PROMOTING PRIVATE SECTOR INVESTMENTS IN RWANDA: A CASE STUDY OF RWANDA PRIVATE SECTOR FEDERATION (PSF)

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Declaration

I, **NKUNDIMANA Vincent**, declare that this is my original work and that it has never been submitted to any other University for any academic award.

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Approval

This dissertation was submitted for examination with the approval of the following examiners:

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Dedication

This dissertation is dedicated to the Almighty God, and to my Father Mr. Kalinda Benjamin, to my Mother, Mrs. Uwimana Perusi, and to all my relatives and friends, who struggled and sacrificed a lot for my education.

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It is with pleasure and honor that I take this opportunity to acknowledge the great support I received from a number of people without whom this dissertation could not have been completed.

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LIST OF ABBREVIATIONS

ASEAN: Association of Southeast Asian Nations

BDS: Business Development Services

EAC: East African Community

EDPRS: Economic Development and Poverty Reduction Strategy Paper

FDI: Foreign Direct Investment

GDI: Gross Domestic Investment

GDP: Gross Domestic Product

ICT: Information Communication technology

IDBI: Industrial Development Bank of India

IFC: International Finance Corporation

IFCI: Industrial Finance Corporation of India

IPA: Investment Promotion Agencies

IPA: Investment Promotion Agency

LDC: Less Developed Countries

MDG: Millennium Development Goals

MINECOFIN: Ministry of Finance and Planning

MINICOM: Ministry of Trade and Industry

NABARD: National Bank for Agriculture and Rural Development

ODA: Official Development Assistance

OECD: Organization for Economic Co-operation and Development

PPP: Public Private Partnerships

PPD: Public Private Dialogue

PSD: Private Sector Development

PSF: Private Sector Federation

R&D: Research and Development

SFC: State Financial Corporations

SME: Small and Medium-sized Enterprises

SPSS: Statistical Package for Social Scientists

UNCTAD: United Nations Conference on Trade and Development

UNDP: United Nations Development Program

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ABSTRACT

The purpose of this study was to investigate the role of Rwanda Private Sector Federation in the promotion of investments. To achieve that objective, questionnaires, interview guides and focus group discussions were used as research instruments. A total of 70 respondents were involved in this study comprising of PSF staff and sectoral associations members, government officials and other private sector operators who are not enlisted with PSF The results show that Private Sector Federation has played a crucial role in the promotion of investments in Rwanda as judged by respondents--participating in local business exhibitions and trade fairs (70 percent), in local investment seminars and missions (14 percent). However, PSF contributed less by participating in regional and international investment seminars and missions (5 percent), and in Regional and International business exhibitions and trade fairs (2 percent). The private sector also played an outstanding role in Public Private Partnerships (PPP) with the government in some priority projects of the country. The results also showed that PSF achieved success in policy advocacy by influencing the government for the removal of non service based fees, in the review of business laws, labour code and national social security policy. Among the challenges raised by Private Sector operators with regards to investment promotion in Rwanda are shortage of skilled labor (20 percent), limited access to finance (16 percent), tax barriers (20 percent) and low business management skills (11 percent), while robust governance and absence of corruption (30 percent), access to markets (25 percent) untapped opportunities in agriculture, energy and tourism (14 percent).and sustained high economic growth (16 percent) are the main opportunities available to them. The investigation showed that there is a great need for closer relationships between PSF and the government in every endeavor aimed at promoting investments in Rwanda, as well as in addressing challenges encountered by private companies. Towards that end, a new model for a successful investment promotion framework in Rwanda has been proposed.

CHAPTER ONE: INTRODUCTION

1.1. Background of the study

Over the last two decades, as more and more governments have come to realize the crucial role of private investment, including Foreign Direct Investment, in fuelling economic growth and development, great strides have been made to improve both national and international investment policies. Governments in developing countries have made very significant efforts in particular, often aided by the international development community through policy frameworks, model treaties and technical assistance.

However, mobilizing investment for sustainable development remains a major challenge for developing countries, particularly for LDCs. Given the often huge development financing gaps in these countries, foreign investment can provide a necessary complement to domestic investment, and it can be particularly beneficial when it interacts in a synergetic way with domestic public and private investment.

Rwanda, after the genocide that destroyed much of the social and physical capital, is at present facing a situation where it is necessary to achieve huge efforts in rehabilitation and development. This requires exceptional efforts to mobilize and improve qualitatively the private and public investments with the objective to get annual growth rate of 8percent that is necessary to reduce by half the poverty by 2015 and to reach most of the nation's aspirations as expressed in the Rwanda Vision 2020 strategy.

Rwanda has made substantial achievements in its recovery from the genocide and war of 1994.The Government, through its expenditure program has played a crucial role in the process of promoting socio-economic reconstruction. Now, more than a decade after, the country is aiming for medium- to long-term development and poverty reduction as elaborated in Vision 2020 and the EDPRS (Economic Development and Poverty Reduction Strategy Paper).

One of the primary objectives of EDPRS is to eradicate extreme poverty. Achieving this goal will require accelerated pro-poor economic growth in line with Vision 2020 that targets rates of growth sufficient to allow the country to attain middle-income status by 2020.

Public expenditure and Public Private Partnerships (PPPs) in general should support the achievement of the goals highlighted in Vision 2020 and EDPRS. Rwanda's leadership realizes that economic growth must be driven by focused public and private sector investments as well as taking the necessary legislative and policy initiatives aimed at enhancing the country's attractiveness as a base for business.

Public investment has a central role to play in this respect; first, through the creation of wealth itself, and through its capacity to facilitate the creation of wealth by enabling the private sector, thus facilitating private investment. Experience has shown that for countries like Rwanda, where rates of poverty are very high, economic growth is not only a sine qua non condition for sustainable reduction of poverty, but also that economic growth itself depends on the volume and quality of investment.

Private investment, including Public Private Partnerships, on the other hand, can play a pivotal role in supporting the accelerated delivery of strategic national infrastructure, yield long term value for money and ensure quality public services without jeopardizing debt sustainability.

Rwanda has embarked upon an ambitious programme to modernize its legislative and regulatory framework for investment; with the aim of fostering a "modern, competitive private sector geared towards capital formation".

Private sector representation started in Rwanda prior to 1994, in the form of the Rwanda Chamber of Commerce. A government driven institution, the Chamber of Commerce exhibited three important limitations: lack of autonomy, weak representation, and lack of relevant services. As a result, Industrialists, Banks, Insurers, Transporters, and Women created stand-alone associations to serve their needs.

The PSF-Rwanda was therefore founded in December 1999 as the Private Sector's counterpart and umbrella organization in the Private Public Partnership framework in Rwanda. Initially the PSF grouped together 14 Associations that were sector specific. The number grew to 23 Associations representing 17 specific business associations and six provincial business associations.

From 2006, PSF leadership undertook a restructuring exercise for the purposes of injecting a greater level of efficiency within all its working sites and enhancing the PSF-RWANDA as the umbrella organization and voice of the private sector in Rwanda.

The 2004-07 strategy also identified the need to strengthen sectoral associations. In November 2005, the private sector General Assembly approved the new chamber structure encompassing 10 chambers namely Chamber of Agriculture, Chamber of Commerce, Chamber of Art & Crafts, Chamber of Finance, Chamber of ICT, Chamber of Industry, Chamber of Liberal Professions, Chamber of Tourism, Chamber of women entrepreneurs, Chamber of young entrepreneurs.

Each chamber (equivalent to a sectoral association) is governed by a board of Directors comprised of 3 leaders of the executive and a number of administrators according to the number of associations in the chamber. This new structure presents three main benefits of a) ensuring a stronger voice on sectoral matters, b)providing easier and more effective consultation with a more holistic and less fragmented view of industries and c)establishing stronger capacity to provide sector specific services.

Its vision is to ensure prosperous businesses for a prosperous Rwanda while its mission is to represent the interests of the private sector, through providing innovative services for growth and professionalism of member enterprises towards sustainable private sector led development.

The private sector in Rwanda is still young and overwhelmingly informal. A recent business operators' census conducted by the Rwandan Private Sector Federation identified about 73,000 operators. Individual enterprises account for about 96percent of businesses; formally registered businesses account for less than 1percent and cooperatives close to 3percent. Close to 90percent of operations are micro enterprises, employing between 1-4 staff. Less than 0.5 percent of enterprises employ more than 50 employees. Total employment by these enterprises is about 198,000, of which 13percent have secondary or higher level education. (World Bank, 2009).

Private sector productivity in Rwanda is constrained by relatively limited investments in technology, lack of foreign linkages through foreign technology licensing or foreign ownership, limited worker training programs, and slow uptake of ICT in the manufacturing sector. (World Bank, 2009).

EDPRS II adds that Private sector growth and competitiveness is also constrained by low skills and labour productivity in all sectors of the economy. Among the priorities of EDPRS II, priority number 3 is to transform the private sector by increasing investment in priority sectors.

In particular, the Government recognizes the need for close coordination between the public and private sectors in order to achieve effective implementation of the EDPRS and calls for strong information sharing and high levels of trust. Furthermore, the government, through the Ministry of Finance, is strongly promoting the development of Public Private Partnerships (PPP) in order to achieve a number of major infrastructure investment projects.

However, Rwanda's private sector remains small and nascent, dominated by micro and small enterprises (99.5percent of firms) which provide low returns to investment and struggle to grow. The activities of the private sector have been highly undiversified though a recent increase in non-traditional exports such as manufactures is gradually reducing dependency on a few traditional commodities (tea, coffee, and mining). (EDPRS 2, 2013)

While a modern private sector is beginning to emerge in Rwanda, its role and contribution in economic activity is still limited. Private sector investment is only 12percent of GDP compared to 14.4percent in the region. FDI flows are on the rise but currently represent only 2percent of GDP, compared to 3.9percent and 3.4percent in Uganda and Tanzania respectively.

On the other hand, on foreign private investors' perception, results from Investor Perception Index 2011 revealed that the most favorable conditions for investors are low level of corruption at the central level (championed through Rwanda's "zero tolerance "campaign) as well as key business support services regarding licenses, permits and registry of companies.

Rwanda's Investment Strategy envisages the increase of total investment from 22percent in 2005 to 30percent of GDP share by 2020. This envisaged accelerated growth will require significant expansion and deepening of investment as well as export performance. By implication; investment promotion must come into play to mobilize more infusion of capital, mainly private, necessary to drive targeted growth levels.

As stated in the PSF strategic plan (2009-2013), the development of the private sector is a fundamental requirement for economic growth and poverty reduction. While the private Industrial sector is being given a central role in the country's development efforts, its role and contribution in economic activity is limited: the economy remains dominated by agriculture, with industry contributing only 14percent of GDP.

According to World Investment Report 2012, given the specific development contributions that can be expected from investment – private and public, domestic and foreign – policymakers should consider carefully what role each type can play in the context of their development strategies.

The Government recognizes the need for close coordination between the public and private sectors in order to achieve effective implementation of the EDPRS and calls for strong information sharing and high levels of trust. The government, through the Ministry of Finance, is strongly promoting the development of Public Private Partnerships (PPP) in order to achieve a number of major infrastructure investment projects.

So, it is within the above perspective that the need for this study arises to investigate the role played by Private Sector in the promotion of Investments in Rwanda, most particularly the contribution of the Private Sector Federation (PSF), as umbrella organization for the Private sector in Rwanda, towards the promotion of investments.

1.2. Statement of the problem

The private sector is the main engine of growth .But the way the private sector develops also has a strong bearing on the pattern of growth, influencing whether growth is broad or narrowly based and whether it is more or less inclusive of the poor. For our case in Rwanda, the Private Sector Federation (PSF) has registered major successes since its creation in 1999. Beyond a strong brand and membership base, PSF pioneered Business Development Services (BDS), registered wins in advocacy and played a strong national and regional role.

However, the issue arising in Rwanda business environment today is the fact that all of Rwanda's branding and investment promotion activities are championed by government institutions, mainly by the Rwanda Development Board (RDB), whereas it should be done in partnership between public and private institutions to boost up such a successful investment promotion framework in Rwanda. This has necessitated an investigation into the extent to which Private Sector Federation (PSF), as an umbrella organization and voice of the private sector in Rwanda, has contributed towards promoting Investments in Rwanda.

1.3. Objectives of the study

The major purpose of this study is to investigate the role played by private sector in the promotion of Investment and in the process, specifically focus on the contribution of Private Sector Federation (PSF), as the umbrella organization and voice of the private sector in Rwanda, towards improving the environment for private sector activity aimed at branding the country, and thus helping to pave the way for robust growth and economic development of Rwanda.

1.3.1. Specific objectives

The specific objectives of this research are:

(i) To assess the variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment promotion framework in Rwanda by Private sector Federation.

(ii) To assess the challenges and opportunities available for Private Sector with regards to investment promotion in Rwanda.

(iii) To examine the extent to which the Private Sector Federation's participation in regional and international Investment Promotion activities and policy advocacy has contributed towards national image building , private investments generation and addressing issues impeding private sector investments in Rwanda.

1.4 .Research questions

The researcher aimed at answering the following questions:

i) What are the variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment Promotion strategy in Rwanda?

ii) What are the main challenges and opportunities available for private sector with regards to Investment promotion in Rwanda?

iii) To what extent has the Private Sector Federation's participation in regional and international Investment Promotion activities and policy advocacy, contributed towards national image building, private investments generation and addressing issues impeding private sector investments in Rwanda?

1.5 Significance of the Study

The findings of the study have shown the extent to which the private sector has contributed towards Investment Promotion in Rwanda. This study has also revealed the role and the involvement of private sector as such a powerful catalyst for innovation, economic growth, poverty reduction and private investments generation through Investment Promotion activities towards the achievement of financial self-reliance.

The present information is vital to the Rwandan government especially the Ministry of Finance and Planning (MINECOFIN) by showing the extent to which private sector has contributed in promoting Investments.

These results are important to guide the Ministry in planning and designing appropriate programs and projects as well as in setting up a sustainable policy framework aimed at empowering more the private sector actors with a view of increasing their share of Private sector Investment on GDP.

Additionally, the present findings are also useful to the Ministry of Trade and Industry (MINICOM), to embrace the major challenges to be considered while addressing and even planning for issues relating to employment, exports, business innovations and development as well as in the review of investment promotion policy in Rwanda.

Moreover, these research outcomes are helpful for the Private Sector Federation-Rwanda to address and successfully meet the Investment Promotion needs and expectations of the private sector environment in Rwanda.

Furthermore, these results are also important to other organizations (NGOs) involved in Investment promotion programs as well as in public private partnerships to determine the key priorities and efforts needed to further strengthen the private sector in Rwanda.

1.6 Scope of the study

The study was carried out in Kigali City. The period covered by the study is between 1999 and 2013.The study was limited to only 9 chambers (Sectoral Associations) that make up the Federation, PSF staff and government officials who has much to do with investment promotion policy in Rwanda, as well as other private sector operators not listed with PSF, but operating within the boundaries of different administrative entities of Kigali city.

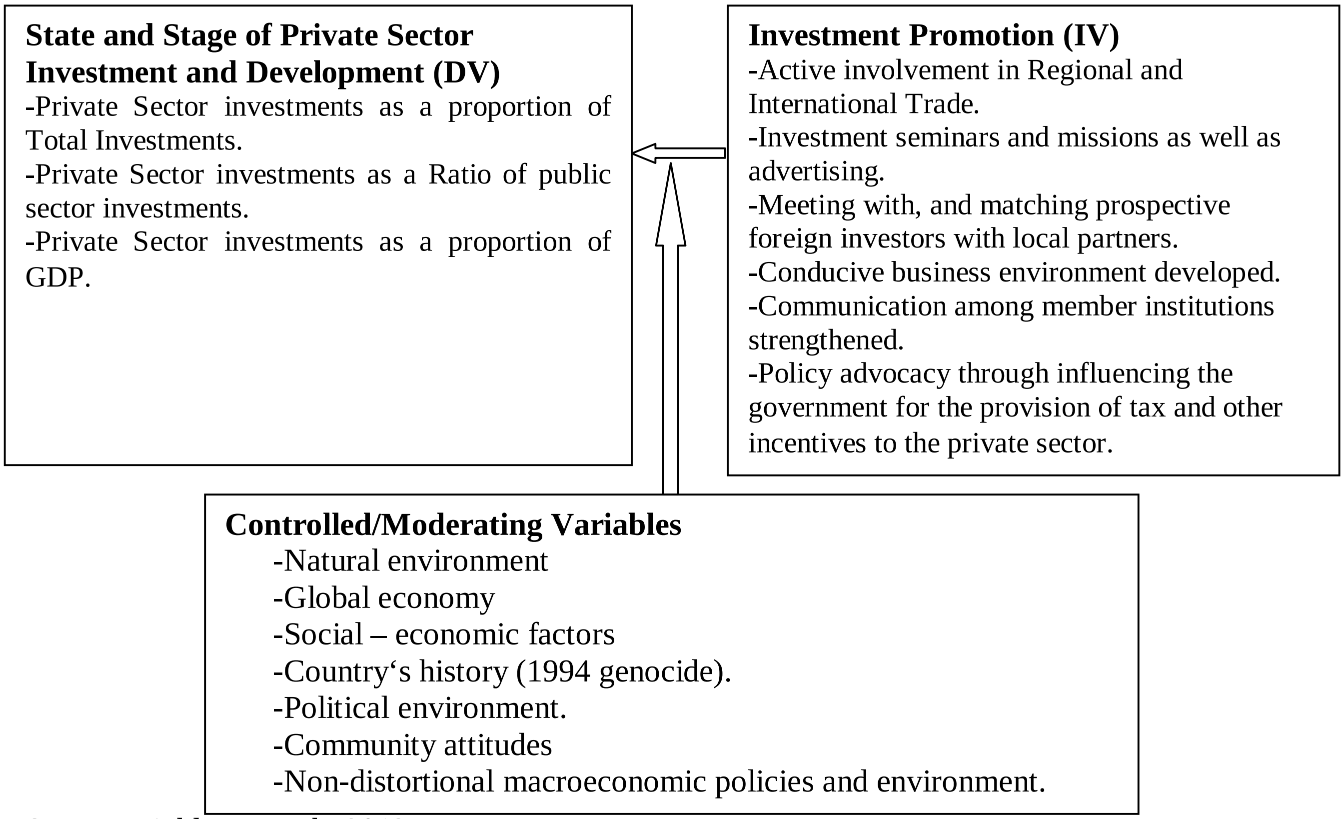
The state and stage of Private Sector investment and development in Rwanda is marked by the proportion Private Sector investments in Total Investments, Private Sector investments as a Ratio of public sector investments and the proportion of Private Sector investments on GDP.

However, the state and stage of Private Sector investment and development in Rwanda is impended by exogenous variables such as natural environment, social – economic factors, political environment, community attitudes, country's history as well as non-distortional macroeconomic policies and environment.So, the content scope covered the role of Private Sector Federation in promoting investments in Rwanda, with much focus the variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment promotion framework in Rwanda.

The study also focused on the challenges and opportunities available for Private Sector , the extent to which PSF active involvement in regional and international trade fairs and investment seminars & missions have contributed to national image building and private investments generation as well as the extent to which the PSF influence on government policy on tax and other incentives to the private sector through policy advocacy has contributed towards addressing issues impending private sector investments in Rwanda.

1.7 Conceptual framework

Figure 1. 1 Relationship between the State and Stage of Private Sector Investment and Development and Investment Promotion



Source: Field Research, 2013

This conceptual framework, presents the study of variables and their components that are used to guide the investigation leading to study findings. The framework is based on the Dependent Variable **State and Stage of Private Sector Investment and Development** measured by Private Sector investments as a proportion of Total Investments, Private Sector investments as a Ratio of public sector investments and Private Sector investments as a proportion of GDP.

The Independent variable is **Investment Promotion** which is measured by Active involvement in Regional and International Trade, Investment seminars and missions as well as advertising, Meeting with, and matching prospective foreign investors with local partners, Developed Conducive business environment, Strengthened Communication among member institutions as well as Policy advocacy through influencing the government for the provision of tax and other incentives to the private sector. However the above dependent and independent variables can be affected by the moderating variable which include; natural environment, social economic factors, political environment, community attitudes, country’s history as well as non-distortional macroeconomic policies and environment.

CHAPTER TWO: LITERATURE REVIEW

2.0. Introduction

For successful execution of this study, related literature has been reviewed in line with study objectives and research questions for easy conceptualization and flow of ideas. The literature has been consulted taking into account the impact of private sector on Investment promotion around the world. This chapter provides an overview about concepts such as Investment, Investment Promotion, Foreign Direct Investments and Private Sector. The chapter also describes Private sector led investment and industrialization as well as Public Private Partnerships (PPP) in East Asia, with typical experiences from India and. South Korea. It also recapitulates the current context of private sector, investment promotion efforts, and Public Private Partnerships (PPP), and finally tackles the rationale for investment promotion in Rwanda by the private sector.

2.1. Investment

At first, defining investment may appear deceptively simple. The term forms part of everyday usage, which may give the impression that there is a common or shared understanding of the term. However, investment is a broad term invoking different meanings in everyday, economic and legal usage. The commonly used terms *investment, foreign investment and foreign direct investment (FDI)* entail different meanings, varying in the breadth of assets they cover. Rwanda’s Investment Code (2005) defines investment as the creation or acquisition of new business assets or the expansion, restructuring or rehabilitation of existing business enterprise.

The term investment is defined in The Compact Oxford English Dictionary as:

1. The action or process of investing.
2. A thing worth buying because it may be profitable or useful in the future.”

Foreign investment is simply “investment originating from another country.” The definition of investing is similarly broad: “investing: the act of investing; laying out money or capital in an enterprise with the expectation of profit.”

According to International Institute for Sustainable Development (2009) in “Definition of Investment in InterInvestment Agreements”, the term “investments” means every kind of asset owned or controlled, directly or indirectly, by an investor, including:

a) An enterprise;
b) Shares, stocks or other forms of equity participation in an enterprise, including rights derived therefrom;
c) Bonds, debentures, loans and other forms of debt, including rights derived therefrom;
d) rights under contracts, including turnkey, construction, management, production or revenue-sharing contracts;
e) Claims to money and to any performance under contract having a financial value;
f) Intellectual property rights, including copy rights and related rights, patent rights and rights relating to utility models, trademarks, industrial designs, layout-designs of integrated circuits, new varieties of plants, trade names, indications of source or geographical indications and undisclosed information;
g) Rights conferred pursuant to laws and regulations or contracts such as concessions, licences, authorizations, and permits, including those for the exploration and exploitation of natural resources; and
h) Any other tangible and intangible, movable and immovable property and any related property rights, such as leases, mortgages, liens and pledges.

(Gildenhuys, 1997) Defines investment as “the warehousing of capital or assets in the open market for a defined period with the intention of declaring a yield at the end of the defined period.”

According to Mangaung city Investment promotion and incentive policy(2006),In the complex world of risk, change, and different tax regimes, investment managers tend to rely more on the “satisficing behaviour” than the systematic evaluation of investment outcomes, when it comes to a decision to invest.

The open market system comprises mainly the Western hemisphere countries and Asia where the amount of capital inflows in these economic hubs determines the size and profitability of investments made. The rate of these capital flows is used as an indicator of confidence to invest. It is therefore not surprising that the dominant markets are found in Europe, United States and Asia as compared to the developing economies, of which South Africa is one. This phenomenon explains the importance of direct foreign investment for any developing economy.

Investment climate, broadly defined, includes a country's unique attributes or "geography", as well as the state of its infrastructure, economic, and social policy institutions, and governance mechanisms.

Rwanda's Investment Code defines investment as the creation or acquisition of new business assets or the expansion, restructuring or rehabilitation of existing business enterprise. Investment promotion involves all activities aimed at encouraging greater infusion of investments to fuel growth as well as enhancing the image of the country as an ideal location for investments.

2.1.1. Investment Promotion

Investment promotion is a relatively new business, which grew rapidly in the 1980s and 1990s, together with the opening up of the world economy and the remarkable growth of FDI worldwide. A considerable number of IPAs are still relatively young, especially in developing countries and economies in transition. (UNCTAD, 2001)

Wells and Wint (2000) define investment promotion as activities through which governments aim to attract FDI inflows. These activities encompass: advertising, investment seminars and missions, participation in trade shows and exhibitions, distribution of literature, one-to-one direct marketing efforts, facilitating visits of prospective investors, matching prospective investors with local partners, help with obtaining permits and approvals, preparing project proposals, conducting feasibility studies and servicing investors whose projects have already become operational.

Their definition of promotion excludes granting incentives to foreign investors, screening potential investment projects and negotiations with foreign investors, even though some Investment Promotion Agencies (IPA's) may also be engaged in such activities.Investment promotion activities can be grouped into four areas:

i) National image building,

ii) Investment generation,

iii) Investor servicing, and

iv) Policy advocacy.

Image building activities aim to build a perception of the country as an attractive location for foreign direct investment. Investment generation involves identifying potential investors who may be interested in establishing a presence in the country, developing a strategy to contact them and starting a dialogue with the purpose of having them commit to an investment project.

Investor servicing involves assisting committed investors in analyzing business opportunities, establishing a business and maintaining it. Policy advocacy encompasses initiatives aiming to improve the quality of the investment climate and identifying the views of private sector in this area.

By its very nature, therefore, investment promotion is not sector specific. Instead, its scope is overarching and cross-cutting in nature.

2.1.2. Investment Promotion Techniques

Conventional wisdom holds that a targeted strategy is the most appropriate approach to investment promotion.

According to Wells and Wint (2000), although investment promotion is ultimately aimed at attracting investors, at another level of generalization promotion activities are designed to accomplish three different objectives:

1. To improve a country's image within the investment community as a favorable location for investment (image-building activities);
2. To generate investment directly (investment-generating activities); and
3. To provide services to prospective and current investors (investment- service activities).

Image-building and investment-service activities have as their ultimate objectives the attraction of more investment. But their immediate goals are different, and, it could be argued, appropriate measures of effectiveness are different.

Wells and Wint (2000), identified at least twelve different promotional techniques that were in use by at least some of the countries that they studied, as follows:

1. Advertising in general financial media.
2. Participating in investment exhibitions.
3. Advertising in industry- or sector-specific media.
4. Conducting general investment missions from source country to host country or from host country to source country.
5. Conducting general information seminars on investment opportunities.
6. Engaging in direct mail or telemarketing campaigns.
7. Conducting industry- or sector-specific investment missions from source country to host country or vice versa.
8. Conducting industry- or sector-specific information seminars.
9. Engaging in firm-specific research followed by "sales" presentations.
10. Providing investment counseling services.
11. Expediting the processing of applications and permits.
12. Providing post investment services.

These promotional techniques were typically employed for different purposes. Some, especially techniques 1 to 5, were usually directed toward building a particular image for the country; in contrast, techniques 6 to 9 were used to generate investment directly, and techniques 10 to 12 were investment-service techniques. Although the goals of the techniques overlapped to some extent, this classification scheme seems to capture reasonably well the objectives that typically lay behind the use of the various techniques.

2.1.3. Investment promotion efforts in Rwanda

The Government's resolve to improve the investment climate and attain desired levels of both local and foreign investment as a priority. The World Economic Forum's Global Competitiveness Report (2011-2012) ranked Rwanda the 3rd easiest place to do business in Africa and 2nd five years Top Global Reformer after Georgia and the first in EAC.

Rwanda was ranked number eight globally in starting a business with only 2 procedures in spam of 3 days. Rwanda is considered as the most competitive place to do business in East Africa and 3rd in Africa.

The country is ranked 8th in the World (from 32nd last year) in getting credit after putting in place a fully functional private credit reference bureau. Rwanda moved from 43rd last year to 19th easiest place to pay taxes in the world. For Rwanda's development, the emergence of a viable private sector that can take over as the principle growth engine of the economy is absolutely key.

According to National Bank of Rwanda (2011), although foreign direct investment will be encouraged, a local-based business class remains a crucial component of development. The public sector will not be involved in providing services and products that can be delivered more efficiently by the private sector. The State will only act as a catalyst; ensuring that infrastructure, human resources and legal frameworks are geared towards stimulating economic activity and private investment.

Martin Semukanya (2013)in The new times states that Effective "Branding Rwanda" may at moment be championed by the Government but in reality is a collective effort by both the public and private sector.

2.1.4. Reasons for investing in Rwanda

There are reasons why investors can have confidence in Rwanda and direct their investments to potential economic sectors with promising returns.

i) **Good macroeconomic environment:** Rwanda enjoyed a year-on-year average real GDP growth rate of 8.5 percent between 2005 – 2011, among the highest in major African economies and neighboring countries, a moderate inflation of one digit and stable exchange rate.

ii) **Good governance:** Politically stable with well-functioning institutions, rule of law and zero tolerance for corruption, clear vision for growth through private investment

iii) **Investor friendly climate:** World Bank Doing Business Report 2012 ranked Rwanda the 2nd Five years top global reformer and 3rd easiest place to do business in Africa.

It is among the best competitive place to do business in Africa and 1st in East African Community. On credit ranking by Fitch in 2010, Rwanda was upgraded to B. Rwanda is among top 3 African countries in terms of internet connectivity according to Oracle in 2010. The initiative of new special economic zone was developed and more zones planned for the Districts to improve industry and trade.

iv) **Access to markets:** Rwanda is a Market of over 11 million people with a rapidly growing middle class. It is located centrally bordering with 3 countries in East Africa. The country adhered to EAC Common Market and Customs Union with market potential of over 125 million people.

v) **Untapped investments opportunities:** Potential investment opportunities abound, particularly in the following sectors:

1. Infrastructure: Opportunities in rail, air , water transportation to further develop Rwanda as an EAC hub;
2. Agriculture: Potential for agriculture productivity growth and value addition;
3. Energy: Power generation, off grid generation and significant methane gas opportunities;
4. Tourism: Unique assets creating booming sector, growth potential in birding & business/conference tourism
5. Information and Communication Technology: Priority sector for Vision 2020;
6. Other attractive sectors include real estate and construction, financial services and mining.

2.2. Foreign Direct Investment (FDI)

Foreign direct investment (FDI) is defined as investment made to acquire or add to an enterprise operating in a country other than that of the investor. It is an important source of capital for investment, job creation, economic growth and poverty reduction in the host country (Bruno Ocaya, et al 2012)

As early stated by Ann Harrison and Andrés Rodríguez-Clare(2009) in their review of Jagdish Bhagwati book “In Defense of Globalization”, Growth was not a passive, trickle-down strategy for helping the poor. It was an active, pull-up strategy instead.

It required a government that would energetically take steps to accelerate growth, through a variety of policies including building infrastructure such as roads and ports and attracting foreign funds."

Torfinn Harding and Beata Smarzynska Javorcik (2011) argue that countries around the globe compete fiercely to attract foreign direct investment (FDI).

Policy makers believe that FDI can contribute to a faster economic growth by bringing additional capital, creating jobs, and transferring new technologies and know-how across international borders. Recent empirical evidence also suggests that FDI may lead to positive productivity spillovers to local firms, particularly in the supplying industries. Given these potential benefits of FDI inflows, it is very necessary to describe the meaning of Foreign Direct Investment.

2.2.1. Relationship between FDI and economic growth

According to Niels Hermes and Robert Lensink (2003), FDI may help to raise economic growth in recipient countries. Yet, the contribution FDI can make may strongly depend on the circumstances in the recipient countries

Rwanda faces particular challenges in leveraging FDI for development as a result of its economic structure, the low level of development of its human resources, its landlocked position and small size. These factors influence not only the level and type of FDI that the country is likely to attract, but also the kind of FDI that is likely to make the largest contribution to national development goals and poverty reduction. A clear understanding of Rwanda's economic structure and its evolution over the recent past is thus essential to assess the role FDI could play in the development of the economy and to formulate a strategy to attract and benefit from foreign investment.

There is a huge literature emphasizing the positive impact FDI may have on economic growth. Next to the direct increase of capital formation of the recipient economy, FDI may also help increasing growth by introducing new technologies, such as new production processes and techniques, managerial skills, ideas, and new varieties of capital goods. In the new growth literature the importance of technological change for economic growth has been emphasized
The growth rate of less developed countries (LDCs) is perceived to be highly dependent on the extent to which these countries can adopt and implement new technologies available in developed countries (DCs).

By adapting new technologies and ideas (*i.e.* technological diffusion) they may catch up to the levels of technology in DCs. One important channel through which adoption and implementation of new technologies and ideas by LDCs may take place is FDI.

The new technologies they introduce in these countries may spillover from subsidiaries of multinationals to domestic firms (Findlay, 1978). The use of new technologies may be important in contributing to higher productivity of capital and labour in the host country.

The spillover may take place through demonstration and/or imitation (domestic firms imitate new technologies of foreign firms), competition (entrance of foreign firms leads to pressure on domestic firms to adjust their activities and to introduce new technologies), linkages (spillovers through transactions between multinationals and domestic firms), and/or training (domestic firms upgrade the skills of their employees to enable them to work with the new technologies) (Kinoshita,1998: 2-4; Sjöholm, 1999).The next question is what conditions in the host country are important to maximize the technology spillovers discussed above?

In the literature it has been emphasized by some that the spillover effect can only be successful given certain characteristics of the environment in the host country. These characteristics together determine the absorption capacity of technology spillovers of the host country. Thus, FDI can only contribute to economic growth through spillovers when there is a sufficient absorptive capacity in the host country.

Several country studies have been carried out, providing diverging results on the role of FDI spillovers with respect to stimulating economic growth. These studies deal with the productivity effects of FDI spillovers on firms or plants using micro level data.

2.2.2. Promotion of Foreign Direct Investment

According to Xiaolun Sun (2002), International evidence has shown that foreign investors are attracted to a country by three basic factors:

The **"product"** or the country itself as an investment site. Some aspects of the product such as location, existence of natural resources, and market size are generally beyond the ability of the government to change. Other factors such as macroeconomic stability, investment regime, and physical and social infrastructure are more under the influence of government policy.

The **“price”** or the cost to the investor of locating and operating within the investment site. This includes the cost of accessing land, infrastructure and utilities, the effective cost of taxes and subsidies, and the administrative cost of various regulatory procedures.
As discussed at length in the previous section, broad-based, transparent, non-discriminatory, and predictable regulatory framework is a very powerful attraction for a country seeking foreign investments.

The “**promotion”** or activities that disseminate information about or attempt to create an image of the investment site and provide services for the prospective investor. Typically, promotional activities aim to capitalize on a country’s product and price advantages.

It is often argued that only when the “product” and “ price” are right can a country truly benefit from a successful promotion effort. As illustrated by the experiences of Singapore, Malaysia and Ireland, investment promotion can be a valuable complement to increase or speed up the inflow of FDI in countries which offer good business environments. At the same time, since one of the most important functions of the investment promotion agency can be to improve the investment climate, “promotion” can help get the “product” and “price” right, hence improving the most fundamental attractiveness of the country.

2.3. Private Sector

According to Toshiki Kanamori and Zhijun Zhao (2004), some experts see private enterprises as equivalent to either the private sector or the private economy. Some experts classify enterprises into state-owned and private enterprises, using ownership as criteria. Some with a broader perspective insist that foreign-invested enterprises and non-public shareholding companies not controlled by the government should be included within the private sector.
According to OECD,2006 as s the Monterey consensus emphasized, private investment is a powerful catalyst for innovation, economic growth and poverty reduction.
But also, Lisiate Aloveita Akolo ,Ministrer of Labour, Commerce, and Industries of the kingdom of Tonga (2009) emphasized that Investment is the life-blood of the private sector.In addition to its economic merit, it brings about social and political benefits by engaging people more actively in the production and decision making process, and tax bases created by private sector development can be directed to tackling social and environmental challenges.(Bahar Bayraktar,2003)

Economic growth and development depend essentially on the country's ability to invest and make efficient and productive use of its resources. In this regard, the role of private sector is important both in terms of its contribution to the quantity of Gross Domestic Investment (GDI) and its ability to allocate and employ resources efficiently. Private investment, as a proxy for a dynamic private sector, has not only been seen as an engine for job and income creation, but it also has a role to play in the provision of both infrastructure and social services. Briefly, there cannot be growth without investment of sufficient amount and quantity. In fact, investment is both a result and cause for growth.

A critical challenge is to ensure the necessary internal conditions for mobilizing enough domestic savings to sustain adequate levels of investment in productive and human capacities. This responsibility includes creating conditions that make it possible to secure the needed financial resources for investment which include macroeconomic and microeconomic policies, public finance, the condition of financial system, and other basic elements of a country's economic environment (Bahar Bayraktar, 2003)

As stated by the Organization for Economic Co-operation and Development (2006)**,** the private sector in developing countries is often made up of a very large number of small and medium-sized enterprises (SMEs) and a small number of well-established, larger firms. To help fill this gap, SME growth can be promoted by focusing on their specific needs such as expanded access to financial services and support to participate in processes that set the strategic framework for national development. SMEs can also need greater access to the associations and enterprises that will help them improve their competitiveness and raise their capacity to link up with larger firms, both domestic and foreign.

Public Private Partnerships

A public private partnership (PPP) is an agreement between the government and private sector for the purpose of provisioning of public services or infrastructure. With a common vision in place, the public and private sector bring to the table their own experiences and strengths resulting in accomplishment of mutual objectives.

2.3.1. Private sector led investment and industrialization in East Asia.

Developing countries with business-friendly governments have generally performed better than countries where this relationship has suffered. In addition, countries with more business-friendly public-private sector relationships have responded more positively to pro-growth policy reforms, which may explain, in part, why some countries, with similar liberalized policy regimes, do not perform as well. Thus, contrary to the conventional wisdom in industrialized countries, which holds that governments should remain at arms-length distance, the findings presented here suggest that being neutrality is probably not an optimal model of governance for many developing countries. It is not enough for governments in developing countries to adopt policy reforms; they must also seek to forge effective partnerships with the principal agents affected by those reforms.

However, at the same time, governments need to learn how to avoid capture and be able to support the private sector without having this relationship degenerate into the all too familiar forms of corruption, cronyism and nepotism. As the early experience of many East Asian countries indicates, maintaining a merit-based, well trained and competitively compensated government bureaucracy can help to minimize this risk.

Unfortunately, governments in many developing countries often either fail to avoid capture or operate at the other extreme where they are antagonistic or openly hostile to the private sector. Neither of these two extremes appears to work. The most successful developing countries have been able to find the right middle ground. In part, this is the essence of good policy stewardship or governance.

In his review of a book on *Human Development in South Asia 1997*, Martin J. Staab (2003) reveals that Mahbub ul Haq was one of the first to recognize the importance of the relationship between private and public sectors. After comparing South Asia's economic performance with East Asia's, and finding that the usually cited factors (human and physical capital and outward orientation), cannot adequately explain the differences,Haq concludes that the missing explanation lies in the close, cooperative relationship between the public and private sectors in East Asia in contrast to the paternalistic relationship in South Asia.

2.3.1.1.Public-Private Partnerships (PPP's) in East Asia

The term **"public–private partnership"** describes a range of possible relationships among public and private entities in the context of infrastructure and other services. Other terms used for this type of activity include private sector participation (PSP) and privatization. The public partners in a PPP are government entities, including ministries, departments, municipalities, or state-owned enterprises. The private partners can be local or international and may include businesses or investors with technical or financial expertise relevant to the project. Increasingly, PPPs may also include nongovernment organizations (NGOs) and/or community-based organizations (CBOs) who represent stakeholders directly affected by the project.

Effective PPPs recognize that the public and the private sectors each have certain advantages, relative to the other, in performing specific tasks. The government's contribution to a PPP may take the form of capital for investment (available through tax revenue), a transfer of assets, or other commitments or in-kind contributions that support the partnership.

The three main needs that motivate governments to enter into PPPs for infrastructure are a)to attract private capital investment (often to either supplement public resources or release them for other public needs) b)to increase efficiency and use available resources more effectively; and c)to reform sectors through a reallocation of roles, incentives, and accountability.

The government also provides social responsibility, environmental awareness, local knowledge, and an ability to mobilize political support. The private sector's role in the partnership is to make use of its expertise in commerce, management, operations, and innovation to run the business efficiently. The private partner may also contribute investment capital depending on the form of contract.

In Asia and the Pacific, infrastructure investment requirements exceed available public financial resources; thus, the private sector needs to play a larger role in financing infrastructure in partnership with the public sector through public–private partnerships (PPPs).
Experience has shown that PPP approaches in infrastructure and social service delivery enable governments to use private sector efficiency and investments to improve services for citizens. (Asian Development Bank, 2011)

According to Association of Southeast Asian Nations(ASEAN) summit report (2002), with globalization as well as liberalization in trade and investment, private sector led economic cooperation becomes critical because the government sector alone cannot achieve satisfactory progress for common prosperity in East Asia.

Among the recommendations of twenty six implementable concrete measures with high priority includes the development of resources and infrastructures jointly for growth areas and expanding financial resources for development with the active participation of private sector.

The private sector is recognized as a critical stakeholder and partner in economic development,a provider of income, jobs, goods, and services to enhance people's lives and help them escape poverty(IFC,2011)

2.3.1.2. South Korean experience

Korea has transformed itself from a stagnant agrarian society into one of the most dynamic industrial economies of the world within four decades. In the early 1960s when Korea first launched its industrialization efforts, it was a typical poor developing country with poor resource and production base, small domestic market, and a large population.

South Korea has experienced rapid and sustained economic growth since the 1960s when its gross domestic product (GDP) per capita was comparable to levels in the poorer countries of Africa (in 1960 it was US$1 110 compared to US$430 for sub- Saharan Africa) (Suh & Chen 2007).

Forty-five years after the full-scale, government led industrialization drive that started in the early 1960s, South Korea's GDP per capita had increased more than twelve-fold to more than US$13 000 in 2005. Moreover, its GDP per capita increased from US$67 in 1953 to US$20 050 in 2007 (Suh & Chen 2007).

Science, technology, and innovation have been cited as one of the key factors behind the economic success of the Republic of Korea. By making continuous and massive investments in research and development and in innovation, Korea has succeeded in building a unique innovation system that supports sustainable growth of the Korean economy.

The factors that have influenced the Korean innovation system the most are (1) outward-looking development strategy, (2) large firm–oriented industrial policy, and (3) human resources, among many others (Sungchul Chung 2010).

The rapid growth of Research and Development in Korea has been led by the private sector. Today, private industries account for about 75 percent of the nation's gross R&D expenditures, which means that private industries are the dominant players in Korea's Research &Development.

Korea Development Institute (KDI), since its establishment in 1971, has been recognized as a leading think tank of Korea significantly contributing to the economic and social development of Korea. KDI has endeavored to introduce comprehensive mid- to long term policy measures to foster sustainable growth and at the same time, strengthen capabilities in microeconomic research, innovation and improving market structures.

For over three decades, KDI has consistently provided policy recommendations and guidance based on in-depth analyses of international and domestic economic conditions and projections while conducting preemptive and empirical studies.

Its mission is to make substantive contributions to the government and society as well as to the public and private sectors by providing timely and effective policy alternatives. By continuously executing the mission, KDI have been proposing policy recommendations that become the core foundation for the nation's economic growth.

In addition, KDI have maximized its organizational capacity to become an international policy institute that serves as a compass for economic policymakers. As a result, presently, the Korean economy is faced with an increasingly aging society, which urgently requires mid- to long-term policy measures and job creation in order to counter a reduction in economic growth.

It is therefore equally important to present economic and social policy suggestions to mitigate the negative effects of polarization and to promote social integration.

However, many factors have contributed to the rapid increase in private sector R&D investment, but two are paramount. They include demand factors and supply factors. On the demand side, the government's economic development projects generated huge demand for technologies.

In addition, international market competition placed tremendous pressure on Korean industries to be technologically competitive.

On the supply side, Korean industries were able to meet the increasing demand for R&D and innovation because they were financially able to do so and because their investments were backed by well-trained human resources. The Korean government's policy supports have been very effective in promoting R&D and innovation in the private sector, but they also have created a culture that tends to make private enterprises overly dependent on government policy in making business decisions.

In sum, Korea owes much to its human resources and outward-looking development strategy for technological development and industrialization. The Korean experience offers two major lessons. First, human resources are the key to Science &Technology development and thus to economic growth, and, second, nothing can motivate private businesses to invest in technology development better than market competition.

For Korea to sustain the past development into the future, it has to strengthen capacity in basic scientific research and improve the framework conditions for innovation, the core of which is a competitive market.

Liberalization of foreign direct investment in South Korea

According to Il Sakong &Youngsun Koh (2010),Foreign direct investment in Korea was allowed in 1962. However, the Korean government depended on foreign loans rather than FDI in its development strategies, with FDI being restricted until the early 1980s.

The Korean government worried that foreign firms might dominate domestic industry, while funding through foreign loans was easier to control than capital inflows. During the early 1980s, when foreign debt became a serious problem among developing countries, the Korean government changed its policy by reducing its dependency on foreign loans and encouraging FDI, with systems to achieve this goal being put in place.

2.3.1.3. Indian Experience

In the post-Independence period, India opted for a mixed economy. In a mixed economy both private and public sector coexist. The respective spheres of private and public sectors are well defined and the two sectors function in a manner that is conducive to the achievement of overall development of the national economy. The private sector is subject to various regulations/laws so that subserves the social and economic objectives of economic planning for development. As for the promotional role, the government, in the planning era, has set up a network of development banks and financial institutions to provide credit support to the private sector. The capital market institutions developed rapidly and have been playing an important part in the private sector expansion.

The 3 institutions such as Industrial Finance Corporation of India (IFCI), Industrial Development Bank of India (IDBI), National Bank for Agriculture and Rural
Development **(NABARD)** and State Financial Corporation's (SFCs) have been playing significant promotional and financing role to help the private sector growth

Public private partnerships in India

The Government of India (GoI) has been focusing on the development of enabling tools and activities to encourage private sector investments in the country through the PPP format. Private investments amounting to US$150 billion is expected to bridge the infrastructure gap of US$500 billion over the period 2007-2012

As a part of meeting this financing gap, the PPP model is increasingly been seen as a means of harnessing private sector investment and seeking operational efficiencies in the provision of public assets and services. The extent to which the GoI envisages a significant role played by PPP in improving the level and quality of economic and social infrastructure services is increasingly evident from the growing reliance on the PPP model in the recent past.

According to Hemant Kanoria (2011), Indian Government has taken a number of steps to encourage private investment in infrastructure through public-private-partnerships.

However, it has been observed that while PPP projects in some sectors have displayed good progress, several others achieved only limited success. Issues relating to project implementation, monitoring and dispute resolution are among the key concerns of the infrastructure developers.

Government of India in order to propel PPPs, which are expected to bring in about 50percent of the infrastructure spend of USD 1000 billion in Twelfth Five Year Plan (2012-17) is taking steps to further streamline PPP processes by drafting national PPP policy and development of corporate Bond markets.

While most of the above challenges are being worked upon by the GoI, the limited availability of sources of funding is the biggest bottleneck for the success of the PPP model.Therefore; the following are the major challenges in PPP in India

Regulatory environment: There is no independent PPP regulator as of now. In order to attract more domestic and international private funding of the infrastructure, a more robust regulatory environment, with an independent regulator is essential.

Lack of information: The PPP program lacks a comprehensive database regarding the projects/studies to be awarded under PPP.

An online data base, consisting of all the project documents including feasibility reports, concession agreements and status of various clearances and land acquisitions will be helpful to all bidders.

Project development: The project development activities such as, detailed feasibility study, land acquisition, environmental/forest clearances etc., are not given adequate importance by the concessioning authorities. The absence of adequate project development by authorities leads to reduced interest by the private sector, mispricing and many times delays at the time of execution.

Lack of institutional capacity: The limited institutional capacity to undertake large and complex projects at various Central ministries and especially at state and local bodies level, hinder the translation of targets into projects.

Financing availability: The private sector is dependent upon commercial banks to raise debt for the PPP projects. With commercial banks reaching the sectoral exposure limits, and large Indian Infrastructure companies being highly leveraged, funding the PPP projects is getting difficult.

2.3.2. Current Context of private sector in Rwanda

The private sector is key to the economic transformation process. The Rwanda government's aspiration of Vision 2020 is to develop an efficient private sector spearheaded by competitiveness and entrepreneurship.

The Government of Rwanda continues to promote a private sector-led free market economy, aiming at fostering both local and foreign investment by undertaking reforms with the objective to make the country a favorable place for investment. Rwanda Trade Policy (2010) aims to create an environment conducive for the private sector led trade growth.

According to the Minister of Trade and industry, Francois KANIMBA, the private sector in Rwanda is still young, but very dynamic. It has been developing itself, but still there is a huge room for improvements particularly when it comes to taking advantages of opportunities available in the economy. (Abndigital.com/2013)

Rwanda's private sector is seen as an increasingly valuable contributor to the promotion of economic growth and the country's development. This view is illustrated and promoted in the EDPRS where the commitment to enabling the private sector to contribute to economic growth is frequently referred to and emphasized.

Rwanda's economy grew at close to 6 percent over the last two years. The economic outlook continues to be robust with an expected growth rate of 5.4percent in 2012/13.Rwanda's high dependence on foreign aid (approximately 13percent of GDP in Financial Year 2011/12) makes it vulnerable to aid shocks.

The Government is committed to promoting growth and poverty reduction through the development of a market-driven private sector and it has reformed or put in place a number of key laws and regulations in the past decade. This is because much of the body of investment-related laws inherited after the 1994 genocide was either outdated or not adapted to a market economy. (United Nations Conference on Trade and Development, 2006)

2.3.2.1. Public Private Partnerships in Rwanda

While the government of Rwanda has done a remarkable job of providing public infrastructure, community facilities and related services, its resources are not infinite to fully fund all the required public facilities.

The Government recognizes the need for close coordination between the public and private sectors in order to achieve effective implementation of the EDPRS and calls for strong information sharing and high levels of trust.

The government, through the Ministry of Finance, is strongly promoting the development of Public Private Partnerships (PPP) in order to achieve a number of major infrastructure investment projects.

The initiative of promoting the Public-Private Dialogue (PPD) was initiated by the Government through its institution Rwanda Development Board (RDB) and Private Sector Federation (PSF). The initiative was launched at national level in late 2012 and these institutions intend to disseminate the initiative at the grass root level. The overall objective of this dialogue is to promote the public and private partnership for improved business development at the local level. At Rwanda Association of Local Government Authorities (RALGA) level, with the objective of promoting Local Economic Development (LED) strategy through PPD on behalf of its members has joined the initiative.

The members pointed out the necessity to enhance collaboration between private and public partnership at the District level given the current situation where in most cases it seems not to be sufficiently dynamic in terms of opinion sharing and mutual support.

Such partnerships are characterized by the sharing of investment, risk, responsibility and reward between the partners. Examples of these partnerships include: **a)** Methane gas exploitation in energy sector, **b)** Communication in ICT sector, **c)** Railway and airport in transport sector, **d)** Payment systems and housing finance is financial sector, **e)** Free-zone and agri-business in exports sectors

However, this ambitious role allocated to the private sector exists within the context of a business community that is overwhelmingly composed of micro and small enterprises, predominantly in the informal sector and with a work force of limited education/training (workers in the private sector with primary or no education make up 87percent of the workforce).

It is very important to mention that Research and Development is very young and needs to mature with the new framework for Public-Private Dialogue (PPD).

This could be done by establishment of policy options that best support public-private partnership in research, development, demonstration and deployment of projects through Provision of stable, sufficient funding for research, development, demonstration and deployment.

2.3.2.2. The role of private sector in promoting investments

"Without the energy of the private sector, without private enterprise, private initiative, private savings, private resources, we won't make it in terms of stimulating development. ...the private sector is, indeed, the driving force in development,and we need a very strong but lean state working with the private sector, not to undermine it but to strengthen it" (Kemal Dervis 2006).

"The private sector is where much of our focus is going to have to be to meet the overarching challenge of poverty reduction and human development. Growth, jobs and opportunity belong there not in the gift of government". (Mark Malloch Brown, 2003)

"Any national strategy to achieve the Millennium Development Goals needs to include a clear framework for private sector growth." (Jeffrey Sachs, 2005)

As clearly explained by the above two statements, one can question about what should be the role of private sector in promoting investments. Therefore, it is very worth saying that he private sector plays a vital role in the economic development**.**

The importance of the private sector is not adequately measured by its share in total investment-private and public together-as the public sector is primarily concerned with the creation of infra-structure and the provision of such services as tend to increase infrastructural and social services provided by the public sector, is left as the primary responsibility of the private sector.

UNDP's current private sector portfolio consists of two broad categories of interventions: Private sector development (PSD) interventions aimed at increasing the contribution of micro, small and medium sized enterprises to growth and poverty reduction, and private sector engagement (PSE) interventions aimed at fostering partnerships with a wide range of companies from multinationals (northern and southern), to small and medium sized enterprises (SMEs), often with a broader range of development objectives in mind.(UNDP Private sector strategy,2007)

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides detailed information on how the study was carried out. It is a presentation and a description of the methods, techniques and general approaches used to carry out the research. The chapter spells out the study population, study area, sample size and highlights on the procedures of sample selection, including also the methods of data collection, data processing and data analysis. It also describes the research instruments used in the data collection exercise.

3.2. Study settings

The research was conducted in Private Sector Federation *as* an umbrella organization that groups 9 professional chambers. As it was not be feasible to study all players and beneficiaries of PSF-Rwanda services, our research focused on PSF Rwanda staff as well as members of 10 professional chambers that make the federation, operating in Kigali city.

3.3. Research design

The study adopted a cross sectional survey research design involving a case study design using a combination of Qualitative and Quantitative research design. The data was collected at a point in time. Qualitative and Quantitative research design has been used to elucidate the extent to which the independent variables explain the role of Private Sector Federation in the promotion investment in Rwanda.

3.4. Study population

For the purpose of our research, our study population consisted of 82 in total ,encompassing four PSF staff at headquarters (Head, Trade Fairs and Investments, Head, Entrepreneurship Development& Collective Investments, Director, Advocacy and Labor Relations, Head, Public Private Development& Institutional Relations), PSF members representing each chamber (57 Sectoral Associations), private sector operators who are not listed in the private federation(17),and four government officials who have much to do with investment promotion policy in Rwanda namely the Head of Investment Department (RDB), Head of Investment Department (BRD), Head, department of private sector development planning (MINICOM) and Minister of Finance and Economic planning (MINECOFIN).

3.5. Sample Size and Sampling Techniques

A sample of 70 respondents was determined based on Krejcie and Morgan Sample Determination Table (1970).Purposive sampling technique was used to choose the best four PSF staff workers as well as four government officials who best deal with activities relating to investment promotion. This kind of practice gave us assurance that we communicated with right people, who are in the best position to answer question related to our research.

On the other hand, to select the private sector operators, simple random sampling was used. Under this scenario, we considered two categories of private sector operators for representation purposes, namely 48 PSF members from each chamber (sectoral associations), and 14 private sector operators who are not listed in the private federation, who were selected randomly to determine the sample size.

Table 3. 1: Determination of sample size

Respondents	**Population**	**Sample size**
Head, Trade affairs and Investments	1	1
Head, Entrepreneurship Development& Collective Investments	1	1
Director, Advocacy Trade and Labor Relations	1	1
Head, Public Private Development& Institutional Relations	1	1
Sectoral associations(Chambers)members	57 **Associations**	48
Private sector operators not listed under PSF	17	14
Head of Investment Department(RDB)	1	1
Head of Investment Department (BRD),	1	1
Head, department of private sector development planning (MINICOM)	1	1
Minister of Finance and Economic planning (MINECOFIN)	1	1
TOTAL	**82**	**70**

Source: Field Research, 2013

3.6. Data collection

Both primary and secondary data were used during the research. Questionnaire, interview guide and focus group discussion were used to collect primary data; while secondary data were obtained through documentary review/library search (annual reports, books, publications and internet).

The gathered information was useful in investigating role of private sector as well as some challenges and opportunities available for private sector in the promotion of investments in Rwanda. It also helped in the assessment of the variables that have effect on formulation, implementation and successfulness of a suitable Investment Promotion strategy in Rwanda.

3.7. Data collection instruments

3.7.1. Questionnaire

The questionnaire was administered to PSF members from each chamber (sectoral associations). The researcher used open-ended and closed ended questions to obtain different views from the respondents. Open-ended questions were used to give the respondents complete freedom to decide the form and length of detail. This method was used to obtain data on the the role of private sector, some challenges and opportunities available for private sector, as well as private sector operators needs and expectations with regards to promotion of investments in Rwanda.

3.7.2. In Depth Interview (IDI)

In Depth Interviews (IDI's) was conducted with PSF staff at headquarters as well as government officials who have much to do with investment promotion policy in Rwanda.

In the process of doing this, the IDIs were conducted in a similar way for all the correspondents, which follow the same interview approach. An introduction mail or letter was, at first, sent to the correspondents. Depending on their reaction, follow-up phone calls or face to face contact were made to arrange an appointment for the interview. Conducted IDIs were useful in assessing the variables that have effect on formulation, implementation and successfulness of a suitable Investment Promotion strategy in Rwanda.

3.7.3. Focus Group Discussions (FGDs)

There Focus Group Discussions was conducted with other private sector operators who are not listed on PSF-Rwanda (mainly those who are grouped into business cooperatives). The FDG guide was designed and principles for conducting Focus Group Discussion emphasised, so that the participants can express their ideas and opinions more freely on various challenges and opportunities available for private sector in Rwanda.

3.8. Data Processing

All data collected from the field were transformed into a system of categories and meaningful information for interpretation and understanding, and the transformation of these categories into classes to enable quantitative analysis. The techniques that were utilized include the following:

3.8.1. Editing

Editing technique was applied to improve quality of information by checking completeness, accuracy, uniformity and comprehensibility of data collected

3.8.2. Coding

Coding was used to summarize data collected from the field by classifying into categories different responses given, for easy interpretation. For each question, list of probable answers was prepared.

3.8.3. Tabulation

Tabulation was used to put data into statistical tables in order to determine the frequency of the responses to particular questions and their percentages. There was sorting of the data into different categories and counting the number of cases that belong each category. Then the tally sheets were used to count the responses in order to make frequency and percentage distribution.

3.9. Data analysis

Data collected was edited upon the receipt of the questionnaires to ensure accuracy and consistency of the information given by the respondents. Data were entered into computer and being analysed using Statistical Package for Social Scientists (SPSS), where descriptive, principal component and correlation were used to establish the relation between the private sector contributions and promotion of investments in Rwanda.

3.9. Data presentation

After the sorting of the data into different categories and counting the number of cases that belong each category, data was presented by using tables and figures generated from the tally sheets used to count the responses in order to make frequency and percentage distribution.

CHAPTER FOUR: DATA PRESENTATION, ANALYSIS AND INTERPRETATION

4.1. INTRODUCTION

This chapter presents results on the role of Private Sector Federation (PSF), as an umbrella and voice for the Private Sector in the country, towards the Promotion of Private Investments in Rwanda.The results are presented alongside with the specific objectives and research questions.

The objectives of the study were at first; To assess the variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment promotion framework in Rwanda by Private sector Federation; and secondly To assess the challenges and opportunities available for Private Sector with regards to investment promotion in Rwanda; and finally To examine the extent to which the Private Sector Federation’s participation in regional and international Investment Promotion activities and policy advocacy have contributed towards national image building , private investments generation and addressing issues impending private sector investments in Rwanda.

The responses to these objectives were attained through questionnaires, in depth interviews, focus group discussions as well as consultation of documents.

4.2. Demographic characteristics of the respondents

This section presents results on the demographic characteristics of respondents. The findings on the demographic characteristics of respondents were analyzed basing on the age, sex, level of education and marital status, by the use of tables, and figures

4.2.1. Age of the Respondents

The age factor is very important in our research for it helps to have an idea on the range of age of our respondents. The following Table 4.1. shows the age of respondents grouped according to ranges of age groups.

Table 4. 1: Category of respondents by Age

Age Group	Frequency	Percentage
Under 20	0	0
21-30	2	3
31-40	19	27
41-50	38	54
Above 51	11	16
Total	**70**	**100**

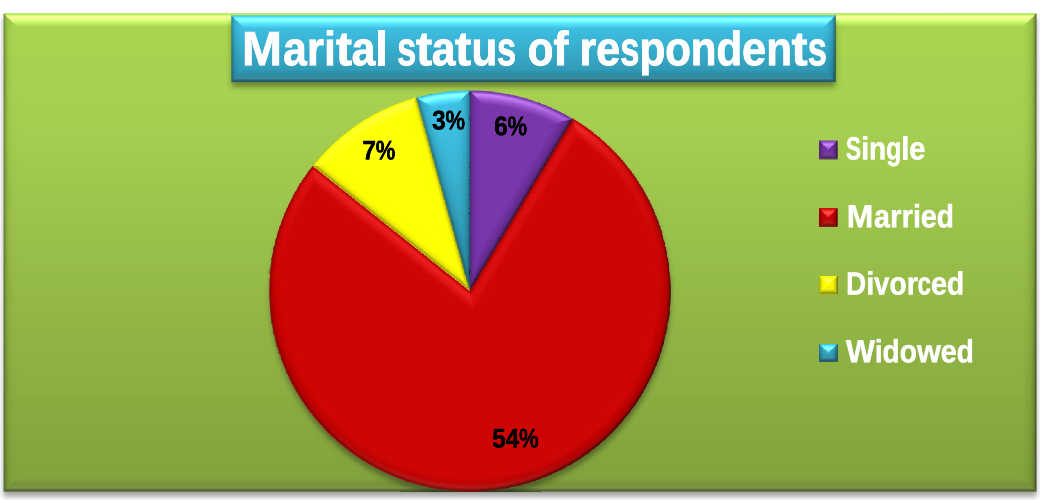
Source: Field Research, 2013

As illustrated by the table 4.1 above, the majority of respondents falls between 41-45 years old (54 percent), followed by those aged between 31-40 (27percent).However, only few of respondents are still young aged between 21-30(3percent),and only 16 percent of them are aged above 51 years of age. It is very essential to note that none of responds was aged less than 20 years old.

4.2.2. Marital status of Respondents

The marital status has been identified, and the figure 4.1 below presents the results on the marital status of the respondents

Figure 4. 1: Distribution of Marital status of the Respondents



Source: Field Research, 2013

As illustrated by the above figure 4.1, data collected from respondents reveal that a big number of respondents are married (77 percent) while only nine percent of respondents are single. On the other hand, ten percent of respondents have reported to have divorced with their partners while four percent of respondents are widows.

4.2.3. Education level of Respondents

All along the research, the education of respondents has been identified, and the table 4.2.below presents the findings on the respondent's level of education.

Table 4. 2: Education of Respondents

Level of Education	Frequency	Percentage
Primary level	13	19
Vocational training	11	16
Secondary level	12	17
University level	28	40
Any other education level	6	9
Total	**70**	**100**

Source: Field Research, 2013

As indicated by the above table, the majority of respondents have reported to have completed the university (40 percent).This category only includes managers of private companies, but otherwise, 17 percent of respondents have merely completed their secondary education, while 16 percent have been in vocational training .It is very important to note that only 19 percent of respondents completed their primary education, and even some have reported to have never experienced any kind of formal education (9 percent).At this point ,some inferences can be drawn that apart from the managers of private companies, the majority of private sector operators have been educated only at primary, vocational and secondary levels of education.

4.3. Role played by PSF in the promotion of investments in Rwanda

This section presents findings on the role of Private Sector Federation chamber structure members (sectoral associations) in the promotion of investments in Rwanda. At first, it presents results on private sector operators enlisted with PSF and their corresponding chambers, traces their experiences in doing business, and finally scrutinizes their participation in investment promotion activities.

4.3.1 PSF chamber structure

This section presents the results on each of PSF members from 10 Sectoral Associations and their corresponding sector of activity or chamber as clearly illustrated by the table 4.3 below.

Table 4. 3: PSF members and their corresponding chambers

Chamber	Frequency	Percentage
Chamber of Agriculture	5	10
Chamber of Art & Crafts	4	8
Chamber of ICT	5	10
Chamber of Liberal Professions	5	10
Chamber of women entrepreneurs	4	8
Chamber of Commerce	6	13
Chamber of Finance	5	10
Chamber of Industry	4	8
Chamber of Tourism	6	13
Chamber of young entrepreneurs	4	8
Total	**48**	**100**

Source: Field Research, 2013

As illustrated by the tables 4.3 above, all the chambers were almost given equal chances of being questioned. The majority of respondents were from chambers of commerce and tourism (13percent from each chamber) followed by those from chambers of agriculture, ICT, liberal professions, finance (10 percent from each chamber), and finally from chambers of arts and crafts, women entrepreneurs, young entrepreneurs and industry (8 percent).

The chamber structure system is very essential in the promotion of investments due to the fact that it offers opportunities to members belonging in same industry to discuss and exchange about business issues impending specific industry, which in turn facilitate corporate executives for advocacy.

4.3.2. PSF Sectoral Association members experience in Business

In order to have an idea on how long Private Sector Federation members have been running their businesses in Rwanda, the following results provide an idea about the status of PSF members' experience in running business in Rwanda, as indicated in table 4.4 below.

Table 4. 4: PSF members Experience in Business

Experience	**Frequency**	**Percentage**
Less than 1year	1	2
Between 1-3years	8	18
Between 3-5years	11	25
Above 5 years	24	55
Total	**44**	**100**

Source: Field Research, 2013

The results from the above table reveal that more than a half of private sector operators enlisted with PSF have been running business in a period extending over 5 years (55 percent), followed by the category of businesses that existed between 3-5 years (25 percent).On the other hand, 18 percent of private businesses enlisted with PSF are still young and have been operational just between one and three years, while 2 percent of the rest have been in existence less than a year.

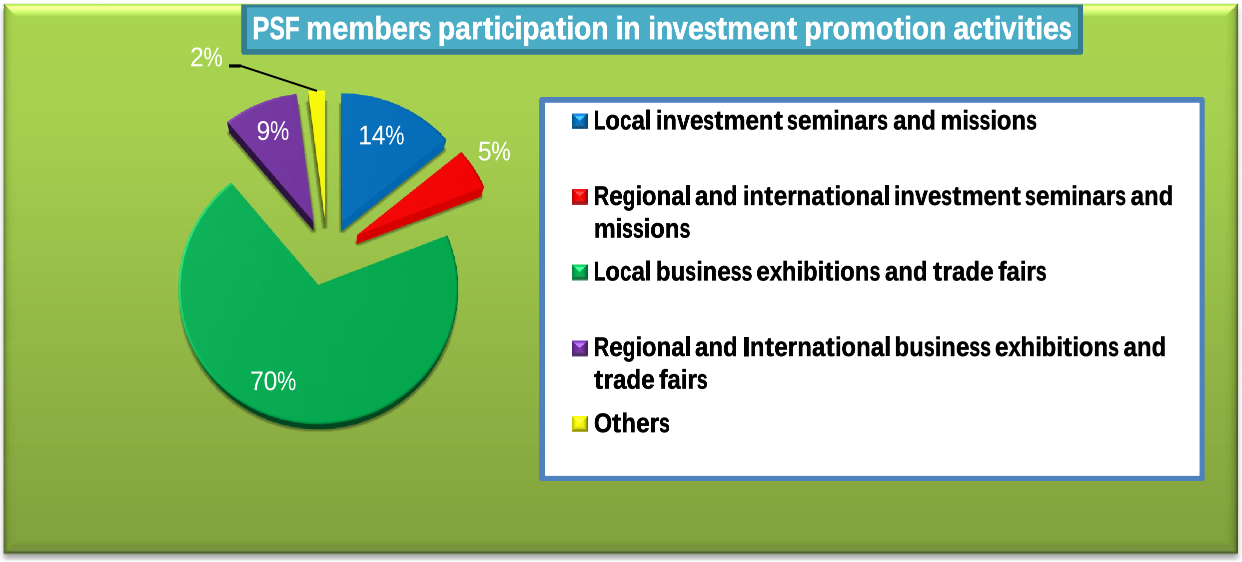
If the majority of private sector operators that we had questioned have been running their businesses in the country for over 5 years, it really gives an assurance that Rwanda Business environment offers some opportunities that enable private business to endure for a relatively reasonable period of time.

On the other side of the course, as far as investment promotion is concerned, it is very important for the Private Sector Federation to take strong and rational measures aimed at supporting young enterprises in order to effectively help them adapt and sustain into the Rwanda business environment.

4.3.3. Participation in investment promotion activities

As far as investment promotion is concerned, the figure 4.2 below gives an overview on Private Sector Federation member's participation in investment promotion activities at different levels.

Figure 4. 2: PSF member's participation in investment promotion activities



Source: Field Research, 2013

As demonstrated by the above figure the findings confirm that the majority private sector operators unlisted with PSF have participated mainly in local business exhibitions and trade fairs (70 percent).This can refer to the Rwanda International Trade Fair (RITF 2013) that is organized by PSF each year. In addition, only 14percent of PSF members have participated in local investment seminars and missions.

As far as investment promotion is concerned, the findings provide evidence that PSF active participation in investment promotion activities is still limited at local level, because only 5 percent of PSF Sectoral Association's members have participated in regional and international investment seminars and missions, while only 2 percent of them have participated in Regional and International business exhibitions and trade fairs.

4.4. Challenges and opportunities available for investment promotion in Rwanda

This section recapitulates some challenges raised by Private Sector operators that are believed to be the major obstacles for the development of a sound, conducive and transparent business environment that can enable private sector to attract of local and foreign private investments.

It also captures some opportunities available to private sector operators for investment promotion in Rwanda business environment.

4.4.1. Challenges

Some of the challenges available in Rwanda Business environment have been identified by respondents, and the table 4.5 below clearly shows some of the challenges raised by private sector operators that limit investment promotion activity in Rwanda.

Table 4. 5: Challenges available for investment promotion in Rwanda

Challenges	Frequency	Percentage
Shortage of skilled labor	9	20
Non sufficient infrastructures(energy, land)	4	9
Poor advocacy	1	2
Business environment barriers relating to tax	9	20
Non sufficient Private Sector Capacity	5	11
Poor technology in the industries.	2	5
Little involvement in Regional and International Trade	5	11
Low Quality Member Services and low Communication	1	2
Limited access to finance	7	16
Others	1	2
Total	**44**	**100**

Source: Field Research, 2013

As demonstrated by the table 4.5 above, the main challenges to investment promotion in Rwanda raised by private sector operators are shortage of skilled labor (20percent). This challenge raised by private sector investors go closely along with Rwanda prosperity ecosystem survey (2013) which reported that "the university curriculum seems misaligned with current industry needs Moreover; the teachers in the university do not have industry experience therefore only teach the theory, some of which is outdated.".

Among other challenges raised include business environment barriers relating to tax (20percent), and limited access to finance (16percent).On the other side, in addition to limited infrastructures in terms of energy and land (9percent), private sector capacity is still low (11percent), and the involvement in Regional and International Trade is still narrow (11percent).

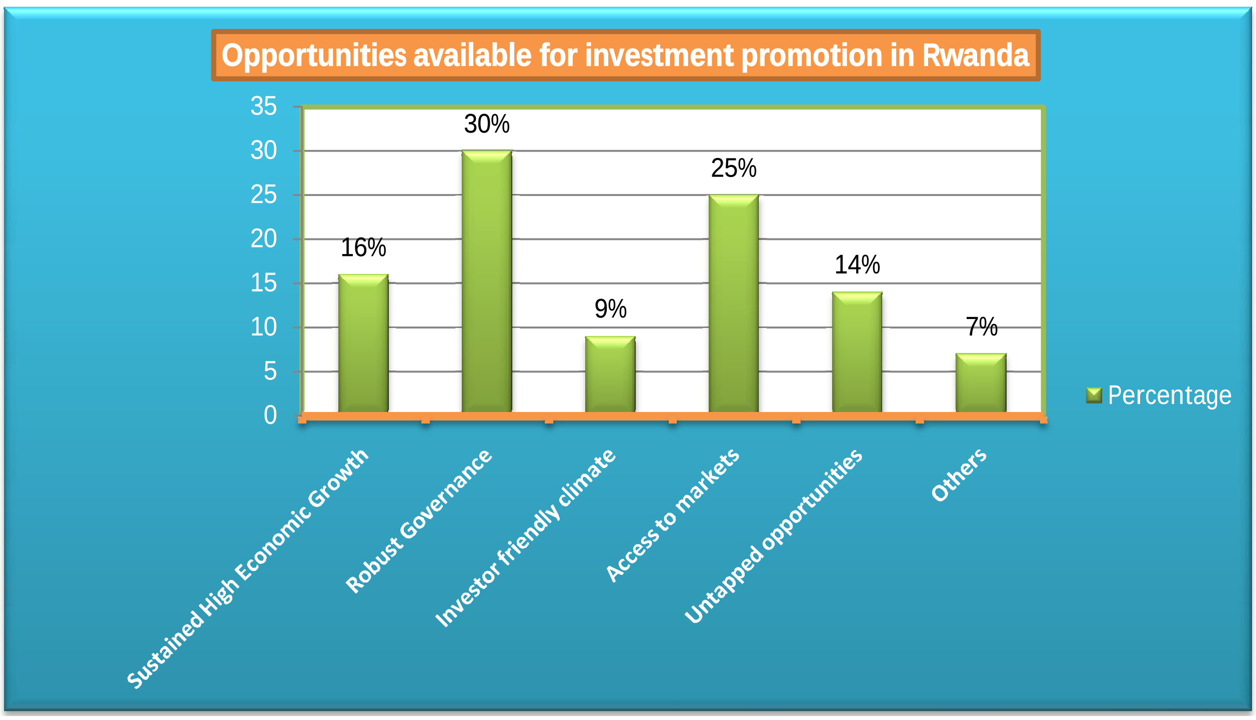
Even though PSF has registered major success in advocating for the private sector for the last few years, yet we should not ignore the issue of poor advocacy raised by 2 percent of private sector operators.

This issue is closely linked to another challenge raised by 2percent of private sector operators relating to low quality member services and low communication in some instances. Poor technology in the industries is also another challenge that has been raised by 5percent of PSF members.

4.4.2. Opportunities

Even though Private Sector operators have raised some challenges in Rwanda business environment, the following figure 4.3 presents some opportunities available for doing business in Rwanda, which can positively affect every investment promotion activity in the country.

Figure 4. 3: Opportunities available for investment promotion in Rwanda



Source: Field Research, 2013

As clearly presented in the above figure 4.3, the majority of private sector operators stressed that the ultimate opportunity available for Rwanda business environment is a robust Governance by rule of law and absence of corruption (30percent), followed by access to market(25percent) as well as some other untapped opportunities in agriculture ,energy ,tourism and available infrastructure facilities(14percent).

Private sector operators also mentioned that the sustained high economic growth (16percent) envisaged by the government of Rwanda for the last few years provides confidence to the business environment, in addition to several other measures undertaken by the government through Rwanda Development Board (RDB) to turn the Rwanda business environment into an investor friendly climate (9percent), through facilitating easy registration of new businesses in a very short period of time, and with minimum requirements.

Among other opportunities raised by private firms include the Rwanda government willingness to promote private investments, unequalled security of persons and property within the country, and sustained government efforts by supporting the best projects of local young entrepreneurs with new innovations through Hanga Umurimo program launched by Ministry of Trade and Industry.

All these opportunities raised by private investors can be better analyzed in addition to the World Economic Forum's Global Competitiveness Report (2011-2012) that ranked Rwanda the 3rd easiest place to do business in Africa.

4.5. An assessment of PSF potential structural variables.

This section presents the structural variables related to both PSF organization and function. All the variables examined in this section are recognized as relatively important in the formulation, implementation and successfulness of an investment promotion framework in Rwanda. These variables also offer possibility to provide relevant evidence about the PSF organizational qualities and internal efficiency, boosting its potential to rally private investment, and thus take a lead in the economic growth of the country.

4.5.1. Organizational structure variables

4.5.1.1. PSF legal status

The legal status of PSF has a direct impact on its mandate and powers thus influencing its capacity to participate and actively be involved in the promotion of investments in the country. The transparent legal framework regarding PSF responsibilities, functions, powers and authority directly influence their stability, permanence and independence regarding not only their potential investors, but also government officials.

The current legal framework of Private Sector Federation (PSF) gives it an opportunity of being a stand alone association of private sector operators in the country, in comparison with the previous chamber of commerce which was a government driven institution that exhibited three important limitations namely: lack of autonomy, weak representation, and lack of relevant services.As a result, with the legal framework of this nature PSF is able to represent the interests of its members to some extent and thus deliver results accordingly.

4.5.1.2. PSF relationship to the government

Only strong ties between the government and the private sector can help to achieve investment promotion objectives. However, according to Mickal Trinik (2007) the autonomy has to be supplemented by high quality relations with government officials and their continuous support allowing the agency to achieve its goals.

According to PSF strategic plan (2013), The Government recognises the need for close coordination between the public and private sectors in order to achieve effective implementation of the EDPRS and calls for strong information sharing and high levels of trust. Furthermore, the government, through the Ministry of Finance, is strongly promoting the development of Public Private Partnerships (PPP) in order to achieve a number of major infrastructure investment projects. So, only strong partnership between the government and the private sector federation could help the government to mobilize private investments (both local and foreign) to be invested in priority investment projects.

4.5.1.3. PSF Communication with its members (sectoral associations)

Effective and transparent communication between PSF and its members as well as with other private sector operators who are not enlisted is very important in the promotion of investments in Rwanda for a number of reasons. First, it contributes to increasing the federation's visibility and credibility in the eyes of foreign investors. Secondly, it increases perception of the federation's objectivity by potential investors who are often suspicious of the validity and impartiality of information provided through PSF. Lastly, active communication helps the federation to identify major problems encountered by private investors in the country so as to ensure factual advocacy.

4.5.1.3. PSF regional and International representation

It would be worth saying that the establishment of international offices for PSF overseas is a great tool in the promotion of investment in Rwanda, because they help in the mobilization of foreign private investments in mass by attracting potential foreign investors as they get to have an idea about some opportunities available for doing business in Rwanda.

However, this practice is currently being championed only by the government through some of its overseas embassies. The presence of Private Sector Federation's representation overseas can better help by providing a real testimony reflecting the private sector's own experiences in Rwanda business environment, and be more understood by foreign investors than a purely a government official.

4.5.2. Functional structure variables

This section examines the significance of Private Sector Federation's functional structure variables and scrutinizes their influence on PSF's ability to mobilize and attract both local and foreign private investments. It analyses more in details three of what should be core functions of PSF as far as investment promotion is concerned, namely image building, investor targeting and policy advocacy.

4.5.2.1. Image building

According to Michal Trnik (2007), image building of a country, creating the very heart of investment promotion, is aimed to improve and sell a country's image within the investment community as an attractive location for their future investments.

The current situation reveals that the status of PSF influence in selling Rwanda's attractiveness to private investors is still narrow. Apart from international trade fairs organized each year, there are no other practical tools employed by PSF as an attempt to attract both local and foreign private investments.

However, nearly all investment promotion activities aimed at building a perception of the country as an attractive location for both foreign and local private investments namely marketing like activities such as advertisements, press releases, direct marketing and public relation events,etc, are being campaigned by Rwanda Development Board.

This situation is very critical to the successfulness of any investment promotion framework of the country as it is virtually seemed to be a limiting factor for building Rwanda image as an attractive location for both foreign and private investments.

4.5.2.2. Investor targeting

At this point, investor targeting is viewed as the PSF ability to match local and foreign private investors' needs and interests with Rwanda development objectives and priorities.

As services sector is such a rapidly growing industry with a reasonable share on GDP (45percent in 2012), the country is striving to mobilize enough private investments in this targeted sector. In addition to services sector, energy, tourism and IT are considered to be the main development priorities for EDPRS 2.

Actually, Public Private Partnership (PPP) Framework in the area of energy(Methane gas exploitation),Communication in ICT, railway and airport in transport sector, payment systems and housing finance in financial sector, and free-zone and agri-business in exports sector, have been launched between the government of Rwanda and PSF though Public Private Dialogue (PPD).The aim was to encourage the private sector to mobilize more private investments in the above sectors, as the government could not make it on its own.

However, much more partnerships are to be launched to attract more investments in the rest of targeted priority sectors such as tourism as well as in some other service related ventures.Therefore, PSF has a big role to play in this run, always bearing in mind that the preeminent investment promotion strategy is the one that is able to match needs and expectations of both local and foreign private investors with the priorities of the country.

4.5.2.3. Policy advocacy

As far as investment promotion is concerned, policy advocacy incorporates PSF initiatives aiming to improve the quality of the investment climate and identifying the views of private sector in this area. Over the last 7 years, PSF has manifested such a paramount interest in advocating for the private sector to the government of Rwanda to influence policy reforms .As a result, the Private Sector Federation has registered major success in this regard.

According to PSF strategic plan (2013),The Private Sector Federation achieved success in representing the Private Sector in PPP meetings, removal of non service based fees (e.g. 1.2 percent on business registration, 4 percent on MAGERWA. 2.25 percent on mortgage registration, 6 percent on property transfers etc.),lifting the ban on movements of commercial trucks after six pm, actively participated in the review of business laws, lead the restructuring of the arbitration center, as well as active involvement in the amendments of labour code and national social security policy.

This year 2013, PSF launched Business and Investment Climate Survey (BICS) to upgrade the business reforms agenda, and the federation is convinced that effective advocacy should be evidence –based advocacy.

At this level, PSF achievements registered in advocating for private investors for policy reforms prove its active involvement in investment promotion activities. However the intention for this policy advocacy was not initially meant for investment promotion as such, but rather the emphasis was on addressing the infrastructure needs of the membership of the Chambers.

Therefore, considering the fact that policy advocacy serves as a major tool in formulation, implementation and successfulness of an investment promotion framework in Rwanda, the Private Sector Federation has to fully understand its significant role in this regard and act accordingly, if it intends to ensure an effective and transparent policy advocacy aimed at promoting investments in the country.

4.6. PSF impact on development Performance variables.

Having answered the “who are you” (Organizational structure variables) and “what do you do” (functional variables) questions for the Private Sector Federation, and having stressed their relevance in the formulation, implementation and successfulness of an investment promotion strategy in Rwanda, it is worth as well to answer the question “how well you do it” that will be answered through a set of the following performance variables

4.6.1. PSF effectiveness

One of the most prominent variables for PSF performance with regards to private investment promotion is its effectiveness in relation to the amount of created jobs, number of attracted private sector operators. The PSF has recently created 2.500 jobs for the youth during the International trade fairs (2013), and the number has been increasing for the last few years.

However, PSF effectiveness in terms of number of attracted private sector operators is still low and questionable. This is because private sectors associations non listed with PSF in Kigali city with whom we had focus group discussions, have mentioned that they ever heard of PSF but initially they are not aware of its relevance to their businesses. They added that it seems as if PSF only deals with medium and big enterprises and ignores small retailers and wholesalers. At this point, it is very clear that "PSF is heard instead of being known" among non listed private sector operators, which implies that the federation has a long way to go towards a strong awareness raising among them on the benefits of becoming a PSF member.

4.6.2. Structure and quality of private sector operators attracted by PSF

As far as the structure and quality of private sector operators enlisted with PSF is concerned, it is very necessary to mention that Private Sector Federation's chamber structure encompasses all categories of sectors of Rwandan economy. However, the issue arising is the quality of private industries that is analyzed more specifically in terms of Research and Development (R&D) Research and Development in Rwanda private industries is still undeveloped and subsequently needs to mature enough towards innovation for the purpose of uncovering and enabling development of valuable new products, processes, and services. R&D in Rwanda private industries is being constrained mainly by low skilled labor competitive enough to initiate research and development at different levels, in addition to limited resources and research facilities.

Consequently, as an attempt to address the Research and Development issue in Rwanda private industries, the government of Rwanda has been urging the private sector industries to invest in modern technology to make their products and services more competitive at both national and international markets in order to meet needs and expectations of customers.

Additionally, in order to support industrial growth, the draft law restructuring the Institute of Scientific and Technological Research (IRST) to become the National Industrial Research and Development Agency (NIRDA) is yet to be gazetted by the parliament of Rwanda. The reason behind this restructuration is to boost business oriented research and development within private industries with the government at the forefront. Therefore, to effectively advocate for the issue of R&D in private industries, it is strongly recommended to the Private Sector Federation to cordially work with the National Research and Development Agency (NIRDA) for a systematic and consistent industry needs assessment in terms of research and development.

Consequently, as R&D is such a powerful competitive advantage for every business, this partnership will enable PSF to promote private investments since private operators will trust more the Rwanda business environment, and will thus mobilize more of their investments with confidence.

4.6.3. PSF contribution in upgrading local economy

It is very essential to mention that the main objective of every initiative for investment promotion is to upgrade the economy of the country, and the private sector has a fundamental role to play in this regard. Actually, since its creation in 1999, PSF has been contributing in the advancement of Rwandan economy through various ways. PSF contribution in upgrading local economy can be observed through its role in facilitating linkages between local and foreign companies with the aim of maximizing the sharing of opportunities available within multinational companies for the benefits of local companies. Actually, the Private Sector Federation has initiated a Chambers structure system encompassing almost 10 chambers (Sectoral Associations) that links both foreign and local private companies belonging in the same industry.

Despite all these linkages between Multinational Companies (MNCs) with domestic companies, the majority of domestic private operators have mentioned that MNCs are mainly interested more in meeting their business needs and expectations than helping domestic companies in terms of knowledge and technology sharing. As far as investment promotion in Rwanda business environment is concerned, it is the responsibility of the Private sector Federation to know their crucial role in facilitating the upgrading of local economy by making sure that domestic firms fully benefit from MNCs business experiences to empower them with relevant knowledge and technology that is necessary to ignite innovations.

CHAPTER FIVE: SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the overview of the entire findings on the role of Private Sector Federation in promoting investments in Rwanda. It provides the summary of the whole study, the interpretation of findings and finally gives recommendations for further continual improvement of investment promotion framework in Rwanda.

5.2 Summary of the findings

All along this study, we have found that as the umbrella and voice for the private sector in Rwanda, Private Sector Federation has played various roles in the promotion of investments in Rwanda by enabling private sector operators unlisted with PSF to participate in local business exhibitions and trade fairs (70percent), participation in local investment seminars and missions (14percent). However, PSF contributed less by participating in regional and international investment seminars and missions (5percent), and in Regional and International business exhibitions and trade fairs (2percent).This has contributed to national image building and private investments generation in the country.

The private sector also contributed in Public Private Partnerships (PPP) with the government in some priority projects of the country through Public Private Dialogue, but the extent to which the federation has contributed doesn’t really match the scope and expectations of investment promotion in Rwanda by the private sector.

This low level of PSF active participation in international investment promotion activities constitute a major constraint in the implementation and successfulness of an investment promotion framework in the country since it discourages whatever efforts employed by the government to attract both local and foreign investments, thus a hindrance to promoting private investments in Rwanda. Without a demonstrated active participation of the private sector, whatever endeavors aimed at promoting investments in Rwanda would be of tiny relevancy, thus impending the upgrading of Rwanda economy.

The variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment promotion framework in Rwanda by Private sector Federation were found to be at first, in form of the structural variables related to both PSF organization(legal status, relationship to the government, communication with members, Regional and International representation) and PSF functional variables (image building, investor targeting and policy advocacy),in addition to performance variables related to PSF effectiveness, Structure and quality of private sector operators and PSF contribution in upgrading local economy.

An assessment of these variables is important because these variables offer possibility to provide relevant evidence about the PSF organizational qualities and internal efficiency; and the influence these variables could have on PSF’s ability to mobilize and attract both local and foreign private investments, hence boosting its potential to rally private investment and take a lead in the economic growth of the country.

Following an assessment of the above variables, we have come to realize that for a successful investment promotion framework in Rwanda; there is a great need for PSF to manifest much of its interest in activities aimed at building a perception of the country as an attractive location for local and foreign investments. These activities could be in form of participating in international investment seminars and missions, trade shows and exhibitions, facilitating visits of prospective investors, matching prospective investors with local partners, help with obtaining business permits and approvals, preparing project proposals, conducting feasibility studies and servicing investors whose projects have already become operational.

It was also noted that PSF has made some achievements in policy advocacy by influencing the government for the removal of non service based fees (1.2percent on business registration, 4percent on MAGERWA,2.25percent on mortgage registration, 6percent on property transfers),lifting the ban on movements of commercial trucks after six pm, active participation in the review of business laws, leading the restructuring of the arbitration center, as well as active involvement in the amendments of labour code and national social security policy.

Among the challenges raised by Private Sector operators with regards to investment promotion in Rwanda include shortage of skilled labor (20percent), limited access to finance (16percent), business environment barriers relating to tax (20percent) and low private sector capacity in terms of business management skills (11percent).

However, robust governance by rule of law and absence of corruption (30 percent), access to markets (25 percent) untapped opportunities in agriculture, energy, tourism and available infrastructure facilities (14 percent).and sustained high economic growth (16 percent) were raised as the main opportunities available to Private Sector Federation in Rwanda.

The majority of associations of private sector operators with whom we had focus group discussions emphasized that uniform tax rates are a concern to their micro and young businesses, who believe that the taxes they are charged are not proportional to the size and capital returns of their businesses. On the other hand, high interest rates, loan guarantee requirements, in addition to the lack of substitute for other financing sources are the main constraints related with limited access to finance. They also added that the interests paid on Bank loans seem to be higher than the profits they make.

In addition to high tax liability, micro and small businesses lack business management skills and entrepreneurs lack financial management expertise. They do not know how to track and separate business and household incomes and expenditures. This comes in addition to the capacity building efforts that are sometimes neither efficiently designed nor well coordinated.

The issue arising with lack of skilled labor is the fact that the majority of labor employed by private sector lack practical skills and they only rely on theory learnt from class, which seems to be more distorted from the industry practical experiences. This is a proof that there is lack of connection between institutions of higher learning and private industries, which could probably bridge this lack of skills gap.

According to Rwanda Prosperity Ecosystem Survey (2013) “The university curriculum seems misaligned with current industry needs. Moreover; the teachers in the university do not have industry experience therefore only teach the theory, some of which is outdated.”Another issue is that inexperienced and unequipped human resource managers create a skills utilization problem.

The human resource function does not adequately use and place the available skills, and the human resource managers do not prudently allocate the human resource budget.

Despite the above identified challenges with regards to investment promotion in Rwanda, private sector operators have also raised some opportunities available in Rwanda business environment which include robust Governance by rule of law and absence of corruption (30percent), access to market (25percent) ,untapped opportunities in agriculture ,energy ,tourism and available infrastructure facilities(14percent).

Private sector operators also mentioned that the sustained high economic growth (16percent) envisaged by the government of Rwanda for the last few years provides confidence to the business environment, in addition to several other measures undertaken by the government through Rwanda Development Board (RDB) to turn the Rwanda business environment into an investor friendly climate (9percent), through facilitating easy registration of new businesses in very short period of time, and with minimum requirements. They also stressed that even though PSF has been effectively advocating the private sector to some extent, there is still a big challenge related to tax liabilities.

In order for all the identified opportunities available in Rwanda business environment to effectively contribute in the promotion of private investments in Rwanda, it is very imperative for the PSF to fully understand their relevance in attracting private investment in mass to increase the share of private investments on GDP. This will enable the PSF to actively participate in activities aimed at attracting private investments as well as effectively advocating for the private sector, which will increase its loyalty and credibility towards private sector operators.

Finally, we have noticed that there is a great need for close relationships between PSF and the government in every endeavor aimed at promoting investments in Rwanda.

5.3 Conclusion

As far as investment promotion is concerned, it has been noticed that PSF played a significant role by facilitating the private sector operators to participate in both local trade fairs and investment missions and seminars, but nearly failed to help its members to actively participate in regional and international trade fairs and investment missions and seminars. It was also found that PSF participation in PPP with the government as well as in policy advocacy initiatives have promoted investments to some extent.

The variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment promotion framework in Rwanda by Private sector Federation were found to be in form of structural variables related to PSF organization and function, as well as performance variables.

It was also revealed that investment promotion in Rwanda is constrained by a number of challenges which include shortage of skilled labor, limited access to finance, business environment barriers relating to tax, and low private sector capacity in terms of business management skills.

However, there are still some opportunities available to investment promotion in Rwanda namely robust governance by rule of law and absence of corruption, access to markets, untapped opportunities in agriculture, energy, tourism and available infrastructure facilities, and sustained high economic growth.

Finally, we have noticed that there is a great need for strong ties between PSF and the government in every endeavor aimed at promoting investments in Rwanda. This could be manifested in some of investment promotion activities aimed at national image building, investor targeting, policy advocacy, and investment generation.

5.4 Recommendations

This section provides suggestions to both the government, PSF and finally proposes the new model for a successful model for investment promotion in Rwanda.

5.4.1. Suggestions to both the Government and the PSF.

For further continual improvement of investment promotion framework in Rwanda, the researcher proposes the following recommendations:

5.4.1.1. To the Rwandan government:

Without the private sector active involvement in all investment promotion activities of the county, the government can only achieve less economic growth. If the country intends to attract Foreign Direct Investments (FDI) in mass as well as to effectively service local investors, there should be the need for a very close relationship with the private sector. Investment promotion efforts are to be regarded as a shared responsibility between the government and the private sector where each party will be assigned well established roles to play aimed at mobilizing private investments in mass to enabling the country to increase the share of private investments in total investments of the Rwandan economy.

The Government should initiate, in partnership with the PSF some policies aimed at propelling Research and Development, transfer of knowledge and technology within private industries in Rwanda.In order to involve local private sector operators in the process of investment promotion, there is need for the Government to ease the tax administration burden, to address the access to finance issue, and finally to bridge the labor skills gap to ensure productivity. This could only be achieved and implemented by the Government in partnership with the Private Sector Federation.

5.4.1.2. To the Private Sector Federation (PSF)

The Private Sector Federation should design relevant programs aimed at strengthening the ability of entrepreneurs to meet regional and international standards through matching and meeting prospective investors with foreign investors as well as doubling support to PSF members to enable them to participate in international seminars and missions as well as trade fairs.

The Private sector role should also embrace investment promotion activities namely; allowing the Private Sector’s active participation in investment seminars and missions, participation in trade shows and exhibitions, distribution of literature, facilitating visits of prospective investors, matching prospective investors with local partners, help with obtaining business permits and approvals, preparing project proposals, conducting feasibility studies and servicing investors whose projects have already become operational.

The Private Sector Federation should initiate, in partnership with the Government some policies aimed at propelling research and development, transfer of knowledge and technology within private industries in Rwanda. To achieve this objective, the PSF has to partner with institutions of higher learning to enable graduates to practically know the industry experiences against class theory, with a view of producing a skilled labor capable of initiating research and development and innovations within private industries.

Prepare awareness rising on the benefits of being enlisted with PSF Rwanda in order to raise interest of local business operators who are not yet enlisted to become members as well as enabling them to move from operating in an overwhelmingly informal way to formal way of doing business.

Both the Private Sector Federation and the government should recognize the outranging role that Business Process Outsourcing (BPO) and the application of standards in industries have in upholding and promoting private investments

5.4.2 New model for investment promotion in Rwanda

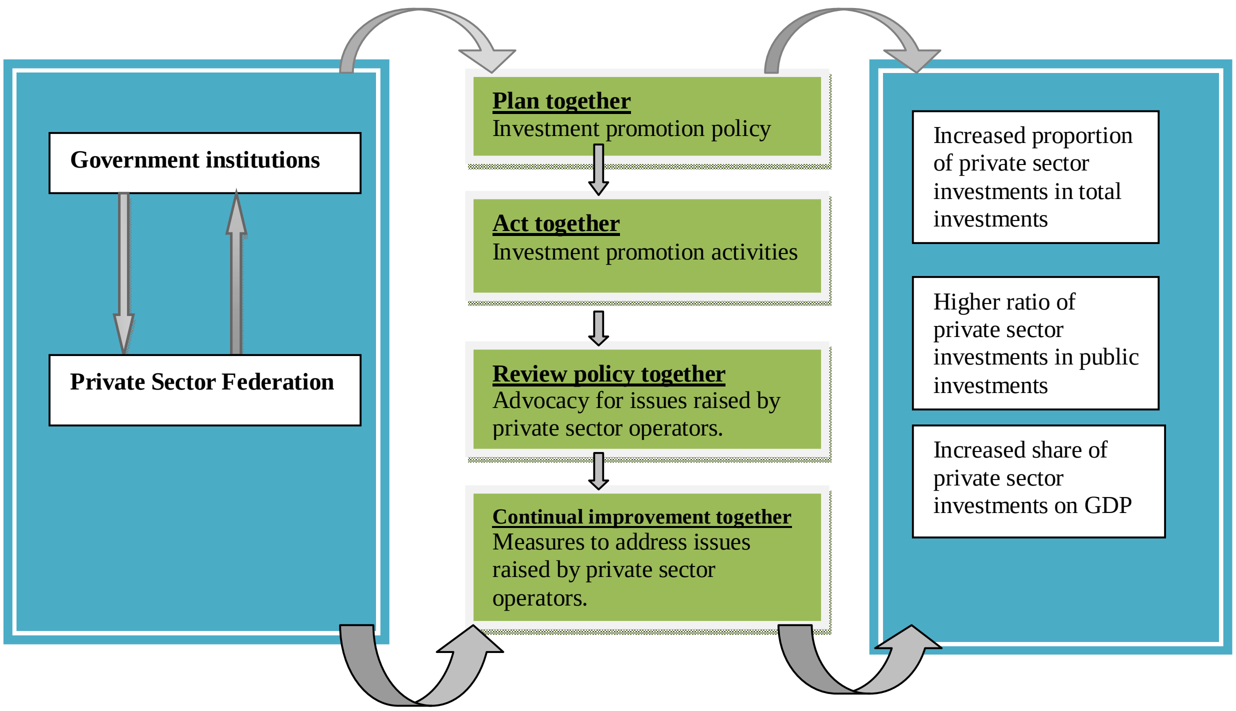
After a deep examination of the role played by the private sector federation in the promotion of investments in Rwanda, an assessment of the variables that would be most relevant in formulation, implementation and successfulness of a suitable Investment promotion framework in Rwanda by Private sector Federation ;and an investigation on the challenges and opportunities available for private sector in Rwanda, the researcher found out that the private sector federation active involvement in the promotion of investments in Rwanda is still limited.

As a result, the share of private investments on GDP is still low, the proportion of private investments in public investments is still narrow and the share of private investments in total investments needs to mature.

For that reason, the researcher proposed a new **PARC** (**Plan** together, **Act** together, **Review** policy together and **Continual** improvement together) model for investment promotion in Rwanda. The rationale for the new model lays its foundation on the vivid close ties between the PSF and the government in every endeavor for investment promotion framework in Rwanda.

The figure 5.1 below represents the new PARC model for investment promotion in Rwanda.

Figure 5. 1: New PARC model for investment promotion in Rwanda.



Source: Field Research, 2013

Table 5. 1: PARC model explanations

PARC	Explanations
Plan together	The government designs an investment promotion policy together with the Private Sector Federation.
Act together	The government implements an investment promotion policy together with the Private Sector Federation.
Review policy together	The Private Sector Federation ensures a transparent advocacy to influence the government on issues raised by private sector operators as a result of implementing the investment promotion policy.
Continual improvement together	The government takes measures together with the Private Sector Federation to address issues raised by private sector operators.

Source: Field Research, 2013

Finally, at the end of this research, areas for further research have been suggested. In actual fact, there is a great need to investigate in deep the extent to which Public Private Partnerships (PPP) have contributed in the promotion of investments in Rwanda. At this point, the main focus could be on assessing the existing relationship between the government and the private sector federation and how it influences investment promotion framework in Rwanda.

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INTRODUCTORY LETTER

Dear Respondent,

My name is Vincent NKUNDIMANA, a student of Kabale University doing a Master of Business Administration (MBA), Option of Accounting and Finance. As part of my academic requirements, I have undertaken a research on ***"Promoting private sector investments in Rwanda. A case study of Rwanda Private Sector Federation (PSF)".***

Under this study, our main concern is to investigate the role played by private sector, some challenges and opportunities available for private sector with regards to promotion of investments, as well as to carry out an assessment of variables that have effect on formulation, implementation and successfulness of a suitable Investment promotion strategy in Rwanda.

For the success of this study, you are therefore requested to answer the questions below by selecting the most appropriate answer that fits your response. You are not required to indicate your name, and your honest and sincere responses are highly appreciated and shall be treated with utmost confidentiality.

Your cooperation is highly appreciated

Vincent NKUNDIMANA

Appendix 1: Questionnaire for PSF members from each chamber (Sectoral Associations)

Instructions:

Please put a tick on the appropriate answer in the proposed box or fill in the space provided (in case the space is not enough use the back page of the questionnaire).

A) PERSONAL INFORMATION

1. Identification

a) Name of company:
b) District…………………..
c) Sector…………………...

2. Age group;

a) Under 20 ☐
b) Between 20-30 ☐
c) Between 30-40 ☐
d) Between 40-50 ☐
e) Above 50 ☐

3. Marital status;

a) Single ☐
b) Married ☐
c) Divorced ☐
d) Windowed ☐

4. Level of education;

a) Primary level ☐
b) Vocational training ☐
c) Secondary level ☐
d) University ☐
e) *Any other education level(please specify)*...

5. *Position held in the organization?*..

6. *How long has been the business running?*...

B) ROLE PLAYED BY PRIVATE SECTOR OPERATORS IN THE PROMOTION OF INVESTMENTS.

7. What kind of PSF chamber structure do you belong to?

a)Chamber of Agriculture ☐
b) Chamber of Art & Crafts ☐
c) Chamber of ICT ☐
d) Chamber of Liberal Professions ☐
e) Chamber of women entrepreneurs ☐
f) Chamber of Commerce ☐
g)Chamber of Finance ☐
h)Chamber of Industry ☐
i)Chamber of Tourism ☐
j) Chamber of young entrepreneurs ☐

8. What are the promotional activities has your business participated in among the following?

a) Participated in local investment seminars and missions ☐

b) Participated in regional and international investment seminars and missions ☐

c) Participated in local business exhibitions and trade fairs ☐

d) Participated in regional and International business exhibitions and trade fairs ☐

e) Others, please specify……………………………………………………………………..

…………………………………………………………………………………………….

…………………………………………………………………………………………….

C) CHALLENGES AND OPPORTUNITIES AVAILABLE FOR INVESTMENT PROMOTION IN RWANDA

9. What are the opportunities do you think would facilitate investment promotion in Rwanda?

a) Sustained High Economic Growth ☐

b) Robust Governance(rule of law, no corruption) ☐

c) Investor friendly climate(easiness of doing business,tax,etc) ☐

d) Access to markets ☐

e) Untapped Opportunities(infrastructure,agriculture,energy,tourism,ect) ☐

f)Others, please specify……………………………………………………………………..

…………………………………………………………………………………………….

…………………………………………………………………………………………….

10. What are the challenges does investment promotion face in Rwanda?

a) Shortage of skilled labor ◻
b) Non sufficient infrastructure (energy,land) ◻
c) Poor advocacy ◻
d) Business environment barriers relating to tax ◻
e) Non sufficient Private Sector Capacity ◻
f) Poor technology in the industries. ◻
g) Little involvement in Regional and International Trade ◻
h) Low Quality Member Services and low Communication ◻
i) Limited access to finance……………………………………………◻
j) Others, please specify…………………………………………………………………………
…………………………………………………………………………………………….

…………………………………………………………………………………………….

11. What do you wish would be the best practices for investment promotion in Rwanda?

…………………………………………………………………………………………………

…………………………………………………………………………………………………

……………………………………………………………………………………………...

Appendix 2: In Depth Interview (IDI) Guide for PSF Staff

Date…………………………………………………………………………………………….

Names:……………………………………………………………………………………..

Department:………………………………………………………………………………….

Position held:…………………………………………………………………………………

A) Variables that have effect on formulation, implementation and successfulness of a suitable investment promotion strategy in Rwanda.

1. What do you think is the mandate of the private sector federation with regards to investment promotion in Rwanda?

2. Is there any practical relationship between PSF and the government as far as Investment promotion is concerned?

3. How is the current status of the relationship between PSF as an umbrella for private sector in Rwanda, and its members (sectoral associations)? How do these two parties really collaborate to promote investment in Rwanda?

B) The role of Private sector in promoting Investment in Rwanda

4. Rwanda has been referred to as an environment that offers attractive location for investments from outside the country. How does PSF participate in building that image of the country?

5. PSF has recently launched an International Trade Fair and exhibitions (expo 2013), what is the **rationale behind expo** and how does it contribute to the promotion of investments in Rwanda?

6. What is the current PSF status of **policy advocacy** aimed at strengthening and improving the business environment for investors in Rwanda?

7. Does PSF hold **dialogues with potential investors** with the purpose of having them commit to an investment project, just to generate investments in the country? If so, how is it done?

8. a) Once foreign investors have established in the country, how does PSF help them maintain and improve their investment position in terms of **Research and Development** and help their business flourish in the country?

b) Is there any specific program hosted by PSF that encourages Multinational companies (foreign companies) to support SME’s in anyway, with the aim of **upgrading local economy**?

9. What is the real role of the PSF in branding Rwanda, thus promoting investment in the country?

10. What would be the best practices for investment promotion in Rwanda?

Appendix 3: In Depth Interview (IDI) Guide for Government officials who has much to do with investment promotion policy in Rwanda.

Date…………………………………………………………………………………………….

Names/Institution:……………………………………………………………………………..

Department:………………………………………………………………………………………

Position held:…………………………………………………………………………………….

A. Variables that have effect on formulation, implementation and successfulness of a suitable investment promotion strategy in Rwanda.

1. What do you think is the mandate of your organization in relation to investment promotion in Rwanda?

2. Is there any practical relationship between PSF and your institution as far as Investment promotion in Rwanda is concerned?

3. If yes, how do these two parties really collaborate to promote investments in Rwanda?

C) The role of Private sector in promoting Investment in Rwanda

4. Rwanda has been referred to as an environment that offers attractive location for investments from outside the country. How does PSF participate in building that image of the country?

5. How is the current status of Public Private Partnerships aimed at strengthening and improving the business environment for investors in Rwanda?

6. Is there any kind of facility or incentives does your institution offer to private sector operators to encourage their business activity?

7. Is there any kind of practical support provided by your institution to enhance research and development as well as to foster innovation within private sector industries in Rwanda?

8. What do you think are the major challenges faced by the Private sector with regards to investment promotion in Rwandan Business Environment?

9. What are the solutions would you suggest to address those issues impending the private sector involvement in promoting investments in Rwanda?

10. Investment promotion efforts in Rwanda should be a shared responsibility between the public and private sectors. What do you think should be the role of Private Sector in promoting investments in Rwanda?

Appendix 4: Focus Group Discussion (FDI) Guide for private business cooperatives

Date…………………………………………………………………………………………….

Name of cooperative……………………………………………………………………………

Year of creation…………………………………………………………………………………

Number of members…………………………………………………………………………….

Sector of activity……………………………………………………………………………...

A. Challenges and opportunities available for private sector activity in Rwanda

1. Have you ever heard of Private sector Federation? If yes why haven't you been part of its membership?

2. It is widely said that Rwanda is the best environment for doing business. Do you agree? If yes what do you think are the factors that favors doing business in Rwanda?

3. As private sector operators, what are the opportunities that Rwandan environment offers you that facilitate your daily business activities flourishing?

4. What are the main challenges that hinder your business activities in Rwanda?

5. What are your suggestions to address issues that hinder your businesses in Rwanda?

6. What do you think would be the best practices for investment promotion in Rwanda?