

# Rwanda: fostering prosperity by promoting entrepreneurship

2007 2012 2011  
2005 2009 2004  
2008 2006 2010 2013

Emerging from a decade marked by civil war and political instability, Rwanda began a comprehensive and ambitious campaign in 2000 to rebuild, foster national reconciliation and drastically reduce poverty. The government's agenda gave priority to health, education, infrastructure, and private and financial sector development, showing a commitment to improving citizens' living conditions and building a solid foundation for reconciliation.

Starting early on in the reform campaign, Rwanda has implemented many business regulation reforms. These have transformed the life of the private sector and made it noticeably easier to do business. While challenges remain, the country has achieved much success in its reform agenda since the early 2000s. This success stems from many factors, and Rwanda's experience may provide useful lessons for other nations seeking to improve their business climate, particularly for those coming out of conflict.

## DESIGNING A STRATEGY

Between 2005 and 2011 Rwanda's real GDP per capita grew by 4.5% a year, reflecting a sustained expansion of exports and domestic investment, with inflows of foreign direct investment also increasing substantially.<sup>1</sup> In addition, the government strengthened the foundations of macroeconomic stability by implementing cautious fiscal policies supported by a number of structural and institutional reforms. Underpinning this policy stance was a strong and sustained commitment by national authorities to private sector development.

Building on a 2-year consultation process, the government designed a long-term development strategy, *Rwanda Vision 2020*, aimed at transforming Rwanda into a middle-income economy by raising income per capita from \$290 to \$900 before 2020.<sup>2</sup> Introduced in 2000, the strategy recognized and sought to overcome Rwanda's multiple development challenges—including past civil war, poor governance, weak infrastructure, underdeveloped financial and private sectors, unemployment, overwhelming public debt, a poorly developed education system, HIV and the rapid growth of a population expected to reach 13 million by 2020.

In 2001 the World Bank set up the Competitiveness and Enterprise Development Project, designed to help the government establish an environment conducive to private sector growth and the emergence of a more competitive investment climate. The project focused on developing and updating the commercial law and supporting the government's privatization program through technical assistance, capacity building and advice on bank restructuring. This program contributed to an overhaul of the country's financial sector that led to the recapitalization of banks, the establishment of an insurance market and the introduction of microfinance lenders. In addition, the Competitiveness and Enterprise Development Project collaborated with the World Bank's Rwanda Investment Climate Reform Program to develop a robust reform agenda. The project helped establish the Doing Business Unit, the institution responsible for spearheading Rwanda's reform initiatives, while the investment

- Rwanda's commitment to private sector development has facilitated growth in exports, domestic investment and foreign direct investment inflows—and the implementation of effective fiscal policies supported by structural and institutional reforms.
- Starting in 2000, Rwanda developed a strong institutional pipeline for designing and implementing business regulation reforms.
- Since 2004 Rwanda has substantially improved access to credit, streamlined procedures for starting a business, reduced the time to register property, simplified cross-border trade and made courts more accessible for resolving commercial disputes.
- Rwanda is among more than 35 economies where the executive branch has made private sector development a priority by establishing institutions whose main purpose is to design and implement business regulation reforms.

climate reform program provided technical assistance and expertise to support the implementation of planned legal, regulatory and institutional reforms.

Rwanda's 2007 Economic Development and Poverty Reduction Strategy, like its *Vision 2020*, emphasized private sector development as the key to creating jobs, bringing peace, generating wealth and ultimately eliminating poverty.<sup>3</sup> In addition, aware of its scarce natural resources and landlocked location, Rwanda has focused on business regulation reform to attract foreign investment.

Dubbed "Africa's new Singapore" by *The Economist* for its positive economic reforms,<sup>4</sup> Rwanda has been effectively learning from the success stories of economies like Singapore since the early 2000s. And in 2007 it started using the *Doing Business* report as a tool to identify and learn from good practices in business regulation and to monitor improvement.

Several elements of a successful reform program were present, including political will and commitment at the highest level and a broadly appropriate set of macroeconomic policies that created room in the budget to invest in reforms and gained strong support from the donor community.

### **BUILDING AN EFFECTIVE REFORM PIPELINE**

Government responsibility for improving the investment climate in Rwanda and driving through the reforms has shifted over time. The responsibility was initially assigned to the Rwanda Investment Promotion Agency. In August 2008 this agency was joined by 7 others to create the Rwanda Development Board.<sup>5</sup>

The board's creation marked not only a change in name and gains in size, resources and efficiency but also a fundamental increase in political will and support. The president of Rwanda made business regulation reform a priority, as did the leaders of more than 35

other economies—including economies that have made some of the biggest improvements in the ease of doing business, such as Burundi, Colombia and Georgia.<sup>6</sup> The approach has proved effective in triggering reforms. In Rwanda it helped put investment climate reforms at the top of the economic policy agenda for promoting private sector development and helped consolidate and unify the multiple reform efforts.

Since reforms to the investment climate require changes across many areas of government, the Doing Business Steering Committee, bringing together representatives from different ministries, was created in early 2009 to lead the reform efforts at the cabinet level. While other countries have created similar institutions to promote reform, Rwanda has made effective use of the steering committee in implementing successful regulatory reforms (as detailed in the following section).

Below the steering committee is a technical task force made up of 6 working groups focusing on business entry, licensing reform, legislative changes, taxes and trade logistics, construction permits and property registration. One key to the working groups' effectiveness has been their inclusion of private sector representatives. This has helped ensure private sector buy-in and allowed participants to share their experiences during discussions about reform design.

To ensure success, the organizational structure still needed something to bring all the pieces together. For this purpose the Doing Business Unit was created. A small, full-time team, this unit links the working groups to the steering committee, coordinates with donors providing technical support, manages development funding to ensure proper use and promotes efforts to improve the investment climate. It also advises agencies, explains the reforms to the private sector and monitors progress through internal indicators.

The Doing Business Unit identifies reform opportunities; the technical task force and the steering committee approve the reform proposals. The annual plan for regulatory reforms is then communicated to the cabinet. The steering committee and the technical task force commit to the new priorities that are agreed on at the national leadership's annual retreats.<sup>7</sup> The Doing Business Unit monitors implementation and reports to the steering committee and to the prime minister, who is ultimately responsible for ensuring the execution of goals.<sup>8</sup> Besides reporting directly to the Rwanda Development Board, the unit also periodically informs the head of the Strategy and Policy Unit in the Office of the President about reform progress.

Far from being rigid, this structure has been further improved by the involvement of other stakeholders. Ahead of the promulgation of major pieces of legislation, the Rwanda Development Board has worked closely with the parliament and the judiciary, both of which have helped in meeting targets and deadlines. Civil society, development partners and institutions such as the Presidential Advisory Council have also provided crucial input in shaping the reform agenda.<sup>9</sup>

### **LAUNCHING REGULATORY REFORMS**

Even as the internal organization was evolving, the government was enacting reforms: since 2005 Rwanda has implemented 26 business regulation reforms as recorded by *Doing Business*.

#### **Improving access to credit**

A series of changes improved conditions for getting credit. In 2005 the public credit registry expanded its database of financial institutions and improved the content of its credit reporting system. In 2009 a new secured transactions law was introduced, allowing a wider range of assets to be used as collateral and permitting out-of-court enforcement proceedings.<sup>10</sup>

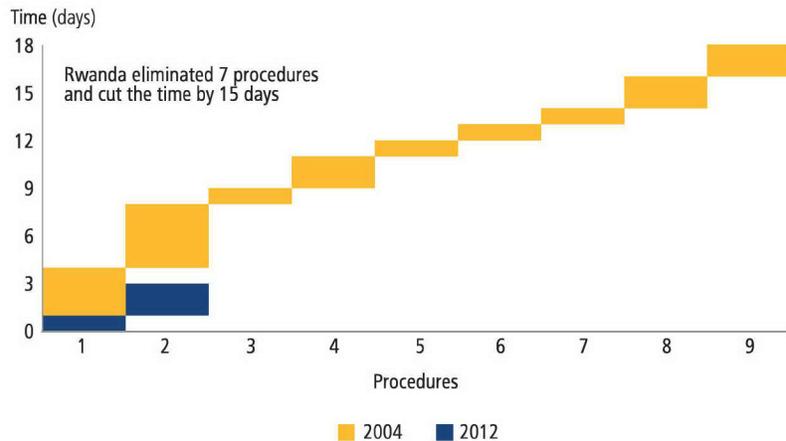
In 2010 the legislature passed a law regulating the distribution of information from credit bureaus. This led to the creation of the country's first private credit bureau, which provides wider coverage than the public registry because it includes information from utilities. In addition, the public registry expanded coverage to loans of all sizes. In December 2011 the public registry stopped issuing credit reports, and now only the private bureau shares credit information. The public registry still collects information from regulated financial institutions but only for supervisory purposes.

### Streamlining regulatory processes

Other changes streamlined regulatory processes. In 2006 the introduction of hundreds of new notaries made starting a business faster. Before, only 1 notary had been available countrywide, and the high volume of requests meant a long wait for entrepreneurs wanting to register a new business. After an overhaul of the company law in 2009, entrepreneurs no longer needed to use the services of a notary; they could use standard forms instead. An online system for publishing the registration notice replaced requirements for physical publication. And a new one-stop shop streamlined business registration by reducing the number of interactions required from 9 to 2 (figure 5.1). The time required to start a business fell from 18 days to 3, and the cost from 235% of income per capita to 4%.

Rwanda also made it easier to transfer property. In 2008 it eliminated mortgage registration fees and shifted from a 6% transfer tax to a flat rate of 20,000 Rwandan francs (about \$33). In 2010 the government decentralized the Office of the Registrar and Land Titles and created 5 branches throughout the country, purging the backlog of cases in Kigali. It also introduced strict time limits for some procedures. One was the issuance of tax clearance certificates, which had been the lengthiest part of the process.

FIGURE 5.1 Rwanda streamlined the procedures for starting a business



Source: Doing Business database.

The administrative reorganization and the statutory time limits reduced the time required to transfer property by 346 days—from more than a year in 2004 to less than a month (figure 5.2). And the changes in the transfer fees reduced the cost from 10.3% of the property value to 5.6%.<sup>11</sup>

Changes over several years made trading across borders faster. In 2005 Rwanda made it possible to submit customs declarations electronically. In 2007 the customs authority introduced more acceptance points for customs declarations, reducing the waiting time to submit them. In 2008 the government

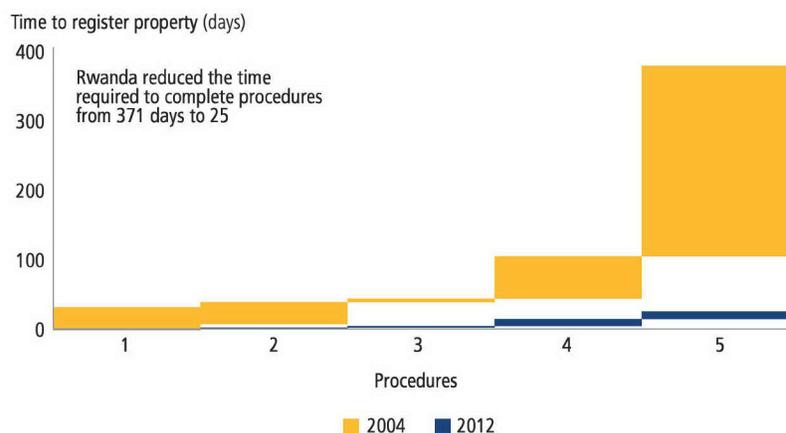
extended operating hours for border posts and implemented an electronic data interchange system and risk-based inspections. And in 2010 it streamlined trade documentation requirements and improved border cooperation.

Results are clear. In 2006 exporting goods in Rwanda required 14 documents and 60 days (figure 5.3). Today it takes only 8 documents and 29 days. The story is similar for importing.

### Strengthening laws and the judiciary

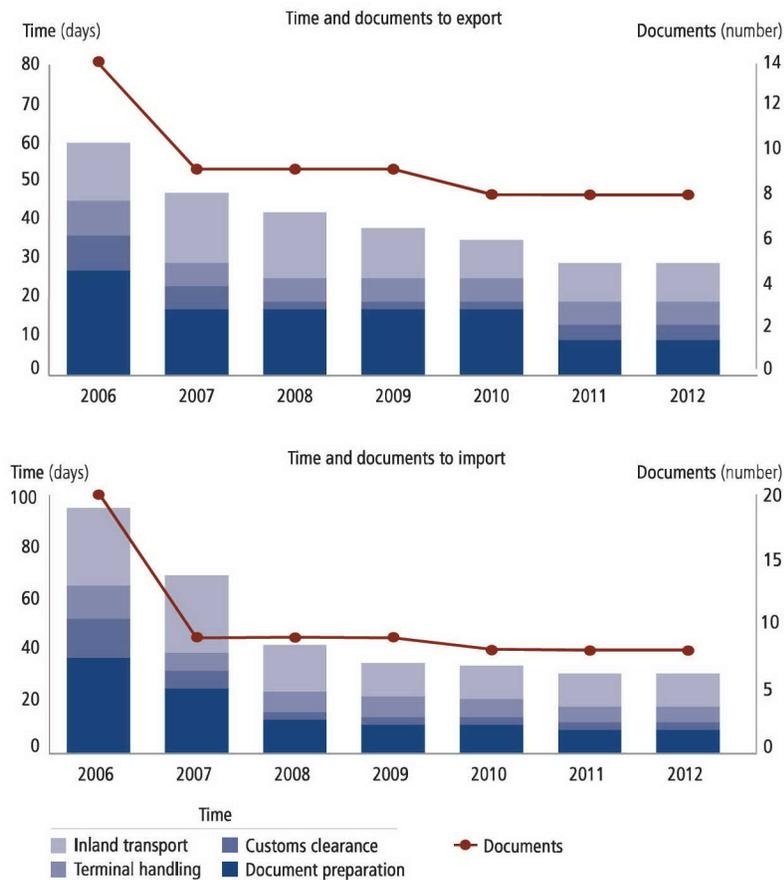
The new company law adopted in 2009 introduced several concepts into Rwanda's

FIGURE 5.2 Rwanda cut the time for property transfers by almost a year



Source: Doing Business database.

FIGURE 5.3 Big reduction in time and documents to trade across borders in Rwanda



Source: Doing Business database.

corporate legal system for the first time: minority shareholder rights, regulation of conflicts of interest, extensive corporate disclosure and directors' duties. The new law introduced rules requiring approval by the board of directors for related-party transactions representing less than 5% of the company's assets and by shareholders for those representing more than 5%. The law strengthened the director liability regime for breach of fiduciary duties and for related-party transactions that harm the company. And it increased corporate transparency by improving disclosure requirements and minority shareholders' access to corporate information.

In 2005 the government made contract enforcement more of a reality by establishing more commercial courts<sup>12</sup> and creating the Business Law Reform Cell, whose review of 14 commercial

laws proved crucial for the approval of important legal reforms. The government further enhanced the court system in 2008 by creating lower commercial courts.

Consistent with its emphasis on bringing in the skills and expertise needed to ensure the success of the reform process, the government also hired non-Rwandan expatriate judges: 2 Mauritian judges to help local judges run the new commercial courts during the first 3 years of operation.<sup>13</sup> In addition, the government has provided incentives for Western-educated members of the diaspora to repatriate and has promoted an exchange of skills by opening the job market to immigrants from neighboring countries, including Burundi, Kenya, Tanzania and Uganda.<sup>14</sup> Moreover, the Capacity Strengthening Program

(financed by the Competitiveness and Enterprise Development Project) and the Institute for Legal Practice are training judges, legal officers and lawyers to work in a mixed legal system, where the civil law tradition dominates but common law and customary law tendencies are also evident.<sup>15</sup>

With the aim of increasing efficiency in resolving corporate insolvencies, the government enacted a new insolvency law in 2009. But resolving insolvency remains the one area among all those included in the ease of doing business index in which Rwanda still has great room for improvement. Achieving widespread use of the law in insolvency cases has been among the greatest regulatory reform challenges in this area.<sup>16</sup>

### SEEING MEASURABLE RESULTS

The ultimate goal of the reform program is a private sector that promotes economic growth and job creation.<sup>17</sup> And the program is achieving measurable progress toward this goal.

After Rwanda simplified formalities for business registration in 2006, 77% more firms registered in the following year.<sup>18</sup> In 2008 more than 3,000 firms registered, up from an average of 700 in previous years. In 2009 the number rose to 6,905. And in 2010 the government managed to register 18,447 new businesses—nearly achieving its goal of registering 20,000 that year.<sup>19</sup> The jump in registration numbers cannot be attributed solely to the simplification of the start-up process; the business registration reforms were part of a wider government agenda to promote private sector growth and entrepreneurship in Rwanda. Even so, the increase points to a positive trend.

Good results are also showing up in the area of contract enforcement: the commercial courts started operating in Kigali in May 2008 and had fully cleared the case backlog by the end of 2009.<sup>20</sup>

Rwanda's consistent reforms to make trade easier improved the productivity

of customs officials, who increased the number of documents they cleared annually by 39% between 2006 and 2009. And according to the Ministry of Trade and Industry, Rwanda's exports rose from \$147 million in 2006 to \$193 million in 2009.

Rwanda recently adjusted some of the targets set in *Vision 2020*. Most notably, it raised the income per capita target from \$900 to \$3,500. This brings the target into line with levels in middle-income economies today and reflects Rwanda's recent growth, which increased income per capita to around \$570 in 2011.<sup>21</sup>

## CONCLUSION

Every country faces different development challenges. But Rwanda's ambitious and complex reform program may offer lessons for others seeking to reform through private sector development.

One key to its achievements has been the strong commitment to reform shown by Rwanda's leaders and its citizens. The government has established structures for building a foundation for private sector development and coordinating government-wide reform efforts. And it has created a well-defined, long-term reform strategy that informs all of the country's short-term development goals.

The government entities involved in the process have had clearly defined roles and responsibilities, and they have respected the goals set in initial implementation strategy documents. The Doing Business Unit has played a pivotal role not only in ensuring coordination within the government and between the government and donors but also in coordinating development funding initiatives so as to avoid duplication.

The government has worked to meet the needs of entrepreneurs by streamlining regulatory processes involved in starting, operating and closing a business. Beyond undertaking legal and administrative reforms, the government has invested in training for professionals—including

lawyers and judges—to ensure proper administration of the reforms. Recognizing the benefits of a diverse knowledge base, Rwanda has also imported technical expertise from other countries, to replicate good practices and build capacity. And the government has involved the private sector in the reform process and maintained an open line of communication to keep entrepreneurs, civil society and other stakeholders apprised of developments.

All these efforts are showing results in Rwanda's regulatory performance. And Rwanda's dedication to private sector development, in triggering positive legal reforms, has contributed substantially to its overarching goal of promoting national reconciliation and prosperity.

## NOTES

This case study was written by Moussa Traoré, Adrian Gonzalez, César Chaparro Yedro, Jean Michel Lobet and Jonathan Bailey.

- World Bank, World Development Indicators database, <http://data.worldbank.org/>.
- Rwanda, Ministry of Finance and Economic Planning 2000.
- Rwanda, Ministry of Finance and Economic Planning 2007.
- "Africa's New Singapore?" *The Economist*, February 25, 2012, <http://www.economist.com/>.
- The 7 agencies were Tourism and Conservation, the Registrar General's Office, the Privatization Unit, Human and Institutional Development, the Center for the Support to Small and Medium-Sized Enterprises (CAPMER), the IT Agency and the National Environment Management Authority.
- See box 2.2 in the chapter "About *Doing Business*" for a list of economies using this approach.
- These retreats, which gather about 300 top members of the administration, have included *Doing Business* reforms on the agenda since 2007.
- Presentation by Emmanuel Hategeka, permanent secretary, Ministry of Trade and Industry, Kigali, March 16, 2011; Karim 2011.
- In particular, the U.K. Department for International Development's multiyear program to support the Rwanda Revenue Authority is considered a success, enabling the agency both to improve its tax collection rate and to simplify its interactions with businesses.
- Legal changes often require only modest investments. For the secured transactions law, for example, Rwanda invested \$55,320 (excluding technical assistance from donors) in the validation and translation of the new law as well as in the legislative process.
- World Bank 2010a.
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- The Institute for Legal Practice was established by an organic law in 2006 and started to operate in May 2008.
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- Interview by *Business Times* (Kigali) with Benoit Gatete, vice president of the commercial high court, January 12, 2010, <http://allafrica.com/>.
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