project duration, rather than in the numerator. In fact, as suggested by the slow implementation rate experienced by some components, the Project was probably excessively ambitious in setting its targets in relation to time. However, the situation was largely rectified by the mid-term review carried out in mid 2009, which involved a significant reallocation of funds. Of particular significance was the reduction in budgets of Components #2 and #3, which lost, respectively, 50% and 25% of their initial allocations, in favor of Component #1, whose budget was tripled, and of the newly added Components #5 and #6.

Budgetary Aspects - Cost Structure. Indications regarding the efficiency in the use of resources can be derived from the analysis of the Project cost structure. The budget breakdown by main cost items is shown in Table 4.5 below, which presents data for both planned expenditures (i.e. the budget approved at the mid 2009 Project review) and actual expenditures (as of mid 2010).

Table 4.5 Cost Structure

Cost Items	Budget (mid 2009)		Actual Expenditure (mid 2010)		Difference (B-A)
	US$	% (A)	US$	% (B)	%
Pre implementation	0	0%	142,760	5%	5%
Staff Costs	515,843	16%	815,863	29%	13%
• *IFC Staff*	*410,491*	*12%*	*647,109*	*23%*	*11%*
• *Extended Term Consultants and Temps*	*105,352*	*3%*	*168,754*	*6%*	*3%*
Consultants	1,821,594	55%	727,693	26%	-29%
Communication and IT Chargeback	5,699	0%	17,999	1%	0%
Contractual Services	63,648	2%	66,123	2%	0%
Office Equipment	12,304	0%	21,299	1%	0%
Office Rent	38,349	1%	40,085	1%	0%
Staff Representation and Hospitality	1,418	0%	2,566	0%	0%
Travel Costs	830,351	25%	977,485	35%	10%
Other Expenses	31,794	1%	10,105	0%	-1%
Total	**3,321,000**	**100%**	**2,821,978**	**100%**	

Source: Supervision Reports and Approval Documents

Both the budget and actual expenses are largely concentrated on three items, staff costs, consultants and travel costs, cumulatively accounting for about 90% of the total. The prevalence of these items is not surprising, being a fairly common feature of technical assistance projects. What is peculiar to this Project, and seemingly indicative of a less than optimal use of resources, is the balance among these cost items and its evolution over time. In fact, ***travel costs*** are by far the main cost item, accounting for 35% of actual expenses. ***Staff costs*** are the second largest item, accounting for 29% of actual expenditure, of which 23% is allocated to IFC staff and 6% for extended term consultants and temporary staff. It is important to note that actual expenses for travel and staff significantly increased compared with what was envisaged in the budget, passing from 40% to 64%. Obviously, this involved a marked reduction in the resources devoted to ***consultants***, whose share more than halved, from 55% to 26%.

The 35% of resources devoted to travel costs appears to be definitely on the high side. To some extent, this is due to the high cost of air tickets to Kigali and to the prolongation of the Project, which required more supervision missions than envisaged. But it seems clear that the key factor in pushing up travel expenses lies in the intensive use of IFC staff and, particularly, IFC staff based at HQ or in other distant locations. The cost effectiveness of such an arrangement is difficult to assess, as both positive and negative aspects are present. On the one hand, in the case of certain components, the intensive reliance on IFC staff was probably a necessity. For instance, in the case of Component #1, there is little doubt that the involvement of staff from the DB team, possessing an intimate knowledge of the functioning of DB indicators, was instrumental in achieving the desired results. On the other hand, in the case of activities involving protracted capacity building work, a wider recourse to consultants semi-permanently posted in the country might have been beneficial in operational terms, allowing for a more constant interaction with counterparts, and might have improved cost effectiveness. It is important to note that the subject of the team composition (and its implications in operational and financial terms) emerged during some interviews with stakeholders, and views were quite divided. In fact, while some commented somewhat ironically on the large number of missions ("*these guys must have spent half of their time flying in and out*"), others considered short-term missions as a more productive way of delivering assistance ("*when they are in town you can notice the difference*"), and, therefore, regarded the associated higher travel costs a price worth paying.

Organizational Aspects. The Project team was characterized by remarkable stability, with the same people being involved in Project activities for a fairly long period of time. This applies to the PM, who was in charge of coordination for nearly 30 months, as well as to the near totality of component leaders. This greatly helped ensure continuity of action, with positive effects on implementation. On the negative side, in the early stages of the Project, the IFC team could not count on an in-country operational and logistical support, due to the lack of a full-time resident coordinator. This negatively impacted Project activities, especially regarding the establishment of an effective working relationship with counterpart organizations, and was acknowledged to be "*a serious constraint for implementing the program*" (SR #2). Unfortunately it was not until mid 2009 that this problem was eventually tackled.

Overall Assessment. Overall, the efficiency of the Project can be regarded as ***satisfactory***. The large share of travel costs and the lack of a permanent country presence for 18 months might have justified a less positive assessment, but these aspects appear to be offset by the budget revision of 2009, which re-oriented resources towards more relevant/effective components.

4.6 Summing Up

A summary assessment of the Project is provided in Table 4.5 below. Overall, the Project can be regarded as ***satisfactory***, with a higher rating attributed to the delivery of outputs. The rating is accompanied by some comments regarding the variance across the various components.

Table 4.5 Summary Evaluation

Evaluation Criteria	Summary Assessment	Comments
Strategic Relevance	Satisfactory	The assessment is positively influenced by the adding of new components, which increased the relevance of the assistance provided.
Delivery of Outputs	Highly Satisfactory	There are variations across components, but in general the project was able to deliver a substantial number of tangible, high quality outputs on schedule.
Achievement of Development Outcomes	Satisfactory	The outstanding results achieved in terms of DB rankings reflect the excellent work done by the Project team, but do not always imply a significant improvement in operating for private firms.
Efficiency	Satisfactory	The lack of detailed information on expenses and cost items makes an assessment at the component level necessarily tentative.
Overall Assessment	Satisfactory	

5 PROJECT IMPACT

5.1 Introduction

This Section is devoted to the 'quantitative' part of the Assignment, i.e. the assessment of the impacts achieved by the Project. In accordance with the TOR, the exercise focuses on 7 types of impact, namely:

- ***two overall impacts***, relevant for all components or product areas, including: (i) the aggregate private sector cost savings, and (ii) the private sector investment generated;
- ***five product-specific impacts***, including: (i) the number of new businesses registered, (ii) the number of new jobs created, (iii) the number of new businesses complying with tax regulations, (iv) the tax revenue generated, and (v) the increase in trade flows.

The two overall impacts are analyzed, respectively, in Sections 5.2 and 5.3, while other impacts are discussed in Section 5.4. The approach adopted in estimating impacts builds upon the methodological work done in the earlier stages of the Assignment and presented in a separate report. This Section also takes into account the numerous studies and methodological documents recently developed by the IFC.

A few methodological and practical aspects are worth highlighting at the outset. ***First***, the analysis, in principle, would require the comparison of the situations 'with and without' the intervention. However, as recognized by the TOR, in the case of "*universally based interventions such as IFC's [investment climate] programs,*" the recourse to control groups is generally unfeasible. Therefore, it was accepted that the exercise would rely on an assessment of "*changes in business environment before and after each project*" (TOR, page 6). Efforts were made to control for exogenous factors through the development of 'counterfactual' scenarios, but this was possible in only a few cases, and using rather crude extrapolation techniques. ***Second***, as already mentioned in Sections 3 and 4, in some cases the reforms promoted by the Project were also supported by other donor initiatives or were influenced by other factors (e.g. membership in the EAC). Under these conditions, as acknowledged by the TOR, "*it is difficult to determine the impact of reforms on private sector that can be attributed solely to IFC*." Again, efforts were made to isolate the effects of IFC-supported reforms from concomitant factors, but, in general, this was possible only in the case of private sector cost savings, for which the linkage between cause and effect is easier to determine. In the case of other impacts, the various donor initiatives were so intertwined that their effects could not be estimated separately. ***Third***, the analysis of impacts focused primarily on the 2008 – 2010 period, using the year 2007 as a baseline. However, it is acknowledged that in many cases investment climate reforms take time to produce effects. An attempt was made to assess to likely medium-term evolution of impacts, but in general this could only be done in qualitative terms. Therefore, it is important to stress that the quantitative estimates provided in the Report refer primarily to what could be regarded as the initial impacts of the Program, which represent only part of the total impacts. ***Fourth***, the exercise required the use of a variety of data, both of a macro and micro economic nature, collected from a variety of sources. Unfortunately, in a number of cases, the quality of data is less than ideal and, therefore, only rough estimates could be produced.

5.2 Private Sector Cost Savings

Definitions and Methodology. Private sector cost savings (PSCS) are defined as the savings accruing to private economic agents as a result of reforms in the investment climate. These reforms may concern a wide range of themes, ranging from the simplification of procedures to obtain a certain permit or authorization to the elimination of certain fees or taxes. For the purposes of this exercise, three types of PSCS can be identified, namely:

- ***cost savings***, associated with the reduction in out of pocket expenses incurred by private enterprises thanks to the elimination/reduction of certain fees (stamp duties, service fees, etc.) and/or of the need to rely on service providers for certain formalities (e.g. elimination of notarization for articles of incorporation);
- ***time savings***, referred to the gains in terms of opportunity cost of labor resulting from regulatory simplification and/or from the adoption of improved organizational models for certain services;
- ***financial savings***, related to the reduction in the financial burden shouldered by private operators as a result of changes in the payment modalities for a certain fee or tax, with ensuing cash flow advantages.

PSCS were estimated based on a ***methodology*** inspired by the guidelines recently developed by the IFC to quantify the savings associated with investment climate operations.[41] The ***information*** required was retrieved from a variety of primary and secondary sources. In the case of the latter, reference was made to official statistics and research reports of various origin, including data published in the DB Reports and/or produced by the Project. Data retrieved from secondary sources were complemented and augmented with information collected through interviews with a wide range of subjects (private firms, lawyers, accountants, public officials, etc.). The methodology and the sources used are illustrated in detail in Annex C, while a summary presentation of key aspects is provided in Box 5.1 below.

Box 5.1 - Estimating PSCS: Key Methodological Aspects

In essence, estimating PSCS involves the multiplication of a 'price element,' i.e. the savings achieved in one particular case, times a 'quantity element,' i.e. the number of relevant observations.

The nature of the ***price element*** depends upon the type of reform under consideration. In the case of cost savings, benefits can generally be measured directly (e.g. the registration fee is reduced from X to Y). In the case of time savings, the value to be considered is itself the result of the multiplication of the amount of time saved (typically, expressed in hourly terms) times the relevant unit labor costs. Finally, in the case of financial savings, reference is made to the value of payments postponed, to the duration of the postponement, and to the relevant interest rate that measures the opportunity cost of capital.

The ***quantity element*** also varies depending upon the nature of the reform considered. In some (most) cases, reference is made to the number of enterprises affected by the reform (e.g. number of enterprises benefiting from the simplification of registration procedures). In other cases, reference is made to the number of transactions facilitated by the reform (e.g. the number of trucks not undergoing a physical inspection at the border).

PSCS are calculated for the entire life of the Project. As benefits may occur at different points in time, in order to properly aggregate annual values it is necessary to ***proceed to compounding***, taking the terminal year of the Project as reference point. This is done using the relevant real interest rate.

Sources of PSCS. PSCS were achieved in connection with reforms undertaken in five main areas, namely: business registration, licensing connected with construction permits and real estate transactions, other business licenses, trade logistics, and business tax administration. The reforms generating PSCS considered in the analysis are summarized in Table 5.1 below.

[41] IFC, *Guidelines for Aggregate Cost Savings template (basic)*, s.d. (but August 2010), hereinafter referred to as the 'IFC Guidelines.'

Table 5.1 Summary of Reforms Generating PSCS

Reform	Specific Measures Generating PSCS	Timing
Business Registration		
Business Registration - Companies	• elimination of *ad valorem* fee of 1.2% on declared capital, replaced with flat fee • elimination of mandatory notarization of company deeds and articles of incorporation • elimination of mandatory publication of charter • elimination of separate registrations with tax authorities and social security • improvement of services through the establishment of a one-stop-shop structure	Reforms introduced starting in early 2008, with additional measures adopted in 2009
Business Registration – Sole Proprietorships	• elimination of separate registrations with tax authorities and social security • improvement of services through the establishment of a one-stop-shop structure	Reforms introduced starting in early 2008, with additional measures adopted in 2009
Business Licenses - Construction Permits and Real Estate Transactions		
Building Permit System	• reduction of fee for deed plan and modification of unit fees for construction permits • improvement of services through the establishment of a one-stop-shop structure for sizeable buildings	Second quarter 2010
Property Registration	• elimination of *ad valorem* tax of 6% on property value, replaced with flat fee • elimination of mandatory registration of sale contract with tax authorities	Early 2008
Land Titles Transfer System	• elimination of three steps in the procedure and of related out-of-pocket costs	Early 2010
Business Licenses - Others		
Environmental Impact Assessment	• publication of a list of pre-approved experts for the performance of environmental impact assessment	End 2009 – early 2010
Licensing of Clearing Agents	• simplification of procedures for the renewal of licenses	End 2009 – early 2010
Road Worthiness Tests	• improvement of operating conditions for the running of tests	End 2009
Trade Logistics		
Customs Documentation	• introduction of self-assessment system and elimination of various customs documents (arrival notice, *déshabillage*, exit note and cargo release order)	Reforms introduced starting in mid 2008, with additional measures adopted in 2009 and 2010
Import Export Licensing	• elimination of import export licenses issued by the National Bank of Rwanda	August 2008
RBS Fee Payment System	• consolidation of payment of RBS fee into the customs fee and duty collection process	January 2009
Business Taxation		
Tax Clearance Certificates	• Introduction of the possibility to obtain Tax Clearance Certificates online	Second quarter 2009
VAT Filing and Payment System	• enablement of quarterly (instead of monthly) filings and payments for tax payers with a turnover up to RWF 200 million	April 2010

Two points are worth highlighting. ***First***, not all the reforms introduced during the period of Project implementation were taken into consideration. In particular, in line with what indicated above, several improvements recorded in customs administration appear only partly attributable to Project activities and, therefore, were not considered. Similar considerations apply to some minor changes introduced in the business licensing area, such as the translation from Kinyarwanda to English of instructions related to the Road Worthiness Certificate, whose impact is scarcely noticeable. Likewise, no consideration was given to two steps in the business registration procedure, the checking of uniqueness of company name and of the making a company seal, which figured in the list of procedures included in the DB Reports but that, in fact, were never mandatory. ***Second***, in some cases PSCS may accrue to intermediaries rather than to 'final beneficiaries,' i.e. private firms. This is particularly the case of benefits generated by the simplification or elimination of some customs procedures, that are more frequently reaped by clearing agents than by importers. This led some IFC staff to consider PSCS as an inappropriate measure of the impact of reforms in the trade logistics area. However, considering that the notion of PSCS is largely independent from 'distributive' considerations (i.e. clearing agents are also private sector operators) and, especially, in line with what indicated in the TOR for the Assignment, the PSCS exercise also included reforms in trade logistics.

Quantification of PSCS. Over the 2008 – 2010 period, the PSCS generated by the reforms supported by the Project can be estimated at ***about US$ 5.1 million***, expressed in 2010 value. The results of the exercise, with the breakdown by component/reform and type of savings, are summarized in Table 5.2 below.[42]

Table 5.2 Summary of PSCS Generated (US$, 2010 value)

Reform	Cost Savings	Time Savings	Financial Savings	Total PSCS	Comments
Business Registration					
Business Registration - Companies	2,317,849	67,674	0	2,385,523	Results influenced by estimates of declared capital in the pre-reform period. Part of time savings to be credited to the parallel ICF project
Business Registration – Sole Proprietorships	0	7,753	0	7,753	Part of the time savings attributable to the parallel ICF project
Business Licenses - Construction Permits and Real Estate Transactions					
Building Permit System	6,920	2,442	0	9,362	Results heavily influenced by estimates of relevant transactions
Property Registration	638,935	2,738	0	641,673	
Land Titles Transfer System	1,473	3,280	0	4,754	
Business Licenses - Others					
Environmental Impact Assessment	0	1,112	0	1,112	
Licensing of Clearing Agents	0	1,219	0	1,219	
Road Worthiness Tests	0	112,854	0	112,854	
Trade Logistics					
Customs Documentation	0	1,187,248	0	1,187,248	Results heavily influenced by estimates of relevant transactions
Import Export Declaration	0	88,158	0	88,158	Results heavily influenced by estimates of relevant transactions
RBS Fee Payment System	0	141,384	0	141,384	Results heavily influenced by estimates of relevant transactions
Business Taxation					
Tax Clearance Certificates	0	12,123	0	12,123	Results highly hypothetical, due to the lack of key data
VAT Filing and Payment System	0	262,609	227,960	490,569	
Total	**2,965,178**	**1,890,595**	**227,960**	**5,083,732**	

[42] For details on calculations, please refer to Annex C and to the attached spreadsheet file.

Overall, ***more than 70% of total PSCS are connected with just two reforms***, the elimination of the *ad valorem* tax on the declared capital of companies, the adoption of a series of simplifications in customs documents and procedures. Another 23% of benefits are linked to the elimination of the tax on property transactions and to the change in filing and payment modalities for VAT (which was introduced only recently and whose benefits are, therefore, reduced). Other reforms appear to have yielded limited benefits.

It is important to note that for the two reforms providing the bulk of benefits, ***results are significantly influenced by uncertainties regarding some key parameters***. In the case of the *ad valorem* tax on capital, the value of the declared capital before the reform is not known and had to be 'guess estimated' based on ex-post values, which are obviously much higher (precisely because declared capital is no longer taxed). This may lead to an overestimate of savings. In the case of customs simplifications, in calculating time savings reference was made to the number of customs declarations. However, some time savings appear related more to the number of trucks going through the customs rather than to declarations. As one truck may well carry cargo related to more than one declaration (this is typical in the case of *groupage*), the use of declarations may well lead to an over estimate of PSCS. The same applies whenever clearing agents perform procedures for more than one declaration simultaneously (i.e. they stand in line to pay five fees at the same time). This was partly corrected by including in calculations only 50% of the customs declarations.[43]

Finally, it is worth noting that, with the exception of the simplification of customs procedures and documents, ***time savings are generally of limited importance***. It is certainly possible that the amount of time saved with the elimination of certain procedures has been underestimated. But doubling or even tripling the amount of time saved would not appreciably alter the picture. And this despite the fact that unit labor costs considered are likely to be on the high side, and in any event are higher then those used in certain Project documents.[44]

Assessment of Future PSCS. The possible value of future PSCS due to the reforms supported by the Project can only be guess estimated, as too many factors are at play. On the one hand, the value of PSCS is expected to increase because of (i) the increase in time and financial savings associated with the change in VAT payment modalities, and (ii) the coming on stream of the reforms in business tax administration, which are expected to result in time savings for business tax payers. VAT-related annual savings are likely to be on the order of US$ 600 – 800,000 per year. No estimate is possible for the still ongoing tax administration reform, but being that savings are entirely attributable to time savings, they are likely to be rather modest. On the other hand, following the approach adopted by IFC Guidelines, the impacts associated with the earlier reforms should be gradually eliminated from calculations, the rationale being that, after a certain number of years, the reforms would have been implemented even without IFC support. Based on these considerations, it seems reasonable to conclude that over a three – four year horizon, the value of PSCS attributable to the Project could be ***at most equal to the value estimated for the 2008 – 2010 period and possibly lower***.

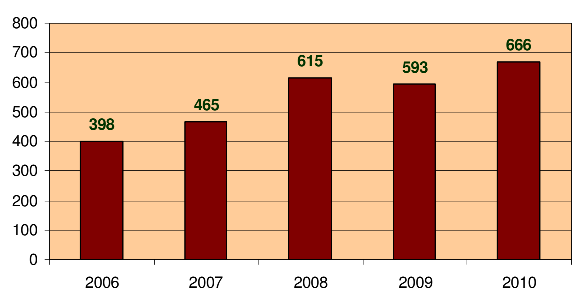
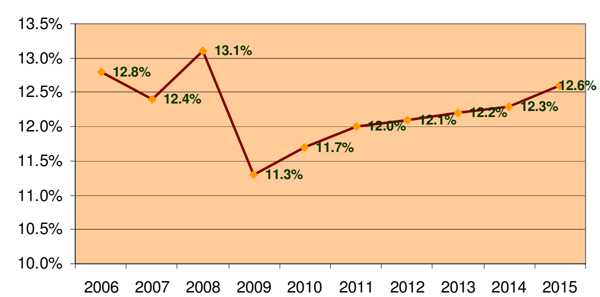
[43] For details, please make reference to Annex C.

[44] It is worth noting that the results presented here differ significantly from the estimates produced by a local consultant working for the Project, and according to which PSCS resulting from business licensing reforms alone would be on the order of about US$ 1.2 million (see spreadsheet file entitled 'Current time and cost and est. maximal improvement-Nov 2010'). However, a detailed review of calculations suggests the existence of methodological problems and, therefore, these data were not considered in this Report. The matter was extensively discussed with the relevant IFC staff.

5.3 Private Investment Generated

Background. In Rwanda, ***private sector investment is fairly low***, at around 11 – 13% of GDP, compared with an average of about 15% for Sub Saharan Africa.[45] Driven primarily by favorable developments in the real estate sector and by some large foreign-owned operations, investments increased fairly rapidly between 2006 and 2008, passing from US$ 400 million to US$ 615 million, but then declined in 2009, falling below US$ 600 million. In relative terms, this meant a decline from 13.1% to 11.3% of GDP. Private investment is expected to recover marginally in 2010, reaching 11.7% of GDP. According to IMF projections, the trend is expected to remain positive in future years, but with a rate of growth only marginally higher than that of GDP. Trends in private investment are summarized in Table 5.3 below.

Table 5.3 Trends in Private Investment

Recent Evolution (US$ million, current prices)	Recent Evolution and Projections (as % of GDP)
	

Source: IMF, various country reports

Project Impact. The private sector investment generated (PSIG) falls under the so called 'overall impacts' category, in the sense that initiatives undertaken under various components may concur to increase investment levels, either directly or indirectly. In the case of the Project under consideration, the impact on PSIG was assessed with reference to three main factors, namely: (i) the acceleration of the enterprise formation process, partly linked to (but definitely not solely determined by) the simplification of business registration procedures undertaken as part of Component #1, (ii) the measures aimed at facilitating access to finance, also introduced as part of Component #1, and (iii) the investment promotion work carried out in the framework of Component #4. In particular:

- ***Acceleration of the Enterprise Formation Process.***[46] As illustrated in detail below (Section 5.4), during Project implementation, the enterprise formation process recorded a significant acceleration and this, in turn, contributed to an increase in investment levels. The number of new businesses whose formation is at least partly associated with the reforms supported by the Project can be estimated in about 4,400 – 5,200. The average investment per new enterprise was estimated at some US$ 11,500 in the case of companies and US$ 2,300 for sole proprietorships. Based on these parameters, the value of PSIG somehow associated with reforms promoted by the Project can be estimated at <u>US$ 39 – 46 million for the whole period 2008 – 2010</u>, of which US$ 1-2 million in 2008, US$ 15 – 17 million in 2009, and US$ 23 – 27 million in 2010;
- ***Measures aimed at Facilitating Access to Finance***. Measures such as the creation of the register of security interest in movable goods and the establishment of a register for mortgages were aimed at facilitating private sector access to lending, with the ultimate objective of increasing investment levels. The degree of utilization of these instruments is variable: data from ORG show a decline in the number of pledges registered, from 219 in April 2008 to 22 in

[45] Data on Rwanda are from IMF country reports. The figure for Sub Saharan Africa is taken from World Bank, *Private Sector at a Glance - Rwanda*, April 26, 2010

[46] For details on the sources used and the calculations made, please refer to Annex D.3.

2009 and to 49 in May 2010. In contrast, mortgage registrations have been on the rise, passing from 815 in 2009 to 996 in May 2010. Irrespective of the use of these instruments, it is not possible to establish a clear link between the reforms supported by the Project and lending to private operators and, therefore, to private investment. In fact, during the 2007 – 2010 period private sector lending peaked in 2008 (i.e. at the beginning of Project activities), at 13.1% of GDP, and declined in 2009, at 11.9%, with some recovery expected to take place in 2010 (12.7% of GDP). Overall, private sector lending appears to have been influenced primarily by other, more fundamental factors such as the liquidity crunch experienced in late 2009 and the accumulation of non performing loans. Therefore, no impact on private sector investment through improvements in the lending market can be established;

- ***Investment Promotion Activities.***[47] Under Component #4, the Project supported RDB with the aim of increasing the quality of services provided to investors. In particular, beginning in mid 2009, the RDB's Investor Aftercare Unit started providing focused assistance to investors whose initiatives had been on standstill because of various problems in order to revive dormant projects. Project documents report that, as a result of this assistance, "*in 2009, 9 of the 51 non-operational projects have become active with a total investment of US$ 127 million*." However, about 94% of total investments (some US$ 120 million) are linked to a single operation, namely the launch of Tigo, Rwanda's third mobile phone operator. As the investment was made by a large multinational company, Millicom International Cellular, with vast experience in developing countries (including various African countries), following the launch of an international tender, it appears implausible to attribute the merit of the operation to the after care activities supported by the Project. In more general terms the investment values reported in Project documents refer to anticipated investments, declared by investors at the moment of filling their application, and not to actual investments. As investor declarations are notoriously inflated, it appears appropriate to discount the values recorded by RDB by about a third. Therefore, leaving aside the Tigo operation and considering only the remaining 'revived' investment initiatives, the value of PSIG attributable to activities under Component #4 can be grossly estimated at about US$ 5 million for the 2009 – 2010 period.

Assessment. Overall, PSIG somehow associated with Project activities can be estimated at some ***US$ 44 to 51 million for the 2008 – 2010 period***, a value that appears compatible with overall trends in private investment. In particular, the US$ 17 – 20 million incremental investment in 2009 represent about 3% of total private investment, while the US$ 25 – 30 million estimated for 2010 account for about 4%. These figures are obviously very tentative. On the one hand they might be an underestimate, as the volume of investment of newly created enterprises may well be higher than the subscribed capital (although the level of gearing of newly formed enterprises in developing countries is traditionally low). On the other hand, the investment parameters retained for our estimates are quite respectable figures, probably on the high side, especially considering that the bulk of companies registered were general trade operations.

It is important to stress that the above figures refer only to ***short term impacts***. In principle, the ***medium term impact*** could be estimated using the same approach, but this would require strong assumptions regarding the growth of newly formed business. In general, it seems reasonable to envisage a progressive stabilization in the pattern of company formation, although this could be compensated for by a higher investment rate. On the whole, and in purely subjective terms, a figure on the order of US$ 25 - 30 million/year for the next three to four appears reasonable.

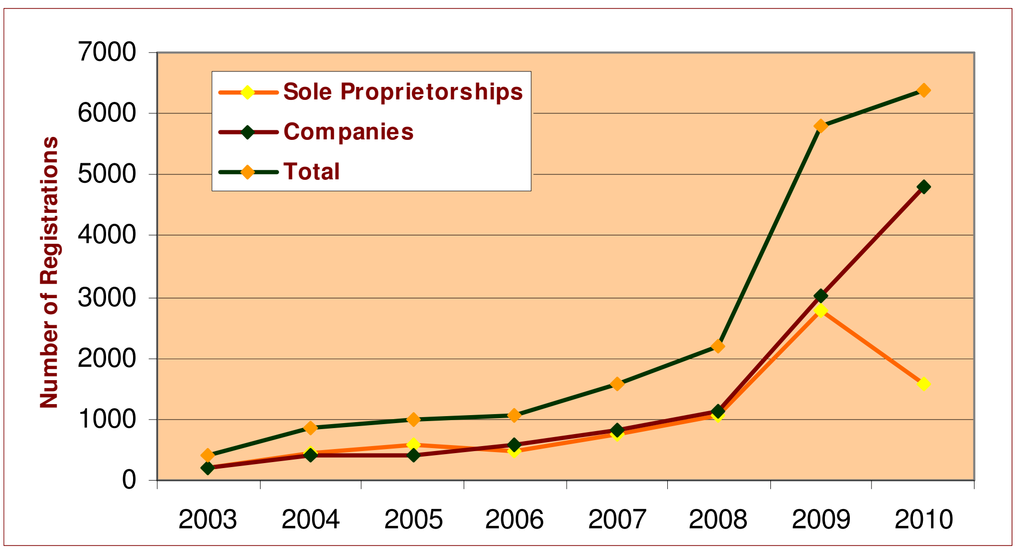
[47] For details on the sources used, please refer to Annex D.5.

5.4 Product-Specific Impacts

Introduction. As indicated above, the TOR consider five 'product-specific' impacts, including: (i) the number of enterprises registered, (ii) the number of new jobs created, (iii) the number of new businesses complying with tax regulations, (iv) the tax revenue generated, and (v) the increase in trade flows. It is important to note that the notion of 'product-specific' impact (i.e. related to work carried out in a specific area of intervention) is at times diminutive, as some impacts are the result of activities carried out under several components. Accordingly, the analysis was expanded to consider all the main contributing factors.

Number of New Business Registered.[48] The number of registered enterprises is often associated with reforms in business registration procedures which make it easier to establish new enterprises. However the causation chain is more complex, involving the whole set of reforms that influence the investment climate, as well as other exogenous factors like the more or less buoyant conditions of the economy. This is particularly the case in Rwanda, where the number of enterprise registrations has been on the rise since the early 2000s. With reference to the period of Project implementation, the number of newly registered enterprises quadrupled, passing from about 1,600 registrations in 2007 to an estimated 6,100 in 2010. The increase in registrations concerned both sole proprietorships and limited liability companies, although the share of the latter has been increasing overtime, with a major jump in 2010. The trend in business registrations over the 2003 – 2010 period is shown in Figure 5.1 below.

Figure 5.1 Trend in Business Registrations



Source: ORG and own estimates

As a first (and inevitably rough) approximation, the number of new business registrations somehow connected with the reforms promoted by the Project can be estimated by extrapolating the trend prevailing in the 'before' project situation (i.e. during the 2003 – 2007 period) and comparing the predicted values with those actually recorded. This yields a total of ***about 8,000 additional registrations for the 2008 – 2010 period***, of which about 5,700 are limited liability companies.

It is important to note that the increase in enterprise registrations ***does not necessarily translate into an increase in the number of new businesses in operations***. Two factors are at play. First, ***some of the newly registered businesses are entities that previously had been operating informally***. The

[48] For details on the sources used and the calculations made, please refer to Annexes D.2 and D.5.

share of informal enterprises 'going formal' is not known, but based on information collected during field work form ORG staff, it could account for 25-30% of the total. Motivations for formalizations appear to vary. While many (seemingly, the majority) are genuinely interested in taking advantage of the more liberal registration regime in order to achieve the status of full corporate citizenship, others are induced to register as a result of the greater pressure exerted by tax authorities ("*if you are caught by the tax man, there is no more point in staying informal*").[49] Second, ***not all the newly registered entities become operational***. For example, as a result of the simplification of procedures, operators who in the past would have just reserved a trade name, now tend to proceed to the full registration ("*establishing a company has become so easy and inexpensive that it no longer makes sense to just register the trade name*"). Again, no precise data are available, but ORG staff and other interviewees suggest that non operational firms could account for 10% to 15% of total registrations. Taking into account the above, the number of 'truly' new businesses whose establishment can be somehow linked to the reforms promoted by the Project and that are actually operational can be grossly estimated at ***some 4,400 – 5,200 for the 2008 – 2010 period***. The number of formalized enterprises can be estimated at some 2,000 – 2,400, while another 800 – 1,200 new registrations are estimated to correspond to enterprises that have not become operational.

Number of Jobs Created. The number of jobs created is regarded by the TOR as a 'product-specific impact,' logically linked to the reform of labor legislation which, by making the labor market more flexible, is expected to contribute to growth in the number of jobs. However, the number of jobs can also be affected by other investment climate reforms. In particular, this is the case of reforms affecting the enterprise formation process and, to a lesser extent, of investment promotion activities.

Regarding the impact of ***measures specifically targeted to the labor market***, at present no information is available regarding the utilization of the provisions (e.g. elimination of restrictions on renewals of fixed term contracts) introduced by the Labor Code of 2009.[50] However, considering that early enterprise surveys had shown that labor regulations did not constituted a serious constraint to private sector operations (see Section 4.2 above), it is reasonable to exclude any appreciable impact.

The contribution of ***reforms affecting the enterprise formation process*** on employment generation was estimated following a logic similar to the one used above for estimating the private investment generated, i.e. by multiplying the number of newly formed enterprises times the average employment at start-up. An indication of the latter was obtained from the WBES, which allows the estimation of average employment at formation in three broad sectors, trade (which accounts for the bulk of newly established businesses), manufacturing (inclusive of agro-processing) and other services (mostly including hotels and restaurants). In particular, WBES data suggest that new initiatives in trade are expected to generate an average of 1.8 jobs. Significantly higher values are found in the case of manufacturing and other services, with averages of, respectively, 16.5 and 5.6 jobs. Based on these parameters, the incremental employment somehow associated with the enterprise formation process was estimated to be on the order of 14,900 to 17,700 jobs for the period 2008 – 2010.

[49] For an analysis of motivations for becoming formal, see the FIAS, *Sources of Informal Economic Activity in Rwanda*, November 2006.
[50] See the note Impact Documentation of Reforms for Doing Business, developed by the Project team in July 2010, which indicates that "*According to the information from the Director of Labor at the Ministry of Public service there is no evidence so far on how the extended term contracts are being used as there isn't any available information. The Ministry will conduct a survey in the 3rd quarter of the year (March 2011) and that's when we should expect to get this information.*"

Much more modest is the impact attributable to ***activities in the field of investment promotion***. In this case, the contribution to employment generation refers to the jobs created by the investments whose implementation was facilitated by RDB's after care services. Project documents make reference to a total of 517 new jobs, but this number includes the Tigo operation, which can scarcely be attributable to the Project (see above), and refers to expected and not actual job creation. Therefore, leaving aside Tigo and discounting the expected employment of other projects by one third, leads to an estimated 300 additional jobs for the 2009 – 2010 period.

Overall, the employment generation somehow associated with Project activities is estimated to be between ***15,200 and 18,000 jobs***. This accounts for between ***1.5% and 1.8% of total employment in the country***.

Number of Businesses Complying with Tax Regulations.[51] This impact is linked with reforms in two areas, namely: (i) the reform of tax administration procedures supported by Component #5, and (ii) the reform of business registration procedures under Component #1.

Regarding the ***reform of tax administration procedures***, little can be said for two reasons. First, the reform process started only in early 2010 and visible results have yet to be achieved. Second, and most important, the majority of proposed reforms concern the internal organization of the tax administration, and, therefore, the impact on the number of businesses complying with tax regulations can only be of an indirect nature. In turn, this is likely to make the impact of these reforms undistinguishable from that of other factors (e.g. better training of tax officials, greater efforts to broaden the tax base, etc.).

The ***reform of business registration procedures*** may have positively impacted tax compliance by facilitating enterprise formalization. In Rwanda the number of registered businesses taxpayers started to increase well before the launch of the Project, but the rate of increase quickened considerably in the last few years. As shown in Table 5.4 below, the ratio between newly registered enterprises and incremental registrations with tax authorities increased significantly in the 2006 – 2010 period, passing from about 20% in 2006-2007 to 99% in 2010.

Table 5.4 Comparison Between Increase in Tax Registrations and Business Registrations

Registration Regime	2006	2007	2008	2009	Total	Before Project 2006-7	During Project 2008-9
Increase in the Number of Registered Business Taxpayers (A)	5,689	7,251	4,169	5,866	**22,975**	12,940	10,035
Number of Newly Registered Businesses (B)	1,070	1,586	2,184	5,808	**10,648**	2,656	7,992
Ratio B/A	19%	22%	52%	99%	**46%**	21%	80%

Source: RRA and ORG

The above *prima facie* suggests that the reforms supported by the Project significantly contributed to increase registrations with tax authorities. However, this is subject to two major qualifications. First, the ***existence of a correlation does not imply causality***. In fact, there are certain inconsistencies in the data suggesting that not all newly registered businesses are also registered business taxpayers and vice versa.[52] Even more importantly, there is evidence to suggest that even in the biennium 2008 - 2009 an unknown but certainly significant share of the increase in registered business taxpayers was attributable to RRA's 'taxpayers enrollment campaigns,' undertaken

[51] For details on the sources used and the calculations made, please refer to Annex D.6.

[52] In particular, in 2008 and 2009 the increase in the number of companies registered for income tax purposes exceeds the number of newly registered companies. For more details, see Annex D.

independently from the reform of business registration procedures.[53] Second, and even more important, ***registration with tax authorities does necessarily imply compliance with tax regulations***, i.e. the actual filing or tax returns and payment of taxes due. In this respect, RRA data for the year 2009, show that only 44% of businesses registered for income tax purposes could be regarded as 'active.'[54] Data for other years are not available, but various elements suggest that compliance rates have been increasing in recent years. However, even if this improvement were confirmed it would be difficult to identify its determinants and the positive influence of the Project can only be presumed.

Overall, available evidence suggests that reforms supported by the ***Project did have a positive impact on registration with tax authorities and, presumably, on tax compliance***. However, the magnitude of this impact cannot be ascertained, although it is certainly lower than what the data on the increasing formalization of firms may suggest.

Tax Revenue Generated. This impact is largely linked with the previous one, and most of the considerations formulated above also apply. In general terms, it is certainly reasonable to assume that the increased number of formal enterprises had a positive influence on tax revenues. However, this influence cannot be separated from the other factors that play a role and no measurement, however tentative, can be attempted. As an illustration, consider that in 2008, when the Project had just started and reforms potentially influencing tax revenues were still largely in the making, tax revenues increased considerably, exceeding 14% of GDP. Instead in 2009, when reforms supported by the Project had already started to produce effects, tax revenues declined to little more than 12% of GDP. It could certainly be argued that in 2009, in the absence of investment climate reforms supported by the IFC, things might have been worse, but this is speculative. Under these conditions, ***it is not possible to provide any quantification, however tentative, of the impact achieved by the Project***.

Increase in Trade Flows. This product-specific impact refers to the reforms in trade logistics supported by Component #3. As in the case of tax revenue, it is ***not possible to attribute any visible impact to IFC supported reforms***, due to a combination of practical and conceptual reasons. First, trade flows are affected by a variety of factors and assessing the relative importance of each of them requires the utilization of econometric techniques that are extremely data intensive. In the case of Rwanda, the data required for such an approach simply do not exist. Second, even if data were available, it would be impossible to separate the contribution of the Project from that of other donor initiatives that contributed to improvements in the trade logistics chain. To this it should added that in the literature there is no unanimity regarding the influence of administrative simplification on trade flows. In fact, while there is a growing body of literature acknowledging the importance of the 'time factor' in general (i.e. inclusive of transport time, customs clearance, port handling, etc.) in determining trade flows,[55] some recent research work suggests that the time required to fulfill

[53] For instance, during the first semester 2009, RRA recorded a 38.6% increase in the number of registered business taxpayers. However, as indicated in the *RRA Performance Report First Semester 2009*, August 2009, pages 5 and 6: "*Some of these taxpayers were captured after a recruitment exercise that was conducted in different zones of Kigali City through the bloc management system. At the end of June 2009, the taxpayers registered during the bloc management operations alone were 980*."

[54] Compliance rates differ across categories of firms, being highest (69%) for companies under the general tax regime and lowest (2%) for sole proprietorships under the general tax regime. Compliance also differs across the various types of taxes, being highest for the withholding tax on wages (which concerns large taxpayers), medium for VAT, and lowest for income tax.

[55] In this respect, classical references are Hummels, "Time as a Trade Barrier", Purdue University, mimeo, July 2001; Simeon Djankov, Caroline Freund, Cong S. Pham, "Trading on Time", mimeo, January 26, 2006; and Portugal, Alberto and John Wilson, "Why Trade Facilitation Matters to Africa", World Bank, Policy Research Working Paper, 4719, 2009.

administrative procedures may have a relatively modest influence compared to the delays experienced in other phases on the import – export process.[56]

In ***qualitative terms***, field interviews suggested that operators are certainly happy with the reduction in customs clearance times (and this was accounted for in terms of PSCS in Section 5.2) but did not reveal any significant influence on trade flows. This is largely explained by the structure of Rwanda's imports and exports, dominated by time-insensitive goods. Imports largely concentrate on basic goods (oil products, building materials, consumer goods), whose trend is primarily driven by GDP growth, with a marginal influence of other factors. As for exports, they concentrate on agricultural and mineral commodities and performance is influenced primarily by development in world markets. For instance, the fall in exports of cassiterite, coltan and wolfram recorded in 2009 was determined by an abrupt drop in demand, with ensuing decline in quantities and/or prices. Under these conditions it is obvious that even if trade-related administrative aspects (border controls, issuance of letters of credit, etc.) had been simplified to the point of reaching an 'instantaneous processing,' this would not have had any appreciable impact. The same applies to the so called 'non traditional' exports (e.g. horticulture, hides and skins), which are certainly more time sensitive, but whose disappointing performance appears much more related to fundamental weaknesses on the production and marketing side, rather than to 'transaction costs' connected with trade-related administrative aspects.

5.4 Summing Up

A summary presentation of the Project impacts is provided in Table 5.5 below.

Table 5.5 Summary of Impacts

Type of Impact	Short Term Impact	Prospects for Medium Term Impact (3-4 years horizon)
Overall Impacts		
Private Sector Cost Savings	US$ 5 million	Medium term impact expected to be in the same order of magnitude.
Private Sector Investment Generated	US$ 44 – 51 million	Medium term impact possibly on the order of 25 - 30 million/year
Product Specific Impacts		
Number of New Businesses Registered	4,400 – 5,200	No estimate for medium term impact is possible, but the rate of growth in business formation is likely to slow down
Number of New Jobs Created	15,200 – 18,000	No estimate for medium term impact is possible. Impact of new labor legislation likely to be negligible
Number of Businesses Complying with Tax Regulations	Positive but limited	Positive impact likely to increase in the medium term as a result of tax administration reform.
Tax Revenue Generated	Positive but marginal	No estimate for medium term impact is possible.
Increase in Trade Flows	None	No estimate for medium term impact is possible.

An indication of the Project's ability to generate impacts can be derived from the ratios between the budget (US$ 3.3 million) and the estimated impact values. In the case of ***PSCS***, the ratio is about 1:1.5, i.e. one dollar spent on the Project generated approximately 1.5 dollars of cost savings for private operators. In the case of ***PSIG***, the ratio is on the order of 1:13 – 1:15, with one dollar spent generating between 13 and 15 dollars of investment. Regarding the ***non monetary impacts***, ratios are on the order of US$ 630 – 750 per newly created business and of US$ 180 – 220 per job created.

[56] See Freund, Caroline and Nadia Rocha, "What Constrains Africa's exports?", World Trade Organization - Economic Research and Statistics Division, mimeo, January 2010.

The above ratios must be interpreted with caution, as they are subject to two different types of bias. On the one hand, the impacts quantified are generally linked only to a ***subset of Project activities***, whose budget was a fraction of total Project costs. If the ratios were calculated with reference to these activities, results would be much more favorable. On the other hand, about one third of the PSCS are related to the process of enterprise formation, fostered by the simplification of business registration procedures. As the simplification process was significantly ***supported by the parallel ICF project***, it would be appropriate to include this initiative in the calculations (through either some re-apportionment of impacts or the inclusion of ICF project costs), which would significantly reduce the ratios.

6 CONCLUSIONS AND RECOMMENDATIONS

6.1 Summary Assessment

The Project is widely regarded as a successful initiative and generally positive comments are formulated by stakeholders and observers. The evidence reviewed in this Report broadly confirms this positive assessment, with some qualifications.

Project achievements are symbolized by the ***major 'leap forward' recorded by Rwanda in terms of DB rankings***. However, this is only part of the story and not necessarily the most important. In fact, the Project was also able (or is likely) to achieve ***significant results in areas not related to DB indicators***. In this respect, the reorientation occurred mid way, with the addition of some new components, and definitely increased the strategic relevance of the initiative.

The various reforms promoted by the Project contributed (admittedly, along with other initiatives) to accelerate the enterprise formation process and, through this, exerted a positive influence on private investment and job creation. The numbers on investment and employment resulting from the impact assessment exercise are not very high from a macroeconomic point of view, but they are not negligible either (and, at any rate, they are higher than in the case of the other countries analyzed as part of the Assignment). A significant reduction in private sector costs savings was achieved thanks to the reform of the business registration system and of some licensing procedures. In the area of trade logistics, no impact can be demonstrated in terms of trade flows, but the Project certainly contributed (again, along with other initiatives) to significantly reduce the costs associated with customs and other administrative procedures.

Unquantifiable but certainly positive results have been or are about to be achieved in the field of special economic zones, where the Project was instrumental in reorienting an ill conceived program that might have led to the waste of significant resources, and in tax administration, where the expected gains in efficiency would ultimately benefit the business taxpayers, in terms of better service and/or lower transaction costs. Much less successful was the assistance provided in the field of investment facilitation, although it certainly contributed to the generation of a non-negligible change in mentality, with a reorientation from investment attraction to a more realistic investment retention strategy.

As is normally the case for initiatives of this nature, the positive achievements were the result of a combination of factors, but the strong commitment to reform displayed by key government counterparts and, most importantly, by the country's political leadership, was a decisive element. Interactions at the operational level were at times less than ideal, but this was primarily due to lack of staff and/or skills, not to bureaucratic opposition. Also, some discrete changes in the institutional setting negatively impacted certain activities. At the same time, the organizational model adopted by the Project in the early days certainly did not help to facilitate things.

The Project was not cheap, and its cost structure is rather peculiar, with a heavy incidence of travel costs, largely the consequence of the extensive utilization of IFC staff based in distant locations. The initial budget was heavily geared towards activities that encountered problems in implementation and, again, the mid term review exercise, by reallocating unspent resources to new, highly relevant components, definitely contributed to enhance the overall efficiency.

6.2 Recommendations

The Project is to be followed up by another operation whose preparation is currently ongoing. The findings presented in this Report suggest the formulation of some recommendations that might help in orienting future work.

Recommendation #1 – Deepen the scope of investment climate reforms by focusing on more operationally oriented aspects. All indications are that DB-oriented reforms have reached the stage of rapidly declining marginal returns. Certainly, there is still room for improvements in certain areas, such as bankruptcy procedures where Rwanda is still ranking low, but the practical impact of these reforms is likely to be negligible. Under these conditions, the future operation may well consider deepening the reform effort, by focusing on themes that more directly impact the operating conditions faced by private operators. In this context it might be useful to adopt a sector or value chain approach, which would address the constraints affecting some specific line(s) of business in a coherent and systematic manner. In this respect, policy and legislative/regulatory reform could be usefully complemented by actions aimed to strengthening production and commercial operations in selected segments (e.g. in the case of agro-processing or construction materials) and/or at creating the basis for future investment operations (e.g. feasibility studies for trade logistics structures).

Recommendation #2 - Reinforce the in-country presence. The importance of having an in-country presence to handle logistical aspects and to ensure an appropriate channel of communication with counterparts has been abundantly demonstrated *a contrario* by the difficulties experienced by the Project in the first phase, and does not need to be further elaborated upon. However, the future operation may also consider expanding the in-country presence beyond current levels, by adding some professionals to be involved in activities (namely, capacity building) requiring a constant interaction with local counterparts. Recruitment is not going to be easy, but the experience of other projects (e.g. Burkina Faso) shows that if the right persons can be found, a strong in-country operational presence may significantly enhance effectiveness and efficiency.

Recommendation #3 - Keep travel costs under control and consider a less intensive utilization of IFC staff. The 35% of the budget currently spent on travel is quite a high figure. Such a level of expenditure might well have been justified in the case of the current operations, but in the future efforts should not be spared to reduce this cost item. The recommended stronger in-country presence would certainly help in this respect, but consideration should also be given to reduce to the minimum indispensable levels the involvement of IFC staff, especially if based in distant locations. This would greatly help to avoid the risk of the initiative being considered, as suggested during some field interviews, "*a donors' subsidy to IFC*."

Recommendation #4 – Enhance the clarity and information content of supervision and progress reports. Supervision reports do not always provide a clear picture of 'who did what when and why.' Progress reports are generally clearer but, being addressed to donors, they inevitably tend to focus primarily on positive aspects. It is well understood that those in charge of preparing reports do not have the luxury of spending the time required to produce projects documents displaying the comprehensiveness of a research or consulting report. Still, there appears to be considerable room for enhancing the clarity of these documents. A logically separate, but practically linked problem refers to the use of M&E indicators. There also appears to be room for improvement, namely by ensuring greater stability in the set of indicators used (which sometimes were introduced, then abandoned and then resurrected) and by avoiding classification errors.

Recommendation #5 – Collect and systematize data to assess the importance of the phenomena being tackled and the resources used. The availability of quantitative information about key variables (number of operators active in a certain field, number of transactions subject to a certain authorization, etc.) is essential in order to understand whether a certain action is worth pursuing or not, and yet this information was largely missing (and, when available, unsystematically kept) in documents for the current operation. This should be complemented by the systematic collection of data on the financial resources allocated and disbursed for each component or product line. The availability of detailed financial information would allow for the calculation of cost ratios for different types of activities/components, thereby making it possible to assess their cost effectiveness.

Recommendation #6 – Support the development of local capabilities in the analysis and quantification of project impacts. Strengthening the capabilities of government counterparts in the analysis and quantification of impacts can contribute to creating a solid basis for sustaining reform efforts in the medium – long term. Some efforts were deployed to promote the utilization of SCM techniques, but the results achieved were less than ideal. The problem is not peculiar to Rwanda (weaknesses were detected also in Burkina Faso) and this suggests that, if local capabilities are to be strengthened in this field, more resources are to be invested. This may require the development of training toolkits specifically tailored to the realities of African countries and, particularly, to a closer involvement of specialized IFC staff/consultants in supervising how SCM tools are implemented, so as to supplement formal training with practical guidance.

ANNEXES

ANNEX A – DOCUMENTARY SOURCES

Project Files – Preparation

- FIAS, *Rwanda - Mini-Diagnostic Analysis of the Investment Climate*, April 2005.
- FIAS, *Sector Study of the Effective Tax Burden – Rwanda*, January 2006.
- FIAS, *Sources of Informal Economic Activity in Rwanda*, November 2006.

Project Files – Approval, Supervision and Progress Reporting

- PDS Early Review (version dated October 18, 2007)
- PDS Approval (version dated February 29, 2008)
- PDS Approval – Revision (version dated March 12, 2010)
- Progress Report for January – June 2009 (undated)
- Progress Report for July – December 2009 (undated)
- Progress Report for January – June 2010 (undated)
- RICRP, Summary Updates (eight files, covering the period May 2009 – August 2010)
- Supervision Reports #1, #2, #3, #4, and #5

Project Files – Substantive Matters[57]

- Analysis of Rwanda's Special Economic Zone Program – Draft for Discussion, March 9, 2009
- Assessing the taxation of SMEs in Rwanda - Encouraging tax compliance for SMEs, April 2010
- Business Access to Land in Rwanda: Issues and Recommendations, February 2010
- Business Licenses Inventory List, undated (but mid-late 2008)
- Business Licensing Reform Report November 2010
- Business Licensing Reform Report – Progress on Implementation of the Recommendations to Streamline 8 Selected Licenses, undated
- Business Licensing Reform – SCM Study, March 2009 (spreadsheet files)
- Cabinet Paper "Reforming and streamlining eight burdensome business licenses", undated (but July 2009)
- Current time and cost and est. maximal improvement-Nov 2010 Current time and cost and est. maximal improvement-Nov 2010 (spreadsheet file)
- Doing Business in Rwanda: Reform Memorandum, January 2008
- FIAS, The Government of Rwanda, Business Licensing and Regulatory Reform in Rwanda - Rationale, approach, actions - Executive Summary, 20 February 2008
- FIAS, Measurement of administrative burdens in Rwanda – findings and the way forward, presentation, October 23, 2008
- FIAS Trade Logistics Team Reform Roadmap to Achieve Quick Wins for Trading Across Borders Indicators 3rd April , 2008
- Government of Rwanda – Ministry of Trade and Industry, Decision Memos – Rwanda Business Licensing Reform, s.d. (but end 2009)
- IFC, Rwandan Import Procedures Kigali, November 8th 2007
- Investment Climate Advisory Services of the World Bank Group, *Regulatory Capacity Review of Rwanda*, 2010
- Project Rwanda: Import Procedures at the Dry Port, undated (but April 2008)

[57] Partial list, not including short documents such as back to office reports, mission notes, list of actions agreed with local counterparts, etc.

- RDB, Kigali Free Zone and Kigali Industrial Park - Strategic Business Assessment - Summary Report, 31 May 2010
- Review of Tax Appeal Framework and Recommendations for an Independent Tax Appeals System, s.d.
- Rwanda – Tax Simplification for Business: A Road Map for Reform, April 21, 2009
- Rwanda – Cost of Fiscal Incentives, s.d. (but mid 2009)
- Special Economic Zones in Rwanda – Market Demand and Cost-Benefit Analysis, Second Draft Report, December 17, 2009
- Tax Process Mapping: Recommendations Report, July 8, 2009.
- Trade Logistics Quick Win Action Plan, July 2008.
- Trade Logistics Reform: A snapshot, November 2008
- UpStart, Rwanda Business Licensing Project – Report on the Measurement of Administrative Burdens, June 2008

Methodological Documents

- Arruñada Benito, "How *Doing Business* Jeopardizes Institutional Reform", *European Business Organization Law Review*, 2009
- Freund, Caroline and Nadia Rocha, "What Constrains Africa's exports?", World Trade Organization - Economic Research and Statistics Division, mimeo, January 2010
- Hummels, "Time as a Trade Barrier", Purdue University, mimeo, July 2001
- IFC, *Guidelines for Aggregate Cost Savings template (basic)*, s.d. (but August 2010)
- Portugal, Alberto and John Wilson, "Why Trade Facilitation Matters to Africa", World Bank, Policy Research Working Paper, 4719, 2009
- SCM Network, *International Standard Cost Manual*, (s.d.)
- Shara, Luba "How to Improve the Quality of Project Completion Reports", presentation at a PCR training workshop, Johannesburg, July 27, 2009.
- Simeon Djankov, Caroline Freund, Cong S. Pham, "Trading on Time", mimeo, January 26, 2006
- von Drachenfels C. and others, "Seven theses on Doing Business", German Development Institute, September 2008
- World Bank - Independent Evaluation Group, *Doing Business: An Independent Evaluation – Taking the Measure of the World Bank IFC Doing Business Indicators*, 2008

Other Documents

- DFID, *Rwanda Revenue Authority - Phase VI Output to Purpose Review - DFID Mission Aide Memoire*, May 2008)
- IFC, *Doing Business 2010 – Rwanda*, 2009
- IFC, *Doing Business 2011 – Rwanda*, 2010
- Ministry of Finance and Economic Planning, *Rwanda Vision 2020*, Kigali, July 2000
- Ministry of Finance and Economic Planning, *Economic Development and Poverty Reduction Strategy*, Kigali, September 2007
- RRA, *RRA Performance Report First Semester 2009*
- RRA, *RRA Performance Report Second Quarter 2009/2010*, February 2010
- Social Security Fund of Rwanda, *1st Semester Statistical Bulletin 2009 – 2010*, February 2010
- World Bank, *Enterprise Surveys Country Profile – Rwanda 2006*, 2007.
- World Bank, *Private Sector at a Glance - Rwanda*, April 26, 2010

Statistics

- National Bank of Rwanda, various statistics on exchange rates and financial sector
- National Institute of Statistics, national accounts
- RDB - ORG, statistics on enterprise registrations
- RDB - ORG, statistics on secured transactions
- RRA, statistics on taxpayers and tax revenue

ANNEX B – PERSONS AND INSTITUTIONS INTERVIEWED

Institution	Name	Position
Dutch Embassy	Mr. Jan Bade	First Secretary
DFID	Ms. Lindasy Wallace	Team Leader – Economic Growth
Office Registrar General	Mr. Erasta Kabera	Former Head
President's Office – Strategy Policy Unit	Mr. Jean Philippe Kayobotsi	Special Advisor
Ministry of Industry and Trade	Ms. Kaliza Karuretwa	Director General for Investment Climate and Intellectual Property
Rwanda Revenue Authority – Planning Dept.	Ms. Jackie Zizane	Head of Reform and Modernization Unit
Rwanda Development Board – Special Economic Zones Team	Ms. Christine Akweze	Strategy Expert
Nyarugenge District – One Stop Center for Building Permits	Ms. Justine	Officer
Rwanda Development Board – Office Registrar General	Mr. Yves Sangano	Acting Head
Rwanda Development Board – DB Unit	Mr. Tushabe Karim	Legal Advisor
Rwanda Development Board – Investment Aftercare and Monitoring	Ms. Viviane Kayetsi	Division Manager
Rwanda Revenue Authority – Customs	Mr. Eugene Torero	Deputy Commissioner General and Commissioner for Customs Services
Rwanda Revenue Authority – Domestic Tax Office	Mr. Celestin Bumbakare	Commissioner for Domestic Taxes Dept. Head
Rwanda Revenue Authority	Mr. Egide Mbanzendore	Assistant Arrears officer
Ministry of Economy and Finance	Ms. Amina Eurakunda	Head – Macro Economic Unit
Nyarugenge District – One Stop Center for Building Permits	Mr. Kayiraba Justin	Director Urban Planning
Nyarugenge District – One Stop Center for Building Permits	Mr. Vincent Nshizirungu	Engineer
National Land Center	Dr. Nkurunziza Emmanuel	Director General
Intrasped/Federation of East African Freight Forwarders Associations	Mr. John Bosco Rusagara	Owner/President
Fina Bank /Bankers' Association	Mr. Steve Caley	Managing Director/President
Maxinet	Mr. Patrick Kagabo	Chief Executive Officer
INGABO (commercial farmers association in Muhanga)	Mr. Ezechias Mushimire	Projects & Markets Coordinator
IMBARAGA (Rwanda's Farmers Federation) Northern Province	Mr. Joseph Gafaranga	Executive Secretary
Association des Agences en Douane au Rwanda	Ms. Anita M. Bitega	Executive Secretary

	Mssrs Francois and Dominic	Independent Truckers
	Ms. Mukashema Virginie	Real estate developer
M&J Advocates	Mr. Ndizihiwe Bonny	Tax agent
Equity Juris	Mr. Kelvin Mitali	Corporate Lawyer
Fountain Law Chambers	Mr. Bugingo Bosco	Corporate Lawyer
Click Clearing and Forwarding Agency	Mr. Sam Karara	Managing Director
ATACO Freight Services Ltd	Mr. Jean Luc Mbarushimana	Executive Director
INTRACARGO	Ms. Josephine Nyebaza	Director
Investment Climate Facility	Ms. Florence Kansiime	Assistant
Private Sector Foundation	Ms. Chantal Magnifique	Head – Chamber of Services
IFC	Mr. Wim Douw	Operations Leader
IFC	Mr. Ignace Bacyaha	Senior Operations Officer – Rep. for Rwanda

In addition to the above, during fieldwork interviews were held with other counterparts in the private sector who asked to remain confidential.

ANNEX C – IMPACT ASSESSMENT – PRIVATE SECTOR COST SAVINGS

C.1 Introduction

In this Annex, we provide detailed presentation of the data used and the approach adopted for the estimate of Private Sector Cost Savings (PSCS). The Annex is structured as follows:

- Section C.2 briefly recaps the methodological approach;
- Section C.3 presents some general parameters used in the analysis;
- Sections C.4 through C.7 present the calculations of PSCS for, respectively, Components #1, #2. #3 and #5.

The detailed calculations for the various types of PSCS are presented in a separate spreadsheet.

C.2 Methodology

Overview. The methodology adopted for estimating PSCS builds upon the preparatory work done in the earlier stages of the Assignment and presented in a separate report[58]. The approach presented here also takes into account the work done by IFC on the refinement of M&E indicators for investment climate projects and, more specifically, the methodology developed for estimating aggregate cost savings accruing to private operators[59]. In this connection, it worth noting that the IFC methodology is developed in an ex ante framework, whereas this exercise adopts an ex post perspective. As it will be shown below, this involves some modifications in the definition of variables and in calculation procedures.

Taxonomy of PSCS. Three types of PSCS can be identified, namely:

- reduction in ***out of pocket expenses*** associated with the abolishment/simplification of certain procedures ("cost savings");
- reduction in the ***time spent by private operators*** in dealing with certain procedures that have been abolished/simplified ("time savings" or "savings in the opportunity cost of time");
- reduction in the ***financial burden*** related to changes in the payment profile for certain procedures ("financial savings" or "savings in the opportunity cost of money").

Cost savings refer to two items, namely: (i) the elimination/reduction of certain fees (stamp duties, service fees, etc.) and (ii) the elimination/reduction of the need to rely on service providers for certain formalities (e.g. elimination of notarization for certain documents, development of standard articles of incorporation or memorandum of association, with ensuing elimination/reduction of the need for legal advice). These two effects are found for a wide range of areas of intervention, from the registration of buildings (i.e. reduction of the property transfer tax) to contract enforcement (i.e. reduction of fees for filing a commercial case in court).

Time savings refer to the gains in terms of opportunity cost of labor resulting from regulatory simplification and/or from the adoption of improved organizational models for certain services. This is, again, relevant for a wide range of areas on intervention, from business registration (e.g. as a result of the establishment of one stop facilities) to taxation (e.g. whenever payment of taxes via bank, rather than at the tax office, is accepted).

[58] *Report #2 – Methodological Report*, August 12, 2010.

[59] IFC, *Guidelines for Aggregate Cost Savings template (basic)*, s.d. (but August 2010), hereinafter referred to as the 'IFC Guidelines.'

Financial savings result from the reduction in the financial burden shouldered by private operators as a result of changes in the payment modalities for certain fee or tax. For instance, in Rwanda the government recently decided to make VAT payable on a quarterly basis, rather than on a monthly basis, and this provides some cash flow advantages to tax payers.

Estimating PSCS. In analytical terms, estimating PSCS is a quite straightforward exercise, as it essentially involves the multiplication of a 'price element,' i.e. the savings achieved in one particular case, times a 'quantity element,' i.e. the number of relevant observations, referred to as 'transactions.'

The nature of the ***price element*** depends upon the nature of the reform under consideration. In the case of cost savings, e.g. the elimination of a certain fee or tax, the impact can be generally quickly ascertained. However, when the fee or tax is expressed in *ad valorem* terms (e.g. property transfer tax equal to a certain percentage of the value of the property) it is necessary to make reference to the value of the good on which the fee or tax is levied. The value of time savings is the result of the multiplication of the time saved thanks to a certain reform (expressed in terms of hours) times the unit value of labor (expressed in hourly total labor costs, i.e. inclusive of benefits, social security, and taxes). Finally, the value of financial savings is determined by multiplying the amount of the payment deferred thanks to a certain reform times the relevant interest rate.

The nature of the ***quantity element***, i.e. the number of transactions, also varies depending upon the type of the reform considered. In certain cases, e.g. the registration of newly established firms, the number of transactions coincides with the number of economic agents affected by a certain reform. In other cases, e.g. the payment of VAT, the number of transactions is the result of the multiplication of the number of economic agents times the number of times these agents have to undergo a certain procedure. In yet other cases, e.g. the checking of trucks at the border, there is no *a priori* rigid relationship between the number of economic agents and the number of procedures, and the number of transactions must be measured independently.

Two further aspects are worth highlighting:

- PSCS are calculated for the whole life of the Project. As benefits may occur at different points in time, in order to properly aggregate annual values it is necessary to ***proceed to compounding***, taking the terminal year of the Project as reference point. This is done using the relevant real interest rate[60];
- some costs incurred by private operators (e.g. fees and taxes on specific transactions) are deductible for profit tax purposes, and this reduces the burden of complying with regulations. Therefore, in order to calculate the net impact of reforms, it is necessary to ***adjust the savings considering the relevant profit tax rate***. However, this does not apply to economic agents registered under 'simplified' tax regimes, typically involving the payment of turnover taxes and/or of lump sum taxes, as in the case of the *patente*.

Practical Issues. While the method of calculating PSCS is relatively simple, significant practical problems arise due to various reasons. This is particularly the case of cost savings and time savings. In particular:

- ***Cost Savings***. There are two main issues related to this typology of PSCS. First, sometimes data for the baseline situation refer to only partially relevant situations. For instance, in the case of the registration of enterprises, the benchmark fees provided by the DB Reports refer to the case of a limited liability company. However, in Rwanda a significant share of newly formed

[60] This represents a departure from the IFC Guidelines, which recommend the discounting of savings to the baseline year. The difference is obviously due to different perspective adopted, which is ex ante in the IFC Guidelines and ex post in this exercise.

enterprises are sole proprietorships. This means that baseline data for enterprises not adopting a corporate form had to be reconstructed. Second, in certain cases fees are merely theoretical and not actually charged to enterprises. An example is provided by the environmental fee charged by the Rwanda Environment Management Authority, that it is not collected by the relevant agency. In these cases, an attempt has to be made to ascertain the effective degree of application of the relevant fees, and calculations are inevitably approximate;

- ***Time Savings***. In this case, baseline data are usually missing (DB Reports typically record the delays, not the time spent in performing the various tasks) and reconstructing the baseline situation after 3 to 5 years is made difficult by fading memories. Data obtained from companies and professionals are often at odds with each other, with a wide variability. This means that calculations are inevitably based on fairly rough estimates. Also, coherent data on labor costs are also difficult to gauge, given the huge differences in wage levels across the various types of enterprises In principle, there is also a conceptual problem is determining the hourly wage of an entrepreneur, who 'by definition' is not getting a wage. But this is largely a theoretical problem, because in the countries covered most entrepreneurs are merely 'survivalist entrepreneurs,' whose income is often lower than that of employees in the formal sector.

C.3 Basic Assumptions and Key Parameters

Baseline Year and Reference Period. The baseline year is ***2007***, when the Project was approved. The reference period for the calculation of PSCS is ***2008 – 2010***. No attempt was made to estimate future PSCS.

Profit Tax Rate. The standard profit tax rate in Rwanda is 30%. However, the majority of firms opt for the so called ***simplified regime***, which involves a 4% flat tax on turnover. The shares of businesses adopting the general profit tax regime are as follows:

- companies: 51% in 2008 and 44% in 2009;
- sole proprietorships: 13% in 2008 and 17% in 2009;
- all businesses: 21% in 2008 and 18% in 2009.

The above parameters have been used to calculate the average profit tax rate correction to be used in calculation with the following results:

- companies: 15% in 2008 and 13% in 2009 and 2010;
- sole proprietorships: 4% in 2008 and 5% in 2009 and 2010;
- all businesses: 6% in 2008 and 5% in 2009 and 2010.

Exchange Rate and Compounding. Annual ***exchange rates*** to transform RWF values in US$ terms are taken from National Bank of Rwanda (NBR) publications. The ***real interest rates*** used for compounding purposes was calculated as the difference between the average nominal annual lending rate to businesses and the annual inflation rate. Also in this case, data are taken from NBR. Data are presented in Table C.1 below. Values for 2010 refer to the first six months.

Table C.1 Exchange Rates and Real Interest Rates

Year	Exchange Rate	Lending Rate (A)	Inflation Rate (B)	Real Interest Rate (A-B)
2007	547.01	16.0%	9.1%	6.9%
2008	546.85	16.2%	15.4%	0.8%
2009	568.27	16.5%	10.3%	6.2%
2010	575.76*	17.2%*	5.0%**	12.2%

* First six months ** Value at end June

Time Savings. For the calculation of time savings, reference was made to the key parameters indicated in the IFC Guidelines, namely: (i) 250 working days per year, and (i) 8 working hours per day.

Unit Value of Labor. Four professional profiles were considered, namely:

- high level staff (management);
- medium level staff (office manager/secretary);
- low level staff (newly recruited clerk, *agent de liaison*);
- independent small trader.

The unit value of labor is expressed in terms of hourly gross wage/earnings, inclusive of income taxes and social security contributions (when applicable). Estimates are based on a number of sources. In the case of ***high, medium and low level staff***, particularly useful was the information provided by RRA and concerning the wages paid to employees by a sample of both large and small tax payers. Data show a great a variation, with wage/earning levels in certain enterprises being a multiple of those found in other cases, and reference was made to adjusted averages, with the elimination of outliers. Results were then compared with the values used in the SCM Study done by the Project at end 2009 and this led to an increase of the average value for low level staff in order to match the lowest wage considered in the SCM. Wages for other categories of staff resulting from RRA data are higher or similar to those considered in the SCM Study. Data are summarized in Table C.2 below

Table C.2 Unit Cost of Labor – Data Analysis

Professional Profile	RRA Data			SCM Study (range)	Value Retained for the Analysis
	Max Value	Min Value	Adjusted Average		
High Level	9,000	720	4,719	2,250 - 3,000	4,700
Medium Level	2,520	312	1,383	1,350	1,400
Low Level	900	92	366	525 - 600	500

In the case of ***independent small traders***, earnings were estimated based on information collected through personal interviews with some operators and with independent accountants. As a benchmark, we took the case of a trader selling 100 air time cards per day, making a profit of RWF 20 per card and working 25 days per month. This yields an annual income of RWF 600,000 and a hourly earning of RWF 300. This value was increased by about 30% to RWF 400/hour, in order to take into account the possibility of small traders involved in more lucrative businesses.

The above values refer to the year 2010. In order to estimate values for the previous years, 2010 values were deflated using coefficients based on the GDP deflator (IMF data) for the relevant years (2009: 0.937; 2008: 0.845) and rounded to the nearest fifties. The hourly rates retained for the analysis are presented in Table C.3 below.

Table C.3 Unit Cost of Labor – Data Retained for the Analysis

Professional Profile	2008	2009	2010
High Level Staff	3,700	4,400	4,700
Medium Level Staff	1,100	1,300	1,400
Low Level Staff	400	450	500
Independent Trader	300	350	400

C.4 Estimate of PSCS Related to Business Registration

Reform of Business Registration – Companies. This is a composite reform, involving the adoption of a series of successive legal, administrative and organizational measures and entailing: (i) the simplification of registration requirements, with the elimination of certain steps and the concentration of responsibilities in a newly established one-stop-shop type of structure, and (ii) the reduction of registration fees and of other out-of-pocket costs. The relevant number of ***transactions*** is given by the number of limited liability companies that would have been registered during the reference period (see below). PSCS relate to both cost and time savings. In particular:

- ***Cost savings*** include:
  - the elimination of *ad valorem* registration fee equal to 1.2% of the declared capital + RWF 5,000 flat fee replaced with a RWF 25,000 flat fee. Considering an average declared capital of RWF 30,000,000, the average *ad valorem* tax was RWF 360,000. This results in a cost saving of RWF 340,000 starting in 2008;
  - the elimination of the notarization of company deeds and articles of incorporation, with a cost saving of RWF 34,500 starting in 2009 (2,500 notary fee + 800 * 5 copies * 8 pages per copy);
  - the elimination of costs related to the publication of the company charter in Official Journal, with a cost saving of RWF 130,000 starting in 2009;
- ***Time savings*** include:
  - the elimination of the need to go to RRA to pay the *ad valorem* tax, with a saving of 2 hours starting in 2008;
  - the reduction in the time required to interact with business registration services, thanks to the creation of the one stop center, with a saving of 2 hours from mid 2008 and 1 additional hour from 2009;
  - the elimination of the need to notarize company deeds and articles of incorporation, with the saving of 2 hours starting in 2009;
  - the elimination of the need to go to RRA to pay the fee for the publication of the company charter in Official Journal, with the saving of 1 hour starting in 2009;
  - the elimination of the need to go to Prime Minister's Office to apply for the publication of the company charter in Official Journal, with the saving of 1 hour starting in 2009;
  - the elimination of the need to go to RRA to get the fiscal number with the saving of 1 hour starting in 2009;
  - the elimination of the need to go to the social security to get the company registered, with the saving of 1 hour starting in 2009.

The following points have to be highlighted:

- the number of ***transactions*** is estimated by extrapolating the trend recorded over the 2003 – 2007 period over the 2008 – 2010 period. The number of companies actually registered in 2008 – 2010 is not used because this would inflate the costs savings, as a number of companies would not have registered in the absence of a reform. This is particularly the case for companies, whose registration rates increased dramatically since 2008 as a result of the elimination of the *ad valorem* tax on the declared capital, with a clear substitution effect with sole proprietorships[61];
- information on the ***declared capital*** of newly established companies is only available for the May 2008 – December 2009 period, i.e. after the abolishment of the *ad valorem* registration tax. The average value for this period is RWF 69,182,467, equivalent to about US$ 120,000. This

[61] This is another departure from the approach suggested in the IFC Guidelines, which indicate that the analysis should "*NOT factor in growth in the numbers of transactions due to the growth in the number of businesses*" (page 7). Again, such an approach is understandable in an ex ante perspective but in the case of an ex post exercise as the current one, it seems unduly conservative not to consider the existence of a clear growing trend in business registrations, even if this has to be estimated through admittedly very crude methods (extrapolation).

value cannot be used as a proper basis for the calculation of PSCS, because the elimination of the tax (which took place at the beginning of 2008) impacted on the behavior of operators, removing the incentive towards lower capitalization. This is confirmed by qualitative evidence, with interviewees generally agreeing that the value of declared capital is currently "*much higher than before, precisely because there is no longer any tax to be paid*." Therefore, for the purpose of this exercise, the lower (but still quite substantial) value of RWF 30,000,000 (about US$ 55,000) was taken into consideration. At a rate of 1.2%, this yields a saving per registration of RWF 360,000;

- the analysis did not consider other reforms sometimes mentioned in Project documents and/or in DB Reports. In particular, no consideration was given to two steps in the registration procedure, the ***checking of uniqueness of company name*** and the ***making company seal***, because these steps were never mandatory for the registration of firms. Likewise, no consideration was given the recently introduced possibility of registering companies on line, which would involve additional time savings. In fact, at the time of the mission the system for ***online registration*** was not working properly and in practice only a handful of these applications submitted online had been processed by the registrar.

A summary presentation of key parameters is provided in Table C.2 below.

Table C.2 Reform of Business Registration for Companies – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	836		
2008	921	340,000	3
2009	1066	504,500	11
2010	1210	504,500	11

Reform of Business Registration – Sole Proprietorships. This concerns the registration of enterprises not having a corporate form, in practice sole proprietorships. Registration procedures for these firms were reformed in parallel with those used for limited liability companies, although the scope of reform was more limited. The relevant number of ***transactions*** is, again, estimated by extrapolating the trend for the 2003 – 2007 period to the 2008 – 2010 period. In this case, PSCS relate to only to ***time savings*** and include:

- the reduction in the time required interact with business registration services, thanks to the creation of the one stop center, with a saving of <u>2 hours from mid 2008</u> and <u>1 additional hour from 2009</u>;
- the elimination of the need to go to RRA to get the fiscal number with the saving of <u>1 hour starting in 2009</u>;
- the elimination of the need to go to the social security to get the company registered, with the saving of <u>1 hour starting in 2009</u>.

A summary presentation of key parameters is provided in Table C.3 below.

Table C.3 Reform of Business Registration for Sole Proprietorships – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	750		
2008	832	0	1
2009	946	0	5
2010	1,059	0	5

C.5 Estimate of PSCS Related to Building Construction and Real Estate Transactions

In this area, PSCS were estimated with reference to following reforms, namely:

- the reform of the system for the issuance of building permits;
- the reform of procedures for property registration;
- the reform of procedures for land titles transfer.

Reform of the Building Permit System - Kigali. The reform concerns the simplification of procedures and reduction in costs for the issuance of building permits, connected with the creation of the One Stop Center (OSC) for the City of Kigali. The OSC was established in April 2010 to handle the issuance of permits for buildings of certain importance for the three districts in the Kigali area[62]. The number of ***transactions*** is estimated, although with a high degree of approximation (see below), at <u>90 for the period April – December 2010</u>. ***Cost savings*** refer to the reduction of the fee for obtaining a deed plan, which was reduced from RWF 80,000 to RWF 60,000, with a saving of RWF 20,000. However, this is compensated by an increase in the fee per square meter, which for a typical commercial building, amounts to an additional cost of RWF 33,400. The combination of the two results in a <u>negative cost saving of RWF – 13,400</u>. ***Time savings*** are associated with (i) the elimination of the need to go to the District's Land Office to file an application and pay a fee, with the saving of <u>3 hours</u>, (ii) the elimination of the need to follow up the progress of the application with the Land Office, with an additional saving of <u>2 hours</u>, and (iii) the elimination of the need to put a sign in the construction site, with the saving of <u>1 hour</u>. Both time and cost savings apply to the <u>April – December 2010</u> period only.

The following points must be highlighted:

- at the time of writing, the OSC has been in operations for only few months, issuing a total of 28 permits over the April – August period. The number of applications received is much higher, around 35 – 45 per month, with a total of 208, but many were turned down because of technical problems in building design. The success rate was very low, at about 10%, in May through July and picked up to about 35% in August, seemingly thanks to a more accurate job done at the design stage. Considering an average of 40 applications per month for the period April – December and an overall success ratio of 25%, the ***total number of transactions***, i.e. of permits for commercially oriented buildings issued, can be roughly estimated at 90 for the whole 2010;
- regarding ***cost savings***, before the reform the three Kigali districts used to charge different fees for the ground floor (RWF 200 square meter in Nyarugenge and Kicuciro, RWF 250 in Gasabo), while all charged the same amount (RWF 150 square meter) for upper floors. After the creation of OSC, fees were harmonized and all districts now charge RWF 200 square meter irrespective of the floors. Considering a 3-floor 400 square meter building, the total fee now payable in RWF 240,000 compared with the 200,000 previously payable in Nyarugenge and Kicuciro and the 220,000 previously payable in Gasabo. Assuming that 2/3 of permits issued by OSC refer to Nyarugenge and Kicuciro and 1/3 to Gasabo, the ***average increase in fees*** is RWF 33,400 (240,000 – 206,600);
- the estimate of ***time savings*** is based on the information provided in the SCM exercise carried out by the Project at the end of 2009[63], plus some additional information provided by the Project team[64].

A summary presentation of key parameters is provided in Table C.4 below.

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[62] OSC handles the building permits for buildings with 2 floors or more and with a land plot of at least 4,000 square meters, as well as for all public buildings, factories & commercial buildings.

[63] Government of Rwanda – Ministry of Trade and Industry, Decision Memos – Rwanda Business Licensing Reform, s.d. (but end 2009), hereinafter referred to as the 'SCM Study.'

[64] Email from Petter Lundkvist of March 24, 2011.

Table C.4 Reform of Building Permit System – Kigali – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	..	..	..
2010	90	- 13,400	5

Reform of the Building Permit System – Rest of the Country. In areas outside Kigali, Districts remain responsible for the issuance of construction permits. The reform mainly consisted in setting more stringent deadlines for the handling of applications, although the lack of qualified personnel and seems to have reduced the impact. The number of construction permits for industrial and commercial purposes issued outside Kigali is not known. For the purpose of this exercise, the number of ***transactions*** was set at <u>270 for the year 2010</u>, i.e. three times the number recorded in Kigali[65]. ***Cost savings*** refer to the reduction of the fee for obtaining a deed plan, which was reduced from RWF 80,000 to RWF 60,000, with a saving of RWF 20,000. As no information is available on the fees charged by the Districts, this item was not considered. ***Time savings*** are grossly estimated at <u>2 hours</u>, due to the elimination of the need to follow up the progress of the application with the Land Office. A summary presentation of key parameters is provided in Table C.5 below.

Table C.5 Reform of Building Permit System – Outside Kigali – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	..	..	..
2010	180	20,000	2

Reform of Property Registration. This concerns the elimination of the *ad valorem* 6% registration tax on real estate transactions replaced with a RWF 20,000 flat fee. The number of ***transactions*** refers to the actual number of property transfers recorded by the National Land Center (NLC) in 2008, 2009 and the first six months of 2010 (extrapolated to the whole year). ***Time savings*** refer to the elimination of the need to register the sale contract with RRA and pay the tax and are estimated to be on the order of <u>2 hours, starting with 2008</u>. To estimate ***cost savings***, reference was made to a property worth RWF 11,000,000, which implies a registration tax of RWF 660,000. Considering the introduction of a flat fee of RWF 20,000, this entails a saving of <u>RWF 640,000 starting with 2008</u>.

The following points are worth being highlighted:

- data on transactions provided by the NLC do not distinguish between ***transactions done by individuals*** for private purposes (i.e. building their own house) and ***transactions done by enterprises*** for industrial or commercial purposes (e.g. erecting a factory or warehouse, constructing a shopping mall, etc.). In principle, only the latter should be taken into consideration, as PSCS refer only to savings accruing to private businesses. As real estate deals for private purposes are believed to constitute the majority of transactions, <u>this results in an over estimate of 'true' PSCS</u>;
- the ***value of the property*** considered for the calculation of cost savings is the (rounded) average of values for the 'standardized property' presented in the DB Reports 2009 and 2010 and referred to values in 2008 and 2009. Attempts to come up with own estimates were frustrated by

[65] SCM calculations done by the Project team make reference to 9,840 transactions for the whole country. This figure was arrived at based on information provided by the authorities of a single district in the capital city and then extrapolated to the whole country on the basis of population data. However, in the opinion of the Consultant, such a procedure leads to a dramatic over estimate of the number of industrial and commercial building, as the bulk of economic activity not linked to agriculture concentrates in Kigali. An earlier estimated made by the Project team was much lower, with a total of 150 transactions in the whole country.

the enormous variability in prices recorded, ranging from a low of RWF 12 – 20,000 per square meter (land only) in Kigali's peripheral areas (e.g. Kimironko) to a high of RWF 75 – 100,000 per square meter in Kigali's commercial district.

A summary presentation of key parameters is provided in Table C.6 below.

Table C.6 Reform of Property Registration – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	130	640,000	2
2009	251	640,000	2
2010	190	640,000	2

Reform of Procedures for Land Titles Transfer. This reform, introduced in early 2010, concerns the elimination of the need to make a sale contract and to register it with a notary public or with the NLC. The number of ***transactions*** is estimated to be the same as in the case of the reform of property registration (see above). The ***costs savings*** concern the elimination of three items, namely (i) the *frais acte de vente* (RWF 3,000), (ii) the *frais acte notaire* (RWF 1,200), and (iii) the *frais copie acte notaire* (RWF 500). Total cost savings are RWF 4,700 for the year 2010. Based on the information provided in the SCM Study, ***time savings*** can be estimated at 7 hours. The key parameters are summarized in Table C.7 below.

Table C.7 Reform of Procedures for Land Titles Transfer – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	..	..	..
2010	190	4,700	7

C.6 Estimate of PSCS Related to Trade Logistics

In this area, PSCS were estimated with reference to following reforms, namely:

- the simplification of customs documentation, resulting from the adoption of various measures;
- the reform of the import export licensing regime;
- the reform of the RBS fee payment system.

Simplification of Customs Documentation. This refers encompasses various simplification measures namely: (i) the introduction of a self assessment system (May 2008); (ii) the elimination of the arrival notice issued by MAGERWA, with clearance of goods done on the basis of packing list and invoice only (first half of 2008); (iii) elimination of *déshabillage*, i.e. the separation of documents (May 2008); (iv) elimination of the exit note and the elimination of the cargo release order (the first in May 2008 and the second in early 2010). The number of ***transactions*** is estimated on the basis of data provided by RRA and set equal to 50% of the import declarations (see below). Total ***time savings*** are estimated at 4 hours and 40 minutes starting with mid 2008, with the following breakdown: (i) 10 minutes for the introduction of the self assessment system, (ii) 3 hours for the elimination of the arrival notice, (iii) 1 hour for the elimination of the *déshabillage*, (iv) 30 minutes for the elimination of the exit note and of the cargo release order. The key parameters are summarized in Table C.8 below.

Table C.8 Simplification of Customs Documentation – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	63,735		
2008	72,366	0	4.67
2009	71,456	0	4.67
2010	75,000	0	4.67

The following points have to be highlighted:

- data on import declarations were provided by RRA for the period 2007 through 2009. For the year 2010, the number of declarations is not known and was assumed to be on the order of 150,000, with a 6% increase over the 2009 level. This takes into account the recent trend in import trade, which for the January – June 2010 period show a decline in value terms but an increase in volume;
- in principle, time savings apply to each transaction and, therefore, to each import declaration. However, in Rwanda, it is common that import procedures are not handled directly by operators but rather entrusted to intermediaries, who typically perform the same operations for several customers at the same time (e.g. they stand in line to get several documents stamped at the same time). Therefore, in order to account for this phenomenon, the number or relevant transactions was set at 50% of the total number of import declarations[66];
- in order to simplify calculations, the time savings associated with the elimination of the cargo release order (which took place in early 2010) were combined with those associated with the elimination of the exit note (introduced in May 2008). This involves a marginal over estimation of related benefits

Reform of Import Export Licensing Regime. This refers to the elimination of the import export declarations issued by commercial banks upon request of the National Bank of Rwanda (NBR), starting with August 2008. Declaration were required only for a subset of import transactions, i.e. those worth more than US$ 5,000 for general goods and more than US$ 3,000 for medical goods. In addition, a single declaration could cover more than one shipment and would remain valid until the value indicated was not reached. The number of ***transactions*** can only be estimated, as the NBR stopped keeping statistics back in 2004. Over the period July 2003 – June 2004, the last for which data are available, the total number of declarations was 6,173. For the purpose of the exercise, a figure of 8,000 declarations/year has been considered. ***Time savings*** can be estimated at 6 hours starting with August 2008, including: (i) 1 hour for the application, (ii) 3 hours in dealing with the issuing bank, and (ii) 2 hours to collect the declaration. The key parameters are summarized in Table C.9 below.

Table C.9 Reform of Import Export Licensing Regime – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	8,000		
2008	8,000	0	3
2009	8,000	0	6
2010	8,000	0	6

Reform of RBS Fee Payment System. This refers to the consolidation of the payment of the RBS fee into the Customs fee and duty collection process, with the elimination of one step in the process. The number of ***transactions*** is again given by the total number of import transactions (see above).

[66] This represents a departure from the estimate provided in the initial version of this Report, where the number of transactions was assumed to be equal to the number of declarations. Subsequent work highlighted the important role played by intermediaries in handling customs procedures, which was also emphasized in the comments formulated by IFC staff.

Time savings per transaction can be estimated at 30 minutes starting with January 2009. The key parameters are summarized in Table C.10 below.

Table C.10 Reform of RBS Fee Payment System – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	63,735		
2008	72,366	..	..
2009	71,456	0	0.5
2010	75,000	0	0.5

C.7 Estimate of PSCS Related to Business Tax Administration

In this area, PSCS were estimated with reference to following reforms:

- the modification of the VAT filing and payment system;
- the introduction of the online issuance of Tax Clearance Certificates

Reform of the VAT Filing and Payment System. This refers to the modification of the VAT filing and payment system for taxpayers with a turnover up to RWF 200 million, with the introduction of quarterly (instead of monthly) filings and payments. Adopted in April 2010, this reform involvers two types of PSCS, namely: (i) time savings and (ii) financial savings. In particular:

- **Time Savings**. The number of ***transactions*** is corresponds to the total number of VAT filings and payments eliminated. This was estimated based on the following parameters: (i) the number of taxpayers registered for VAT, (ii) the level of compliance, and (iii) the number of monthly procedures eliminated. The number of VAT registered taxpayers in 2010 is guess estimated at 6,000, with an increase of about 25% compared with the corresponding figure for 2009[67]. The level of compliance, i.e. the share of tax payers actually fulfilling their filing and payment obligations, is estimated at about 80%[68]. Therefore, the number of transactions for the April – December 2010 period is equal to the difference between the number of filings and payments that would have been made under the previous regime (6,000 registered tax payers * 9 monthly filings and payments * 80% compliance rate = 43,200) minus the number of filings and payments expected to occur after the reform (6,000 registered tax payers * 3 quarterly filings and payments * 80% compliance rate = 14,400), which yields a total of 28,800 transactions. The ***time saving*** per transaction is based on data from the DB Report[69], which estimated a total of 90 hours to make 12 VAT filings and payments, i.e. 7.5 hours per transaction. The key parameters are summarized in Table C.11 below;

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[67] According to RRA data, at end 2009 there were 5,014 VAT registered tax payers, of which 578 with a turnover in excess of RWF 20 million ('standard' regime) and 4,436 with a turnover of less than RWF 20 million ('voluntary registration' regime). The modification of the VAT filing and payment system applies to tax payers with a turnover of less than RWF 200 million, whose number is not known precisely, but is likely to be on the order of 4,600 – 4,700. The 25% increase assumed to estimate the number of VAT tax payers benefiting from the reform is similar to the increase in recorded in 2009, when both the total number of VAT registered tax payers and the number of 'voluntarily' registered tax payers increased by 27%.

[68] The degree of compliance varies across the various categories of VAT registered tax payers, being close to 100% in the case of large taxpayers (not benefiting from the reform), about 85% for medium taxpayers (which are few) and around 75% for small taxpayers, which constitute the vast majority of those benefiting from the reform.

[69] IFC, *Doing Business 2010 – Rwanda*, 2009, appendix on paying taxes.

Table C.11 Reform of VAT Filing and Payment System – Parameters (Time Savings)

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	..	..	..
2010	28,800	0	7.5

- **Financial Savings**. In this case the number of ***transactions*** is conventionally defined to be equal to the number of monthly payments replaced with quarterly payments in 2010. Considering that the reform was introduced in April, there are 9 transactions. The estimate of financial savings is based on three parameters, namely: (i) the average value of each transaction, (ii) the average duration of the payment postponement, and (iii the relevant interest rate. The ***average value per transaction*** (i.e. per payment period) is guess estimated at RWF 2.5 billion, which represents an increase pf about 30% compared with 2009 levels[70]. The ***average duration of the payment postponement*** is 30 days, considering that: (i) the payment that would have been made in month 1 of any quarter is postponed by 60 days, (ii) the payment that would have been made in month 2 is postponed by 30 days, whereas (iii) the payment made that would have been made in month 3 involves no postponement. The ***reference interest rate*** is the deposit rate, which measures the interest income earned as a result of the postponement in payments. As indicated in NBR publications, during the first six months of 2010 the deposit rate averaged at 7% per annum.

Introduction of Online Issuance of Tax Clearance Certificates. This reform was introduced in May 2009. The number of ***transactions*** is estimated starting on data on Tax Clearance Certificates (TCC) issued by RRA. In 2009, a total of 13,921 were issued, of which 8,493 in the period subsequent to the introduction of online services. In 2010, the number of TCC issued is expected to be lower, on the order of 8,300, as TCC are no longer required for a number of activities, namely the purchase of vehicles. The number of TCC issued online is not known. Considering the relatively modest diffusion of internet services in Rwanda and the existence of a 'learning curve' effect, the share of TCC issued online was assumed to be equal to 10% in 2009 and 20% in 2010. Therefore, the number of transactions can be guess estimated at 850 in 2009 and 1660 in 2010. ***Time savings*** are again estimated based on data provided in the SCM Study, which estimates a saving of 4 hours. The key parameters are summarized in Table C.12 below.

Table C.12 Introduction of Online Issuance of Tax Clearance Certificates – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	850	0	4
2010	1660	0	4

C.8 Estimate of PSCS Related to Business Licenses

PSCS were estimated with reference to following reforms, namely:

- the improvement of environmental impact assessment procedures;

[70] According to RRA data, in 2009 the total value of VAT payments made by tax payers with a turnover of less than RWF 200 million was RWF 22.8 billion, with average monthly payments of RWF 1.9 billion. The value of RWF 2.5 billion retained for calculations implies an increase of 32%. This increase is greater than the increase in the number of registered tax payers (see above), because historically the value of VAT collected increased more than the tax base (e.g. + 45% compared with 32% in 2009).

- the simplification of procedures for the licensing of clearing agents;
- the improvement of operating conditions for conducting road worthiness tests.

Improvement of Environmental Impact Assessment Procedures. This refers to publishing of a list of approved experts on whose services enterprises can rely for the performance of environmental impact assessment (EIA). The number of ***transactions*** is represented by the number of EIA submitted annually, which – based on information derived from project files – is estimated at 70. ***Time savings*** refer to the time saved for identifying a suitable expert and having him/her approved by the relevant agency. Time savings are estimated based on what indicated in the SCM Study, and set at 3 hours. The key parameters are summarized in Table C.13 below.

Table C.13 Improvement of EIA Procedures – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	..	..	..
2010	70	0	3

Simplification of Procedures for the Licensing of Clearing Agents. Improvements in the licensing procedures for clearing agents appear to be linked primarily to the implementation of certification and standards common to EAC countries, and as such they cannot be credited to the Project[71]. However, there appears to have been some improvements due to the merging of tax filing and issuance of TCC. The number of ***transactions*** is equal to the number of clearing agents licensed by RRA, which in 2010 is put at 117 (according to the RRA website). ***Time savings*** are estimated based on what indicated in the SCM Study, and set at 3 hours. The key parameters are summarized in Table C.14 below.

Table C.14 Simplification of Procedures for Clearing Agents – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	..	0	..
2010	117	0	3

Improvement of Operating Conditions for Conducting Road Worthiness Tests. In this case PSCS are not linked to regulatory or legislative reform, but rather to the improvement of operations at the Centre de Controle Technique Automobile (CCTA - vehicles testing center), which in turn was mainly the result of the increase in the number of staff on duty. Based on the information contained in Project files, the number of ***transactions*** is grossly estimate at 30,000. It is important to note that this figure does not refer to the number of vehicles undertaking the test annually but rather is the backlog of road worthiness tests that had been accumulated in the last years and that was cleared in late 2009 and 2010. For the purpose of this exercise, the total number of transactions is subdivided among the two years as follows: 7,500 in 2009 and 22,500 in 2010. ***Time savings*** refer to the reduction in waiting time and are grossly estimated at 3 hours. The key parameters are summarized in Table C.15 below.

[71] See Business Licensing Reform Report November 2010.

Table C.15 Improvement of Operating Conditions at CCTA – Parameters

Years	Transactions	Cost Savings (RWF)	Time Savings (Hours)
Baseline 2007	..		
2008	..	..	..
2009	7,500	0	3
2010	22,500	0	3

ANNEX D – IMPACT ASSESSMENT – OTHER IMPACTS

D.1 Introduction

In this Annex, we provide detailed presentation of the data used and the approach adopted for the estimate of impacts other than the PSCS. In particular:

- Section D.2 deals with new business registrations and newly established businesses;
- Section D.3 analyzes the impact of the formation of new businesses on private investment;
- Section D.4 does the same with respect to job creation;
- Section D.5 reviews the evidence regarding registration with tax authorities.

D.2 Estimate of New Registrations and Newly Established Businesses

New Registrations. Data on business registrations were provided by ORG and they concern the number of registrations of companies and sole partnerships for the years 2003 through 2009 and for the period January – September 20, 2010. Data for the whole year 2010 were estimated by extrapolating the trend recorded in the first nine months. Data are shown in Table D.1 below.

Table D.1 Data on Business Registrations

Years	Sole Proprietorships	Companies	Total
2003	206	201	407
2004	442	407	849
2005	572	413	985
2006	488	582	1,070
2007	750	836	1,586
2008	1,048	1,136	2,184
2009	2,780	3,028	5,808
January – September2010	*983*	*3,570*	*4,553*
2010 (estimate)	1,311	4,760	6,071
Total	**7,597**	**11,363**	**18,960**

The number of new registrations attributable to the reforms supported by the Project was estimated by extrapolating the trend prevailing in the 'before project' situation (i.e. during the 2003 – 2007 period) and comparing the predicted values with those actually recorded. The results of the extrapolation exercise are presented in Figures D.1 and D.2 and in Table D.2 below.

Figure D.1 Extrapolation Exercise – Scatter Plot for Companies

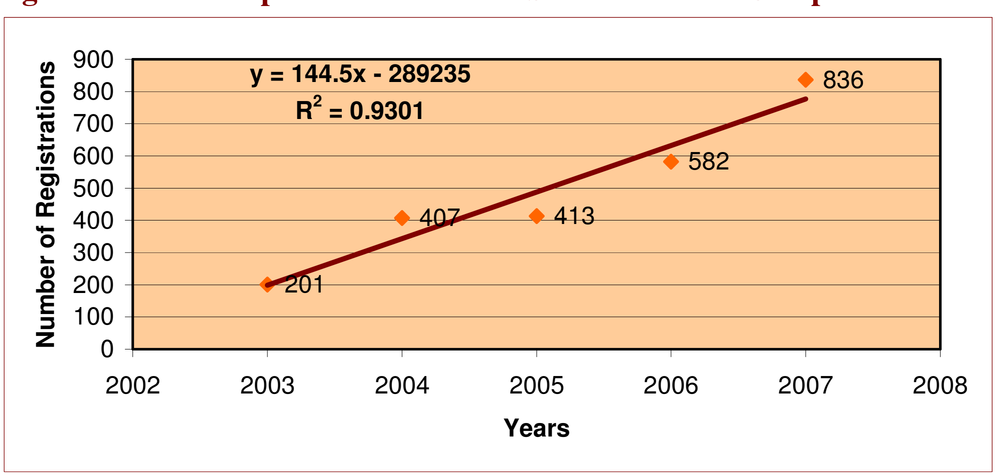

Figure D.2 Extrapolation Exercise – Scatter Plot for Sole Proprietorships

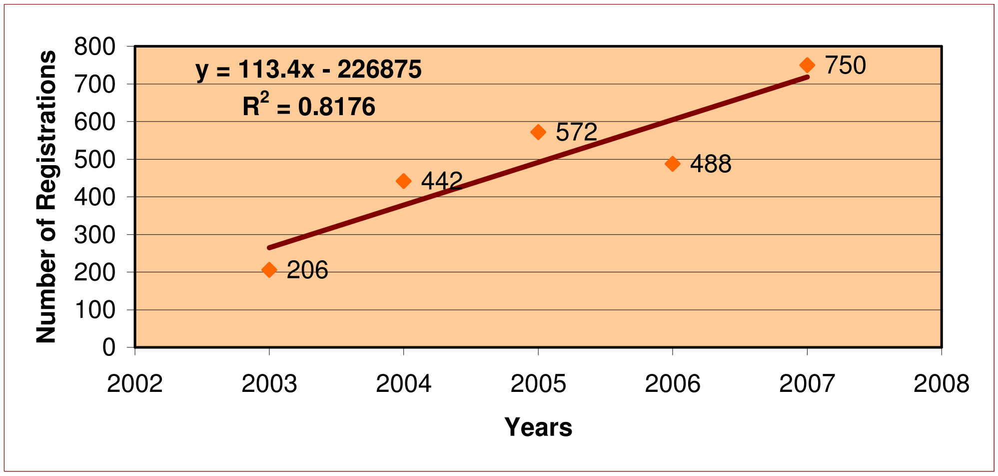

Table D.2 Extrapolation Exercise – Results

Years	Sole Proprietorships			Companies			Total		
	Predicted	Actual	Increase	Predicted	Actual	Increase	Predicted	Actual	Increase
2008	832	1,048	216	921	1,136	215	1,753	2,184	431
2009	946	2,780	1,834	1,066	3,028	1,962	2,011	5,808	3,797
2010	1,059	1,311	252	1,210	4,760	3,550	2,269	6,071	3,802
Total	**2,837**	**5,139**	**2,302**	**3,197**	**8,924**	**5,728**	**6,033**	**14,063**	**8,029**

Based on the above, the reforms promoted and/or supported by the Project can be credited with a total of 8,029 new business registrations, of which 2,302 sole proprietorships and 5,728 companies

Newly Established Businesses. Not all new registrations involve the creation of a new business. In fact, part of the newly registered businesses are entities that previously had been operating informally. The share of informal enterprises registered is not known, but based on information collected during field work (primarily from ORG staff), it could account for ***25-30% of total registrations***. Also, there are cases in which newly registered entities do not become operational. This phenomenon concerns an estimated ***10-15% of total registrations***. Two scenarios have been developed, namely:

- a Low Case Scenario, with the following subdivision of new registrations: (i) 30% of previously informal businesses, (ii) 15% of non operational enterprises, and (iii) 55% of newly registered businesses that actually start operations;
- a High Case Scenario, with the following subdivision of new registrations: (i) 25% of previously informal businesses, (ii) 10% of non operational enterprises, and (iii) 65% of newly registered businesses that actually start operations.

Based on the above the number of ***newly established businesses can be estimated at 4,416 – 5,219***, whereas the ***number of formalized enterprises can be estimated at 2,007 – 2,409***. Another 803 – 1,204 new registrations are estimated to correspond to enterprises that do not become operational. Details of calculations are provided in Tables D.3 and D.4 below.

Table D.3 Estimate of Formalized and Newly Established Businesses – Companies

Years	New Registrations	High Case Scenario			Low Case Scenario		
		Formalized	Not Operational	New Businesses	Formalized	Not Operational	New Businesses
2008	215	54	22	140	65	32	118
2009	1,963	491	196	1,276	589	294	1,079
2010	3,589	888	355	2,308	1,065	533	1,953
Total	**5,767**	**1,432**	**573**	**3,723**	**1,718**	**859**	**3,150**

Table D.4 Estimate of Formalized and Newly Established Businesses – Sole Proprietorships

Years	New Registrations	High Case Scenario			Low Case Scenario		
		Formalized	Not Operational	New Businesses	Formalized	Not Operational	New Businesses
2008	216	54	22	140	65	32	119
2009	1,834	459	183	1,192	550	275	1,009
2010	252	63	25	164	76	38	138
Total	**2,302**	**575**	**230**	**1,496**	**691**	**345**	**1,266**

D.3 Estimate of Investment Associated with Establishment of New Businesses

The impact on private sector investment associated with the growth in enterprise formation was estimated on the basis of data on subscribed capital of newly registered businesses provided by ORG. The available data, referred to the May 20, 2008 – December 31, 2009 and concerning only companies, are summarized in Table D.5 below.

Table D.5 Data on Declared Capital of Newly Registered Companies

Classes of Subscribed Capital Declared (RWF)	Number of Registered Companies	Total Capital Subscribed (RWF)
A Less than 500 000	1,141	261,809,000
B 500,001- 1,000,000	788	1,040,208,000
C 1,000,001- 5,000,000	962	4,815,277,500
D 5,000,001- 10,000,000	504	15,654,105,500
E More than 10,000,000	368	238,562,224,300
Total	**3,763**	**260,333,624,300**
Overall Average		***69,182,467***
Average for classes A through D		***6,412,784***

The overall average value of subscribed capital is RWF 69,182,467, i.e. about US$ 120,000. However, this value is heavily influenced by the value of the capital subscribed by companies with an individual capital of more than RWF 10 million, which accounts for 92% for the total subscribed capital. This class of companies includes investors involved in large projects in real estate and strategic sectors, such as telecom, mining, and energy, whose launch can hardly be attributed to reforms brought about by the Project. Therefore, for the purpose of the exercise, reference was made to the average value for the other four classes, equal to RWF 6,412,784, corresponding to about ***US$ 11,500***. It is worth noting that this is a quite respectable figure, equivalent to about 25 times the average GNI for 2008 and 2009 (US$ 435).

No data are available for the initial capital of sole proprietorship, but this is typically much lower than values for companies. For the purpose of this exercise, the average initial investment for sole proprietorships has been guess estimated at one fifth of that of companies, i.e. at ***US$ 2,300***.

Based on these parameters, the value of incremental private sector investment somehow associated with business registration reforms promoted by the Project can be estimated in the region of ***US$ 39 to 46 million for the period 2008 – 2010***. Calculations are shown in Tables D.6 through D.8 below.

Table D.6 Estimate of Investment in Newly Created Businesses – Companies

Years	Unit Value of Investment	High Case		Low Case	
		Number of Businesses	Estimated Investment	Number of Businesses	Estimated Investment
2008	11,500	140	1,607,125	118	1,359,875
2009	11,500	1,276	14,669,688	1,079	12,412,813
2010	11,500	2,308	26,536,250	1,953	22,453,750
Total		**3,723**	**42,813,063**	**3,150**	**36,226,438**

NB rounded values, totals may not add

Table D.7 Estimate of Investment in Newly Created Businesses – Sole Proprietorships

Years	Unit Value of Investment	High Case		Low Case	
		Number of Businesses	Estimated Investment	Number of Businesses	Estimated Investment
2008	2,300	140	322,621	119	272,987
2009	2,300	1,192	2,742,428	1,009	2,320,516
2010	2,300	164	376,242	138	318,358
Total		**1496**	**3,441,291**	**1266**	**2,911,861**

NB rounded values, totals may not add

Table D.8 Estimate of Investment in Newly Created Businesses – Summary

Years	Companies		Sole Proprietorships		Total	
	High	Low	High	Low	High	Low
2008	1,607,125	1,359,875	322,621	272,987	1,929,746	1,632,862
2009	14,669,688	12,412,813	2,742,428	2,320,516	17,412,116	14,733,329
2010	26,536,250	22,453,750	376,242	318,358	26,912,492	22,772,108
Total	**42,813,063**	**36,226,438**	**3,441,291**	**2,911,861**	**46,254,353**	**39,138,299**

NB rounded values, totals may not add

D.4 Estimate of Employment Associated with Establishment of New Businesses

The impact on employment associated with the growth in enterprise formation was estimated on the basis of data retrieved from the ***World Bank Enterprise Survey*** (WBES) carried out in 2005. The WBES collected information on employment levels, and of particular interest are the data on the 'level employment at the moment of start up' (question J1), which can be regarded as an approximation of the new jobs associated with the creation of a new business. As the WBES covered businesses established over a long period of time (the oldest dating back to 1940), in order to better approximate the operational conditions prevailing during the period of Project implementation, the attention was focused on businesses established in the years 2003 through 2005, which left with 88 valid observations.

In order to take into account for obvious differences in employment levels across sectors, the 88 valid observations were ***grouped in three broad sectors*** (manufacturing, trade and other) and the average employment at start up calculated. The data are shown in Table D.9 below.

Table D.9 Data on Employment at Start-up – Enterprise Survey

Sectors	Number of Observations	Average Employment at Stat-up
Manufacturing	13	16.5
Trade	47	1.8
Other (mostly hotels and restaurants)	28	5.6
Total	**88**	**5.2**

The sector distribution of registered businesses for the period May 20, 2008 – December 31, 2009 was retrieved from ORG. The data are shown in Table D.10 below.

Table D.10 Breakdown of Registrations by Sector

Sectors	Number	%
Import	458	7%
Export	221	3%
Manufacturing	184	3%
Direct Import with Retail	454	6%
General Trade (i.e. retail)	3,764	51%
Services (includes hotels and restaurants)	961	13%
Consultancy	563	7%
Others (agriculture, construction, etc)	779	10%
Total	**7,384**	**100%**

Data on registrations were grouped in order to match as closely as possible the sector breakdown derived from the ES, yielding the following distribution:

- manufacturing: 3%
- trade: 67%
- others: 30%

These percentages were then applied to the number of newly registered businesses whose creation can be attributed to the reforms supported by the Project and the resulting figures were multiplied by the corresponding average employment levels at start up. Based on this procedure, the incremental employment somehow associated with the increased pace on enterprise formation can be estimated in the region of ***15,000 to 17,600 for the period 2008 – 2010***. Calculations are shown in Table D.11 below.

Table D.11 Estimate of Employment in Newly Created Businesses

Sectors	Average Employment at Start-up	High Case		Low Case	
		Number of Businesses	Estimated Employment	Number of Businesses	Estimated Employment
Manufacturing	16.5	157	2,583	132	2,186
Trade	1.8	3,497	6,294	2,959	5,326
Other	5.6	1,566	8,768	1,325	7,419
Total		5,219	17,646	4,416	14,931

NB rounded values, totals may not add

In order to verify the realism of the above estimates, they were compared with data on total employment. Data on employment were derived from publications of the Social Security Fund of Rwanda (CSR), which indicate a total non agricultural employment (both formal and informal) of

927,934[72]. The incremental employment attributable to the business registration reforms would therefore account for between 1.6% and 1.9% of total employment in the country.

A further check was performed by comparing the estimated incremental employment with the value of incremental investment estimated in Section D.3 above. The ratio between these two values yields an investment per capita of about US$ 2,900, i.e. about 7 times the GNI per capita. This appears a realistic value, especially considering that estimates of incremental investment do not take into account the values related to highly capital intensive projects in mining, telecoms and energy.

D.5 Estimate of Investment and Employment Associated with Investment Promotion Activities

In describing the results achieved by Component #4, Project documents indicate that "*Through dedicated support to GoR's investor aftercare team, in 2009, 9 of the 51 non-operational projects have become active with a total investment of US$ 127 million creating 517 jobs*" (SR #4). Data on the nine projects revised thanks to the work done by RDB are provided in Table D.12 below.

Table D.12 Investment and Employment Associated with Revived Projects

Companies	Investment (RWF)	Investment (US$)	Jobs
Mater Boni Consilii	732,000,000	1,288,120	82
Rwanda Toothpaste	180,122,500	316,966	28
Dry Cleaner Range (Cleanexo)	58,824,600	103,515	4
Complexe Hotelier et Commerciale	1,050,386,364	1,848,393	23
Apart Hotel	422,659,340	743,765	33
Garden Estate Cooperative	1,290,690,000	2,271,262	21
Tigo	68,000,000,000	119,661,429	45
Organic Solution	330,000,000	580,710	15
Briqueterie Industrielle	586,100,000	1,031,376	266
Total	**72,650,782,804**	**127,845,536**	**517**

Two points are to be noted. ***First***, about 94% of total investments (some US$ 120 million) are linked to one single operation, namely the launch of Rwanda's third mobile phone operation, Tigo. Tigo is the local brand name of Millicom International Cellular (MIC), a multinational group based in Luxembourg and quoted in Nasdaq, and with operations in a dozen countries across Latin America, Africa and Asia[73]. The license for Tigo was awarded following an international tender, launched in 2008 and reportedly involving the payment of US$ 67 million[74]. While it is certainly possible that RDB provided some assistance to the new investor in the take off phase, it is implausible that this assistance influenced in any meaningful manner MIC's decision to go ahead with the investment. Therefore, this amount is excluded from calculations. ***Second***, data on investment and jobs presented in the table refer to declarations made by investors and not to actual achievements. As data declared to investment promotion agencies are notoriously on the optimistic side, in order to assess the impact it appears appropriate to apply a discount, which is conservatively set at one third of the declared values. Based on the above, the investments associated with investment promotion activities can be estimated at about US$ 5 million, while incremental employment can be estimated at some 300 jobs.

[72] Social Security Fund of Rwanda, *1st Semester Statistical Bulletin 2009 – 2010*, February 2010. Data come from the second Integrated Household Living Conditions Survey (EICV), which was carried out in 2005/6. No more recent data on employment are currently available.
[73] http://www.millicom.com/
[74] http://www.itnewsafrica.com/?p=3363

D.6 Estimate of Businesses Complying with Tax Regulations

Indications about the impact of the Project on the number of businesses complying with tax regulations can be derived by comparing from data on business registrations with taxpayers statistics. Data on businesses registered with the RRA for income tax purposes are provided in Table D.13 below.

Table D.13 Businesses Registered for Income Tax Purposes

Registration Regime	2005	2006	2007	2008	2009
Companies in the general profit tax regime	1,308	1,344	1,838	2,267	2,701
Companies in the simplified regime	629	1,423	1,888	2,190	3,467
Sub Total Companies	***1937***	***2767***	***3,726***	***4,457***	***6,168***
Sole proprietorships in the general income tax regime	862	1,611	1,964	2,137	2,198
Sole proprietorships in the simplified regime	1,269	5,379	11,318	14,583	18,677
Sub Total Sole proprietorships	***2,131***	***6,990***	***13,282***	***16,720***	***2,0875***
Grand Total	**4,068**	**9,757**	**17,008**	**21,177**	**27,043**
Of which: general profit tax regime	2,170	2,955	3,802	4,404	4,899
Of which: simplified regime	1,898	6,802	13,206	16,773	22,144

As indicated above, the number of businesses registered with RRA increased dramatically over the 2005 – 2009 period, passing from little more than 4,000 registered taxpayers to about 27,000 registrations. The increase was particularly strong in the case of the simplified tax regime, with a more than tenfold increase, while registrations with the general profit tax regime more than doubled. Also, the increase was particularly strong during the period of Project implementation, with about 8,000 new taxpayers in 2008 – 2009, compared with about 2,700 in 2006 – 2007.

The link between (i) the simplification of business registration procedures, and therefore, the increased pace in enterprise formation, and (ii) the increase in the number of businesses registered with the RRA is shown in Table D.14 below. The correlation between the two increases over time, with the ratio between newly registered businesses and new taxpayers passing from 19% in 2006 to 99% in 2009. It should be noted that there are some inconsistencies in the data, as in 2008 and 2009 the number of newly registered companies exceeds the increase in the number of corporate taxpayers. This suggests the existence of cancellations in taxpayers registries (for which no information is available) and/or a less than ideal coordination between ORG and RRA. This is particularly the case for 2009, as the new procedures for business registration adopted in that year in principle involve the automatic registration of newly established businesses with tax authorities.

Table D.14 Comparison Between Income Tax Registrations and Business Registrations

Registration Regime	2006	2007	2008	2009	Total	Before Project 2006-7	During Project 2008-9
Increase in companies registered for Income Tax Purposes (A)	830	959	731	1,711	4,231	1,789	2,442
Increase in sole proprietorships registered for Income Tax Purposes (B)	4,859	6,292	3,438	4,155	18,744	11,151	7,593
Total Increase in Businesses Registered for Income Tax Purposes (C)	**5,689**	**7,251**	**4,169**	**5,866**	**22,975**	**12,940**	**10,035**
Newly registered companies (D)	582	836	1,136	3,028	5,582	1,418	4,164
Newly registered sole proprietorships (E)	488	750	1,048	2,780	5,066	1,238	3,828
Total Newly Registered Businesses (F)	**1,070**	**1,586**	**2,184**	**5,808**	**10,648**	**2,656**	**7,992**
Ratio A/D	70%	87%	155%	177%	132%	79%	171%
Ratio B/E	10%	12%	30%	67%	27%	11%	50%
Ratio C/F	19%	22%	52%	99%	46%	21%	80%

It is important to note that ***registration with RRA does not necessarily imply compliance with tax regulations***, i.e. actual filing or tax returns and payment of taxes due. In this respect, RRA publications data related to 2009 and summarized in Table D.15 below, show that only 44% of businesses registered for income tax purposes could be regarded as 'active'[75].

Table D.15 Registered and Active Business Taxpayers - Income Tax

Registration Regime	Registered (A)	Active (B)	Ratio B/A
Companies in the general profit tax regime	2,706	1,864	69%
Companies in the simplified regime	3,467	954	28%
Sub Total Companies	***6,173***	***2,818***	***46%***
Sole proprietorships in the general income tax regime	2,198	43	2%
Sole proprietorships in the simplified regime	18,677	9,149	49%
Sub Total Sole proprietorships	***20,875***	***9,192***	***44%***
Grand Total	**27,048**	**12,010**	**44%**

Comprehensive statistics on taxpayer compliance are missing, but there seem to be significant differences among various categories of business taxpayers. For instance, RRA data for the last quarter 2009 indicate compliance rates of 99.4% for large taxpayers, 78.2% for medium taxpayers and 43.5% for small taxpayers[76].

[75] Data on registered business taxpayers in Table D.13 do not match with those shown in Table D.12, but the difference is small and does not impact on results.

[76] RRA, *RRA Performance Report Second Quarter 2009/2010*, February 2010.

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