SUPPORTING ECONOMIC TRANSFORMATION

KICK-STARTING ECONOMIC TRANSFORMATION IN RWANDA

Main takeaways from a roundtable discussion

September 2018

Rwanda has committed itself to economic transformation as a pillar of its seven-year government programme, the National Strategy for Transformation (NST, 2017-24). The strategy has at its core the goal of generating 214,000 new jobs per year for the next seven years.

On 10 September 2018, the Rwandan Ministry of Trade and Industry (MINICOM) and the Supporting Economic Transformation (SET) team hosted a high-level roundtable: 'Kick-starting Rwanda's economic transformation: what needs to be done, when and by whom?'.

The objective of the roundtable was to stimulate discussion of the practical questions raised by the SET research programme, as set out in the briefing paper: *Kick-starting economic transformation in Rwanda: four policy lessons and their implications.* This note provides an overview of the main policy recommendations generated by the roundtable discussion.

SUMMARY

- On 10 September 2018, the Ministry of Trade and Industry (MINICOM) and the SET team hosted a high-level roundtable to stimulate discussion of the practical questions raised by the SET research programme and what can be done by the Rwandan government to address them.
- This meeting report summarises the key policy recommendations to emerge from the discussions, namely:
    - Rwanda's industrial policy should give priority to labour-intensive, export-led manufacturing.
    - A 'masterplan' for special economic zones and industrial parks should be established to ensure proper clustering.
    - Domestic firms should be encouraged to work with or alongside foreign anchor firms.
    - A government-wide implementation framework is needed to ensure consistent performance-based support to export manufacturing.

LESSON 1: SPECIALISE WISELY

SET analysis suggests that to achieve economic transformation, Rwanda must specialise wisely in sectors that make full use of the economy's most abundant resource – unskilled labour. Without neglecting the expected gains from more intensive agriculture, this means identifying suitable niches of specialisation in **export-led, labour-intensive manufacturing**, a relatively recent priority for the Government of Rwanda.

The roundtable participants took away the following recommendations for Rwanda:

1. Pursue labour-intensive manufacturing and the required technological capabilities
Participants agreed that NST targets call for more active promotion of manufacturing in sectors, and sections of value chains, that allow large-scale employment of labour. The best opportunities may be in those sectors (such as garments and footwear) that are the least subject to automation in the near future, as shown by a recent World Bank study (Hallward-Driemeier and Nayyar, 2017). Attention should be given to the quality of jobs and opportunities for acquiring and upgrading production technologies and business strategies.

2. Identify promising sectors by looking at countries that are ahead of Rwanda, but without being overly ambitious
Comparative advantage is not 'God-given', and Rwanda should aim to create new productive capabilities as well as making use of its existing resources. However, there is a need to be focused on the sectors are the most dynamic in countries that are a bit more advanced in their economic development, such as Bangladesh (Lin and Monga, 2017).

3. Promote high-value, light products that can be exported profitably given logistical challenges and opportunities, such as Rwandair
Rwanda's manufactured exports need to be niche products that constitute good business despite transport constraints. The growth of Rwandair offers avenues for exports whose final market price allows them to be transported by air.

4. Provide government support to anchor firms in selected value chains …
The government has made a good start by supporting export-oriented investments that generate a good number of quality jobs and provide a model for others to follow (such as C&H Garments). However, these investments need to be rapidly scaled-up and replicated.

5. … but make it time-bound, and linked to performance
After receiving an initial 'push', export sectors should become profitable on their own. Any incentives provided by government should be **time-bound** (only lasting a predetermined amount of time) and **performance-based** (only given to firms that achieve agreed export or production criteria) (Rodrik, 2007).

6. Continue to work on skills development to increase labour productivity
Government cannot be expected to deliver all the training that export firms require, but a good supply of generally educated and trainable labour is what foreign anchor firms look for.

LESSON 2: CLUSTERING

Manufacturing success around the world is associated with the building of *clusters* of new industries that can be provided with specialised support. One of the challenges now facing Rwanda is that its first special economic zone (SEZ) is occupied by firms of very varied kinds. This means the potential benefits of clustering are being lost.

The roundtable participants took away the following points:

7. There is a need to set up and implement an SEZ and industrial park clustering programme
Rwanda's revised Industrial Policy should include a commitment to reaping the benefits of clustering factories and support services in niche export sectors.

8. Put in place a comprehensive 'masterplan' for SEZs and industrial parks that follows the agreed clustering
A plan should be established to steer and monitor the implementation of the cluster policy.

LESSON 3: INVOLVE THE DOMESTIC PRIVATE SECTOR

In the most successful export-oriented clusters in the world, **foreign-owned anchor firms are surrounded by domestic companies** that are able to emulate their production processes. In Rwanda, the domestic private sector has been very active in contributing to the economic development of the country, but has not yet gotten significantly involved in export manufacturing.

SET research (Booth et al., 2018) shows that the **Government of Rwanda has played a key role in encouraging the domestic private sector** and directing it towards current priorities, especially commercial buildings. This success could be replicated in the manufacturing sector, encouraging domestic firms to work with or alongside foreign anchor firms.

The participants agreed on the importance of this challenge, and identified three areas for action:

9. Put policy signals in place to encourage the private sector to invest in industrial infrastructure and support services

10. Mobilize selected domestic firms to move into export manufacturing, working in collaboration with experts (Rwandan and foreign) to reduce risks

11. Encourage local private sector actors to enter into partnerships with international firms through joint ventures and other modalities
Participants recognised that the Rwandan private sector faces challenges in moving in these directions, including lack of relevant business and production experience, and access to finance on suitable terms. To encourage the buy-in of the Rwandan private sector, the participants identified three options:

12. Actively sensitise the domestic private sector to opportunities, risks and quality requirements in different kinds of production
To meet the requirements of international markets, firms will need specific guidance and support, from both experienced anchor firms and the Rwanda Standards Bureau.

13. Encourage more collective investments, as has been the case with the development of shopping malls and modern markets, to mitigate the problem of access to finance for industrial development in the short term

14. In the longer term, develop financing vehicles to de-risk investment in the manufacturing sector through the Rwanda Development Bank, commercial banks and/or public-private partnerships

LESSON 4: STRENGTHEN CAPACITY TO STEER THE INDUSTRIAL DEVELOPMENT PROCESS

Asian economies that have successfully transformed have had a public agency or agencies with the power and resources to steer the process, enforcing priorities and ensuring consistency in implementation. The Rwanda Development Board (RDB) has undergone a recent restructuring aimed at strengthening its investment promotion role. But another important challenge is proper coordination of the policy – discussed above – of providing consistent, performance-based support to priority export sectors.

Roundtable participants took away the following:

15. Ensure RDB's implementation capacity is enhanced through its recently approved structure
This needs to include an incentive structure that rewards follow-up and results, and does not discourage timely lesson-learning and adjustment.

16. Establish a government-wide implementation framework (making clear who is doing what) to ensure consistent coordination and prioritisation of support to export manufacturing

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