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STAFF APPRAISAL REPORT

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

FEBRUARY 22, 1990

Industry and Energy Operations Divison
South Central and Indian Ocean Department
Africa Region

CURRENCY EQUIVALENTS

From January 1974 through August 1983, the Rwanda Franc (RwF) was pegged to the US dollar at a rate of exchange of US$1.00 = RwF 92.84. Since September 1983, the Rwanda Franc has been pegged to the SDR at a rate of exchange of SDR 1.00 = RwF 102.71.

Annual Average

Year	US$1 =
1982	RwF 92.84
1983	RwF 98.48
1984	RwF 103.88
1985	RwF 94.26
1986	RwF 87.64
1987	RwF 79.56
1988	RwF 76.45

ABBREVIATIONS AND ACRONYMS

BCR	Boucherie Charcuterie du Rwanda
BNR	Banque Nationale du Rwanda
BRD	Banque Rwandaise de Développement
BUNEP	Bureau National d'Etudes de Projets
CCO	Centrale Comptable et Organisation
CIC	Comité Interministériel de Coordination
CSR	Caisse Sociale du Rwanda
EEC	European Economic Community
IDA	International Development Association
IGF	Inspection Générale des Finances (General Inspection of Finance)
IMF	International Monetary Fund
INR	Imprimerie Nationale du Rwanda
ISAR	Institute of Agricultural Research
ISFP	Institut Supérieur des Finances Publiques
MINFIN	Ministère des Finances
MINIMART	Ministère de l'Industrie et de l'Artisanat
MINIPLAN	Ministère du plan
OCIR-Café	Office des Cultures Industrielles du Rwanda-Café
OCIR-Thé	Office des Cultures Industrielles du Rwanda-Thé
ONATRACOM	Office National des Transports en Commun
OPYRWA	Office du Pyréthre du Rwanda
ORTPN	Office Rwandais du Tourisme et des Parcs Nationaux
OVAPAM	Office de la Valorisation Pastorale et Agricole du Mutara
OVIBAR	Office de Valorisation Industrielle des Bananeraies du Rwanda
PE	Public Enterprise
SN	Société Nationale
SOE	Statement of Expenditures
SOMIRWA	Société Minière du Rwanda
SONATUBES	Société Nationale des Tubes
SORWAL	Société Rwandaise des Alumettes
STIR	Société des Transports Internationaux du Rwanda
UNDP	United Nations Development Programme

FISCAL YEAR

January 1 - December 31

METRIC SYSTEM

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

Table of Contents

This report is based on the findings of an appraisal mission which visited Rwanda in June-July 1989. The mission was composed of Messrs. Chuong N. Phung (AF3IE); Pierre Guislain (LEGOP), Richard Lacroix (consultant) and Ms. Susan Goldmark (AFTPS). Secretarial support was provided by Ms. A.B. Cox (AFTPS).

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

Table of Contents (cont'd)

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

TEXT TABLES

ANNEXES

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

CREDIT AND PROJECT SUMMARY

Borrower:	Government of Rwanda
Implementing Agency:	Ministry of Finance
Credit Amount:	SDR 3.4 million (US$4.4 million)
Terms:	Standard IDA terms (40 years maturity)

Project Description: The project will provide technical assistance to the Government to help carry out its public enterprise reform program in the following three areas: (i) reform of the public enterprises' institutional and legal framework; (ii) rehabilitation, privatization or liquidation of selected public enterprises; and (iii) development of a national capacity to design, implement and monitor PE reforms. The proceeds of the IDA Credit would be used for: (i) technical assistance and equipment to (a) revise public enterprise legislation; (b) help develop and implement restructuring plans for viable enterprises; (c) assist in the liquidation of nonviable enterprises and in the design and implementation of the Government's privatization strategy; and (d) strengthen the Finance Ministry which is responsible for overall supervision of PE performance; and (ii) training of PE managers and MINIFIN staff.

Benefits: The project will assist Rwanda to achieve a more streamlined, efficient and business-oriented PE sector with a reduced financial and administrative burden on the Government. Another benefit of the project would be derived from the restructuring of the sector. The closure of uneconomic enterprises would reduce resource waste, while the sale of viable ones to the private sector and the rehabilitation of those remaining under Government control are designed to maximize the economic benefits of those enterprises.

Risks: Care has been taken in the project design so that it can improve the economic and financial performance of selected public enterprises even with some additional postponement of structural adjustment. But if the necessary macroeconomic reforms are postponed indefinitely, there is a risk that many of the project's expected benefits will not fully materialize. The policy dialogue is, however, continuing and it is expected that the Government will take the necessary measures if the economic situation deteriorates further.

At the program level, as the operation involves broad-ranging and complex reforms both at the sector and enterprise levels, there is a risk that vested interests within Government and the affected enterprises will resist reform measures as these may imply increasing autonomy and replacing some existing PE managers. This risk is mitigated by the Government's commitment to carry out the necessary reforms. A second risk relates to the privatization program which, if not implemented properly with clear and transparent criteria, could result in creating a rent situation for some private investors. Finally, there is the risk that project implementation may be slowed down by the capacity of the Government administration to carry out the policy reform package and to monitor the execution of enterprise restructuring programs. These two risks are addressed through the establishment of a new Directorate of Public Enterprises in the Ministry of Finance which will be in charge of implementing the reforms and providing technical assistance and consulting services to help Rwandese institutions carry out the tasks envisaged under the project.

Project Costs and Financing Plan
(US$ thousand equivalent)

	Local	Foreign	Total	%
Project Costs				
Long-Term Consultants	790	1,260	2,050	41
Equipment	-	90	90	2
Operating Costs	300	240	540	11
Short-Term Consulting Services	255	730	985	20
Training	185	90	275	6
Refinancing of Project Preparation Advance	60	440	500	10
Contingencies	170	320	490	10
Total	1,760	3,170	4,930	100
(%)	(36)	(64)	(100)	(-)
Financing				
Proposed IDA Credit			4,440	90
Government			490	10
Total			4,930	100

Estimated Disbursements:

(US$ Thousand)	1991	1992	1993	1994	1995
Annual	1,070	1,230	1,075	980	85
Cumulative	1,070	2,300	3,375	4,355	4,440

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

I. THE PUBLIC ENTERPRISE SECTOR

A. The Macroeconomic Setting

1.01. Rwanda is a small land-locked country with a fairly homogeneous population of slightly over six million and a GNP per capita of about US$280 in 1988. The population, overwhelmingly rural (90 percent), is increasing at a rate of 3.7 percent per annum and derives its livelihood mainly from subsistence agriculture and coffee cultivation.

1.02. Despite the predominantly rural nature of its economy (In 1989, 39 percent of GDP and 90 percent of foreign exchange earnings, mainly from coffee and tea), Rwanda has a relatively active modern sector. Services (excluding public administration) have grown rapidly over the last six or seven years and in 1989 accounted for 27 percent of GDP. Industry has also emerged as an important sector, contributing about 18 percent to GDP and employing over 40,000 people. The sector is geared toward meeting the domestic demand for basic goods, with over half of its production consisting of food and beverages. Manufacturing exports are negligible. Another major sector of the economy is public administration, which accounts for 9 percent of GDP and employs 22 percent of the total salaried labor force. Construction and public works make up the remaining 7 percent of GDP.

1.03. Throughout the 1970s, Rwanda achieved considerable economic progress, as evidenced by a high rate of GDP growth of approximately 6 percent per annum, single digit inflation, high levels of foreign exchange reserves, balanced budgets, equitable income distribution, and improvements in nutrition standards. This performance, superior to that of many other developing countries, was to a large extent attributable to prudent economic management which kept the internal and external sectors of the economy in balance.

1.04. The economy became more volatile in the 1980s. Real GDP fluctuated widely during 1981-87 as a result of erratic weather conditions, with years of high growth (6 percent in 1983 and over 4 percent in 1985-86) followed by near stagnation in 1987, and accelerated declines in 1988 (-3.1 percent) and in 1989 (estimated -6.3 percent). Overall, GDP growth over the last seven years has fallen behind population growth, resulting in a deterioration of the average living standard of the population. Prospects are bleak for the immediate future; a large budgetary deficit and continued pressures on the balance of payments are anticipated.

1.05. The economic downturn and the emerging financial problems show the continued vulnerability of the Rwandese economy to developments in the world coffee market. The liquidation of Rwanda's large mining company (Société Minière du Rwanda, SOMIRWA), in the mid 1980s, increased the economy's dependence on coffee to generate foreign exchange. Rwanda's economic problems also have been exacerbated by policies followed by the Government over the past few years. The Rwandese authorities did not perceive the coffee boom of the late 1970s as a temporary phenomenon and embarked on a large public expenditure program, failing to adjust it when coffee prices reverted to a more normal level in the 1980s.

As a result, large budgetary deficits developed and had to be financed by increased borrowing, particularly from domestic sources. Between 1981 and 1987, public domestic debt quadrupled, reaching RwF 21.1 billion (US$270 million) or 13 percent of GDP at end-1987. At the same time, the balance of payments came under pressure as terms of trade deteriorated and the exchange rate became overvalued. From 1986 to 1988 Rwanda had to draw down about RwF 4 billion (US$52 million) of foreign exchange reserves to finance the external deficit. Rwanda's external position is expected to further deteriorate in the near future, given depressed coffee market prices and low production levels.

1.06. As in the early 1980s, the Government's response to the situation has been to introduce restrictions in its exchange and trade system, which was one of the most liberal in the region. This move towards controls has been reinforced by demands for higher protection from local producers unable to compete with cheap imports resulting from the overvaluation of the exchange rate. According to the IMF, between end-1980 and end-1985, the trade-weighted effective exchange rate of the Rwanda Franc appreciated by 80 percent in nominal terms and by 46 percent in real terms, as the rate of inflation in Rwanda was lower than that of its trading partners. Although it has declined since, the effective rate in mid-1988 still indicated an appreciation in real terms of about 30 percent compared with the end-1980 level.

IDA-Government Policy Dialogue

1.07. Given the deterioration of Rwanda's economic situation, the Bank's dialogue with the Government over the last three years has focused on the need to restore the competitiveness of the economy through the implementation of a comprehensive reform program addressing the major structural problems, including exchange rate overvaluation, trade distortions and public sector inefficiencies. While there is a general consensus in Rwanda that the public enterprise (PE) sector is inefficient and should be restructured, the Government is still studying other broad macroeconomic reforms.

1.08. In June 1988, the Government officially requested Bank assistance to formulate a program to reform its public enterprise sector but stressed that it needed more time to seek internal consensus on macroeconomic adjustment. Recognizing the need to move forward, the Bank agreed to help the Government in its public enterprise reform efforts, while continuing the dialogue on macroeconomic policies. IDA financed technical assistance to assist Rwandese working groups to analyze the impact of the country's legal and institutional framework and macroeconomic policies on public enterprise performance as well as to conduct enterprise-specific diagnostic studies. The Government's Policy Statement on Public Enterprise Reform includes recommendations made by the working group on legal and institutional issues and reflects the results of discussions with IDA staff. The Policy Statement on Public Enterprise Reform signed by the Minister of Finance was presented at negotiations (Annex IV). The proposed project is an outgrowth of this process and has been designed to assist the implementation of policy reforms. It may be regarded as an important step towards a more comprehensive adjustment process. However, until distortions in the economic environment are addressed the project will only focus on restructuring service enterprises and those producing tradables whose economic

viability has been demonstrated and which are financially viable under the present exchange rate regime.

B. Sector Overview

Historical Perspective

1.09. Rwanda's public enterprise sector (para. 1.22 for definition) is relatively large, young, and still growing with most of its 62 parastatals created after 1975. Revenues generated by the coffee boom of the late 1970s allowed the Government to play a major role in the ownership of key enterprises. Its choice of investments was governed by pragmatic considerations: (i) the perceived obligation of Government participation in enterprises of strategic interest (coffee, tea, petroleum,) or natural monopoly (electricity), (ii) the need to stimulate the national economy through projects that could not attract Rwanda's nascent private investors (pyrethrum extract, banana wine production), and (iii) the desire to provide administrative services more efficiently through decentralized entities (research institutes, universities) rather than government departments.

1.10. The donor community also has been responsible for the growth of the public enterprise sector. As projects mature, the Government is automatically assuming the donors' management and financial responsibilities. According to Rwanda's 1988 development budget, the Government was supporting 99 projects; about 15 of these are expected to be reclassified as public enterprises or be sold to the private sector during the next two years. Other projects will be reclassified soon thereafter.

1.11. Of Rwanda's 62 public enterprises, 32 are wholly-owned by the Government, 12 are mixed companies (société d'économie mixte) with at least 50 percent Government and/or public enterprise ownership, and 18 have a majority private ownership (Annex I). The 32 wholly Government-owned enterprises can be further subdivided into five entities of an administrative nature, 16 public enterprises of a commercial or industrial nature, five régies of which four also manage an industrial/commercial activity and six completed projects which are about to be reclassified as some form of public enterprise.

Importance of the Public Enterprise Sector to the Economy

1.12. Public and mixed enterprises account for about 10 percent of Rwanda's GDP. If all mixed enterprises are excluded, then the share drops to only 2-3 percent of GDP. In 1987, the value added of the 17 largest public enterprises was about RwF 2.9 billion (about US$40 million). However, subsidies and other transfers from the Government are equivalent to almost 45 percent of this value added. Four enterprises alone constituted almost 90 percent of the total value added of this group.

1.13. Despite their low share of GDP, certain public enterprises play a key role in the economy. Coffee, tea and pyrethrum promotion and sales, all managed by public enterprises, account for about 85 percent of Rwanda's total exports. Consumption taxes on beer and soft drinks produced by a mixed enterprise furnish about 15 percent of the Government's budgetary revenues.

Thus, a few public enterprises are an important source of foreign exchange and government revenues. In addition, public enterprises are estimated to employ about 15,000 people. This represents about nine percent of employment in the formal sector (159,000) and over one-quarter of total employees in the public sector (56,000).

1.14. Government investment in mixed enterprises shows that thic sector has absorbed a sizeable amount of public resources during the past decade. To date, the Government has invested about RwF 4.1 billion (about US$56 million) in nominal terms in joint ventures with the private sector. Foreign investors have provided a little less than the Government, RwF 3.9 billion (US$53 million), while Rwandese investors have contributed only RwF 1 billion (US$13.5 million).

1.15. Foreign loans to public enterprises constitute one-third of Rwanda's external debt. The Government has contracted an external debt of almost RwF 16 billion (US$213 million) on behalf of six public enterprises. Unless these enterprises' financial performance improves dramatically, during 1988-95 the Government will be required to make about RwF 5.7 billion in principal and interest payments on this debt.

1.16. Unlike many developing countries, public enterprises are not directly crowding out the private sector's access to domestic bank resources. Credit from the Central Bank (Banque Nationale du Rwanda, BNR) to PEs is negligible (RwF 1.7 million); outstanding loans to PEs (excluding mixed enterprises) from commercial banks more than doubled from RwF 400 to 852 million between 1982 and 1983 but remained fairly stable at this level until the present. In March 1987, outstanding loans from commercial banks to PEs amounted to only RwF 748 million (about US$10 million) while loans to the private sector totalled RwF 12 billion (about US$162 million). The amount of outstanding loans from Rwanda's development bank (Banque Rwandaise du Développement, BRD) and the mortgage bank, Caisse Hypothécaire du Rwanda, to PEs declined from RwF 214 million in 1982 to 107 million in 1987, while their loans to the private sector increased from RwF 1,442 to 2,847 million during the same time period. All loans to public enterprises have been guaranteed by the Government.

1.17. The public enterprise sector has been a large burden on public finances. Many of Rwanda's public enterprises would have ceased operations if it were not for Government subsidies. During 1983-87 net Government transfers to 17 industrial and commercial public enterprises (in the form of equipment and operating subsidies, non-reimbursed advances and repayment of debts on behalf of PEs) totalled about RwF 7.6 billion (about US$82 million) (Annex I). Government subsidies to PEs were RwF 8.1 billion, while the flow from these public enterprises to the Government (mainly taxes and dividends) was only RwF 508 million. This represents a sizeable amount -- six percent -- of government revenues during those years. The total net transfers from the Government to these 17 public enterprises, two mixed companies and the administrative bodies

represented about 10 percent of Government revenues in 1987. 1/ Since all public enterprises except mixed enterprises are exempt from paying income taxes, this also represents an important source of foregone income to the Government.

Financial Performance

1.18. The performance of public enterprises with majority government ownership has been disappointing. Aggregated losses of 18 wholly Government-owned public enterprises of a commercial/industrial nature were RwF 850 million in 1987 (about US$11.3 million), excluding the RwF 3 billion in losses suffered by the Stabilization Fund for coffee 2/ (Annex I). Accumulated losses for these enterprises during 1983-87 amount to RwF 2.7 billion (about US$29 million). Heaviest losses during this period were incurred by hotels owned by Office Rwandais du Tourisme et des Parcs Nationaux (ORTPN), the pyrethrum processing plant (Office du Pyrèthre du Rwanda - OPYRWA); the agricultural marketing company (Office de la Valorisation Pastorale et Agricole du Mutara - OVAPAM); the tea processing and marketing company (Office des Cultures Industrielles du Rwanda-Thé - OCIR-Thé); and by the airport. This pattern of losses has caused many of Rwanda's public enterprises to be severely undercapitalized. The Office des Cultures Industrielles-Café (OCIR-Café), with a negative net worth of RwF 1.3 billion is technically bankrupt, while OPYRWA and the Office National des Transports en Commun (ONATRACOM), the domestic bus company, have an extremely weak capital base. The only public enterprise that generated income during this period was the government pension fund, Caisse Sociale du Rwanda (CSR) (RwF 2.1 billion from 1983-73). However, even this social security fund has high operating costs and a relatively low return on investment. Since this agency has not performed any actuarial forecasts, it is impossible to determine its true financial performance.

1.19. Despite receiving subsidies each year, the four public entities of an administrative nature for which data are available also had significant losses: RwF 260 million (about US$3 million) in 1987 and, on a cumulative basis, RwF 714 million from 1985-87 (about US$8 million). The financial performance of mixed companies, while better than that of wholly Government-owned enterprises, has also been disappointing. The consolidated profits of 17 mixed companies for which the Ministry of Finance has statistics was only RwF 124 million in 1987 (about US$1.7 million). Among enterprises that were majority-owned by the Government, only Rwanda Export (RWANDEX), the coffee processing and export company, and the gasoline distribution company, Société Rwandaise du

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1/ The Government has also assumed the debt obligations of Rwakina and Air Rwanda, two mixed companies, which amount to a net transfer of RwF 71 million. The net transfers to the five administrative bodies was Rwf 3.8 billion during 1983-87, or about RwF 770 per year (about US$8 million).

2/ It should be noted that Electrogaz showed a profit of Rwf 71 million in 1987 only because it received a RwF 359 million payment from the Government on a debt owed by SOMIRWA against which it had constituted provisions earlier. Without this extraordinary income, it would have had a RwF 200 million loss.

Pétrole (PETRORWANDA) were profitable in both 1986 and 1987. In general, dividends remitted by mixed companies to the Government have been very disappointing. The Government received only RwF 142 million during 1983-87 (US$1.5 million). Return on the Government's investment of around RwF 4 billion, thus, has been negligible.

1.20. Even with these losses, the wage bill of these 18 enterprises increased steadily during the 1980s. It is clear that poor financial performance did not cause public enterprise managers to trim their staff. Most managers lack sufficient authority to control the number and quality of staff members and few have an incentive to argue in favor of such cuts.

1.21. Cross-debt tables on 17 of the largest public enterprises show that the Government is by far the largest debtor and creditor vis-a-vis public enterprises (Annex I). The pension fund is the Government's largest creditor (RwF 2.2 billion) and OCIR-Thé and OPYRWA are the Government's largest debtors (RwF 1.1 billion and 516 million, respectively). Unlike many developing countries, public enterprises have relatively small arrears owed to other public enterprises and mixed enterprises and the Rwandese private sector is a net debtor to public enterprises. Since the Government has assumed the repayment obligations of public enterprises when they are unable to meet their debt payments, no arrears are owed to Rwanda's banks.

C. Institutional and Legal Framework

Legal Structure

1.22. The Government does not have a single all-encompassing definition of what constitutes the public enterprise sector. The term is used rather loosely to refer to entities which have a separate administrative structure and are wholly or partly owned by the state. Rwanda's public enterprise sector can be divided into four categories: établissements publics (public entities) which are wholly government-owned agencies with a separate juridical and financial status. These include entities that are intended to serve a social purpose, such as research institutes, as well as industrial and commercial enterprises; régies which are public entities that lack an autonomous legal status but do have financial and technical autonomy; mixed companies (sociétés d'économie mixte) which are joint ventures between the Government and private domestic or international investors that are subject to the commercial and labor laws that govern the private sector; and completed projects which lack any legal status but have a separate administration and are about to be transformed into one of the above categories.

Government Oversight

1.23. Public enterprises (except mixed companies with minority government ownership) are subject to extensive control by the Government. The President plays a predominant role in determining the supervisory staff and management of the fully government-owned enterprise. According to law, he appoints the entire board of directors, the general manager, the top technical staff and the Government Commissioner of all établissements publics and régies. All are government civil servants. The President may take decisions in place of the

board of directors if this body has failed to take action on an important issue. Private shareholders of majority Government-owned mixed enterprises are represented on the board and may choose a few of the enterprise's staff, but most of the board members, the general manager and top staff are suggested by the Minister of Finance and confirmed by the Cabinet. Mixed enterprises with minority Government ownership include Presidential appointees on their boards of directors, but the controlling owners choose the Chairman of the board, the general manager and most of the technical staff.

1.24. Public enterprises are supervised by technical and financial tutelle ministries. The technical tutelle, which is the ministry in charge of the enterprise's sector of activities, has the power of prior authorization, approval, cancellation and substitution of key decisions taken by the public enterprise's management. This extends to investment programs, budgets, loans, financial accounts, price-setting procurement decisions, contracting, internal regulations, personnel decisions and resolutions of the board of directors. The technical tutelle usually plays a limited role in the operations of mixed enterprises with minority government ownership. The Ministry of Finance, the financial tutelle, must approve the enterprise's budget, any budget overruns, all loan obligations, contract obligations over a certain amount and any other extraordinary financial transactions. The financial tutelle's control on mixed enterprises with minority Government participation is usually limited to decisions involving government guarantees.

1.25. Although the technical tutelle ministries are supposed to monitor the performance of the public enterprises within their portfolio, they lack adequate support to perform these responsibilities. Two divisions within the Ministry of Finance are supposed to monitor the Government's public enterprises, but, in practice, they have insufficient staff and resources to perform this function. In practice, the tutelle agents rarely play an efficient supervisory role. As shown by the poor financial and administrative performance of most public enterprises, they do not provide the kind of support needed to the enterprise's board of directors and its managing director. The State Controllers are government officials who, often due to lack of time, are not performing their function properly.

Administration and Management

1.26. According to the General Public Entity Law of 1975 and other legislation, the board of directors of 100 percent Government-owned public enterprises has significant responsibilities. In practice, the boards of most établissements publics do not function well. Although the board is supposed to meet each quarter, meetings are not regularly scheduled and often the proceeding lacks legal authority because a quorum is not achieved. Since all board members are civil servants that often have insufficient business experience and technical familiarity with the enterprise's production process, this entity's usefulness is extremely limited. Board members that work in the tutelle ministries may often defend their ministries' interests rather than those of the enterprise.

1.27. Some managers of wholly or majority Government-owned public enterprises are regarded to have poor managerial and business skills. Their longevity on the job and salary increases are not necessarily tied to their

enterprise's performance. Since, according to law, they do not recruit the management team and cannot fire these staff members, they lack a necessary managerial function. Their main power consists in choosing the enterprise's support staff.

1.28. Many mixed companies with majority Government ownership exhibit the same deficiencies. Some majority Government-owned institutions, however, are an exception to this administrative set-up. The foreign owners of the Banque de Kigali (50 percent Government ownership), for example, appoint its general manager. Government interference in the management of this bank is relatively low.

Labor Law

1.29. Employees of établissements publics are subject to the Presidential Decree of December 1976 which is modeled after the civil service law. Employees are divided into civil servants (sous-statut) and contractors (sous-contrat) 3/. While civil servants are rarely fired but rather transferred to another post when problems occur, contractors have little job security. Unless their contract specifies otherwise, they receive a minimum of 15 days notice. Thus, public enterprise managers can and do fire those under contract without paying any significant indemnities.

1.30. Employees are divided into six categories, each of which is further subdivided into levels. The Government sets a minimum wage for each sublevel, making distinctions for different economic subsectors. It also specifies the qualifications needed for each job category. This rather inflexible system responds poorly to the recruitment needs of many public enterprises. Higher-level staff are chosen on the basis of academic qualifications rather than business experience. Although all higher-level staff members are supposed to pass an exam before they are hired, in practice this rule is not followed.

1.31. In general, wage levels within public enterprises have not kept up with those in the private sector. This makes it difficult for public enterprises to retain qualified staff. Since mixed companies are subject to the same labor code as that which pertains to private enterprises, they have much greater flexibility in the hiring and firing of staff and determining salaries and wages.

D. Government's Prior Attempts at PE Reform

1.32. Dissatisfied with the performance of the PE sector and faced with a more difficult budgetary situation, in 1985 the Government initiated a number of actions to contain PE losses and to address the problems of the sector. The Programme de Relance recommended: (i) defining the respective powers of the tutelle ministry and the enterprise's board of directors more clearly with a view to giving the latter greater autonomy; (ii) setting annual management objectives for each enterprise; (iii) instituting a reward system linked to performance;

3/ In 1986, according to the Ministry of Public Administration, about 70 percent of the 8,013 staff employed by administrative agencies were on contract (sous contrat).

and (iv) giving financial objectives priority over social or political ones. While relatively little progress has been made so far, the Government now appears ready to act on these suggestions.

1.33. The Government obtained assistance from the European Economic Community (EEC) to create the Centrale Comptable et Organisation (CCO) within the Presidency to improve the financial accounting systems of selected public enterprises, provide ad hoc technical assistance and conduct external audits. Until recently the financial performance of most public enterprises could not be analyzed accurately since PEs lacked reliable financial statements. The CCO has concentrated its efforts on six public enterprises but monitors the performance of 16 public enterprises. However, the CCO has no legal status and its role after the termination of EEC funding in 1990 is uncertain. In addition, the scope of its activities is limited to enterprise-specific accounting and financial management issues. It lacks the mandate and resources to pursue a more comprehensive approach to sector reform and does not intervene in the activities of the régies, mixed companies or projects.

1.34. The Government has also received assistance from the United Nations Development Programme (UNDP) to suggest administrative reforms within the central government. This five year project (1988-93) is supposed to examine personnel issues within établissements publics.

1.35. Finally, technical ministries launched, often at their own initiative, attempts to rescue enterprises under their tutelage. These include technical assistance to Projet Pouzzolane, Chaux et Tourbe, and actions have been taken to improve the management and financial performance of OPYRWA. A restructuring plan has been proposed to improve its internal audit, plantation services and the quality of pyrethrum extract. New input supply and marketing arrangements are also being investigated as well as the possibility of selling the enterprise.

1.36. Privatization of public enterprises has been on the Government's agenda for some time. In mid-1988, the President announced in a public speech the first phase of a broader privatization program: ORTPN hotels and the Imprimerie Nationale du Rwanda (INR), a government printing company (which are établissements publics of a commercial nature) would be sold, as well as the Government's shares in some mixed enterprises, including the Société Nationale des Tubes (SONATUBES) (PVC tubes; 23 percent government), the Société des Transports Internationaux du Rwanda (STIR) (road transport; 85 percent government) and the Société Rwandaise des Textiles (RWANTEXCO) (textiles; 49 percent government). The Ministry of Finance was entrusted with the responsibility to implement these decisions, which were confirmed in subsequent speeches of the President and communiqués of the party's central committee. The Government has initiated financial and management audits of INR, SONATUBES, STIR and RWANTEXCO to determine their value. Moreover, in 1988, two government projects involved in commercial or industrial activities were converted into mixed companies with private partners, namely the Boucherie Charcuterie du Rwanda (BCR) butchery and the Société Rwandaise des Allumettes (SORWAL) match factory.

1.37. Despite these efforts, the situation of the PE sector continued to deteriorate and prompted the Government to reexamine its case-by-case strategy

and focus on issues of coordination, reform of the legal and institutional framework and its own role in the sector. As part of the Government-IDA dialogue on PE reform, in mid-1988, the Government established three working groups to (i) examine the impact of macroeconomic policies on the performance of public enterprises, (ii) propose improvements in the legal and institutional framework governing PEs and (iii) conduct diagnostic studies on selected PEs which suggest potential rehabilitation or privatization plans. The three groups were assisted by a team of international consultants financed under the IDA TA project to the Finance Ministry (Cr. 1565-RW). Their work is the basis for the preparation of a comprehensive PE reform strategy to be supported under the proposed program.

II. THE PROJECT

A. Background

2.01. The formation of the three Rwandese working groups represented an important step in the Government's process of examining the effect of Rwanda's macroeconomic policies and its legal and institutional framework upon the financial and economic performance of the public enterprise sector. The Rwandese working groups' reports indicate that the disappointing financial performance of public enterprises stems from: (i) the lack of clear Government-set objectives and targets against which enterprises are evaluated; (ii) an incoherent, inconsistent and often counterproductive legal framework which fosters neither managerial autonomy nor accountability; (iii) managers that usually lack business background and expertise in the enterprise's product line; (iv) labor laws and practices which do not adequately reward or punish employees on the basis of their performance; (v) inadequate financial accounting systems and controls; and, (vi) poor economic and financial analysis of the project at the design stage. This has contributed to the establishment of enterprises which are inappropriate due to scale, technical complexity, domestic resource costs and other factors. During negotiations, the Rwandese delegation submitted the minutes of a Ministerial meeting which indicated general agreement with the recommendations made by the working groups.

2.02. The above analysis has led Rwandese policymakers to conclude that a more comprehensive PE reform program is needed to address the policy issues affecting PEs as well as questions of economic viability which are presently left aside in favor of financial issues. It is now recognized that productive PEs should be given the necessary incentives to operate as private enterprises, even though their performance is monitored and supervised by the Government. This means that, while having a greater role in running the enterprise, PE managers would have a greater degree of accountability if their performance is unsatisfactory. The changes in the operational environment will require a clear delineation of the respective powers of the tutelle ministry, the board of directors and the PE management, more flexible labor regulations and better financial incentives for PE management. This new approach and the accompanying PE reform strategy emerging from this analysis was initially formulated in the reports of the working groups and has been reflected in the Policy Statement on Public Enterprise Reform prepared by the Government in the context of this proposed project. The Government's Policy Statement on Public Enterprise Reform was supplemented with an implementation schedule of major reform actions (see

Annex V for schedule of key actions). Ministry of Finance and IDA representatives will review and modify, if necessary and by mutual accord, this schedule every six months. Non-compliance with key actions of the public enterprise reform program would constitute a specific event of suspension in the Development Credit Agreement.

B. Objectives

2.03. The major objective of the proposed project is to assist the Government to improve its technical and administrative capacity to implement its reform program described in its Policy Statement on Public Enterprise Reform. This program aims to (i) reduce the burden that public enterprises have placed on the Government budget and administrative capacity and (ii) to develop a streamlined and efficient PE sector that will contribute to the growth of Rwanda's economy. Specifically, the project aims at helping the Government to:

a. redefine the role of the Government in the PE sector and formulate principles for future interventions in new enterprises;

b. improve the institutional and legal framework for public enterprises with a view to (i) increasing the autonomy and accountability of PEs; (ii) better defining the role and responsibilities of the different bodies involved in PE decision-making (technical tutelle ministries, Ministry of Finance, Ministry at the Presidency, PEs' Boards of Directors and PEs' management); and (iii) ensuring a better supervision of PEs by the Government;

c. increase the efficiency of the sector through (i) rehabilitation of public enterprises that could be made economically viable; (ii) divestiture of those which can be privatized; and (iii) liquidation of nonviable ones;

d. develop national capacity to design, implement and monitor PE reforms.

C. Rationale for IDA Involvement

2.04. Improvements in the efficiency of resource use by the PE sector is a key element for financial equilibrium and growth in Rwanda. The proposed operation is an integral part of Government's approach of addressing sectoral adjustment issues, while seeking to reach consensus on structural macroeconomic adjustment. IDA support has already played an important role in this process during the project preparation stage by financing consultants attached to the working groups, reviewing and commenting on drafts of the working groups' reports and the dialogue leading to the preparation of the Policy Statement on Public Enterprise Reform. The proposed project will finance additional consultants and provide a mechanism for continued dialogue between the Government and IDA on these issues. By adopting a comprehensive approach to improving the institutional and legal framework affecting all public enterprises, this project will strengthen measures being taken by other IDA projects to improve the operations of key public enterprises. For example, while this project will

address Electrogaz' legal and institutional problems, a separate future energy project will deal with improving its operational efficiency. Similarly, this project will improve the institutional environment for the Imprimerie Scolaire by assisting its transformation from a régie into an établissement public while the Education III project is funding long-term technical assistance and supplies. Other complementary projects are the forthcoming Transport Sector Project which requires the signature of a performance contract with ONATRACOM as part of the project's action plan and the Telecommunications Project which aims to improve the operations of the Post and Telecommunications institution. Care has been taken so that this project complements such activities and does not overlap with them. Finally, the institutional arrangements of the proposed environmental agency (part of the current functions of ORTPN) will be developed within the larger framework of the Environmental Action Plan (EAP) which is currently being prepared by the Ministry of Plan.

D. Description of the Project

(1) Reduction of the State's Role in the Productive Sectors

2.05. The Rwandese working groups on public enterprise reform program have recommended that six of the ten enterprises that were studied by the groups should be privatized in full or in part, namely: ORTPN (hotels), Bureau National d'Etudes des Projets (BUNEP) (consulting firm), Riziculture (rice production), Forge Gouvernementale (blacksmith), OVAPAM (agricultural marketing) and Papeteries du Rwanda (ceiling tiles and paper products). In addition to the enterprises already mentioned, the Government has initiated talks with private partners for the divestiture of OPYRWA (pyrethrum plant) and has opted for the transformation of the telecommunications directorate of the Ministry of Transport and Communications into a joint-venture company with a private telecommunications company.

2.06. The proposed project will strengthen the capacity of the Government to implement the privatization program by funding technical assistance and training. While the Ministry of Finance will take the lead role in implementing the privatization program (para. 2.26), it will also establish ad hoc working groups for each enterprise to be privatized. The enterprise working groups would include staff from the Directorate in charge of public enterprise reform (para. 2.21), from the concerned enterprise and from its oversight ministry, and would prepare and supervise all steps of the concerned enterprise's privatization, with the assistance of qualified advisors. In its schedule of key actions, the Government has proposed that a privatization strategy will be adopted by March 1991.

2.07. To develop and carry out this program, the Government will need the assistance of experienced investment bankers, lawyers, economists and financial analysts, whose services will be financed under the Project. These experts will assist the Ministry of Finance staff and the privatization working groups to prepare, supervise and coordinate the whole program at the technical level. They would assist the Government to inter alia: (i) recommend priority sectors or enterprises for privatization; (ii) adopt procedures and guidelines to be followed by the enterprise working group; (iii) explore ways to deal with public enterprises' debts and other claims on such enterprises prior to their privatization; (iv) suggest ways to redeploy redundant staff; (v) study and

assess the various mechanisms that may be available for financing privatizations (hire-purchase, employee and management leveraged buy-outs, bank loans with shares as collateral); (vi) assess the applicability of various privatization techniques in regard of Rwandese realities; (vii) develop criteria for the selection of investors and the evaluation of competing bids; (viii) suggest legislative or regulatory changes that might be required for the success of the privatization program; and (ix) evaluate the need to grant tax holidays or investment code benefits to attract investors to public enterprises.

(2) Improvement of the Legal and Institutional Framework

2.08. The Government's reform program is based on a new classification of public enterprises and increased autonomy for commercial and industrial enterprises. A major objective of the long- and short-term technical assistance provided by the Project is to help the Government implement changes in the legal and institutional framework. Specifically, the full-time Rwandese lawyer attached to the Ministry of Finance as well as Rwandese and expatriate short-term legal consultants (para. 2.28) will help the Government to revise its public enterprise law and accompanying statutes and adapt company by-laws to the new legal framework. Training courses will be offered to public enterprises' management and relevant ministry staff to explain these new laws and systems.

2.09. During the early stages of project implementation, the Government will establish (i) the broad outline and basic principles of a new public enterprise law and (ii) a provisional legal classification of public enterprises. In the implementation schedule referred to in para. 2.08, the Government has committed itself to approval of this legislation by the Council of Government by January 1991 and to its presentation to the National Assembly in March 1991. The principles on which the reclassification of public enterprises will be based may be described as follows:

a. administrative, cultural, educational or social entities will be organized as établissements publics or EP;

b. strategic enterprises providing essential industrial or commercial services will be organized as state corporations (Société Nationale or SN) and, where appropriate, as mixed enterprises;

c. non-strategic enterprises will be privatized (fully or partly) if they are viable, or liquidated if they are not.

2.10. The établissement public category would be maintained but with some significant changes. First, it would not apply to businesses (industrial or commercial entities), but only to social, cultural, educational or administrative entities. Second, the EPs would be granted much more autonomy than at present, though significantly less than will be the case for SNs. These entities would be governed by public law, as they are now.

2.11. The general manager would be nominated by the board of directors. He would have the authority to hire and fire the agency's personnel, subject to board approval in the case of senior managers. Candidates for all of these positions would be selected on the basis of their technical qualifications and

past management experience. The general manager and board would have broader management powers than at present. The position of Government Commissioner would be abolished to reduce the number of bodies controlling public enterprises and to strengthen the role of the remaining management and control bodies. This increased autonomy would go together with increased accountability through the negotiations of multi-year performance contracts which commit management to specific targets.

2.12. SNs would be 100 percent public enterprises with the Government either as the sole shareholder or as the majority shareholder with other public entities as minority shareholders. In its Policy Statement, the Government states that SNs would be managed like private firms. However, it is still undecided whether these public enterprises should be governed by the same commercial and labor codes used for private firms. During negotiations it was agreed that SNs, in any case, would adopt key features that have been proposed to improve their efficiency.

2.13. The SN status would be given to existing public enterprises (sensu lato) in the industrial or commercial sectors, which are currently classified as établissements publics or régies and are thus currently subject to public law. The transfer of each enterprise from one of these categories to SN status will be a time-consuming process, under which many different issues will need to be carefully examined. These include resolving the status of civil servants currently employed by such enterprises and disposing of claims held against the enterprises.

2.14. It has been proposed that the SN's board would have the broadest powers to manage the enterprise, and inter alia: i. nominate the general manager; ii. approve the company's development plan and performance contract; iii. adopt the operating and investment budgets; iv. adopt the company's organization chart and personnel regulations; v. decide on new investments; vi. approve contracts above a given ceiling; vii. approve the financial statements for the preceding fiscal year; and, viii. authorize borrowings and guarantees. The SN's general manager would have authority for the day-to-day management of the company, including the power: ix. to hire and fire all staff; x. enter into contracts up to a given ceiling; and, xi. represent the SN in all official transactions.

2.15. A number of reforms would affect all categories of state-owned enterprises -- établissement publics, state corporations or mixed enterprises. The criteria for the appointment of board members would change. In EPs and SNs, part of the Board seats would be reserved for representatives of the private sector; in mixed enterprises, private versus public representation on the Board would be determined by their relative shareholdings and company by-laws. Government representatives would be selected for their competence rather than ex-officio. Since lack of incentives has been identified as one of the main reasons for poor public enterprise performance in Rwanda, incentives-based compensation would be introduced. The Government intends to develop a new compensation system for public enterprises whereby a portion of board member and staff compensation would be based on productivity gains. The project will finance short-term consultants who are experts in compensation matters to design these new schemes. And, all SNs and EPs would prepare periodic development plans, which would form the basis of a negotiated performance contract with the Government. Development plans (or corporate plans) would set out the strategies

which the company intends to pursue over the short, medium and long term in terms of diversification, investments, employment and productivity. Annual budgets and investment programs would translate this strategy into operational expenditures. The performance contract would include the different Government commitments which are necessary to achieve the objectives set forth in the development plan, e.g. borrowing authority and/or guarantee, approval of investments, price or tariff setting and treatment of Government arrears.

2.16. The company's management would commit itself to specific targets and achievements within an agreed timeframe. These would include output and productivity targets, financial ratios and, where applicable, special programs requested by the Government and to be financed by the national budget. Performance contracts would be introduced over time, starting with those enterprises (whether établissements publics, SN or mixed enterprises) that put the heaviest burden on Government finances. Further financial support to such enterprises would be subject to the prior negotiation and signing of a performance contract.

(3) Enterprise Restructuring

2.17. The Government has divided public enterprises into two groups. The first group of 16 enterprises, shown in Table 1, includes 12 enterprises which constitute the heaviest drain on Government's budget and 4 public enterprises which the Government decided to privatize in June 1988. The second group, shown in Table 2, consists of an additional 23 enterprises. All 16 enterprises selected for the first round of restructuring have major management, financial and technical problems. In 1987, the combined losses of ten of these enterprises amounted to US$5.6 million; Electrogaz showed a profit only because it received some extraordinary income from the Government, while Caisse Sociale is accumulating funds for future severance payments. In addition, net transfers from the Government to these twelve enterprises was about US$7 million in 1987. The selected enterprises also account for about 15 percent of the PE sector's total value added and as much as 30-40 percent of the value added of public enterprises when mixed enterprises are excluded, All together, the 12 enterprises employ about 2,300 permanent workers, or 15 percent of total employment in the PE sector.

2.18. During preparation of the proposed project, diagnostic studies were prepared by one of the three Rwandese working groups on public enterprise reform, to provide the basis for decision on 11 of the enterprises. A diagnostic study of the Sucrerie, funded by the Caisse Centrale de Coopération Economique, will provide the basis for a decision to be taken in mid-1990. Details on the enterprises selected for the first round of the restructuring exercise are in Annex II.

2.19. During appraisal, the mission agreed with the Rwandese authorities that a second series of diagnostic studies would be undertaken on several other public enterprises in difficulty with the intention of rehabilitating or divesting them from the Government's portfolio. During negotiations, it was agreed that the project would assist the Government to perform diagnostic studies and detailed action plans for rehabilitation or divestiture of the 23 public enterprises shown in Table 2. A timetable for the implementation of diagnostic studies, action plans and the signature of performance contracts for the first

and second groups of public enterprises shown in Table 2 was presented by the Government at negotiations (Annex V).

2.20. The project will provide long- and short-term technical assistance to assist the rehabilitation, privatization and liquidation of selected public enterprises. This will include economists, financial analysts and engineers to (i) prepare the rehabilitation plans for ORTPN and Régie des Aeroports; (ii) assist the organization of the rice milling enterprise and blacksmith operation into cooperatives; (iii) conduct diagnostic studies and action plans for the second set of enterprises; and (iv) formulate longer-range development plans for enterprises to be rehabilitated. Legal advisors will be needed to translate these plans into performance contracts while privatization experts could be used to find potential investors and help the Government negotiate deals with foreign partners. Liquidators will be required to dispose of the assets of OVAPAM and other public enterprises that the Government decides to liquidate. Management specialists will assist enterprises in corporate planning and organization while accounting specialists will help public enterprises not receiving CCO assistance to establish sound accounting systems and internal controls. The project will fund the organization of one to two week training sessions for board of directors' members and PE managers in such basic areas as corporate planning and objective setting, financial management, audit and control, management information, personnel administration, economic analysis, accounting and marketing.

(4) Project Implementation and Institutional Strengthening

Institutional Coordination and Implementation of the Project

2.21. During appraisal the institutional arrangements for reform implementation were discussed and agreed with the Rwandese authorities. They are as follows:

(a) the decision-making body on PE reform will be the Interministerial Coordination Committee on Economic Policy (Comité Interministériel de Coordination au niveau ministériel en Matière de Politique Economique). It is composed of the Ministers involved in economic policy: Finance, Plan, Agriculture, Transport, Mines, Industry and Artisanat, Commerce, BNR and the Minister at the Presidency, and meets regularly to review proposals of an economic policy nature before consideration by the Cabinet;

(b) the technical arm of the Interministerial Coordination Committee is the Technical CIC on Economic Policy (Comité Interministériel de Coordination au niveau technique en Matière de Politique Economique). This body will invite to meetings those responsible for PE reform measures (the Directorate in charge of PE reform in the Ministry of Finance and the CCO) as well as representatives of the appropriate tutelle Ministry; and,

TABLE 1: Characteristics of Public Enterprises Selected for the First Round of Restructuring

Enterprise	Legal Status	Activity	Major Problems	Recommendations
BUNEP	EP	Feasibility Studies; Project Analysis	Management/Financial	Reexamine to determine whether to privatize
C.S.R.	EP	Social Security Fund	Quality of portfolio. Too much financing and dependence on public sector. Inefficient.	Improve operational procedures and set quantitative objectives and monitor performance. Carry out actuarial studies to estimate future obligations and plan accordingly. Diversify investments.
ELECTRO-GAZ a/	EP	Production and distribution of electricity, water and gas	Poor management. Lack of autonomy. Difficult financial situation. Low electricity tariffs.	Classify ELECTROGAZ as Société Nationale. Prepare new statutes.
Forge gouvernementale	Completed Project	Metal Work	Legal/Management/ Financial	Sell the entity's assets to the blacksmiths. Assist blacksmiths to form a cooperative.
Maïserie de Mukarimira b/	Completed Project	Maize Milling	Poor management. Too much investment to be profitable. Poor quality of products due to obsolete equipment. No market for enterprise's production.	Give management of Maïserie 1-2 years to redress situation (without subsidy or new investment). After the deadline, sell off equipment to private investors.
ORTPN	EP	Tourism (Management of National Parks and Tourist hotels)	Management. Too much investment in hotels. Overly optimistic assumptions regarding growth of tourism.	Sell off hotels to private investors. Constitute new EP only responsible for protection of environment and national parks.
OVAPAM	EP	Management of Project Agro-Pastoral du Mutara; Marketing of agricultural products	Very limited responsibilities given completion of project.	Liquidate OVAPAM. Sell the small production activities of OVAPAM (a farm and a dairy) to private investors.
OVIBAR b/	EP	Banana wine	Poor management. High cost of products. No market for products.	Give management of OVIBAR 1-2 years to redress situation. Eliminate subsidies. After deadline, liquidate company.

TABLE 1 (cont'd)

Enterprise	Legal Status	Activity	Major Problems	Recommendations
Papeteries du Rwanda	EP	Cardboard and insulating ceiling panels	Poor management. Obsolete technology in insulating ceiling panel unit. High production cost in cardboard unit.	Stop production of insulating ceiling panels. Study possibility of improving production techniques. Sell cardboard unit.
Régie des Aéroports	Régie	Airport Services	Management. Heavy debt. Low profit due to high costs and high fees paid to Air Rwanda and Magerwa for services rendered.	Classify Régie des Aéroports as Société Nationale. Renegotiate tariffs charged to airline companies on basis of tariffs charged by other airports in region. Renegotiate fees paid to Air Rwanda and Magerwa on basis of fees paid by other airports for similar services. Determine minimum services Régie des Aéroports should provide.
Rizeries	Completed Project	Rice Milling	Legal status. Extension service and agricultural development costs should not be supported by rizeries. Producer prices for paddy and rice too high.	Organize producers into cooperatives and transfer to them management of the rizeries. Revise producer prices. Government to support cost of initial assistance to paddy producers as well as agricultural development cost.
Sucrerie	Régie	Sugar Processing	c/ Requires trade protection	To be determined
Imprimerie Nationale	EP	Printing		Privatization-mechanism undetermined.
SONATUBES	Mixed Enterprise (21% Govt.)	PVC Pipe production and trade		Privatize through sale of all Government shares.
RWANTEXCO	Mixed Enterprise (49% Govt.)	Blanket production.		Privatize through sale of all Government shares.
STIR	Mixed Enterprise (86% Govt. + EP).	International trucking.		Privatize through sale of all Government shares.

a/ This project will only address the institutional problems of ELECTROGAZ. The restructuring of ELECTROGAZ itself will be addressed under a separate Energy project.

b/ Recommendations by Appraisal mission which were discussed and agreed with some members of the working groups. There is not yet a consensus between Rwanda and the Bank on these two enterprises.

c/ The Caisse Centrale is currently funding a diagnostic study of this enterprise's problems.

EP = Etablissement Public.

TABLE 2: Second Group of Rwandese PEs to be Examined under the Project

Enterprise	Legal Status	Activity	Major Problems
AIR RWANDA	Mixed (91% Gov't + EP owned)	Airline	Poor management, high debts, lack of marketing strategy
Apicole	Project	Honey Production	Poor management, financial losses
BRD	Mixed (55% Gov't + EP)	Development Bank	Increasing arrears, management problems
Caisse d'Epargne	EP	Savings Bank	Bankrupt a/
Caisse Hypothécaire	EP	Mortgage Bank	Low level of activity, poor design
Cimenterie	Project	Cement Production	Inappropriate technology, high production costs
Imprimerie Scolaire	Régie	School Supplies	Legal Status
Laiteries	Project	Milk Production	Production at 30% of capacity technical and marketing problems
MAGERWA	Mixed (6% Gov't + 31% Mixed)	Import/Export Storage	Profitability linked to Régie des Aéroports tariffs, high earmarked taxes for company
OCIR-Café	EP	Coffee Marketing	High producer prices, overvalued exchange rate, declining quality
OCIR-Thé	EP	Tea Marketing	High operating costs for some units, overvalued exchange rate
ONATRACOM	EP	Domestic bus company	Financial losses, low tariffs paid by civil servants, inefficient use of the fleet
OPROVIA	EP	Marketing of Agricultural Products	Poor management/financial losses, lack of clear objectives
OPYRWA	EP	Pyrethrum Extract (Insecticide)	Poor Management. High cost of raw materials. Depressed export market. Privatize (both extraction plant and refinery, if possible).
PETRORWANDA	Mixed (72 % EP)	Petroleum Distribution	Poor management
REDEMI	Régie	Mining of cassiterite and colombite	Geographic dispersion, several low productivity mines
RWAKINA	Mixed	Quinine Processing	Closed at present; Government plans revival.

TABLE 2 (cont'd)

Enterprise	Legal Status	Activity	Major Problems
RWANDEX	Mixed (51% EP)	Coffee Processing	
SODEPARAL	Mixed (30% Gov't)	Leather goods production	Management, input supply
SOMITRAP	Mixed (51% EP)	Public Works Construction	Lack of market
SONAFRUITS	Mixed (92% Gov't + EP)	Fruit Juice Production	Technological and marketing problems
SONARWA	Mixed (70% Gov't +EP)	Insurance	High losses
SOPRORIZ	Mixed (50% Gov't + EP)	Rice Milling	Poor management
SORWAL	Mixed (30% Gov't)	Match production	High operating costs
TRAFIPRO	Mixed (74% Gov't)	Retail Trade	Poor management, high marketing costs

a/ Project could assist in liquidation.

(c) the preparation and supervision of PE reform programs and proposals (enterprise restructuring, privatization, drafting of new Loi-cadres, preparation of statutes for PEs, etc.) would be an entity at the Directorate level within the Ministry of Finance. This Directorate will be concerned exclusively with public enterprise reform matters.

2.22. The public enterprise reform process would be as follows: documents prepared by the new Directorate of Public Enterprises (Direction des Entreprises Publiques, DEP) would be submitted to the Technical CIC which would have three weeks to review them before forwarding them to the Ministerial CIC for examination. Decisions then would need to be taken by the Cabinet and/or National Assembly, per standard operating procedures. At negotiations, the Government reconfirmed that it agreed with these institutional arrangements.

2.23. The training component will be managed by the Directorate of Public Enterprises but be subcontracted to local institutions and rely almost exclusively on local talent. The program of seminars would be prepared each semester by DEP staff and consultants in collaboration with the University of Rwanda, CCO, or other Rwandese training institutions for submission and approval by IDA. The University of Rwanda's Management Department already conducts short 1-2 week training courses for government employees on accounting, stock management, working capital management, computers and economic analysis. In addition to Rwandese professors, the Management Department also employs several Canadian, German, Belgian and Cameroonian professors. It would have to adapt its program so that it is appropriate to public enterprise staff needs. The CCO has been training public enterprise staff in accounting methods for the past few years. However, this organization lacks the funds needed to cover logistical expenses associated

with such courses. The CCO would be eligible for such assistance under the project.

Institutional Strengthening of the Ministry of Finance

2.24. The Ministry of Finance was reorganized in March 1989 so that two General Directorates currently have overlapping responsibilities for implementing public enterprise reform measures. The Directorate of Management of Government Holdings and Decentralized Services (Inspection de la Gestion des Participations Publiques et des Services Décentralisés) within the General Inspection of Finance (IGF) General Directorate is responsible for (i) supervising the management of all public enterprises (including régies and mixed enterprises); (ii) supervising the implementation of any special public enterprise programs; (iii) designing regulations to improve the performance of public enterprises; (iv) regulating their external transactions; and (v) analyzing the financial reports of public enterprises provided by the ministry-appointed controllers. Only one person in this division has the necessary skills to supervise the proposed public enterprise reform process. This Directorate also has an expatriate technical advisor financed by the IDA technical assistance project (Cr. 1565-RW) which is aimed at strengthening the Ministry of Finance.

2.25. The Directorate of State Investments (Placements de l'Etat) within the Budget General Directorate is also in charge of managing the Government's investments in public enterprises, examining requests for Government investments, subsidies and guarantees, monitoring the performance of public enterprises and providing advice on the creation and transformation of public enterprises into other forms. While this Directorate is formally in charge of implementing the Government's privatization program, it lacks staff experienced in such matters. It has only six staff members, of which three have university degrees but little relevant work experience.

2.26. The new Directorate of Public Enterprises will eliminate this duplication in functions by combining the two Directorates so that all matters pertaining to public enterprise reform are centralized. The establishment of a new Directorate devoted exclusively to public enterprise issues helps to ensure that sufficient human resources will be devoted to this time-consuming and complex reform process and provides tangible proof that it is a high Government priority. It will be in charge of coordinating and implementing specific project components such as: (i) changes in the legal framework; (ii) restructuring of selected public enterprises; (iii) privatization, (iv) training of public enterprise and other appropriate staff; and (v) monitoring/supervision of all public enterprises. The establishment of a Directorate within MINIFIN in charge of public enterprise restructuring, including the appointment of a Director and appropriate staff, is a condition of effectiveness. In addition, at negotiations it was agreed that the Director General of IGF will spend half of her time on public enterprise issues and serve as the Project Director.

2.27. To enable the Directorate of Public Enterprises to implement the PE reform program, it is proposed to finance under this project the recruitment of a team of six long-term consultants who will work under the authority of the Director of DEP. The head of the consulting team would also advise the Director General of IGF directly on PE matters. These long-term consultants would work as a team with Rwandese civil servants recruited by the Ministry of Finance to deal

exclusively with public enterprise issues. The DEP will be staffed with a Director, two division chiefs and about six technicians. In addition to assisting the Ministry of Finance implement the policy changes and enterprise restructuring program outlined earlier, they will work with their Rwandese Ministry counterparts to:

(a) supervise the selection, recruitment and work of short-term consultants;

(b) manage the training component for PE, Ministry of Finance and other appropriate Government staff under this project;

(c) establish a management information system to enable the Ministry of Finance to supervise public enterprises; and

(d) administer the project's Special Account and ensure tne smooth disbursement of funds.

2.28. Detailed terms of reference for the six experts were agreed upon at negotiations. The six technical advisors will include a senior financial analyst/economist who will be the leader of the team of consultants, a senior engineer/financial analyst with experience in PE reform and enterprise restructuring, a training expert with a business degree, an economist with experience in public enterprise issues, a lawyer and an accountant to manage project accounts.

2.29. Agreement has been reached to appoint the expatriate advisor now working with IGF under financing from the IDA technical assistance project to the Ministry of Finance (Cr. 1565-RW), as the head of the technical advisors under this project. His financing will be transferred to this project when it becomes effective. It is anticipated that three of the five other experts would be Rwandese nationals as the accountant, the legal expert and the training specialist could be recruited in Rwanda. It would, however, be more difficult to find the two other experts in Rwanda (the senior engineer/financial analyst and the economist) and international recruitment is expected. The prime objectives of these consultants, whether Rwandese or foreign, will be to transfer their skills to their Rwandese civil servant counterparts as well as to work with Ministry staff to implement the reform program. In addition, special training would be provided to Ministry of Finance staff involved in public enterprise reform as well as appropriate individuals from other ministries. Courses on project economic analysis, privatization, lessons learned from public enterprise reform efforts in other countries, and public enterprise performance monitoring systems will also enhance the capacity of Ministry staff in charge of supervising the implementation of the reform program.

2.30. Short-term technical assistance will also be funded under the project to accomplish the tasks outlined in previous sections. A substantial portion of this technical assistance is expected to be provided by Rwandese experts. All financing under this component should be approved by IDA. The Project Director will be responsible for selecting the consultants and for submitting the financing requests to IDA along with a brief description of the task and the qualifications of the experts.

III. THE IDA CREDIT

A. Project Costs, Financing and Use of Project Funds

3.01. The total cost of the project, net of taxes, is estimated at about US$4.9 million, with a foreign exchange component of about US$3.2 million.

3.02. An IDA Credit in an amount of US$4.4 million, covering 90 percent of the total project cost is recommended to finance 100 percent of the foreign exchange cost and 72 percent of the total local cost. A Government contribution equivalent to US$0.5 million will cover the remaining local costs consisting of local salaries, operating costs of the unit and short-term Rwandese consultants. The proposed 90:10 cost sharing formula is consistent with IDA financing policy in Rwanda.

3.03. The project includes US$2 million for three expatriate and three Rwandese expert consultants and support staff to work at the Ministry of Finance full-time over four years (para. 2.28) and US$1.4 million for short-term technical assistance, of which $415,000 will be provided through the PPF. This amount will finance about 10 person/years of Rwandese consultants and six person/years of foreign short-term consultants (para. 2.30). Training courses subcontracted to local agencies for public enterprise staff are expected to cost about $185,000. This assumes that 10 seminars would be given each year to 25 PE managers/staff at a cost of about US $4,600 per seminar. An additional US$90,000 will be used to train IGF and other Ministries' staff involved in public enterprise reform. About US$140,000 is estimated to cover the cost of vehicles, office equipment and computers ($50,000 of which is provided under the PPF), and US$575,000 is needed for operating costs ($35,000 of which is through the PPF).

3.04. A summary of project costs and its expected financing is given in the table below:

TABLE 3: Project Costs and Financing Plan
(US$ thousand equivalent)

	Local	Foreign	Total	%
Project Costs				
Long-Term Consultants	790	1,260	2,050	41
Equipment	-	90	90	2
Operating Costs	300	240	540	11
Short-Term Consulting Services	255	730	985	20
Training	185	90	275	6
Refinancing of Project Preparation Advance	60	440	500	10
Contingencies	170	320	490	10
Total	1,760	3,170	4,930	100
(%)	(36)	(64)	(100)	(-)
Financing				
Proposed IDA Credit			4,440	90
Government			490	10
Total			4,930	100

B. Project Implementation

Project Management

3.05. The Ministry of Finance, through the Directorate of Public Enterprises (para. 2.26), would be the implementing agency for the project.

Procurement and Disbursements

Procurement Elements	Procurement Method		
	ICB	LCB	Other
	(US$ Thousand)		
Vehicles and Office Equipment	-	-	140 a/
Consultant Services and Technical Assistance	-	-	3,925 b/
Operating Cost of the Technical Unit	-	-	375 a/
Total	-	-	4,440

a/ Direct purchase
b/ In accordance with IDA procedures.

Disbursements

Category	Amount	Percentage
	(US$ Thousand)	
Vehicles and Office Equipment	90	100% of the CIF cost of goods directly imported and up to 80% of the cost of imported goods purchased in Rwanda.
Consultant Services and Technical Assistance	3,510	100% (of expenditures)
Operating Costs	340	80% (of expenditures)
Refinancing of PPF	500	amounts due

Estimated Disbursements: (US$ Thousand)	1991	1992	1993	1994	1995
Annual	1,070	1,230	1,075	980	85
Cumulative	1,070	2,300	3,375	4,355	4,440

3.06. Procurement for goods to be financed under the project (mainly cars, microcomputers and other office equipment) would be on the basis of competitive quotations from at least three different suppliers, a procedure acceptable to IDA. Given the modest size of procurement packages, there is little scope for ICB. Selection of technical assistants and consultants would be made in accordance with Bank Group Guidelines.

3.07. The proceeds of the proposed Credit would be disbursed as follows:

(i) Equipment: 100 percent of the cif cost of goods directly imported and up to 80 percent of the cost of previously imported goods purchased in Rwanda.

(ii) Technical Assistance and Consulting Services: 100 percent of total expenditures.

(iii) Operating costs (excluding salaries): 80 percent of total expenditures.

3.08. The project disbursement schedule is shown in Annex III. It is expected that the project would be totally disbursed in 4.5 years, with the last disbursement completed by December 31, 1994.

Special Account

3.09. To expedite disbursement of funds, a Special Account would be set up in a commercial bank in the name of the Central Bank into which IDA would make an initial deposit of US$300,000 equivalent from the proposed Credit, immediately after Credit effectiveness. This amount represents an estimated average disbursement of funds over a four-month period. Replenishment of the Special Account for expenditures under US$20,000 and for all operating costs would be made on the basis of Statements of Expenditures (SOEs). The documentation for withdrawals made under SOEs would be retained by the Directorate of Public Enterprises for ten years and would be reviewed by supervision missions. Replenishment of the Special Account for expenditures in excess of US$20,000 would be made on the basis of fully documented applications. Applications for replenishment of the Special Account would be submitted on a monthly basis. The Special Account would be audited annually by independent auditors and the audit reports would be submitted to IDA within six months of the end of the fiscal year.

Auditing and Reporting

3.10. The Directorate of Public Enterprises will have its accounts, as well as the Special Account and SOEs (para. 3.09) audited annually by independent auditors acceptable to IDA and will furnish to IDA certified copies of its audited accounts together with the corresponding management letter within six months of the end of the fiscal year. The Directorate will also submit to IDA quarterly and annual progress reports on the project and will prepare the required Project Completion Report. IDA will evaluate: (i) divestiture experience; (ii) public enterprise financial results; (iii) public enterprise experience with performance contracts and (iv) the role of supervisory institutions.

IV. BENEFITS AND RISKS

Benefits

4.01. The project will assist Rwanda in achieving a more streamlined, efficient and business-oriented PE sector with a reduced financial and administrative burden on the Government. Another benefit of the project would be

derived form the restructuring of the sector. The closure of uneconomic enterprises, the sale of others to the private sector and the restructuring of those remaining under Government control are designed to maximize the economic benefits of those enterprises.

Risks

4.02. Care has been taken in the project design so that it can improve the economic and financial performance of selected public enterprises even with some additional postponement of structural adjustment. However, if the necessary macroeconomic reforms are postponed indefinitely, there is a risk that many of the project's expected benefits will not materialize. The policy dialogue is continuing and it is expected that the Rwandese Government will take the necessary measures if the economic situation deteriorates further and risks endangering the proposed project.

4.03. At the program level, as the operation involves broad-ranging and complex reforms both at the sector and enterprise levels, there is a risk that vested interests within Government and the affected enterprises will resist measures aimed at changing the current situation as these may imply increasing PE autonomy and replacing some existing PE managers. This risk is mitigated by the Government's commitment to carry out the necessary reforms. A second risk relates to the privatization program which, if not implemented properly with clear and transparent criteria, would only result in creating a rent situation for some private investors. Finally, there is a risk that project implementation may be slowed down by the capacity of the Government administration to carry out the policy reform package and to monitor the execution of enterprise restructuring programs. These two risks are addressed through the establishing of a Directorate of Public Enterprises in the Ministry of Finance which will be in charge of implementing the reforms and the provision of technical assistance and consulting services to help Rwandese institutions carry out the tasks envisaged under the project.

V. AGREEMENTS REACHED AND RECOMMENDATIONS

5.01. Negotiations of this project were subject to the following conditions:

(a) communications by the Government of comments on the final report prepared by the Rwandese working groups on PE reform (para. 2.01); and

(b) presentation by the Government of the draft Policy Statement on the public enterprise sector (para. 1.08).

5.02. During negotiations, the following agreements were reached with the Government:

(a) revision of new public enterprise legislation in accordance with the timetable specified in paragraph A of Annex V (para. 2.09);

(b) formulation of a general strategy of privatization of public enterprises, in accordance with the timetable specified in paragraph B of Annex V (para. 2.06);

(c) formulation of action plans for the Borrower's divestiture of the public enterprises listed in paragraph C of Annex V, in accordance with the timetable specified therein, including the liquidation or privatization of enterprises (para. 2.19);

(d) formulation of contract-plans with specific efficiency targets for the public enterprises referred to in paragraph D of Annex V (para. 2.19);

(e) carrying out diagnostic studies to assess the technical, economic and financial viability of the public enterprises listed in paragraph E of Annex V (para. 2.19);

(f) formulation of contract-plans with specific efficiency targets for the public enterprises referred to in paragraph F of Annex V (para. 2.19)

(g) formulation of strategies of privatization or liquidation for the public enterprises referred to in paragraph G of Annex V (para. 2.19); and

(h) institutional arrangements for the formulation and approval of the reform program (para. 2.22).

5.03. Presentation of this project to the Board would be subject to the following condition:

- signing of the Policy Statement on the public enterprise sector by the Finance Minister (para. 1.08);

5.04. Effectiveness of this project would be subject to the following conditions:

- establishment of a Directorate within the Finance Ministry in charge of public enterprise restructuring, including the appointment of a Director and appropriate staff (para. 2.26).

5.05. With the above agreements and conditions, the project is suitable for an IDA Credit of US$4.4 million equivalent to the Government of Rwanda.

RWANDA PUBLIC ENTERPRISE SECTOR REFORM PROJECT

STATISTICAL TABLES

TABLE 1: LIST OF RWANDESE PEs

NAME	ACTIVITY	SECTOR a/	TYPE b/
100% GOV'T-OWNED:			
INRS	Research Institute	SER	EPA
UNR	University	SER	EPA
ORINFOR	Office of Information	SER	EPA
ONAPO	Population Office	SER	EPA
ISAR	Agricultural College	SER	EPA
OCIR-CAFE	Coffee Marketing	AG	EPIC
OVAPAM	Regional Agricultural Project	AG	EPIC
OPROVIA	Marketing of Agricultural Products	AG	EPIC
CER	Caisse d'Epargne	FIN	EPIC
BNR	Central Bank	FIN	EPIC
CSR	Caisse Sociale	FIN	EPIC
CID	Intercommunal Development Credit	FIN	EPIC
INR	Printing	IND	EPIC
OVIBAR	Banana Processing, Wine etc..	IND	EPIC
OCIR-THE	Tea Marketing	IND	EPIC
PAPETERIE	Paper Products	IND	EPIC
OPYRWA	Pyrethrum Processing	IND	EPIC
ELECTROGAZ	Public Utility	SER	EPIC
BUNEP	Project Analysis	SER	EPIC
ONATRACOM	Public Transport	SER	EPIC
ORTPN	Tourism, Hotels and Parks	SER	EPIC
SUCRERIE	Sugar	IND	R
IMPRIMERIE SCOLAIRE	School Supplies	IND	R
MINES	Mining	IND	R
MUSEE	Museum	SER	R
AEROPORTS	Airports	SER	R
RIZERIE	Rice Milling	AG	PR
APICOLE	Honey	AG	PR
LAITERIE	Milk and Products, Soja etc..	AG	PR
MAISERIE	Maize Milling	AG	PR
FORGE GOUV.	Metalwork	IND	PR
CIMENTERIE	Ciment	IND	PR
Subtotal		32	

TABLE 1: LIST OF RWANDESE PEs (cont'd)

NAME	ACTIVITY	SECTOR	OWNERSHIP STRUCTURE (percentage) Gov't	PE	Mixed Enterprise	Private
MIXED ENTERPRISES						
TRAFIPRO	Retail Cooperative	SER	74.4	0.0	0.0	25.6
AIR-RWANDA	Airline	SER	88.2	3.8	8.0	0.1
STIR	International Transport	SER	80.4	5.8	5.7	8.2
SONAFRUITS	Fruit Marketing Cooperative	SER	90.0	2.4	0.0	8.1
PETRORWANDA	Retail of Petroleum Products	SER	54.8	17.4	26.1	1.7
BCR	Banque Commerciale du Rwanda	FIN	44.5	0.0	5.5	50.1
SOMITRAP	Public Works construction	SER	51.0	0.0	0.0	49.0
SOPRORIZ	Rice Milling	IND	50.0	0.0	0.0	50.0
BRD	Development Bank	FIN	47.0	8.1	11.7	32.4
SOPROTEL	Hotel	SER	40.0	0.0	0.0	60.0
BOUCHERIE/CHARCUT.	Butcher	SER	33.3	0.0	0.0	66.7
RWANTEXCO	Textile	IND	49.7	0.0	0.0	50.3
SODEPARAL	Leather Goods	IND	30.0	0.0	0.0	70.0
BRALIRWA	Beer	IND	30.0	0.0	0.0	70.0
SORWAL	Matches	IND	29.5	0.0	45.6	24.9
TABARWANDA	Tobacco	IND	23.5	7.1	21.4	47.9
SONATUBES	Plastic Pipes	IND	23.1	0.0	8.9	69.5
BK	Banque de Kigali	FIN	23.1	26.9	0.0	50.0
CHR	Caisse Hypotecaire	FIN	15.8	46.3	37.9	0.0
SONARWA	Insurance	SER	10.0	60.0	20.0	10.0
ETIRV	Coffee Processing	IND	0.0	9.0	0.0	91.0
MAGERWA	Stocks	SER	6.3	0.0	81.3	12.5
BACAR	Banque Continentale	FIN	4.0	0.0	2.0	94.0
CPHT	Hotel	SER	2.4	0.0	33.7	63.9
SOPAB	Animal Feed	IND	2.2	26.4	34.9	43.1
RWANDEX	Coffee Processing	IND	0.0	51.0	0.0	49.0
RTS	Travel Services	SER	0.0	28.3	21.7	50.0
SORWATHE	Tea	IND	0.0	23.5	25.2	51.3
AMIRWANDA	Transport	SER	0.0	16.7	23.3	60.0
RWANDEX CHILLINGTON	Coffee Processing	IND	0.0	0.1	49.9	50.0
Subtotal		30				
TOTAL		62				

Notes: _a/ The sectors are as follows: AG = Agriculture; IND = Industry; FIN = Financial; and SER = Services.

_b/ The PEs are classified as follows: EPA for enterprises of an administrative nature, EPIC for those having an industrial or commercial activity, R for regies and PR denotes completed projects which will soon be reclassified.
Mixed enterprises are indicated by their share of ownership by the Government directly, public enterprises, other mixed enterprises and private enterprises and individuals.

Table 2

TRANSFERS BETWEEN PUBLIC ENTERPRISES AND THE GOVERNMENT

(RwF Million)

	1983	1984	1985	1986	1987	TOTAL
Transfers from Govt. to Public Enterprises of a Commercial/Industrial Nature (Societe Nationale, SN)						
Operating Subsidy	109	96	79	106	120	510
Equipment Subsidy	2315	455	685	390	571	4416
Advances	472	115	38	272	210	1107
Reim. Interest	105	169	166	174	266	880
Reim. Principal	84	156	253	389	323	1205
TOTAL (a)	3085	991	1221	1331	1490	8118
Transfers from SN to the Government						
Taxes	12	2	11	46	191	262
Dividends	31	0	0	94	41	166
Other	4	39	32	1	4	80
TOTAL (b)	47	41	43	141	236	508
NET SN TRANSFERS (a-b)	3038	950	1178	1190	1254	7610
NET EPA TRANSFERS	733	754	789	748	815	3839
NET TOTAL TRANSFERS	3771	1704	1967	1938	2069	11449
GOVERNMENT REVENUES	15500	17930	21180	23540	23130	101280
NET SN TRANSFERS/ GOVT. REVENUES			5.6%	5.1%	5.4%	
NET TOTAL TRANSFERS/ GOVERNMENT REVENUES			9.3%	8.2%	8.9%	

Table 8

NET PROFITS/LOSSES OF SELECTED RWANDAN PEs
(RwF Million)

	1983	1984	1985	1986	1987	TOTAL
ENTERPRISES OF A COMMERCIAL/INDUSTRIAL NATURE (SN):						
Bunep	7	(0)	(13)	(17)	(18)	(41)
Electrogaz	285	148	117	(21)	71	600
Ocir-The	(207)	323	(43)	(96)	(415)	(437)
Ocir-Cafe			72	189	82	343
Onatracom	(105)	(64)	(36)	(20)	(17)	(242)
Oprovia	3	0	7	22	17	49
Opyrwa	(178)	(67)	(116)	(213)	(146)	(722)
ORTPN	(212)	(172)	(280)	(182)	(97)	(942)
Ovapem	(121)	(99)	(103)	(71)	(74)	(468)
Ovibar	(15)	(5)	7	(34)	(2)	(48)
Papeterie	(4)	0	18	14	5	34
R.A.R	0	0	0	(144)	(207)	(350)
Sucrerie						0
Forge Gouv	1	0	3	3	4	11
Maiserie	0	0	0	0	(37)	(37)
Riziculture			(24)	(7)	23	(7)
INR	(4)	4	(25)	(18)	(18)	(57)
CER			(199)	(119)	(23)	(341)
SUB-TOTAL	(550)	68	(615)	(710)	(850)	(2,658)
C.S.R.	248	322	413	515	650	2,148
SUB-TOTAL SN	(302)	390	(202)	(195)	(199)	(508)
ENTITIES OF AN ADMINISTRATIVE NATURE (EPA):						
UNR			(11)	(54)	(50)	(115)
ISAR				(213)	(204)	(417)
ONAPO			(20)	(10)	(11)	(41)
ORINFOR			(108)	(39)	6	(141)
SUB-TOTAL EPA			(139)	(316)	(259)	(714)
MIXED ENTERPRISES (SEM):						
AIR RWANDA	7	(319)	15	(43)	29	(311)
AMIRWANDA				0	(12)	(12)
SONATUBES				2	(66)	(64)
SOPAB				(9)	(3)	(12)
SORWATHE				(53)	(85)	(138)
STIR				(222)	2	(220)
TABARWANDA				98	139	237
TRAFIPRO				38	(33)	5
CHR				(21)	(13)	(34)
CBMT				12	(9)	3
MAGERWA				83	60	143
PETRORWANDA				54	12	66
RWANDEX				241	98	339
RWANTEXCO				7	4	11
SODEPARAL				4	5	9
SONITRAP				(4)	(11)	(15)
SONARWA				0	7	7
SUB-TOTAL SEM	7	(319)	15	187	124	14
TOTAL	(295)	71	(326)	(324)	(334)	(1,208)
TOTAL w/out CSR	(543)	(251)	(739)	(839)	(985)	(3,356)

Note: The 1986 rice cultivation figures do not include SOPRORIZ.

TABLE 4

ARREARS OF 17 RWANDESE PUBLIC ENTERPRISES OWED TO THIRD PARTIES
(RwF Million)

	Other PEs	Other Govt. Entities	Banks	Mixed Enterprises	Government	Private	Total
1. BUNEP	0.3			3.5	8.3	12.4	24.5
2. CSR					5.1	16.3	21.4
3. ELECTROGAZ	3.1	0.1		21.6	723.0	176.9	926.8
4. OCIR-THE					1114.0	n.a.	1114.0
5. OCIR-CAFE	2.6	0.0		2.0	2.4	42.7	49.7
6. ONATRACOM	3.2	0.4		33.0	327.5	32.4	396.5
7. OPROVIA	0.4	7.2		7.0	208.5	84.0	305.1
8. OPYRWA	0.3			3.4	519.7	17.8	541.2
9. ORTPN	2.6				47.2	35.8	85.6
10. OVAPAM	0.2	1.1		4.5	2.5	5.3	13.6
11. OVIBAR	0.1	0.1		0.6	2.8	2.1	5.7
12. PAPRWA	0.0			0.2	41.6	2.5	44.3
13. R.A.R.				0.4	25.6	6.2	32.2
14. SUCRERIE	0.0			2.5	37.5	4.4	44.4
15. FORGE GOUV.				0.0	0.0	0.0	0.0
16. MAISERIE	0.1			0.4	0.1	3.2	3.8
17. RIZICULT.	n.a.	n.a.	n.a.	n.a.	11.0	n.a.	11.0
Total	12.9	8.9	0.0	79.2	3078.8	442.0	3619.9

CREDITS OWED TO 17 PUBLIC ENTERPRISES

	Other PEs	Other Govt. Entities	Banks	Mixed Enterprises	Government	Private	Total
1. BUNEP	0.1	1.1			2.4	5.1	8.8
2. CSR	105.6	318.0	18.3	208.4	2236.0	531.1	3414.4
3. ELECTROGAZ	6.4	66.8			792.0	479.4 (1)	1344.6
4. OCIR-THE	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
5. OCIR-CAFE	0.1	0.4		0.0	0.0	90.1	90.6
6. ONATRACOM	3.3	1.0	0.4		29.5	58.5 (1)	92.7
7. OPROVIA	4.5	0.3		2.2	80.3	115.6	203.4
8. OPYRWA	0.1	0.2			3.2	25.0	28.6
9. ORTPN	5.6		0.0		14.0	98.3	117.9
10. OVAPAM	0.0	3.6	0.4		2.6	9.9	16.5
11. OVIBAR				0.1	1.7	6.5	8.3
12. PAPRWA	1.2			2.1	3.0	10.9	17.2
13. R.A.R.			0.1	13.4	0.0	19.9	33.5
14. SUCRERIE	1.7	0.3		19.9	14.6	45.[illegible]	81.5
15. FORGE GOUV.	0.0	0.0		0.0	0.2	0.8	1.2
16. MAISERIE				0.9		0.0	0.9
17. RIZICULT.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	128.6	389.4	19.3	247.1	3179.5	1496.1	5460.0

CREDITS - ARREARS

	Other PEs	Other Govt. Entities	Banks	Mixed Enterprises	Government	Private	Total
1. BUNEP	(0.2)	1.1	0.0	(3.5)	(8.9)	(7.3)	(18.7)
2. CSR	105.6	318.0	18.3	208.4	2,230.9	514.8	3,393.0
3. ELECTROGAZ	3.2	66.7	0.0	(21.6)	67.0	302.5	417.8
4. OCIR-THE	0.0	0.0	0.0	0.0	(1,114.0)	0.0	(1,114.0)
5. OCIR-CAFE	(2.5)	0.4	0.0	(2.0)	(2.4)	47.4	40.9
6. ONATRACOM	0.2	0.6	0.4	(33.0)	(298.0)	26.1	(303.9)
7. OPROVIA	4.1	(6.3)	0.0	(4.8)	(128.2)	31.5	(101.7)
8. OPYRWA	(0.3)	0.2	0.0	(3.4)	(516.4)	7.2	(512.7)
9. ORTPN	3.0	0.0	0.0	0.0	(33.2)	62.5	32.3
10. OVAPAM	(0.2)	2.5	0.4	(4.5)	0.0	4.6	2.9
11. OVIBAR	(0.1)	(0.1)	0.0	(0.6)	(1.1)	4.5	2.6
12. PAPRWA	1.2	0.0	0.0	1.9	(38.6)	8.3	(27.1)
13. R.A.R.	0.0	0.0	0.1	13.1	(25.5)	13.7	1.4
14. SUCRERIE	1.7	0.3	0.0	17.3	(22.9)	40.7	37.1
15. FORGE GOUV.	0.0	0.0	0.0	0.0	0.2	0.8	1.2
16. MAISERIE	(0.1)	0.0	0.0	0.5	(0.1)	(3.2)	(2.9)
17. RIZICULT.	0.0	0.0	0.0	0.0	(11.0)	0.0	(11.0)
Total	115.8	380.4	19.3	167.9	102.7	1,054.1	1,840.2

RWANDESE REPUBLIC

PUBLIC ENTERPRISE REFORM PROJECT

PUBLIC ENTERPRISES SELECTED FOR RESTRUCTURING UNDER THE PROJECT

1. This Annex contains brief descriptions of 16 enterprises to be assisted by the Project. This includes 10 public enterprises which were analyzed by the Rwandese working group, OPYRWA, which was examined by the Bank during preappraisal, and Electrogaz.[1]/ All of these enterprises, except OPYRWA, are part of the first group of enterprises to be restructured. The Government has decided that OPYRWA merits further in-depth analysis and, thus, has relegated it to the second group. The Sucrerie, another member of this first group, is being analyzed separately; results of this study will be known in mid-1990. In addition, the project will only address Electrogaz' institutional problems since its restructuring will be addressed under a separate Energy project. This first group also includes four other public enterprises which the Government has decided to privatize.

2. Without exception, the recommendations propose no further investments of equipment. The suggested rehabilitation and restructuring measures, closures and privatizations will require technical assistance, both to the Government and to the enterprises themselves. A substantial training effort is also needed to upgrade skills.

A. TWELVE PUBLIC ENTERPRISES IN THE FIRST GROUP OF ENTERPRISES TO BE RESTRUCTURED

1. MAISERIE DE MUKAMIRA

3. The corn mill in Mukamira is the result of a cooperative effort between the Governments of Rwanda and North Korea. The latter has supplied all the machinery while the Rwandese Government has provided the rest of the inputs needed. Nominal capacity of the mill is 5,000 tons of corn milled per year, although its actual capacity depends upon the particle size of the end product which is manufactured from the kernel's endosperm (its starch-containing part). The mill's operating principle is known as dry milling. Particle size of the end product can be determined according to market demand; potential end products include hominy, grits, pearl meal and cream

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1 Further details about eleven enterprises can be found in reports written by the Rwandese working group in charge of diagnostic studies, assisted by the consulting firm of Maheu Noiseux. Information on OPYRWA is summarized from a consultant's report of March 1989 (R. Lacroix).

meal. Depending upon the efficiency of the various separators in the process, the end products can be more or less free from bran and germ. Bran is the low value outer skin of the corn kernel, used in cattle feed; germ is its oil containing part. A perfect separation of germ from endosperm, and vice versa, is not possible due to the mill's somewhat antiquated process of dry milling. As a result, brewery quality grits, i.e. endosperm of relatively large particle size, essentially free from oil containing germ material, cannot be produced. For the same reason, germ recovery is incomplete and hence, oil recovery from this type of operation is low and, most often, economically not feasible. In the U.S. when dry milling was still prevalent in the early twentieth century, mill fractions rich in germ were commonly utilized in animal feed, rather than processed for oil. The mill in Mukamira can produce endosperm of various particle sizes, although not free from bran and germ, as well as crude corn oil, by means of a worm screw expeller.

4. Total investment in this operation has been about RwF 312.4 million, of which 35 percent stems from the Korean contribution of machinery, and 65 percent from the Rwandese Government to finance civil works (41%) and working capital needs (24%). The RwF 76 million working capital fund was largely lost during the first years of operation, with operating losses of RwF 36.0 and 30.7 million in 1987 and 1988, respectively (including depreciation). Cumulative losses for 1987 and 1988, before depreciation, are RwF 17.5 million. It is likely that the corn mill could remain in operation for about 8 years at this level of cash loss (about RwF 9 million per year) until its working capital is fully consumed. The plant's raw material supply, 243 tons of corn in 1987 and 599 tons in 1988 was purchased from traders. According to plant management, the type of corn purchased is imported from either Zaïre or Uganda, the locally-produced varieties being unsuitable for processing. Until early 1989, RwF 18/kilogram were paid at the farm gate. Upon instructions from the municipal authorities of Mukamira this price was reduced to RwF 15/kilogram. In late June 1989, there was an apparent scarcity of corn with prices quoted of RwF 50-80/kilogram. The plant was unable to purchase raw materials and, consequently, was standing idle.

5. Corn meal is not commonly purchased by the Rwandese consumer. Corn, if consumed at all, is fully prepared within the household. Imports of corn meal, probably by some institutional users, have been around 1,000 tons per year lately. The only captive outlet the corn mill has for its product is with the army and the prisons. The mill hopes to be able to sell grits, a form of milled corn endosperm with a coarse particle size, to the local brewery industry. However, the contamination of the mill's grits with particles of oil containing germ, as discussed earlier, probably obviates this marketing opportunity. As it is, the mill has been operating since early 1988 at about 10 percent of its nominal throughput capacity.

6. Small quantities of crude oil are sold at two retail outlets at the mill and in Kigali. Contrary to corn meal, cooking oil is commonly purchased

by the Rwandese consumer. About 10,000 tons of edible oil are imported yearly, the bulk of which is Malaysian palm oil.

7. Product pricing is apparently not related to the cost of production. In 1987, sales revenue did not even cover the cost of the plant's consumables, i.e. the sum of raw material costs, peat to fire the boiler that heats the germ prior to oil extraction, power and packaging. At the price set for bran, RwF 5/kilogram, this product, a potential ingredient of animal feed, is not marketable. The mill has a stock of 80 tons of bran. The company does not know its own production costs, nor has it any way to find out with present accounting methods. The plant's operations are ad hoc, responding to the conditions of the day, consuming its working capital in a hand-to-mouth fashion. Fifty-three personnel are on the payroll, as well as three Korean technicians. The contributions of the latter, either technical or economical, are said to be nil.

8. The working group's report offers three alternatives for the future of the mill:

- Improved operational efficiency, without any further investments. Some heroic assumptions underlie the hope for achieving of this alternative: doubling of sales, substantial personnel reduction, firing of the Korean technicians and increased managerial efficiency. If all conditions are met, cash flow could become positive in year six. Given its working capital at the end of 1988, losses forecast in 1989 and the cost of on-going investments, the mill could remain in operation without subsidies. However, even under this alternative it would be unable to cover depreciation, even if its assets were re-evaluated.

- Under the second hypothesis, certain modifications would be made to the existing equipment. Both the production of flour and the production of oil would be technically changed in order to increase efficiency. Grits would not be produced. A simulation of expected operating conditions under this hypothesis shows a positive cash flow as of the first year. The present value of a 10 year cash flow, discounted at 12 percent, is about RwF 32 million. Assuming that 12 percent is the opportunity cost of capital, it is concluded that this amount, RwF 32 million would be available as the maximum investment to effect the technical changes necessary. Furthermore, under this hypothesis, and if the assets were re-evaluated at 50 percent of the currently assumed costs, the operation could cover its depreciation by the eighth year of operations. The suggested hypothesis is questionable since no estimate of the actual costs of the technical changes deemed necessary has been made. In addition, no evaluation of the reasonableness that the expected operations will actually take place exists. The most questionable assumption is that the market for flour will increase substantially.

- Under the third hypothesis, investments are made in a completely new unit to produce grits. Once again, this proposed investment is based on a non-existent market. Among others, the proposed new investment is predicated upon the construction of a new brewery in Kigali, so as to increase the hoped-for market for grits.

9. The working group's basic recommendation is that further study is needed before a definitive decision can be taken. Short-term technical assistance may be provided through the project to undertake these studies.

2. OVIBAR (Office de Valorisation Industrielle des Bananeraies du Rwanda)

10. OVIBAR was created in 1978 to conduct research and development work on banana-based products. In reality, the company has become a production enterprise whose products are a few varieties of an industrially-produced banana wine, similar to a product that is produced traditionally in Rwanda's rural areas.

11. By the end of 1987, Government's total investment in OVIBAR was RwF 285 million. In 1988, further investments of RwF 250 million had been authorized, funded by the treasury and a loan from BRD backed by a Government guarantee. This investment project was undertaken despite recommendations made in a report by BUNEP (a government-owned consulting firm) in 1984. At the time of the mission's visit to OVIBAR, the civil works related to the new investments were in progress, while the equipment, of West German origin, had reportedly arrived in Dar-es-Salaam. Following estimates made in the study group's consulting report, the Government's total stake in OVIBAR, including financing charges on the new investments, can now be calculated to be about RwF 737 million, as follows:

- Total investments through 1987.....RwF 285 million
- New investments being implemented.....RwF 250 million
- Financing charges to be incurred.....RwF 202 million

Total Investment.....RwF 737 million

12. Total production has varied greatly from year to year, with a low of about 135,000 liters in 1986 and a high of about 490,000 liters in 1987. Over 95 percent of this production is banana wine, the rest is unfermented banana juice and some distilled, liqueur type, drink. Compared with the reported nominal capacity of about 800,000 liters, capacity utilization of the plant has, thus, varied from 17 percent to 61 percent. OVIBAR's total production capacity of 800,000 liters is about 0.25 percent of the estimated total banana wine production in Rwanda. Stocks of unsold product are usually high, representing 14 months of production in 1985 and 15 months in 1986. As a result, RwF 35.8 million of deteriorated stocks had to be written-off in 1986. Further production and marketing problems are demonstrated by a combined rejection rate of 25 percent of OVIBAR's products

from retail channels in 1988. The company has suffered operating losses each year except 1985. The company does not know its production costs and does not have documented standards of quality for the products produced.

13. Table II-2 shows a consumption profile of alcoholic beverages in Rwanda. It is clear that OVIBAR's production occupies a negligible part of the market, itself dominated by homemade banana wine and sorghum beer. OVIBAR tries to compete with the traditionally-produced banana wine in rural areas. For reasons of quality, price and consumer preference, that appears to be a mistake. Rather, OVIBAR's products cater to the urban consumer who knows the product but lacks the means to produce it at home. As such, OVIBAR's products are in competition with beer, and not with homemade alcoholic beverages, including homemade banana wine. However, 75 percent of the local population does not drink beer and would not consider industrially-produced banana wine. Thus, the feeble marketing efforts made by OVIBAR's two salaried employees, who receive no incentives for sales efforts, are misdirected.

TABLE II-2: RWANDA - CONSUMPTION PROFILE OF ALCOHOLIC BEVERAGES

	Quantities		1988 consumer price in RwF/ltr.
	000' liters	% breakdown	
BANANA WINE			
Home made	359,800	58%	50
OVIBAR	300	<1%	111 to 324
Total	360,100	58%	
SORGHUM BEER	204,400	33%	
PILSEN TYPE BEER			
Primus Brand (local)	55,400	9%	115
Imported	negligible		131
IMPORTED LIQUORS	300	<1%	
Grand Total	620,200	100%	

Source: Maheu Noiseux et.al./op.cit

14. OVIBAR lacks budgeted operational plans. Depreciation is meaningless, the necessity for reserves simply does not exist. Operations use working capital to subsidize operational losses. The fact that the Government has subsidized this firm, both for initial investments and when operations go bad, has removed all sense of financial responsibility from

management. The working group recommends that OVIBAR should be allowed a trial period during which it can show that recent new investments will be translated into increased profitability. If losses continue at present levels during the trial period, the company should be shut down. Since the enterprise is not of a strategic nature, the working group recommends that it should receive no further subsidies. Technical assistance may be provided through the project to assist OVIBAR with its marketing efforts.

3. PAPETERIES DE RWANDA

15. This paper-making plant was started by a Belgian entrepreneur prior to independence as a facility to produce ceiling boards from locally available papyrus reeds. The plant is located in Zaza, on the shore of a lake with adjacent swampy areas covered with papyrus. It is about 100 km. from Kigali, at the end of a rural, unpaved road. After being taken over by Government in 1974, a paper products manufacturing unit was added to the ceiling board operation. This unit essentially forms boxes from corrugated carton. The raw material for this, craft paper, is imported.

16. Total Government investment in this plant is RwF 130 million, including a recent loan of RwF 40 million, intended to finance a feasibility study about the ceiling board operation. However, this loan has been used, instead, to purchase more used (Indian) equipment for the box manufacturing plant. Both the box manufacturing operation and the ceiling board production operate well below potential capacities. Protected by a 30 percent duty on comparable imports, the box manufacturing unit consistently shows a 10 to 20 percent profit on gross sales. Its protection from imports allows it a level of costs and inefficiency that is operationally not justified. The ceiling board manufacture is a consistent loss-maker.

17. Marketing efforts appear weak to non-existent. For instance, exports of fruits and vegetables require increasing numbers of carton boxes. Green beans alone are said to need over 150,000 cartons yearly. The local tobacco manufacturing plant has an unfulfilled demand for boxes. The papeteries appears to make no efforts to capture or even to penetrate these markets. Because of this, demand is increasingly being met by three or four competing operations. Weak marketing efforts are the more unjustified since the plant's box-making capacity is such that at a mere 30 percent capacity utilization it could supply about 75 percent of the country's total demand.

18. The problems with the ceiling board manufacture are more complex and are dominated by production-related matters, rather than marketing deficiencies. The total Rwandese market for this product is estimated at over 150,000 m^2 yearly, of which the papeteries supplies not more than 5,000 m^2. The remainder is imported. In spite of a 45 percent tariff on the latter, the imported product is sold in Kigali at just over half the price of the papeteries' product. The latter's variable production costs alone, i.e. excluding labor which is considered fixed, are of the same order of magnitude as the CIF price of the imported product, including the 45

percent import tariff. Apart from being expensive, the papeteries' ceiling boards are also considered to be of inferior quality.

19. The recommendations made by the working group are to halt ceiling board manufacture and perform an in-depth feasibility study which focuses on the technical and economic merits of the operation. If, as appears likely, conditions of renewed profitability can be identified, this unit should probably be converted into a cooperative and handed over to its personnel.

20. The working group has estimated the value of the box manufacturing operation to be about RwF 60 to 70 million, the actual value depending on whether or not a 25 percent devaluation of the Rwandese franc is assumed. The plant's book value is not more than about RwF 18 million. Thus, it is concluded that privatization should be possible, ceding the plant at a price of somewhere between RwF 18 and RwF 60 to RwF 70 million. Financial analysts, privatization specialists and lawyers needed to facilitate this privatization transaction may all be provided with project financing.

4. FORGE GOUVERNEMENTALE

21. This government-owned, rather primitive, blacksmithing operation was started in 1969 with Swiss assistance as a training school for rural blacksmiths. There is widespread demand for blacksmithing services to repair, and sometimes to produce, agricultural implements, including spare parts for such items as grain hammer mills. Similar to OVIBAR experience, this school was forced into production in 1973, as a cooperative, when Government funding for the training function was no longer forthcoming. This sudden transformation from Government school to cooperative production entity was undertaken without studies, organization or further investments. The cooperative lasted for 2 years and then went bankrupt, reportedly, due to mismanagement. Thus, in 1976 Government took the operation back, subsidizing all of its costs. In 1983, Government stopped subsidizing its raw materials; as of 1988 the Forge is supposed to pay part of its personnel's salaries. Training has become a neglected part of what is now seen as a production enterprise. Between 1983 and 1987 only ten training openings were available.

22. Total Government investment in the Forge, since its inception, is unknown. Cumulative subsidies from 1983 to 1987 were RwF 26 million. During the same period, the yearly Government allocations were somewhat higher than the Forge's operational deficits, leading to an increase in working capital from 4.1 to 11.8 million. Given the primitive cash accounting method employed and the absence of a notion of profitability, management feels that the Forge is doing rather well. The Forge's retained earnings, though, are apparently badly invested. An average return of only 4 percent has contributed to estimated losses of RwF 1.3 million.

23. Lack of a marketing strategy is evident in the Forge's production package that includes more than one hundred different items. Over 75 percent of total production is in articles of less than 10 units, sometimes in single numbers. The company's total sales of almost RwF 5 million yearly are less

than 1 percent of the estimated total Rwandese market for the types of simple products manufactured by blacksmiths. Ministries and development projects alone comprise a market of an estimated RwF 100 million yearly. The market is further supplied by imports and by other local production. Thus, the size of the market is not the problem, but again, this company's marketing efforts also are weak to non-existent. Pricing is erratic with almost all items costing more than comparable imports. Duties on the latter are 10 percent. Reportedly, occasional sales are made to ministries at inflated prices as compared with prices prevailing in the market. This constitutes another indirect subsidy of the Forge.

24. The working group report recommends that the operation should be converted into a cooperative with current staff as its owners. Indeed, the individual nature of the operation lends itself very well to a cooperative structure. Furthermore, some extra investments that have taken place recently, particularly the construction of a new workshop that will be equipped for more rational production in small series, would provide a better basis for continued commercial operations than what has been available so far. Still, problems similar to those when a cooperative structure was attempted in 1973 still prevail. So far, no study about this conversion has taken place, and no assistance appears to have been contemplated with organization, development of a marketing strategy or estimation of the real value of the assets to be transferred to the cooperative. In order for a future cooperative, based on the assets and belonging to the personnel of the forge, to be successful, it is recommended that such broad technical assistance should be made available during a transitory period. Technical experts to help develop cooperatives are locally available in Rwanda and could be financed under the project.

5. PERIMETRES RIZICOLES

25. Rice cultivation was started in Rwanda in 1967 with technical assistance from Taiwan. Presently, five different areas are in advanced stages of production development. All of these are low lying valley areas, part of which used to be periodically flooded wet lands, often grown with papyrus. Because of its relatively recent introduction, rice cultivation is still in a developmental phase, with varietal selection and extension work important contributors to further development. Also, rice is as yet not a widely accepted staple in the Rwandese diet. The Government continues active support for its development, and has a production target of 16,000 tons of white rice by 1992, or more than double current production. All rice is produced by smallholders on small tracks of land ceded to them by Government exclusively for rice cultivation.

26. The five areas of systematic, relatively large scale rice cultivation are: Rwamagana, Bugarama, Butare, Kabuye and Mukunguli, and a rice cultivation area within the integrated development project of Mutare. The Bugarama and Butare areas are agricultural development projects. They constitute production entities that depend upon the Ministry of Agriculture, Livestock and Forestry. The Bugarama project is financed from

the National Development budget and has Korean assistance. The Butare project is financed through the regular Government budget and through a loan from the Caisse Centrale. Reportedly, plans are to convert both projects into mixed enterprises, with pertinent statutes. The production area of Kabuye and Mukunguli is already organized as a mixed, Rwandese/Chinese, enterprise, called SOPRORIZ. The rice production area within the Butare integrated rural development project is organized as a cooperative, called Co-DERVAM. The Rwamagana area's development was started in 1978 with Chinese assistance. A second phase of development ended in 1987. Presently, this area does not have any legal status. Management may be put in the hands of SOPRORIZ.

27. All rice production areas are, since 1987, autonomous and assured, theoretically, of their own management. Up to 1987, all five rice production areas were considered projects, and hence all development-related investments were borne either by Government or by some aid effort. Information on total investments in these five projects since their inception, is not available at present. Since they became autonomous in 1987, short-term debts of all the areas have substantially increased. These short-term debts were necessary to finance purchase and marketing of the crop. Furthermore, the change from project to an autonomous status has also implied that these projects have henceforth had to absorb what otherwise would be development-related costs, i.e. costs for agricultural R&D and particularly for extension and overall management. Although the latter, management-related costs can be said to be legitimate costs of such a production entity, agricultural R&D and extension should be borne by the Ministry of Agriculture, Livestock and Forests, as it does for other crops.

28. Combined yearly production of rice in Rwanda is still erratic and currently can be estimated at about 5,000 tons per year. Up to 1985 imports had steadily increased to a level of about 10,000 tons. Although a substantial part of these imports consisted of donations, well over half were commercial imports. This changed as of 1985, as a result of a doubling of the import tax, from 15 percent in 1983 to 30 percent in 1985. As a result, commercial imports in 1986 and 1987 were essentially nil. For reasons that are not clear donations ceased in 1988 and, in consequence, imports were negligible. Total rice consumption in Rwanda has decreased from almost 12,000 tons per year to somewhat over 8,000 tons, with steadily increasing local production but severely curtailed imports.

29. Rice prices are fixed by Government decree at the producer's level and at the ex-mill level. The producer price is RwF 25 per kilogram, the ex-mill price for white milled rice is RwF 75 per kilogram. The milling margin, double the producer price, is said to be necessary to defray the costs of development still incurred by rice production, i.e. the earlier mentioned agricultural R&D, extension and managerial costs. It would appear that Government's rigid pricing policy with respect to rice has two main detrimental effects upon its further development. First, the diminished availability of rice in the local market, as a result of prohibitively high import duties, does not allow for the further expansion of rice consumption

among the population, a necessary development that should go at least parallel with production increases. Furthermore, the high price imposed on the local product, masks the fact that rice production in Rwanda, under normal conditions of production costs, would be competitive with imports. Also, the rigidity of the nationwide fixed pricing does not allow for differentiation between the various growing areas, between the rice mills and even between farmers in the same areas.

30. The introduction of rice cultivation in Rwanda appears to have been a successful and timely Government initiative. Substantial tracts of land, not usable for much else, have been put under agricultural production, in a country where arable land is increasingly scarce. Several thousand smallholders have been settled with what increasingly appears to be a secure cash crop. Most importantly, the Rwandese small farmer is proving that rice cultivation can be economically competitive in Rwanda. Rice cultivation in Rwanda has reached the point at which it should be asked to show its economic viability within the Rwandese economy.

31. The working group recommends that three areas that are not yet fully autonomous should be given their independence, probably coupled with some technical assistance to improve their structure and organization. The Government, through the Ministry of Agriculture, Livestock and Forests should absorb the costs of further varietal developments and other production related research and development, as well as those of the necessary extension. Most importantly, the working group recommends that rice prices should be liberalized. Efforts should continue to be made to prevent monopolization of the rice trade by means of ownership of one or more large rice mills. It appears advisable for Rwanda that total, or at least partial, ownership of rice mills being established, including of the one now being built close to Butare, be put in the hands of the producer organizations.

6. OFFICE RWANDAIS DU TOURISME ET DES PARCS NATIONAUX (ORTPN)

32. ORTPN, the Rwandese bureau for tourism and national parks, was established in 1973. It reports directly to the President. The dualistic nature of its objectives, tourism development and environmental protection, are a result of the dominant thought in the early 1970s, when, particularly in developing countries, these two issues were seen as being intertwined. ORTPN has wide-ranging responsibilities for the maintenance and development of Rwanda's national parks, as well as for the actual operation and management of tourism-related infrastructure, particularly hotels.

33. The Rwandese Government, through ORTPN, has invested substantial resources for the development of tourism. The cost of hotel construction alone amounts to more than RwF 2.3 billion. Of the RwF 1.8 billion of losses incurred by ORTPN since its inception, fully 19 percent are attributable to the deficit operations of the hotel chain. In part as a result of assistance received from such organizations as the World Wildlife Fund and Belgian Technical Assistance, operational losses related to protection and development of the national parks have been modest, accounting, for instance,

between 1983 and 1987 for about RwF 70 million out of a total loss, during the same period, of almost RwF 950 million.

34. These staggering losses are not immediately apparent when looking at the organization's cash accounting methods, and hence, management does not feel the full pressure of these losses. As a matter of fact, by paring the costs of, for instance, building and grounds maintenance of the hotels to the bare minimum, ORTPN manages to subsist without outright Government subsidies. Foreign aid, such as that given by the World Wildlife Fund comes in the form of donations, without any requirement for local counterpart funding. The construction of physical infrastructure, particularly of hotels, is undertaken by Government with funding whose repayment and interest charges are Government's responsibilities. Also, ORTPN has a large amount of outstanding arrears --almost RwF 80 million to CSR, and at least RwF 17 million to Electrogaz.

35. So far, tourism appears to be underdeveloped in Rwanda. Neighboring countries, particularly Kenya and to a lesser extent Burundi and Tanzania, show higher growth rates of tourism related income than Rwanda. This may be due to a number of factors: high cost of stay, resulting in part to exchange rate overvaluation, French as the dominant language, limited familiarity with Rwanda, other than as the country where gorillas can be seen, and Rwanda's own feeble efforts at tourism-related promotions. Rwanda should be more attractive to tourism than the current number of visitors implies. It has largely unexploited attractions of wildlife viewing and bird watching in its national parks. It offers, in many parts of the country, spectacular scenery. The main roads are good. There are attractions other than the typical wildlife viewing, such as water sports on lake Kivu and visits to tea plantations and tea factories. Little attention appears to be paid to packaging the various activities of interest to tourists such that it would warrant a stay of two to three weeks, which is the norm in, for instance, Kenya, as compared with the two to three days to see the gorillas. In short, there appears to be a substantial untapped tourism potential in Rwanda, the realization of which will depend upon concerted marketing efforts and facilitating access to the country. Easing of flight restrictions, particularly between Kigali and Nairobi would help to increase the access of Rwanda to tourists.

36. The working group report suggests splitting the two basic responsibilities of ORTPN into two organizations: one related to the environment and the other related to tourism development. Increasing concern for the environment, and recognition of its protection and maintenance as an integral part of a society's welfare warrants the establishment of an entity dedicated to environmental issues, land use and protection of natural resources. Any such initiative will be coordinated with the ongoing preparation of the Environmental Action Plan to ensure consistency with the overall aims of the EAP. The Ministry of Plan is responsible for the coordination and supervision of environmental issues at the national level.

37. Conditions will have to be created such that sufficient incentives exist for private tourism-related agencies, both in Rwanda and abroad, to include Rwanda in a package of tourism attractions. As a corollary, it is also recognized that Government cannot profitably market and operate the substantial hotel capacity constructed under its responsibility. The Rwandese working group proposes that Government should gradually divest itself of its hotel assets, by selling those that can be sold to private interests, and closing the remainder. A lesson learned from past experience indicates that it is dangerous to enter into management contracts, even with the most reputable hotel management company, that do not tie remuneration to profitability of the operation.

7. THE CAISSE SOCIALE DU RWANDA (CSR)

38. CSR is the country's social security agency established in 1962 and charged with providing pensions, disability and dependent's survival benefits for wage and salary earners. It does not provide medical benefits. It has its own statutes, financial autonomy and a Government guarantee to support its responsibilities. By law, all salaried Rwandese are eligible for a social security pension upon reaching the statutory retirement age. Also, by law, all employers are supposed to enroll their personnel and pay social security on a shared basis with their employees. In practice, only an estimated 40 to 50 percent of all wage earners are in fact enrolled and contribute.

39. By the end of 1988, CSR had reserves totalling RwF 12.3 billion. Due to a very conservative investment policy, 90 percent of these reserves were either invested with, or were otherwise dependent upon the Government. The overall yield of this portfolio has been about 5 percent, barely exceeding average inflation. More ominously, it was estimated that CSR's investments, on average, had lost 35 percent of their real value by the end of 1987. On the other hand, between 1982 and 1987, the ratio between revenue and payments increased from 110 percent to 149 percent. Operational efficiency is mediocre with a reported average of one file handled per person-day.

40. Apparently, CSR has no capability to do actuarial studies. Thus, it cannot estimate objectively its expected future responsibilities and hence cannot design an operational strategy geared to fulfilling those responsibilities.

41. In view of the issues raised above, the Rwandese working group recommends that CSR should:

- increase the number of wage earners contributing to the system;
- undertake actuarial studies to determine future responsibilities and likely revenue from contributions to the system; and,

- liberalize investment restrictions and try to reduce CSR's dependence upon the Government.

42. Furthermore, the proposal to add health insurance to CSR's responsibilities should be reconsidered. Risks inherent in pension and disability coverage, and those for medical benefits are vastly different. As a matter of fact, the cost of health insurance is increasing more rapidly, worldwide, than the cost of pension, disability and survival-related costs. It appears unwise to risk CSR's pension-related responsibilities with the uncertain, but probably very high, risks of medical-related insurance in Rwanda. Such insurance should be provided by a separate institution, as it is elsewhere in the world. Specialized short-term technical assistance can be provided through the project to undertake the above studies.

8. BUREAU D'ETUDES DE PROJETS (BUNEP)

43. BUNEP was established in 1978, to create local expertise -- technical, economic and financial -- to develop bankable projects. Furthermore, the Government was hoping to acquire a capability that would be able to address economic and social issues and provide advice to projects under execution. In short, BUNEP was intended to be an indigenous, Rwandese, consulting bureau that would be closely tied to Government. Its services were meant primarily for the benefit of the various ministries, although it was intended to address projects that originated in both the public and the private sector.

44. By the end of 1987, the Rwandese Government had invested almost RwF 216 million in BUNEP, of which almost RwF 69 million was working capital. Between 1978 and 1987, BUNEP lost RwF 167 million, apart from direct operational subsidies. On average, during the same period, value added has been only 19 percent of revenue, covering not even one-third of salaries paid. Its capital should be totally lost by the end of 1989.

45. BUNEP does not appear to have fulfilled its original mission to become an in-house evaluator and originator, with technical as well as economic expertise to develop and guide projects. In effect, BUNEP's expertise appears concentrated in the field of civil works. For instance, in 1987, 13 of the 14 projects undertaken, projects with a total investment cost of approximately RwF 800 million, were related to civil engineering works. Given the nature of relatively large civil works in Rwanda, this also implies that Government, and some international organizations, constitute the major market for BUNEP's services. At the time of its creation, in 1978, BUNEP was the only technically-oriented consulting company in Rwanda. Since that time, several other indigenous companies of the same nature have been established. Furthermore, foreign engineering and consultant companies have gained a foothold in the Rwandese market. Increasingly, important pre-feasibility and feasibility studies, co-financed between Government and foreign donors, are not awarded to BUNEP, reportedly because of its reputation of tardiness and mediocre quality of work. Often, BUNEP

contributes only with individual personnel, as a sub-contractor, to supervisory activities of important civil works, themselves contracted by foreign engineering companies. Even what would constitute its captive market, consultant services for the ministries, is increasingly undermined by in-house expertise of the ministries proper. It would, thus, appear that a serious erosion is taking place in what had developed as BUNEP's market. The general economic malaise in Rwanda will probably lead to curtailment of major civil works in the foreseeable future, while increasing competition will be fighting for this diminishing pie.

46. The working group concluded that the mission for which BUNEP was originally intended, to give the Government in-house technical and economic evaluation expertise, has been superseded by events. On the one hand, this same expertise is increasingly available among private consulting firms established in Rwanda and is offered, apparently satisfactorily, by foreign companies, mostly supplemented with local expertise. BUNEP, on the other hand, has not developed into a broad-based technical and economic consulting company, but its expertise has become more narrowly defined as being applicable to the civil engineering sector. It was, thus, concluded that time had come to hand-over the operational responsibility to the professional staff working in BUNEP, and, in effect, to privatize the office. Calculations made as part of the same recommendation showed that privatization of BUNEP would result in net savings to Government of approximately RwF 8 million per year. It was further suggested that, to this tangible gain, could be added the intangible advantage of increasing the competition for public sector contract work.

9. REGIE DES AEROPORTS DE RWANDA (RAR)

47. RAR was established in 1986, by presidential decree, as an entity responsible for the management of air traffic-related infrastructure. It took over responsibilities previously exercised by the directorate for civil aviation of the Ministry of Postal Services and Telecommunications. RAR was intended to manage services, without having the responsibility of owning the infrastructure and hence without accountability for profitable operations. However, it was supposed to finance its own operating costs, while any excess was to be deposited in a special account with the Rwandese Development Bank (BRD). RAR has gone beyond this mandate of operator; it has entered the partial value of the airports' assets in its books and accounts for depreciation on them. Thus, RAR now appears to have shouldered the financial responsibility for several billion Rwandese francs worth of investments that require well over RwF 1 billion of financing charges, between repayments of capital and interest, prior to 1995. Rather, RAR's operations and autonomy are severely curtailed by: (i) an obligation to maintain Kigali's international airport operational for 24 hours a day, (ii) having to maintain airports operational to whom services have long since ceased, (iii) an inability to raise fees charged for services, and (iv) very low revenues from concessions given by the Government to Air Rwanda and to another cargo handling company.

48. In sum, the situation with respect to Rwanda's air traffic is ambiguous. Substantial investments have been made, large financing charges will be incurred on these investments for the foreseeable future and maintenance of the facilities will require additional funds. Although ultimately, the Government is responsible for these costs, it is not clear where the responsibility rests for seeing that these obligations can be met at minimum cost to the treasury. On the other hand, a large portion of current revenue from air traffic is diverted to the operation of two concession holders, in effect constituting indirect subsidies. And finally, revenue could apparently be higher, with service fees still remaining at levels comparable with those in neighboring countries, while operating costs could be reduced. The working group report recommends that the authority for Rwanda's civil air traffic operations be centralized within one entity, possibly RAR, with the mandate to maximize profitability, so as to ensure the largest possible coverage of total costs by total revenues. Such a mandate should not be confused with a responsibility to actually render all services in-house. Rather, most services should be subcontracted to other organizations through a management contract.

10. OFFICE POUR LA VALORISATION PASTORALE ET AGRICOLE DU MUTARA (OVAPAM)

49. OVAPAM was created in 1973 as the executing office for the agricultural and livestock related components of an integrated rural development project financed by the World Bank. OVAPAM was charged with the execution of those parts of the project that relate to agricultural and livestock development. However, the relation between OVAPAM and the integrated rural development project was left ill-defined, and in consequence, so were the respective responsibilities of the Rwandese director of OVAPAM and the expatriate project manager. Over the years, several attempts have been made, most notably during negotiations for a second phase of the integrated rural development project in 1979, to define better the actual role of OVAPAM. Attempts have also been made to include other regional development projects under OVAPAM's responsibility.

50. OVAPAM's achievements appear to be below expectations and its costs have been excessive. According to an interim completion report, covering the first phase of the project, OVAPAM's investments in buildings and the cost of its own office, including technical assistance, represented 84 percent of the total cost of the project. Productive investments accounted for not more than 16 percent. Presently, the costs of general services and personnel are 70 percent of total annual costs of OVAPAM. This appears the excessive since over the years OVAPAM's responsibilities have been reduced when certain parts of the project were deemed finished and were handed over to Government. The only remaining activities of OVAPAM, at present, are agricultural extension and the commercial activities of a farm and a dairy plant.

51. By the end of 1987, the agricultural and livestock development project of Mutara had been funded by almost RwF 1.7 billion, of which 75 percent were borrowed funds, mostly from IDA. Direct operational costs of

the project, apart from financing charges, have been estimated at over RwF 140 million per year. These charges are fully incurred by the Rwandese Government. The general development plan for the region of Mutara, for the next 15 years, will require further investments valued at over RwF 16 billion, the equivalent of more than US$200 million. More than 45 percent of this investment is planned for the development of irrigated agriculture.

52. The working group report recommends that the few remaining activities of OVAPAM should be incorporated with the appropriate ministries. The Ministry of Agriculture, Livestock and Forests would be responsible for agricultural extension and for the collection of agricultural production statistics. The remaining commercial and industrial activities of OVAPAM, operation of a farm and a dairy plant, should be privatized.

11. OFFICE DE PYRETHRE DU RWANDA (OPYRWA)

53. Pyrethrum is a natural insecticide, made from a daisy-like flower that thrives at higher elevations close to the equator where ultraviolet radiation is strong. OPYRWA is Rwanda's pyrethrum processing and marketing company. It is also responsible for providing extension services to several thousand smallholders. Smallholders who have settled in the pyrethrum growing area have an obligation to grow pyrethrum flowers on a certain percentage of their land. International market prices for pyrethrum extract have been erratic, mainly as a result of the competition from synthetics. OPYRWA is fully government-owned. Part of its processing plant has been financed with UNDP assistance.

54. As a result of severe losses, the Government contemplated closing the operation in the early 1980's, effectively abandoning pyrethrum cultivation in Rwanda. OPYRWA had been unprofitable due to economic as well as management reasons. Strong competition from synthetics in the 1970s reduced demand for pyrethrum. The company also was the victim of massive fraud and embezzlement activities. An audit of OPYRWA in 1987, nevertheless, stated that abandonment of pyrethrum cultivation in Rwanda might be a mistake and that a restructured OPYRWA should be given a second chance. Since then, the demand for "natural" products such as pyrethrum has increased, causing prices to rise and the company's top management has been replaced.

55. In early 1989, OPYRWA's management began to discuss the possibility of selling all or part of the company to its major client, a U.S. company. These discussions are on-going. The technical assistance that will be available under the project could be called upon to assist with these discussions in any way deemed potentially useful.

12. ELECTROGAZ

56. The actual restructuring of the electricity company will be assumed by a separate project funded by IDA. This project will assist with improving the institutional and legal constraints which impede its efficiency.

B. THE FOUR ENTERPRISES TO BE PRIVATIZED

13. L'IMPRIMERIE NATIONALE

57. This government-owned print shop was established in 1967, under the tutelage of the Ministry of Finance. It was intended to serve as the sole supplier of print materials and other office consumables to all ministries. Over the years, one other government-owned printing company has been established, originally dedicated to the production of schoolbooks and other teaching aids, as well as 12 private print shops in Kigali alone. In part for competitive reasons, and in part due to alleged under performance, particularly tardiness in completing orders, the Imprimerie has gradually lost business to alternative sources of supply. The most telling loss was the printing of the official Government journal in 1987 by the other government-owned print shop.

58. The President of Rwanda announced, in a June 1988 speech, that l'Imprimerie Nationale was one of the four public enterprises slated for privatization. The Ministry of Finance ordered an audit of the company, with the stated objective of determining its correct value. This audit was carried out by the CCO. Rather than limiting itself to the determination of the company's value, this audit, reportedly, makes three alternative suggestions for the future of the company, only one of which is privatization. The other two are: merging l'Imprimerie with the other government-owned print shop, or continuation as an individual public enterprise after operational and managerial streamlining. The present position of the Imprimerie's board of directors, which has been without a president since 1985, is that l'Imprimerie's status of monopoly supplier to the ministries should be restored, according to its original statute. An interest in acquiring l'Imprimerie has apparently been expressed formally to the Ministry of Finance by a Belgian party through the Rwandese Embassy in Kinshasa.

59. L'Imprimerie currently employs 152 staff, down from 235 in 1986. As is customary for Rwandese public enterprises, the mandate and appointment of the company's director-general has been made directly by the President of the Republic. In principle, the appointment is indefinite. The company occupies two buildings in central Kigali. It is well-equipped with Heidelberg rotary off-set presses acquired in 1982. Computerized typesetting was introduced only a few years ago. This relatively new machinery is housed in an equally new, attractive, four story building.

14. Société Nationale des tubes (SONATUBES)

60. SONATUBES has always been a mixed enterprise, with 70 percent foreign interests, held by a public sector institution from the French-speaking part of Belgium, the remainder by the Rwandese Government (21%) and BRD (9%). Recently, the Belgian public sector holding was acquired by a private entrepreneur of that same country, who has, reportedly, other

interests in Africa. This same entrepreneur has expressed an interest in acquiring the remainder of Rwandese shareholdings.

61. SONATUBES is a manufacturing and trading company. It is one of two local producers of PVC pipe and a manufacturer of a limited size range of steel pipes. It is a major supplier to the building industry, largely from imports. Until a few years ago, company revenue was about evenly divided between manufacturing and trade. Lately, this balance has shifted in the direction of trading, with now only 30 percent of revenue derived from the pipe business and 70 percent from trade. There is some competition between the two PVC pipe manufacturers in Rwanda with what appears to be a price war for the product. Trading, being largely dependent on imports, suffers from the lack of foreign exchange availability in general and from the allocation of what is available in a manner that is intended to promote Rwandese interests. As a result, a multitude of small would-be traders import relatively small lots of articles that subsequently are resold to SONATUBES after adding an appropriate margin.

62. This financial audit of SONATUBES uncovered, among other things, a loss of about RwF 150 million in 87/88, fully RwF 100 million of which were traced to thefts. Current management blames laxity of the former Belgian public sector shareholders and their management for this corruption. A number of persons and companies implicated in these thefts have now been taken to court. This issue will most likely delay the privatization process.

15. RWANTEXCO

63. This company is the sole producer of blankets in Rwanda, with a monopoly on its trade. Imports are allowed only when RWANTEXCO cannot supply the entire market. The company was started in the early 1970s, by a private individual as an investment scam. After externalizing the foreign exchange allocated to the company for the acquisition of its production assets, the entrepreneur in question fled the country. The Government then requested the current private shareholders, a Rwandese and a Belgian company holding between them 51 percent, to salvage the operation.

64. As in the case of the Imprimerie, privatization was announced as a surprise to the company, apparently without prior consultation with either management or shareholders. In what may be a defensive move by management, the company has shown in 1988, a sudden increase in profits, rising to approximately 20 percent of sales. Also, the capacity utilization has gone up, now being between 60 and 70 percent. The board of directors is of the opinion that, if privatization has to occur, the current shareholders should have preference in buying the remainder of ownership.

65. Again, the Government contracted a private firm to conduct an audit to establish the correct value of the company. However, this audit has been delayed by bankruptcy of the company that was originally contracted to perform this work.

16. Société des transports internationaux du Rwanda (STIR)

66. STIR was founded in 1974 as an interregional transport company. It is 80 percent owned by the Government and other public enterprises, such as the Caisse Sociale du Rwanda, the Caisse d'Epargne and OCIR-Thé. The rest of its shareholders are private individuals. Rwanda has a total of four companies that operate regional trucking operations; the other three are privately owned. To limit the number of trucking companies, the law states that a trucking firm must have a minimum of RwF 100 million in capital, 20 trucks, a garage, parking facilities and be 51 percent Rwandese-owned. All private, individual truckers must subcontract to one of these companies. STIR has 60 of its own trucks and about 450 that are subcontracted. It employs 230 staff in Kigali, 80 in Mombasa and 30 in Nairobi. Of the 24 managerial staff, all but three are employed on a contract basis.

67. The price of transport has dropped in recent years. Between 1986 and mid-1989, STIR prices went from RwF 19 to 14.5-16.5 per metric ton for the trip from Mombasa to Kigali. This drop is partly due to a severe contraction of coffee production in 1989. Even so, Kenyan transporters charge only RwF 9-10 since costs are much lower in Kenya mainly due to the devaluation of the Kenyan shilling. Rwanda importers, however, are not permitted to use Kenyan transporters.

68. In 1983, STIR suffered losses of RwF 456 million or 83 percent of its capital. In 1987, it had a modest RwF 2 million in profits and the results from 1988 were unknown as of mid-1989. Since 1976, the company has been in arrears to the Government for taxes. It currently owes over RwF 220 million; since the Government charges 15 percent on arrears, the amount is growing rapidly. The company's management wishes the Government to convert this debt into equity while the Government wishes to sell its participation in the company and convert these arrears into a long-term debt with the Ministry of Finance.

69. In May 1989, the Government commissioned an audit of STIR to establish the book value of the company. Results should be available in late 1989.

ANNEX III

RWANDA PUBLIC ENTERPRISE REFORM PROJECT

Estimated Schedule of Disbursements

IDA Fiscal Year Quarter	Quarter Ending	Quarter Disbursements	Cumulative Disbursements	% of Total
91-1	9/30/90	0.07	0.07	2%
91-2	12/31/90	0.20	0.27	6%
91-3	3/30/91	0.35	0.62	14%
91-4	6/30/91	0.45	1.07	24%
92-1	9/30/91	0.30	1.37	31%
92-2	12/31/91	0.31	1.68	38%
92-3	3/30/92	0.31	1.99	45%
92-4	6/30/92	0.31	2.30	52%
93-1	9/30/92	0.28	2.58	58%
93-2	12/31/92	0.27	2.85	64%
93-3	3/30/93	0.26	3.11	70%
93-4	6/30/93	0.26	3.37	76%
94-1	9/30/93	0.25	3.62	82%
94-2	12/31/93	0.25	3.87	87%
94-3	3/30/94	0.24	4.11	93%
94-4	6/30/94	0.24	4.35	98%
95-1	9/30/95	0.05	4.40	99%
95-2	12/31/95	0.04	4.44	100%

RWANDA

PUBLIC ENTERPRISE REFORM PROJECT

Government Policy Statement on Public Enterprise Reform

1. Government financial intervention in the economic sector currently extends to 62 public enterprises, including 21 public establishments, 5 régies, 6 government enterprises, and 30 mixed enterprises.

2. Where the 30 mixed enterprises are concerned, the Government and/or its agencies hold an absolute majority in 10 companies and a relative majority in nine, with minority in 10 companies and a relative majority in 9, with minority holdings in the other 11.

3. At the root of these operations was the Government's firm intention to promote an economic sector that was practically nonexistent at the time of Rwanda's accession to independence, thereby offsetting the absence of private enterprises, and its desire for greater control over activities deemed strategic. Today, Government intervention reaches into practically all sectors of economic activity.

4. After close to 25 years of government interventionism, its true effectiveness is very much in question. Are the public enterprises capable of contributing to the country's economic takeoff, or do they in effect stand in its way? Is Government intervention still justified for all those activities that have now been taken over either exclusively or jointly with private operators? Are the various forms of Government intervention still appropriate? Will they bring about sound management and proper accountability at the management level?

5. Is the financial cost borne by the Government in making up the overall public enterprise deficit compatible with the austerity measures imposed by the policy for re-establishing financial and economic equilibria?

6. It was at the start of the present decade that the Government began to take particular notice of the public enterprise sector, which was consistently performing poorly despite an increase in State subsidies.

7. In order to better comprehend the problems of the public enterprises, and in line with the recommendations of the Fourth Ordinary Congress of the Mouvement Révolutionnaire National pour le Développement (MRND), held from June 26 to 30, 1983, the Rwandese Government set up an advisory and assistance service to create management tools (accounting systems) for the public enterprises, propose reorganization measures to increase the efficiency of the service entities, and conduct diagnostic studies to evaluate performance.

8. Since its creation, this service, known as the Central Bureau of Accounting and Organization (Centrale Comptable et Organisation), has:

- devised a budgetary code of conduct for all public establishments;

- provided training for management and accounting service staff;

- audited some 10 public establishments.

9. In parallel with the activities of the Central Bureau of Accounting and Organization, the Rwandese Government and its policymakers have continued to research and identify suitable ways of improving sector performance.

10. In his opening address before the Fifth Ordinary Congress of the MRND on December 20, 1985, the Head of State stressed the need for sound public enterprise management, referring particularly to the responsibilities of each of the specific administrative bodies (supervisory ministry, government commissioner, board of directors, auditors, and those persons in charge of day-to-day management).

11. In his closing remarks following his meetings with Government employees on June 15, 1987, the Head of State brought up the subject again, offering the following guidelines for improving public establishment management:

- review of the framework and structure of the public establishments and of the possibility of their operating in accordance with the logic of the marketplace;

- differentiation of public establishments according to their function as an administrative and/or social service, or as an economic, financial, or commercial enterprise;

- for commercial establishments, formulation of a performance contract to government relations between the State and the establishment concerned.

12. This definition of the Government's role in economic affairs was clarified by the Head of State on June 10, 1988, following his meetings with the economic operators. In his closing address, he stressed the Government's firm intention both to limit its active role in economic matters to strategic or vital areas, whose importance is such that they can only be handled by the State, and to give up those areas where the private sector can do just as well or better.

13. Accordingly, he decided that the Government would no longer intervene by taking equity participations to promote new enterprises when this was no longer necessary. Moreover, he stressed that the Government still had no objection to opening up public establishments to private sector participation.

14. In the case of existing mixed enterprises, the Head of State undertook to have the Government conduct a new survey to determine which public companies could validly continue to come under that heading. Lastly, he announced the Government's decision to withdraw from a number of public enterprises, specifically two public establishments and three mixed companies.

15. The concern of the Head of State is shared by the MRND Central Committee, which, when the broad lines of the 1989 budget were drawn up, also recommended a review of way and means by which the Government could better withdraw from certain public or mixed establishments and refrain from adding to the number of régies.

16. In addition to the guidelines offered by the Head of State and the activities of the Central Bureau of Accounting and Organization, a World Bank-financed study on public enterprise reform has just been completed.

17. The various guidelines given by the Head of State and the MRND Central Committee thus represent the policy reference for public enterprise reform. The recommendations of the Central Bureau of Accounting and Organization, and the lessons that can be drawn from the study on public enterprise reform, will help with the implementation of this policy.

18. The Government's policy on public enterprises aims to create a general framework within which it will be possible to reactivate the national production potential and improvement efficiency of Government resource management. It proposes a blanket strategy and selective activities appropriate to each enterprise. The proposed action centers on three restructuring modalities: establishment of a general framework for Government intervention, identification of procedures for Government withdrawal, and recovery of those enterprises that will continue to operate with Government or Government-agency intervention.

19. The ministerial department responsible for the Government portfolio will implement this policy.

I. Establishment of a General Framework for Government Intervention

1. Key Options

20. The framework for intervention will comprise fully government-owned companies, public establishments, and national companies. The public establishment category will include enterprises rendering a service in the public interest and functioning largely under Government auspices in a non-competitive environment.

21. The national companies category will include enterprises operating in a competitive environment, which are regarded as viable, but which the Government wants to keep among its assets because of their particular nature. These are joint stock companies whose capital is subscribed either completely

by the Government or by the Government with juridical persons operating under public law.

22. A national company differs from a public establishment in that its orientation is essentially industrial and commercial and it has capital stock. Although not open to private participation, a national company is governed by private company management rules, except in specific areas related to its strategic nature.

23. Implementation of the above key options will require amendment of the existing legislation on public establishments.

2. Subsidiary Actions

24. Publication of the general framework for financial intervention by the Government and its agencies will be followed by an operation classifying the public enterprises now being surveyed in new categories. Those that cannot be reclassified, and those mixed enterprises in which Government participation is considered inappropriate, will be restructured, privatized or liquidated.

II. State Withdrawal

25. Efforts to expand and diversify the public enterprises have used up a large part of the Government financial resources. Despite numerous efforts at recovery, the deficit burden is not getting any lighter, and is jeopardizing achievement of the Government's goal of public finance rehabilitation. Moreover, the Government does not have the requisite experience or organization to prepare its fully-owned enterprises for the dynamic management of a commercial business.

26. The Government needs to minimize its area of intervention in the business sphere and to concentrate on its priorities. Withdrawal operations should be tailored to the particular situation of each enterprise and designed to ensure that the transition progresses smoothly.

27. However, while it is not desirable to retain those enterprises that are capable of privatization, they should not be handed over blindly. It makes no sense for the Government to withdraw unless the private sector gets more involved in the investment and job creation process. Government withdrawal will not result in more efficient management of the country's resources unless the country's economic operators take over. They need to get more involved in improving competitiveness among the enterprises through investment, innovation and a search for new markets.

2. Strategy

28. The operations described above, concerning the establishment of a general framework for Government financial intervention, will be prerequisites for the Government's withdrawal strategy. This strategy will need to be based on a systematic review of the Government's portfolio, on a

precise methodological and institutional framework, and on support measures to facilitate its implementation.

29. The modalities for implementing this strategy could take several forms:

- enterprise reclassification;
- partial or total transfer of Government shareholdings;
- phasing out of units whose functions have been completed;
- transfer to the central Government of the activities of certain public services.

30. Every withdrawal will be preceded by a study confirming that this is the indicated course of action, comparing the various possible options, and recommending a timetable and implementation procedures.

31. While choices must be based, above all, on community and taxpayer interests, they must also take account of the financial objectives of the Government and the specific interest of users, customers and employees.

III. Public Enterprise Recovery

32. There is one sphere of activities that cannot escape direct Government intervention, or at least Government supervision, either because the State alone can safeguard the public interest, or because it alone has control over the mechanisms of change, or because it alone can take the risk of investing in its strategic sectors, as identified in the economic, social and cultural development plan.

33. The aim of public enterprise recovery is to bring about, at the lowest cost, volume and quality improvements in the services rendered to the community. For national companies, the financial return will also be a consideration.

34. The action to be taken within the framework of public enterprise recovery will be tailored to the context of each institution. However, where rationalization of Government-public enterprise relations is concerned, a systematic, standardized approach will be adopted for each of the following three groups:

- National companies, management autonomy will be strengthened through a performance contract laying down the obligations of both Government and enterprise for a fixed time period. A posteriori supervision will be favored.
- Public establishments for which the Government's financial contribution is justified by their exclusively public or social orientation and which are juridical persons with administrative autonomy.

- Lastly, mixed enterprises in which relations between the Government and the other partners will be governed by private law.

2. Strategy

35. The public service function of each enterprise will need to be defined and delimited, and subsidies must remain proportionate to the scope and importance of that function.

36. A performance system will be established to monitor the performance of the public enterprises and their overall impact on the public finances and key economic indicators such as the balance of payments and domestic and external indebtedness levels.

37. With respect to forms of management, the general rule will be to favor autonomy and accountability for the management organs of the enterprises, with a view to improving operational and organizational efficiency. In particular, the Government will refrain from interfering in day-to-day operations. Going back to its original role as the planner and regulator of economic activity, the Government needs to be more referee than actor, devoting more attention to identifying the medium and long term sectoral policies by which the actions of the enterprises will be defined. This movement toward autonomy does, however, presuppose a demonstrable ability on the part of the enterprises to set up efficient management systems: accounting, performance charts, forward planning, commercial policy, etc.

38. As in the case of withdrawal, the strategy for medium term recovery is based on an evaluation of the Government's portfolio, sectoral diagnostic studies, and any support measures that will expedite decision-making on enterprise recovery, simplify supervision by Government agencies, and lead to a lasting improvement of management systems and capacities.

39. To achieve the two objectives, the enterprises will first of all be assigned priority according to the size of their deficit net of subsidy. Then, in the case of viable enterprises, the choice of recovery priorities will be defined by the indirect economic aid granted by the Government and the conditions for improving their self-financing margins.

40. Every performance contract must include a precise description of the functions of the enterprise, an evaluation of costs and the corresponding multiyear estimates of operating results, identification of the form of government control and the degree of autonomy exercised by the enterprise, the amount of government funding, performance incentives (bonuses and penalties) and the necessary measures to ensure financial recovery and the absorption of arrears to the banking sector and private suppliers.

41. The performance contract system will be supplemented by a less cumbersome system of performance evaluation for those enterprises which, because there are so many of them, do not have a performance contract.

42. Finally, government policy on public enterprises should permit the reactivation of a large development potential, thanks to the overhaul of certain supervision or intervention mechanisms, the opening up of certain activities to new economic actors, and the adoption of rational subsidization procedures. However, the Rwandese Government will continue to fully exercise its role as the referee and overall organizer of economic life.

RWANDA PUBLIC ENTERPRISE REFORM PROJECT

KEY PROGRAM ACTIONS

Measure	Action	Deadline
A. Legal and Institutional Framework: Revision of Legislation on Public Enterprises	- completion of examination of draft by the CIC Technique	November 30, 1990
	- completion of examination of draft by the CIC Ministériel	December 31, 1990
	- Approval by the Council of Government	January 31, 1991
	- Adoption by the National Council of Development	March 31, 1991
B. General Privatization Strategy	- completion of examination of draft by the CIC Technique	December 31, 1990
	- completion of examination of draft by the CIC Ministériel	January 31, 1991
	- approval by the Council of Government	February 28, 1991
C. Rwandese Republic's Divestiture: - SONATUBES - Imprimerie Nationale du Rwanda - STIR - RWANTEXCO - Forge Gouvernementale - OVAPAM - Périmètres rizicoles - Papeteries du Rwanda - ORTPN (Hotel activity)	- completion of privatization or liquidation plans for the enterprises on a case by case basis.	March 31, 1991
	- completion of examination of plans by the CIC Technique	April 30, 1991
	- completion of examination of plans by the CIC Ministériel	May 31, 1991
	- approval by the Council of Government and starting of the execution of divestiture measures.	June 30, 1991

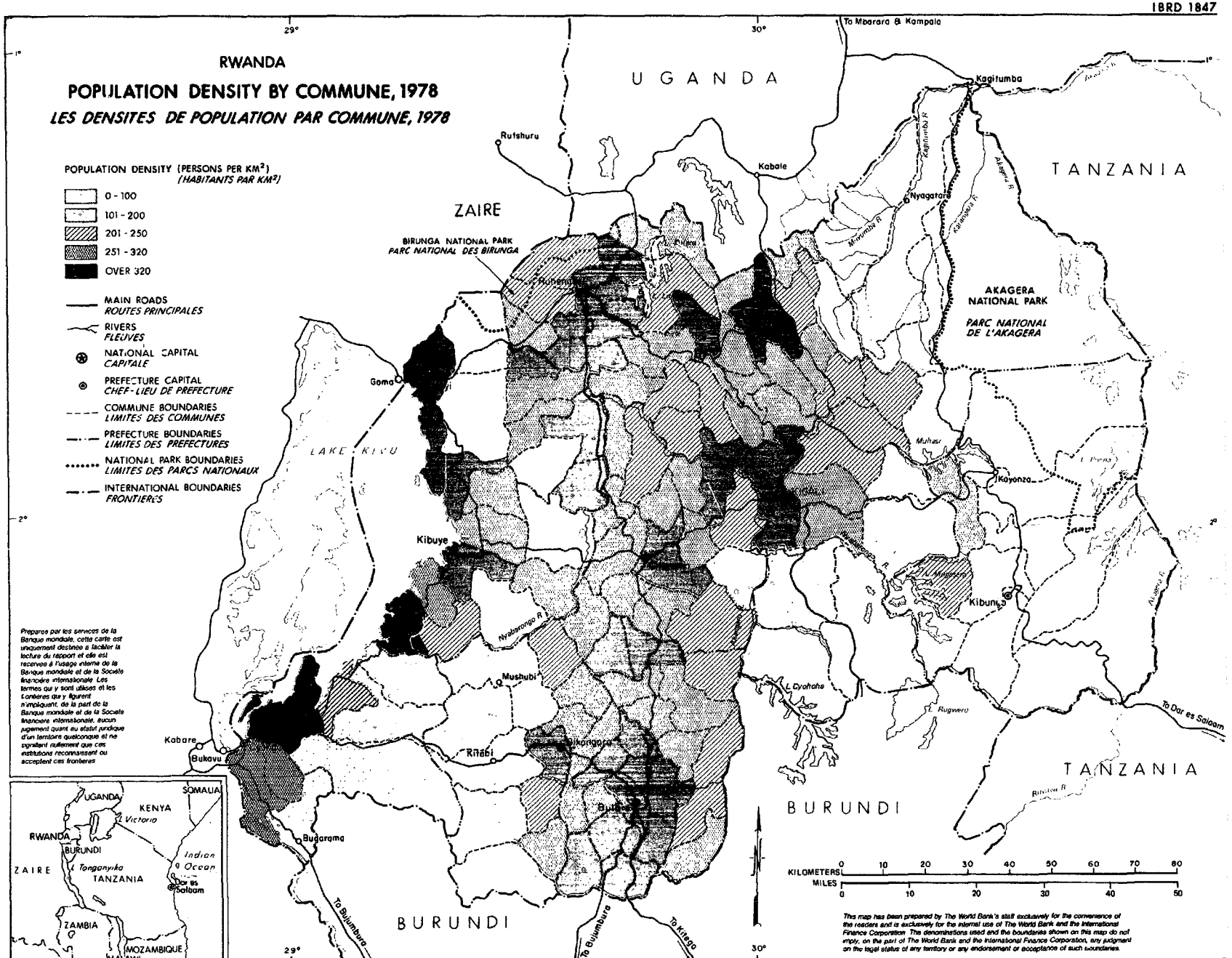
D.	Rehabilitation and/or Restructuring of:	- completion of formulation of contract-plans on a case by case basis and prioritization of interventions	May 31, 1991
-	Maïserie de Mukamira		
-	OVIBAR		
-	ORTPN (Tourism and National Parks activities)	- completion of examination of contract-plans by the CIC Technique	June 30, 1991
-	Régie des Aéroports	- completion of examination of contract-plans by the CIC Ministériel	July 31, 1991
-	BUNEP		
-	ELECTROGAZ		
-	Caisse Sociale du Rwanda		
-	Sucrerie Rwandaise	- approval by the Council of Government	August 31, 1991
		- signing of contract-plans.	October 31, 1991
E.	Diagnostic Studies for:	- completion of diagnostic studies	December 31, 1991
-	Caisse Hypothécaire du Rwanda	- completion of examination by the CIC Technique	February 28, 1992
-	AIR RWANDA	- completion of examination by the CIC Ministériel	April 30, 1992
-	REDEMI		
-	ONATRACOM		
-	OCIR-THE		
-	OCIR-CAFE	- approval by the Council of Government	June 30, 1992
-	OPROVIA		
-	TRAFIPRO		
-	SONARWA		
-	SOMITRAP		
-	SONAFRUITS		
-	OPYRWA		
-	Régie de l'Imprimerie Scolaire		
-	MAGERWA		
-	SODEPARAL		
-	SORWAL		
-	Caisse d'Epargne du Rwanda		
-	Régie Apicole		
-	Cimenterie		
-	Laiteries		
-	Petrorwanda		
-	RWANDEX		
-	BRD		

F.	Contract-plans for Enterprises to be Rehabilitated among those Listed in Paragraph E above	- completion of elaboration of contract-plans on a case by case basis and prioritization	December 31, 1992
		- completion of examination by the CIC Technique	January 31, 1993
		- completion of examination by the CIC Ministériel	February 28, 1993
		- approval by the Council of Government	March 31, 1993
		- signature of contract-plans	May 31, 1993
G.	Privatization or Liquidation Strategies for Enterprises to be Privatized or Liquidated among those Listed in Paragraph E above	- completion of elaboration of privatization or liquidation of enterprises on a case by case basis	October 31, 1992
		- completion of examination by the CIC Technique	November 30, 1992
		- completion of examination by the CIC Ministériel	December 31, 1992
		- approval by the Council of Government and starting of the execution of divestiture measures.	January 31, 1993

RWANDA

POPULATION DENSITY BY COMMUNE, 1978

LES DENSITES DE POPULATION PAR COMMUNE, 1978



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