DISCUSSION PAPER / 2012.03
ISSN 2033-7329

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Do they enhance or impede development?

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October, 2012

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Abstract

In the last 18 years, large enterprises have emerged in post-conflict Rwanda, which are fully or partially owned and controlled by the ruling party – Rwanda Patriotic Front (RPF) – in association with state-owned enterprises, the military and the RPF-appointed managers (i.e. the new business elite). These enterprises (i.e. 'party-statals') operate in key sectors of the economy, thus constituting the RPF's business empire. The Government of Rwanda (GoR) initially created them in order to spearhead much-needed economic development. Over the years, however, it has expanded them in number and in size, instead of cultivating its hapless private sector. By virtue of their incestuous relationship with the Ministry of Finance and Economic Planning, the Ministry of Defence and certain state-owned banks, the party-statals have become increasingly reliant on the state's scarce fiscal and monetary resources – the latter made possible with budgetary support from development partners. The expansion of these capital and skill-intensive party-statals, with their guarantees of massive asymmetry in market access and profits through state backing, has begun to impede the growth of a more inclusive, broad-based and labour-intensive private sector. Based on newly available but necessarily limited data, this paper provides a framework with which to assess the actual and potential developmental impact of party-statals (individually and combined) on various stakeholders, including the Government of Rwanda, development partners, owners and operators, domestic and international investors, the Rwandan workforce and consumers. The paper further argues that the international donor community should insist on transparency and full disclosure of the party-statals' financial statements, that it should monitor their fiscal activity with the state and that it should assess their impact on stakeholders and private sector development. Finally, the paper proposes exit strategies aimed at improving competitive dynamics within the domestic business environment, where competition is desirable and feasible, thereby benefiting Rwandans as investors, workers and consumers.

Abbreviations

AfDB	African Development Bank
BMI	Business Material Investments Limited
BND	Banque Nationale du Rwanda
BRD	Banque Rwandais de Developpement/Rwanda Development Bank
CIMERWA	Ciments du Rwanda Limited
CSR	Caisse Sociale du Rwanda
CSS	Credit and Saving Society
CVL	Crystal Ventures Limited
EIVC1	First Integrated Household Living Conditions Survey
EIVC2	Second Integrated Household Living Conditions Survey
EIVC3	Third Integrated Household Living Conditions Survey
GDP	Gross Domestic Product
GoR	Government of Rwanda
GPD	Gaculiro Property Developers
FDI	Foreign Direct Investment
IFC	International Financial Corporation
IMF	International Monetary Fund
IPAR	Institute of Policy Analysis and Research
HEs	Household Enterprises
HRB	Housing Bank of Rwanda
Horizon	Horizon Group Limited
ILO	International Labor Office
LEs	Large enterprises
MIG	Multilateral Investment Group SA

MINECOFIN	Ministry of Finance and Economic Planning
MINADEF	Ministry of Defence
MMI	Military Medical Insurance Scheme
NISR	National Institute of Statistics of Rwanda
NPD	Nyarutarama Property Developers
PEC	Peat Energy Company
PSF	Private Sector Federation
RwandAir	Rwanda National Airlines
REC	Rwanda Energy Company
RPA	Rwandan Patriotic Army
RPF	Rwanda Patriotic Front
RSE	Rwanda Stock Exchange
RIG	Rwanda Investment Group SA
RDB	Rwanda Development Board
RRA	Rwanda Revenue Authority
SMEs	Small and Medium Enterprises
SOEs	State-Owned Enterprises
Tri-star	Tri-star Investments
WB	The World Bank Group

1. Introduction

Since the end of civil war in 1994, Rwanda has achieved a remarkable economic recovery. Over the last decade alone, its growth rate has averaged 8 percent and the number of its poor has been significantly reduced. Recently, these welcome statistics have been attributed to the emergence of what can best be referred to as Rwanda's party-statals. (Booth and Golooba-Mutebi, 2012 and 2011a). Party-statals are enterprises which are owned--in whole or in part--by Rwanda's ruling party (Rwanda Patriotic Front), along with state-owned enterprises (SOEs), the military and the RPF-appointed managers (i.e. the new business elite).[1] Such attribution implicitly rejects the relevance of the good governance reform package advocated by the international development community for Africa including Rwanda. Drawing upon work by scholars who have examined development process extensively under authoritarian Asian regimes, these researchers argue that Rwanda's party-statals have been good for growth and development. They consider Rwanda (along with its regime's authoritarian practices) a model for developmental states in Africa.[2]

Upon closer examination of the country's recent trend towards growth and development, however, a different story emerges. Rwanda's party-statals dominate its tiny formal enterprise sector, as they continue to expand in number and penetrate key economic sectors (e.g. construction, real estate development, agro-processing, furniture manufacturing and importing, packaging, energy, pyrethrum processing, telecommunications, media broadcasting and internet services). Their market concentration has tilted the competitive dynamics of business environment, in which competition is feasible and desirable, in their favour.[3] At the same time, the few cases for which data are available demonstrate that party-statals are also extractive in the sense that they fail to use the scarce resources provided by the government (and even by donors) efficiently. More importantly, the goods and services provided by party-statals are not destined for the consumption baskets of ordinary Rwandans (either the 55 % living above the poverty line or the 45 % living below it). A large proportion of Rwanda's non-agricultural working population seeks employment within the country's vast informal sector, which is composed of unincorporated micro-enterprises (with 1-3 workers) and household enterprises (with only one worker and one or two unpaid household helpers). The informal sector is almost entirely concentrated in the service sector, and it remains disconnected from the very tiny formal enterprise sector, which is dominated by the RPF's business empire. Consequently, productive jobs and jobs that pay above bare subsistence wages remain scarce and incapable of absorbing the unemployed, including those who have been pushed out of agriculture and those who are under-employed.

This discussion paper examines the claim that Rwanda's party-owned business empire (with its party-statals) is developmental, and it investigates the question of whether the centralised management of economic rents by a willing and capable regime can indeed boost

[1] Party-statals should not be confused with the state-owned enterprises (SOEs); the Government of Rwanda (GoR) exerts its partial minority ownership rights through Ministry of Finance and Economic Planning (MINECOFIN) in a few party-statals where it is a direct equity partner. Otherwise, SOEs are equity partners themselves in party-statals making the GoR an indirect shareholder.

[2] Developmental state is defined as one whose ideological underpinnings are developmental and it seriously attempts to deploy its administrative and political resources to the task of economic development (Meyns and Musamba, 2010).

[3] At the outset, party-statals were justified for investing in sectors in which private-sector investments were either not possible (due to high investment and technological requirements) or not desirable (due to high perceived risk).

long-term growth that could serve the interests of both the country and the regime simultaneously. The paper presents a review of Rwanda's record of growth and development to date, along with factors that can explain the tiny size of its formal enterprise sector. This review is followed by a description of the expansion of party-statals and their connections (i.e. financial, fiscal and political) with the ruling party, the state and the military. A framework is then presented for measuring the developmental impact of Rwanda's RPF-owned business empire and its party-statals (even in the absence of complete and available data) on the following stakeholders: government and development partners, owners and operators, domestic and international investors, the Rwandan workforce and Rwandan consumers. The paper concludes by explaining why the Rwanden state's management of its party-statals cannot be qualified as developmental, thus calling into question the credibility of the claims of a handful of researchers, based on the limited evidence available to date. The paper urges development partners to insist on accountability, to reduce information asymmetries, to enhance transparency, to make disclosure a priority and, more importantly, to help the GoR devise an exit strategy.

2. Rwanda as model developmental state?

Following the reasoning of their predecessors, several development scholars and researchers have recently begun to reconsider the utility of the 'developmental state' concept in Africa. Their concerns centre on the issue of whether African countries can learn from, and even emulate, the achievements of East Asian countries in order to overcome their present developmental problems (Meyns and Musamba, 2010). Inherent in this debate is the observation and the strong belief that the East Asian countries that are used as examples achieved their growth and development without adhering to good-governance agenda that is currently advocated by the international donor community. In particular, institutional economists argue that market-enhancing good-governance reforms (supported by development partners) are desirable, although they are not necessarily implementable or achievable in most developing countries. These scholars point out how East Asian countries amassed growth-enhancing governance capabilities in the early stages of their development. These East Asian governments addressed market failures through selective industrial policies, in which the direction of the economy was shaped by an active government role. In addition to allowing rent-seeking, these governments centralised, managed and monitored those rents closely and effectively in order to ensure growth and development in the process of social transformation towards capitalism (Kahn, 2012).[4]

In South Korea, Malaysia and Taiwan, the state played a key role in driving economic and social transformation. South Korea adopted a classic infant-industry strategy, providing subsidies to large holding companies – the *chaebol* – in order to catch up with advanced countries in the area of technology. The state had an effective rent-management system in place. Its executives set export-performance targets that would allow them to reward or penalise enterprise managers based on performance outcomes. If necessary, the state could easily discontinue subsidies to inefficient capitalists. In Malaysia, the state accelerated the acquisition of technology by providing conditions to encourage high-technology multinational companies to invest and provide backward linkages to domestic producers. In Taiwan, the state encouraged small-scale high-technology industries in the private sector to acquire high-productivity technologies by

[4] Rent-seeking is defined as an attempt to obtain economic rents by manipulating the social or political environment in which the economic activities occur, instead of creating new wealth.

subsidising the acquisition of such technology through state-led technology licensing. Firms could gain access to subsidised technologies below cost, and those that were successful in increasing their productivity faster than the rest were able to compete. The growth in rent management and productivity enhancement was due to the measured economic distance and the close coordination of the state with emerging diversified business groups. Domestic businesses were not able to influence state-led technology acquisition in their favour (at the expense of the national interest), and they were not able to use political power to acquire monopoly power in the domestic market (Kahn, 2004). Moreover, the relative independence of East Asian states from the business class made it possible for them to provide support that was conditional on reciprocity (World Bank, 1993).

Inspired by Asian success stories, development scholars and researchers have now begun to assign a great deal of importance to the role of party-statals in Rwanda. These advocates maintain that party-statals, through which rents are derived and accumulated, are helping the state to achieve its developmental ambitions. More specifically, they argue that, if countries like Rwanda manage, centralise and use these rents for 'development with a long-term horizon', the development outcomes could far exceed those prescribed by development partners in the past (Booth and Golooba-Mutebi, 2012 and 2011a).

I disagree with this analysis. The Rwandan state lacks the requirements for presiding over a developmental political class. First, the long-term horizon of the ruling party is limited by the fact that its political base is too narrow in ethnic terms to be politically secure, as well as by the fact that it is not considered legitimate by a wide spectrum of population. Second, it has limited bureaucratic capability for command and control, although power to control (and even to disrupt) exceeds its constructive power. Third, and most importantly, the ruling party is intolerant of any economically powerful private sector that could constrain the state. The state has thus become most comfortable in expanding – and relying on – its own party-statals. For this reason, nothing that the Rwandan state has achieved in terms of economic growth and poverty alleviation should be attributed to its party-statals. On the contrary, Rwanda's party-statals (which are closely intertwined with the RPF, the state, the SOEs, the military and the business elite) have become extractive economic institutions, concentrating power and opportunity in the hands of only a few.[5] While the fusion of such extractive economic institutions and extractive political institutions could have generated rapid growth in the recent past (with the help of various exogenous and endogenous factors), it is unlikely to be sustainable in the long term. On the contrary, such a combination is likely to be self-limiting (Acemoğlu and Robinson, 2012).

[5] This is in contrast to the Asian countries, particularly South Korea, in which there was a close connection between the ruling party, the military and the '*chaebols*'. Unlike the Korean chaebols, however, Rwanda's RPF-owned business empire and its party-statals are not owned by the business elite. Instead, they are owned by the RPF, and they are operated by RPF-appointed managers, in the guise of the new business elite.

3. Rwanda's growth and development in perspective

As a small landlocked country with low income, 82.5% of its population living in rural areas and a heavy dependence on foreign aid, Rwanda has thus far achieved remarkable recovery and progress.[6] The country's economic growth alone averaged 8 %, and this growth has been translated into poverty reduction. At the national level, poverty has declined by 12 percentage points (from 56.7 % in 2005/06 to 44.5 % in 2010/11). Inequality has undergone a similar reduction, with the GINI Coefficient decreasing from 0.522 to 0.49 in the same period (NISR, 2012a).[7] These developments were not achieved overnight. When the ruling party (the RPF) seized power and formed the civilian government in July 1994, it embarked upon an ambitious path of economic development, in order to repair and to encourage growth in the shattered economy. The two main pillars of the strategy were investment and export-led growth, *combined with* the simultaneous and rapid transformation of the country's agricultural sector. Export-led growth was expected to attract much-needed investments (both domestic and international) to key growth sectors. The creation of large-scale mechanised farming units was expected to increase the productivity of export and food crops while commercialising – and thus transforming – the agricultural sector.

The agricultural sector has now become the key growth engine, followed by the rapidly expanding service sector. The agricultural sector's share of the gross domestic product (GDP) has shrunk to 32 %, with its cash crops (i.e. coffee and tea combined) contributing almost half of Rwanda's total export earnings, including minerals, tourism and pyrethrum (the extract of which is used in natural insecticides). The service sector's share of GDP has increased substantially to 46 %, even as the industrial sector's share has remained relatively stable at 16 % (NISR, 2011a; see Table 2). The construction sector's share of the GDP has increased to 8 %, while the manufacturing sector's share has stagnated at 7 %, with mining representing only 1 % of the GDP. The manufacturing sector has yet to begin the explosive growth that will be needed in order to achieve the targeted 26 % share of the GDP by 2020 (MINECOFIN, 2000).

In addition to achieving economic progress in the past decade, Rwanda has improved most of its governance indicators along almost all dimensions: *economic* (government effectiveness and regulatory quality), *institutional* (rule of law and control of corruption) and *political* (voice and democratic accountability, political stability and absence of violence). Despite this general progress, however, there has been hardly any significant progress in terms of voice and democratic accountability. With a regime classed as 'authoritarian', the country ranks 136th out of 167 countries according to the Democracy Index, and the democratic process remains seriously constrained (Economic Intelligence Unit, 2012). There are also rising concerns about whether the Rwandan government will be able to fight petty corruption despite its presumed efforts for zero-tolerance (Transparency International, 2010).

A less favourable picture emerges upon closer examination, however, raising questions concerning whether Rwanda will be able to sustain its current rates of economic growth

[6] Recent estimates show that 14.8 % of the entire Rwandan population has now become urban, while 85.2 % has remained rural. The Southern Province has the highest relative rural population, amounting to 93.9 % (NISR, 2012a).
[7] One long-time observer of Rwanda's economic and political development reports that the lowest GINI Coefficient in Rwanda's history (0.29) had been observed in the 1970s, when its small army of only 4 000 allowed for higher budgetary spending in social sectors (e.g. education and health). This is in contrast to the present situation, with an army of 65 000 and the associated large defence budgets, which leave less room for expenditures in the social sectors.

and poverty alleviation under these circumstances. Between 2005 and 2010, investments by domestic enterprises (including those from state-owned enterprises) have remained almost constant as a share of the GDP. Actual foreign direct investments have also fallen short of expectations, despite the fact that Rwanda was ranked first amongst all African countries in 2010 for improving its investment climate and the ease of doing business (World Bank and IFC, 2011). The total amount of foreign direct investment (FDI) that entered the Banque Nationale du Rwanda (BNR) between 2005 and 2010 was only USD 366 million (with an annual average of USD 61 million). This amount accounts for only one third of what foreign investors had originally pledged to the Rwandan Development Board (BRD) (Gökgür, 2011). In the meantime, Rwanda's neighbours have done far better: Tanzania's annual FDI flows increased from USD 399 million in 2005 to USD 700 million in 2010, and Uganda's FDI flows increased from USD 379 million in 2005 to USD 847 million in 2010 (UNCTAD, 2012).

Nevertheless, the stable share of investments by domestic enterprises (including state-owned enterprises) in the GDP is not keeping pace with Rwanda's ambitious agricultural policies of reducing the proportion of population that is dependent upon agriculture. The increase in public investments has contributed significantly to the transformation of agriculture through land consolidation, mechanisation and the commercialisation of mono-crops. Public investments have undoubtedly benefited from generous official donor grants. Budgetary grants, combined with capital project grants (which amount to one third of the magnitude of budgetary grants), constituted 36 % of the government's budget in 2010 (reaching 44 % with an additional 8 % in loans; IMF, 2011). Public investments in the construction of agricultural infrastructure significantly reduced the share of on-farm employment, from 89 % of total employment in 2001/2 to 72 % in 2010/11 – a reduction of 17 percentage points in ten years (NISR, 2012b). In the meantime, in addition to global increases in coffee and tea prices, Rwanda has benefited significantly from debt relief, the cost of which was also borne by development partners.

Table 1 Economic Indicators Contributing to Growth (2006-2011)

2006	2007	2008	2009	2010	2011
		GDP Growth			
9.2	5.5	11.2	6.0	7.6	**8.8**
		Share of Public Investments in GDP			
6.9	7.8	10.4	10.0	11.1	**10.7**
		Share of Domestic Private Investments (including SOEs) in GDP			
12.8	12.4	13.1	11.3	11.7	**12.0**
		Share of Foreign Direct Investments in GDP			
1.2	2.2	2.2	2.3	0.8	**1.5**
		Share of Government Revenue in GDP			
12.1	12.3	14.9	12.8	13.2	**14.1**
		Share of Official Grants in GDP			
8.0	***9.7***	***9.5***	***10.0***	**11.7**	**12.9**

Source: Compiled from International Monetary Fund, World Economic Outlook Database, September 2011; 2010 and 2011 are projections. It is important to note that domestic private investments include investments by state-owned enterprises, thus suggesting that these investments are generated primarily by both party-statals and state-owned enterprises.

Nevertheless, Rwanda is still far from transforming its agrarian economy into a knowledge-based economy or from developing a productive middle class, in which entrepreneurship creates wealth, employment and vital innovations through opportunities for profit (MINECOFIN, 2000). The GoR had fixed its sights and policies on an ideal industrial structure that it is associated with modernisation, although its structure requires high levels of capital and skills, as well as income considerably in excess of the income of Rwanda. The ambitious goal of creating a knowledge-based economy has thus rendered Rwandan firms, industries and sectors ineffective in using the country's current comparative advantage. Instead they have generated low-skilled and labour-intensive production activities specifically in the manufacturing sector, which accounts for only 7 % of the country's GDP (Lin and Chang, 2009)

Table 2 Sectoral Share of Gross Domestic Product (2006-2009)

Sectors	2006	2007	2008	2009	2010	2011
AGRICULTURE	38	36	32	34	32	32
INDUSTRY	14	14	15	14	15	16
Mining	1	1	1	1	1	1
Manufacturing	7	6	6	6	7	7
Electricity&Water	0	0	0	0	0	0
Construction	6	6	8	7	7	8
SERVICES	42	45	46	45	47	46
Adjustments	6	6	6	6	6	**6**
TOTAL	100	100	100	100	100	100

Source: Compiled from GDP National Accounts, 2011

As indicated above, two thirds of Rwanda's manufacturing sector is concentrated in the areas of food and beverages, wood (including furniture, paper and printing). Nonetheless, Rwanda could conceivably be competitive in a much wider range of manufacturing products, both domestically *and* internationally.[8] However, the unique characteristics of Rwanda's formal enterprise sector (and even the miniscule share of manufacturing in the GDP) reflect its unrealistic vision of modernisation vision in the absence of competition among its large enterprises (LEs) and with too few productive and wage-paying jobs in its small and medium enterprises (SMEs).

4. Rwanda's enterprise Landscape[9]

The Rwandan enterprise sector has a very tiny formal sector, which is composed of a few formal LEs and relatively few SMEs, most of which are not incorporated. In contrast, its informal sector is very large and composed of unincorporated micro-enterprises. Not every Rwandan has a job in the non-farm enterprise sector. The bulk of the non-farm population of working age is engaged in more than one job, if they are able to find or create them. Many of these jobs are in 'household enterprises' (HEs), a subset of micro-enterprises having a single worker, possibly with one or two unpaid household helpers, who are not even officially included in Rwanda's enterprise sector (World Bank, 2011b). The vast army of HE workers (roughly estimated at approximately 750 000) have chosen self-employment as a survival strategy, with meagre earnings at best, given that they have no alternative opportunity in paid productive employment in either the tiny formal sector or the informal sector (NISR, 2011b). According to the

[8] Although Rwanda may not be able to compete with low-priced Chinese products, it can easily move towards the labour-intensive manufacturing of products that it would otherwise import from neighbouring Uganda and Kenya for its own domestic consumption.
[9] Since what the GoR calls "private sector" is not entirely private but includes the party-statals, it seems more accurate for this author to refer to this sector as the "enterprise sector" instead.

World Bank, off-farm work in HEs must have been instrumental in lifting 'one million people out of poverty by 2010/11', with a significant increase in agricultural production and consumption (Lapido, 2012). However, the absorption of those leaving farm work for HEs does not necessarily mean that those ejected from agriculture have been successfully absorbed by non-farm employment and that they are thus better off than they had been before. On the contrary, many are currently living under worse circumstances after having lost their former agricultural livelihoods (Ansoms, 2009). More importantly, official statistics on the size and composition of Rwanda's enterprise sector (both formal and informal) does not include any HEs. Only the World Bank has attempted to estimate the magnitude of these enterprises.

4.1. Composition of Enterprise Sector

Rwanda's enterprise sector, which is officially measured in the *Establishment Survey 2011*, apparently does not generate enough jobs, whether through paid employment or self-employment. The entire enterprise sector currently consists of 116 839 enterprises (95 % of all businesses surveyed), employing 224 659 workers (80 % of those surveyed). On the other hand, cooperatives, non-profit organisations, the public sector, the mixed sector and private businesses in health and education combined constitute only 5 % of the companies surveyed, while employing the remaining 20 % of all workers (see Table 2). Because this category is not considered as engaging in purely commercial activities, it is not included in the enterprise sector. This suggests that only 16 % of the non-agricultural workforce in Rwanda (estimated at 1 406 000 in 2011) has been absorbed into the tiny enterprise sector[10] (NISR, 2012b).

Table 3 Rwanda's Enterprise Sector in Businesses Surveyed in 2011 [11]

Type of Businesses	Number of Businesses	%	Persons Employed	%
Enterprise sector (including party-statals)	116,839	95	224,659	80
Cooperatives	1,877	1	25,264	9
Non-Profit Organizations	4,238	3	16,968	6
Public/Mixed Sector/Health and Education	572	1	15,105	5
TOTAL	123,526	100	281,946	100

Source: Compiled from Establishment Census 2011; the state-owned enterprises (SOEs) are presumably included in the 'public category' and not in the enterprise sector.

The characteristics of the enterprise sector are almost identical to those of all businesses surveyed in *Establishment Census 2011*. This sector is predominantly composed of informal enterprises (mostly micro-enterprises with between one and three workers and a very few small business with 4-30 workers), which account for 95 % of the total enterprise sector. In addition to being unincorporated, these enterprises are not registered by Caisse Sociale du Rwanda (CSR), Rwanda Revenue Authority (RRA), Private Sector Foundation (PSF) or the newly established Rwandan Development Board (RDB), which is under the supervision of the President's Office

[10] If the total non-farm workforce is calculated from data available in *NISR, EIVC3, Main Indicators, 2011*, p. 93 and compared to employment data in *Enterprise Census 2011*, only 16 % of the non-farm working population was working in the enterprise sector in 2011.
[11] Establishment Census 2011 defines an establishment as an enterprise or part of an enterprise with constant site performing one or more economic activity under one administration and also holder of the establishment could be a natural or nominal body or government body (p. 30).

(NISR, 2011b).

In contrast to the numerous informal enterprises, formal enterprises with paid jobs (large enterprises with more than 100 workers, mid-sized enterprises with 31-100 workers and small enterprises with 5-30 workers) are very few in number. This group jointly accounts for approximately 5 % of all enterprises. Most of these enterprises (91 %) are sole proprietorships, followed by unlimited share ownerships (7 %) and companies limited by shares or limited by shares and by guarantee (2 %). Two thirds of all businesses operate with an employed capital amounting to less than RWF 0.5 million (USD 833), and most involve self-employment, generating paid jobs for the owners and a few workers – in most cases, no more than three (NISR, 2011b).

4.2. Factors Explaining Tiny Enterprise Sector

Several recent historical factors are responsible for the very small size of Rwanda's formal enterprise sector. *First*, the Rwandan privatisation programme, which was initiated in 1997 with the help of its development partners, has failed to produce any genuinely private sector-led development. Rwanda's neighbours (i.e. Uganda, Tanzania and Kenya) have fared better, having transformed the bulk of their SOEs into privatised commercial entities, in order to improve their efficiency while building a competitive and growing private sector, both domestically and internationally. This has not taken place in Rwanda. Contrary to assertions by those who are less familiar with the implementation of its privatisation programme, Rwanda has not become 'a star pupil of the Washington Consensus' (Booth and Golooba-Gutebi, 2011a). The implementing authorities in charge of privatisation transactions have not necessarily followed the rules and procedures advocated by the World Bank.

Nor did the privatisation programme result in the needed simultaneous reforms, especially those regarding competition and regulation. The country had never had a proper competition law, and no competition commission was in place to review privatisation transactions and the ways in which they would enhance or impede competition. Those executing privatisation transactions have not used competitive tendering processes, and they have not sought to create competitive markets, as initially envisioned by the privatisation programme. Only in November 2011 did the Competition and Consumer Protection Bill finally pass the Rwandan Parliament – 14 years after the launch of the privatisation programme. The Competition Unit at the Ministry of Industry and Trade (MINICOM), which was formed only a few years ago, currently remains ineffective, having no powers to enforce penalties for enterprises that engage in coercive and abusive practices. Moreover, Rwanda's entire privatisation programme has been deemed a 'failure', as acknowledged by a World Bank official in Rwanda.[12]

Only in the eyes of the International Finance Corporation (IFC), the private-sector arm of the World Bank, does Rwanda fit the profile of a 'star pupil' for having improved some of its ease of doing business indicators. For example, while the number of days needed to start a business has been reduced, it is still very cumbersome for investors (domestic and international) to obtain construction permits. Some rigorous researchers who have studied this situation carefully have argued that the regulatory areas relevant in the list of Doing Business indicators are generally uncorrelated with growth, investment and employment (Veit and Streege, 2012). Particularly in the case of Rwanda, researchers have demonstrated that (a) GoR-initiated regu-

[12] Conversation with Lucy Fye, Senior Private Sector Development Specialist, World Bank Office, Rwanda, May 2011.

latory reforms have responded to only one of the six areas addressing voiced demands in the business community and (b) there was no significant correlation between the high likelihood of improved rankings and reform activities. Only the reduction in regulatory costs has offered a good proxy for reform initiatives undertaken by the GoR (Veit and Streege, 2012).

To date, Rwanda's privatisation agenda remains unfinished. No longer managed by the Ministry of Finance and Economic Planning (MINECOFIN), it has been transferred to the Asset and Business Management Department at Rwanda Development Board (RDB). The latter is now in charge of seeking investors in order to privatise the remaining enterprises (whether partially or completely). After almost fifteen years following the inception of the privatisation programme in 1997, the GoR has gradually begun to reduce its remaining shares in enterprises that have already been privatised. On the other hand, the GoR has established a new set of fully state-owned enterprises over the last ten years. The new SOEs constitute half of the total SOEs in which the GoR has a controlling equity stake (see Annex B). For example, RwandAir, the new national airline company, has been operating at increased fiscal risk to MINECOFIN, due to its government-guaranteed loans, subsidies and equity injections.

Second, in the past 18 years, party-statals have expanded into various economic sectors. In a few cases, they have become the new owners and operators of privatised enterprises from which the GoR had disposed of its assets and equity shares in former SOEs through its privatisation programme. Party-statals have thus replaced the former SOEs, under the guise of having been sold to private owners and operators. Party-statals have continued to expand while entering joint-venture agreements with new *and* former SOEs within the portfolio of MINECOFIN. These party-statals have thus increased the combined share (direct and indirect) of the state-owned and military enterprises in the economy. Such cross-share holdings in equity have strengthened their connections (financial and non-financial) with SOEs, military enterprises and the state itself, as well as with other party-statals. In addition, the holding-company structure under which they were established is likely to continue encouraging them to buy their services and goods from each other. If needed, they are likely to subsidise each other and write off each other's losses (as is common practice in any holding structure).[13]

Third, party-statals receive and enjoy fully state-granted privileges through their close fiscal, financial and non-financial ties to the state in procurement contracts, as well as in their ability to access loans from commercial banks. Furthermore, some of these banks are majority or minority state-owned. Such privileges are not available to the other businesses (domestic or international) that are not connected to the RPF and that must compete for market entry. In particular, domestic investors are increasingly being discouraged from entering sectors in which party-statals are operating (PSF, 2010). For example, government procurement contracts in construction appear to be tailored to party-statals, intentionally setting prices high enough to exclude others.[14] Although few in number, existing SMEs have also been denied the chance to grow, as they cannot even dare to enter competitive tenders for projects in which the competition might ultimately be rigged in favour of party-statals. Rwanda's private business owners have observed that the companies in which the GoR owns shares and those that have close ties to the government have benefitted from preferential treatment with regard to access to

[13] Given the current lack of evidence to the contrary, this assumption is legitimate. Other researchers have been unable to prove that it is not the case by analysing and revealing the inner workings of three holdings in Rwanda.
[14] Information gathered during a telephone interview in April 2012 with a private entrepreneur in Rwanda, who wishes to remain anonymous.

credit and tax-compliance enforcement (PSF, 2010). Party-statals are evidently exercising 'state capture and influence' through the undue influence of the powerful ruling party and/or well-connected managers (i.e. the new business elite) in shaping institutions and policies, laws and regulations to their own benefit instead of in the interest of the rest of the society (Kaufmann, 2012). Recent research on party-owned businesses in Ethiopia has similarly demonstrated how outright state capture by powerful economic groups can lead to negative consequences for economic stakeholders, specifically the domestic private sector (Abegaz, 2011). Rwandan party-statals are no different, as discussed in detail in Section 6.

Fourth, Rwanda is suffering from insufficient FDI, contrary to expectations and despite extensive efforts that have been devoted to including the activities of the recently erected RDB, in an attempt to emulate the experiences of Singapore. There are several explanations for Rwanda's failure to attract sufficient FDI. One explanation is directly related to the investment promotion efforts of the RDB, which concentrates on attracting investors directly into party-statals. Investor promotional materials present the owners of party-statals seeking foreign investors as equity partners. In its descriptions of party-statals, the GoR places particular emphasis on their strong market concentration, in order to entice foreign investors to share in rent-seeking (Rwanda Development Board, 2011). Another factor is the absence of a level playing field for international investors, who might not be eager to enter into joint ventures with party-statals, but who might seek greenfield projects on their own. Investors may also be deterred by the bad experiences of other investors, in which the GoR decided to expropriate intellectual property without compensation.[15] The low level of skills amongst Rwandan workers poses another impediment, as do the inadequacy and unreliability of public services (e.g. electricity, water and roads). Until very recently, land has been provided without written lease or title (Gökgür, 2011). The low wage rates also provide little solace, as they are combined with low productivity. Even though it is presumably higher than that of Tanzania and Uganda, Rwanda's low productivity (along with its low skill levels) overwhelms its low wages, thus producing a high per-unit labour cost (World Bank, 2009).

[15] A legal claim has been filed by Dane Associates Ltd. (United Kingdom) against the Government of Rwanda and Kibuye Power Ltd. (Case Number 17664/ARP), to International Chamber of Commerce and International Court of Arbitration, Geneva Switzerland, 7 June 2012.

5. Dominance of party-statals in enterprise sector

To date, three umbrella party-statals are operating as asset-management entities (identical to holding companies). Together, they hold full or partial ownership for 25 predominantly large party-statals (with perhaps only a few mid-sized entities). An average-sized party-statal is still larger than any LE in the formal sector. These companies account for 0.1 % of all businesses employing more than 100 workers and 1 % of those with employed capital exceeding RWF 75 million (USD 125 000; NISR, 2011b).

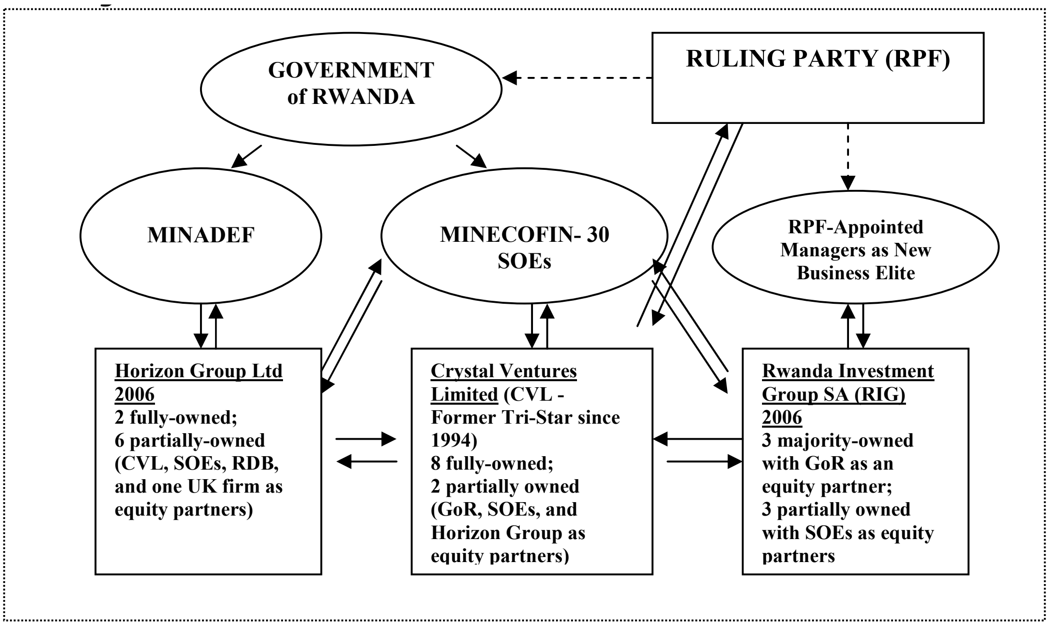
Despite the lack of annual reports on party-statals (let alone analytical reports or studies), existing evidence suggests that all party-statals combined have the highest value in terms of fixed assets, total assets, turnover and, more importantly, the largest share in gross output. Together, they dominate the commanding heights of Rwanda's economy: construction; engineering; real estate development; furniture making and importing; packing materials; agro-processing; tea factories and coffee-washing stations; energy; pyrethrum processing; telecommunications; communications; broadcasting and media; internet services and security (Booth and Golooba-Mutebi, 2012 and 2011a).

Nevertheless, party-statals did not appear in Rwanda's enterprise landscape overnight. They evolved over a period of nearly 20 years, progressively entering key economic sectors. These sectors and enterprises appear to have been deliberately selected, both horizontally and vertically, according to an investment and export-led growth model envisioned by Rwandan elite and aggressively implemented over the past decade. The model expresses ambitions of high modernism, in the attempt to transform Kigali into a modern urban centre. This is apparently no different from – but merely parallel to – the state's desire to create modern rural settlements (Ansoms, 2009; Newbury, 2011).

5.1. Evolution and Expansion of Party-Statals

It took almost 20 years for party-statals to attain their present dominance, with connections to the ruling party (RPF), state-owned enterprises (SOEs) under MINECOFIN and military-owned enterprise under Ministry of Defense (MINADEF), as well as with the RPF-linked business elite. In the early years, the RPF subsidised the new state through the accumulated earnings of its fully owned Tri-Star Investments (Tri-Star), an investment holding company that grew out of the 'production department' of the rebel Rwandan Patriotic Army (RPA) during the war of 1990-1994 (Booth and Golooba-Mutebi, 2011b). Tri-Star apparently received its initial funding from the political contributions of its own supporters, the Rwandan Diaspora (which consists predominantly of Tutsis who fled Rwanda in the 1960s, along with their descendants).

Figure 1 Party-statals' connections with the Rwandan State.



Source: Author's own construction of schematic overview; solid arrows indicate cross-share holdings, and dashed arrows indicate political influence. Rwanda Development Board (RDB) is not a government entity; it is attached directly to the President's Office.

5.1.1. Crystal Ventures Limited (Former Tri-star Investments)

The predecessor of CVL, Tri-Star, initially generated the bulk of its profits from the operations of its former subsidiary, Rwanda Metals, trading minerals extracted from former Zaire (before the creation of Democratic Republic of Congo in 2001). Tri-Star later moved into ventures that were more lucrative. Examples include acquiring the first mobile licence when the telecommunications sector allowed free entry and establishing the Rwandan branch of the mobile telephony (MTN of South Africa), as well as an internet service company. In 2002, Tri-Star shed its most controversial subsidiary, Rwanda Metals, selling its shares to a Botswana-owned company (even though it is not clear whether CVL still holds any residual minority shares in Rwanda Metals). Nonetheless, the deal must have provided enough cash for Tri-Star's expansion into other investments. It later acquired state-owned milk plants through its subsidiary, Inyange Industries.

Tri-Star appears to have distanced itself from its former operations. It was recently re-branded as ***Crystal Ventures Limited (CVL)***, which now holds either full or partial ownership of Tri-Star's former subsidiaries (with the exception of Rwanda Metals), for a total of 10 companies after adding several new ones in the interim.[16] Within two years, CVL established new subsidiaries, one of which became another holding company with its own set of two subsidiaries, sharing cross-ownership with the subsidiaries of two other party-statals and several SOEs. The oldest of the party-statals, CVL has now become the largest as well. The businesses for which CVL holds partial or full ownership are active in construction, real estate, building materials, clay blocks and brick, furniture making and importing, security, communications, mobile telephony, internet services, broad casting and packaging materials, as well as agro-processing.

[16] Rwanda Metals s.a.r.l has apparently not changed its name. It was listed among the major taxpayers to the Rwanda Revenue Authority in 2010, ranking 232nd amongst a total of 307. It is not clear whether Rwanda Metals is now owned entirely by a Botswana company under the same name, or whether the GoR still holds some shares.

The company itself has 1 000 permanent workers, and it boasts about providing employment to nearly 2 000 temporary and casual workers (see Appendix C).

5.1.2. Horizon Group Limited

In 2006, the GoR enabled the establishment of two other investment holding companies, this time with slightly different characteristics. ***Horizon Group*** received its initial capital from one fully state-owned enterprise, Military Medical Insurance (MMI), and from one fully military-owned enterprise, Military Micro Finance Cooperative Society (ZIGAMA-CSS). The latter enterprise is now a commercial bank owned by the Ministry of Defence.[17] Horizon subsequently launched three new fully-owned subsidiaries: Horizon Construction, Horizon Sopyrwa (Rwanda's sole pyrethrum-processing enterprise) and Horizon Logistics (the non-commercial military defence arm of the holding company). Its subsidiaries later received equity funding from CSR, another fully-owned SOE, as well as from other public entities (e.g. the Kigali City Council and, most recently, one foreign investor from the UK). In response to increased demand for public investments from the GoR, Horizon has entered construction, building-materials manufacturing (including roof tiles and brick making), real estate development and building roads. Similar to CVL, its holding structure allows cross-subsidisation among subsidiaries, thus suggesting a less-than-efficient use of resources. On its own website, Horizon Logistics reports that one of its subsidiaries 'supports the Rwandan military presence in Sudan', possibly through the profitable operations of two other party-statals, both of which are owned (either fully or partially) by Horizon Group.

Horizon has recently moved into new joint ventures, establishing five partially RPF-owned party-statals in a joint venture with CVL (see Annex D). With its eight subsidiaries to date, Horizon embodies the characteristics of military entrepreneurship either as 'industrialisers' (similar to those in Brazil and Argentina), as 'nation builders' (similar to those in Cuba, Ecuador and Honduras) or as both (similar to those in Indonesia, Egypt, Turkey and Pakistan; see Mani, 2011). One of Horizon's subsidiaries chose to acquire the well-performing privatised enterprise, Horizon Sopyrwa, thus becoming the owner and operator of Rwanda's sole processor and exporter of pyrethrum. Horizon's new subsidiary, Africa Agropharm, has recently managed to attract a majority investor from the UK.

5.1.3. Rwanda Investment Group SA

Rwanda Investment Group (RIG) is another holding company. It was established in 2006, presumably with 41 shareholders (six institutional investors, four mid-sized private companies and 31 private individuals), including Rwanda Development Bank, major insurers and CVL.[18] According to the scarce data on the company's website, RIG has managed to use its initial total equity of USD 25 million to establish six subsidiaries over the last five years. The company has been the subject of several claims that it and its subsidiaries are not public-private partnerships, as they are not engaged in providing a public service with any well-prepared risk-sharing arrangement with the state (Booth and Golooba-Mutebi, 2011c). Instead, the Rwandan state is

[17] Military enterprise(s) are off-budget, and they do not fall under the portfolio of state-owned enterprises whose shares are held by MINECOFIN for the people of Rwanda.

[18] Various interviews with Rwandans living in the USA and Belgium who spoke anonymously indicated that 'six institutional investors, four mid-sized companies and 31 individuals' are closely allied with the RPF. Some of these informants argued that the individual names are forged, under the pretence of demonstrating the emergence of the new business elite, despite the fact that they are RPF-appointed managers.

a direct or an indirect equity partner in the exclusively party-owned CVL.

The establishment of RIG and later its subsidiaries was made possible by the GoR's decision to provide equity financing from two of its major state-owned enterprises, CSR and Primeholdings (the latter a new SOE established in 2008 and charged with managing Serena Kigali and Serena Kivu Hotels). The first company to be purchased by RIG was the state-owned cement manufacturer (CIMERWA) in 2006. This firm is the country's leading producer of cement products. Subsidiaries of RIG are now active in energy (e.g. peat production for CIMERWA, as well as for tea and coffee plantations), construction (designing and building the forthcoming Kigali Convention Centre). They are also active in agro-processing (in cooperation with Multi-Sector Investment Group, or MIG), operating tea factories and several coffee washing-stations parallel to private operators, in addition to those owned and operated by MINADEF (see Annex E). This structure is intended to enable MIG to exercise control over vertically integrated supply chains.

The ten fully and partially owned subsidiaries of CVL, the eight of Horizon and the six of RIG have built (and are still in the process of building) joint ventures, either with each other or with SOEs (whether directly or indirectly). Party-statals have thus successfully managed to weave a web of fiscal, financial and non-financial relationships amongst their own and each others' vertical and horizontal subsidiaries. For example, CVL and Horizon Group are now co-investors in Building Materials Industries (BMI).

5.2. State-Owned and Military Enterprises as Equity Partners

The three investment-holding companies have benefited from financing made available from three fully-owned SOEs, under the portfolio of the MINECOFIN: CSR, Primeholdings and MMI are equity partners in various party-statals. These SOEs are included in the portfolio of fifteen SOEs with controlling GoR shares through MINECOFIN (see Appendix B). One military enterprise, ZIGAMA Credit and Savings Society, which has recently become the Military Commercial Bank (owned by MINADEF), is an equity partner in party-statals under Horizon. As mentioned earlier, Horizon is a joint venture between one state-owned enterprise (MMI) and one military enterprise (Military Commercial Bank; see Appendix D). No information is available concerning the operations of this military enterprise.

Table 4 State-Owned and Military Enterprises as Equity Partners in Party-Statals

	Year Established	Equity Participation in Party-Statals
Caisse Sociale du Rwanda (CSR) under MINECOFIN	1962	*CVL, Building Materials Industries (BMI), Real Contractors (Kacyiru Apartments); Horizon Group, Gaculiro Property Developers (GPD), Building Materials Industries Ltd.(including East Africa Granite Industries and Ruliba Clays Ltd.); RIG, CIMERWA, Kigali Convention Center*
Primeholdings under MINECOFIN	2003	*RIG, Ultimate Concepts, forthcoming Kigali Convention Center and also indirectly other subsidiaries*
Military Medical Insurance Scheme (MMI) under MINECOFIN	2005	*Horizon Group directly and indirectly in all its subsidiary companies*
ZIGAMA-Credit and Savings Society (CSS/Micro Finance Institution), now a Commercial Bank under MINADEF	1999	*Horizon Group, Horizon Construction, Horizon Sopyrwa, Horizon Logistics, Gaculiro Property Developers (GPD), Green Horizon, Commercial Complex in Kigali City, Building Materials Ltd., Africa Agropharm*

Source: Compiled from data provided on the company websites of the party-statals, as well as from previously analysed information on state-owned enterprises in Rwanda (Gökgür, 2011)

The exposure of the three SOEs and one military enterprise as equity partners in party-statals carries fiscal risks, not only for the SOEs and the military enterprise, but eventually for MINECOFIN or the GoR (as the ultimate guarantor). For example, Primeholdings and MMI (both of which are SOEs) reported declining profitability between 2005 and 2009. In the case of Primeholdings, this was despite the fact that its share-holding loans, which it received directly from the GoR, had more than doubled from RWF 20.1 billion (USD 40.2 million) in 2005 to RWF 53.4 billon (USD 97.1 million) in 2009. A similar fate was encountered by CSR, as its actuarial valuation showed an increase in its deficit from RWF 254.8 billion (USD 42.5 million) in 2007 to RWF 260.6 billion (USD 43.4 million) in 2008, raising doubts about its sustainability, as well as with regard to whether it can possibly meet its obligation to pay out benefits to contributors as they fall due (MINECOFIN, 2010). The IMF has already discussed CSR's ongoing difficulties in its recent public report (IMF, 2011).

The cross-share holdings of the party-statals with three SOEs thus enable them to exert pressure in order to obtain much-needed transfers and loans from the GoR or from state-owned or controlled commercial banks, as well as to escape scrutiny. Furthermore, party-statals, especially those engaged in construction and construction materials, may have been established in order to obtain lucrative government contracts directly by circumventing competition from other private operators, under the guise of 'nation-building'. In reality, however, only two party-statals, NPD/CONTACO (a subsidiary of CVL) and Horizon Construction (a subsidiary of Horizon Group) are engaged in building roads and community civil works (respectively). The rest of the party-statals that are involved in construction are engaged in building expensive housing in Kigali City and/or speculative real-estate development, with funding and land made available by the now-defunct Housing Bank of Rwanda (HBR). The latter was forced to merge with Rwanda Development Bank (BRD) in April 2011 (Ernst and Young, 2011).

There is no evidence to suggest that the party-statals (whether individually or combined) have ever shared any of their rents or profits with the GoR. For example, the breakdown of dividend income from the 'Government Business Enterprises' in 2010 does not include any of the three state-owned enterprises, all of which are equity partners in party-statals[19] (Gökgür, 2011). This suggests an allowance for deferred dividend payment arrangements (possibly for taxes as well) between the Treasury and party-statals. If not deferred, they simply get away with it. Dividend information is even less opaque with regard to payments made by party-statals to the commercial bank owned by the military enterprise MINADEF. In this case, dividend payments are entirely off-budget, if they arrive at all, presumably entering directly into the budget of MINADEF, and not into that of MINECOFIN. Only the taxes paid enter into the accounts of the Treasury, provided there are no deferred tax-payment arrangements between party-statals and Rwanda Revenue Authority.

6. Development impact of party-statals

The developmental impact of party-statals is in need of quantitative investigation and assessment. In the absence of any systematic quantitative analysis, any claims regarding their developmental impact remain unconvincing (Booth and Golooba-Mutebi, 2011a). To date, however, no one has apparently demanded transparency and accountability. Nevertheless, Rwanda's technocratic elite, along with its business community, development partners and researchers, are seriously and increasingly concerned about the high concentration of party-statals in the economy. Even without proper analysis, they are suggesting elite capture and alleging favouritism, with the liberal mixing of government and private funds (Cooke, 2011).

Critics insist on the need for improved – or at least adequate – governance. They argue that, although Rwanda might indeed have reduced petty corruption with its 'zero tolerance' policy, it might have prepared the grounds for another form of corruption in the form of *elite capture* (i.e. undue influence of the powerful elite in shaping institutions and policies, laws and regulations to their own benefit rather than in the interest of the rest of the society). As research has shown, countries afflicted by elite capture tend to exhibit much lower rates of private-sector investment and growth than do countries with a more level playing field. More importantly, this still leads to the political and economic exclusion of large segments of the population, despite the latest trends in poverty alleviation. One scholar has recently been particular adamant in urging international organisations, think tanks and experts 'not to be afraid of frankly analyzing and openly disclosing the challenges of elite capture' (Kaufmann, 2012).

In the sections below, I present a framework for analysing the developmental impact of Rwanda's party-statals. This framework is based on my previous work analysing the developmental impact of state-owned enterprises before and after privatisation in other countries. Nonetheless, its elements are more than sufficient to examine how the individual *and* combined operations of party-statals have a direct developmental impact on scarce resources, either enhancing or compromising efficiency, as well as affecting stakeholders positively or negatively. If quantified, the inefficiencies and distortions of party-statals represent a drain on the country's resources and a serious challenge to Rwandan leadership and donors for reform. Policies that allow rent-seeking and the amount of rents collected are not necessarily cost-effective; at times they cost the GoR even more.

[19] MINECOFIN received dividend income from only 11 SOEs in 2010 (out of the 15 majority-owned and 15 partially-owned SOEs in its portfolio).

6.1. Party-Statal Efficiency

In contrast to the practices of the successful Asian states, neither the Rwandan state nor the RPF appears to monitor the efficiency gains or losses of its own party-statals. There is no evidence that the state has implemented any proper incentive structure for rewarding or punishing its party-statals for their efficiency gains or losses. Inefficiencies and distortions are embedded in the nature of their cross-share holdings with the Rwandan state and the military. For example, as documented in the literature for other countries, a military's economic role provides it with favourable access to state resources through government contracts, guarantees of its fixed assets and fixed rents (Mani, 2010 and 2007). Given that several party-statals are in construction business for building roads and civil works, they are granted public investment contracts directly by the state (or by local governments or other public entities). Public procurement procedures naturally favour party-statals over other private enterprises. There is speculation regarding how public authorities artificially keep their tender prices high enough to exclude SMEs.[20] Even if party-statals win contracts through competitive-bidding on their own merits, they are likely to incur relatively common cost overruns beyond negotiated prices. Their billing records and their financial statements are unlikely to subject to any full or close scrutiny on the part of the GoR or any of its public entities.[21]

In the absence of any records or analysis, it remains doubtful that party-statals, especially those in construction and real-estate development, have been using the government's scarce budgetary resources efficiently. It is also unlikely that the capital to which they have had access thus far has moved into the most productive sectors. Even with guaranteed and massive asymmetry of market access and profits by state backing, not all party-statals have expanded and grown. Whenever they occur, enterprise-level inefficiencies are consistently absorbed by the Treasury (which consists of the government's own resources combined with budgetary grants from donors) or possibly by SOEs (as their equity partners). This point can be illustrated by two examples: CIMERWA, and the recent merger between the Housing Bank of Rwanda (HBR) and Rwanda Development Bank (BRD).

A closer look at the cement factory, CIMERWA, a subsidiary of RIG, shows that it failed to invest and increase cement production between 2006 and 2011. The GoR sold 90 % of its equity in its former SOE to CIMERWA in 2006, but the new investors and operators of the privatised company evidently failed to make the investments that were needed in order to improve production and performance. While in-country demand increased more than four-fold to 450 000 tons by 2011, CIMERWA's production remained more or less the same (around 100 000 tons).22 The gap between supply and demand was closed by importing 350 000 tons at high prices, thereby increasing the costs of construction for consumers, both private and public. This attests to the absence of a proper incentive structure with which the GoR could monitor and exercise influence on this privatised enterprise, in which it was a partial equity partner, both directly and indirectly (through its fully-owned state enterprise, CSR). In 2011, the GoR was obliged to increase its own equity from 10 % to 26 % by injecting USD 10 million in order to allow CIMERWA

[20] Information was gathered through telephone interviews conducted in Kigali, Rwanda in March 2012 with entrepreneurs to whom anonymity had been guaranteed.

[21] In the absence of any evidence of good corporate governance practices, party-statals are assumed to operate no differently from the poorly governed state-owned enterprises.

[22] It might be easily argued that the poor performance inherited by the new owners could have made it difficult to improve performance. In a competitive tender, however, the winning buyer must have promised to make investments within a reasonable timeframe. If the buyer's post-privatisation performance with regard to its commitments had been properly monitored, the new investor should have made the necessary investments sooner.

to borrow and invest in a new plant in order to increase production. The underperformance of CIMERWA in the past five years and its negligence to invest in the enterprise, were apparently closely examined by the African Development Bank (AfDB). The AfDB decided not to disburse a loan for USD 30 million, which has been under discussion for a while. After the GoR increased its equity, CIMERWA was able to borrow USD 25 million from Kenya Commercial Bank, with explicit and implicit government guarantees. It is still unclear whether CIMERWA will be able to raise sufficient financing to cover the USD 130 million needed for the new plant. This poorly conducted and poorly monitored privatization transaction has ultimately made the GoR, Rwandan taxpayers and Rwandan consumers net losers.

The GoR was forced to cover up a far more serious, inefficient and scandalous affair involving the Housing Bank of Rwanda (HBR). Details surrounding the downfall of this bank remain undisclosed to the public and even to the international community. Nevertheless, sufficient evidence does exist regarding its non-performing loans issued to party-statals, as well as to various civil servants, prior to its merger with the Rwandan Development Bank (BRD), another SOE, in April 2011 (Ernst and Young, 2011). The decision for the merger was apparently imposed on BRD directly by President's Office. The poor performance of the BHR should not have come as a surprise to the authorities, however, as the HBR's poor liquidity and unfavourable debt position had been clearly reported by MINECOFIN in 2010, with respect to GoR's direct ownership of 53 % and indirect ownership of 36 % (through CSR) in HBR, for a total of 89 % (MINECOFIN, 2010). It was not until after the merger that the shareholders of HBR and BRD decided to conduct a due-diligence audit. The accountants working on this audit were unable to conduct a proper analysis, as BRD failed to produce titles for property held as security for mortgage and loans. As confirmed by available evidence, however, HBR entered an agreement with Horizon Construction (one of the subsidiaries of Horizon Group Limited), although it has been receiving neither principle nor interest (Ernst and Young, 2011). Even more than before, BRD is currently facing a dire need to borrow USD 8 million from the AfDB. This amount is currently under discussion. According to the regulations of the IMF, however, the GOR is not allowed to exceed its limit of USD 250 million for any other non-concessionary loan.

6.2. Distribution of Benefits Among Stakeholders

Similar to SOEs, party-statals also have both direct and indirect effects on stakeholders (e.g. government and development partners, owners and operators of enterprises, domestic and international competitors, and the Rwandan workforce and consumers). Stakeholders may be affected either positively or negatively when party-statals generate or fail to generate efficiency gains. Even more importantly, they are affected by the manner in which they distribute (or fail to distribute) benefits to those previously excluded.[23] As a result, stakeholders become either winners or losers in the process.

6.2.1. Rwandan Government and Development Partners

The GoR (i.e. the Treasury) benefits from the efficient operation of SOEs or party-statals in which it is an equity partner (whether directly or indirectly). The increase in net fiscal flows from efficient operations generates direct benefits for the GoR. Even if the state enables its

[23] Rwanda does not yet have a well-established political system with experienced representatives from stakeholder groups.

party-statals to generate rents, it is logical to question whether these rents ultimately pay off, or whether they eventually cost the state even more.

First, the Treasury subsidises party-statals either directly or indirectly through the SOEs. For example, recent data on fiscal flows in the budgetary documents of the GoR indicate increased fiscal costs. The two wholly state-owned enterprises (CSR and Primeholdings) are indirect equity partners in party-statals. According to public records from MINECOFIN, Primeholdings received government subsidies amounting to USD 20 million in 2009-10 alone, and its acquisition of fixed tangible assets in the same year was USD 16.7 million. Similarly, CSR acquired fixed tangible assets amounting to USD 39.7 million in 2009/10, and these assets are projected to increase to USD 41.8 million in 2011/12.[24] On the other hand, CSR made equity investments amounting to USD 23 million in 2009-2010 alone, with even higher amounts projected for 2011-12, 2012-13 and 2013-14 (MINECOFIN, 2011), including investments made through shareholding in party-statals.

Second, the GoR needs to receive dividends on its government shareholding in well-performing SOEs or party-statals in which it is a direct or indirect equity partner. Nevertheless, very few SOEs have been paying regular dividends to the Treasury. Of the 30 SOEs in which the GoR is either a majority or minority shareholder, only 11 paid dividends for the fiscal year 2009-10 (Gökgür, 2011). These 11 entities included two party-statals (MTN and CIMERWA), in which the GoR is a direct equity partner.[25] In contrast, the two SOEs that are substantial equity partners in various party-statals (Primeholdings and CSR) have apparently paid no dividends at all in the same fiscal year (Gökgür, 2011).

Third, the GoR needs to receive full taxes due from party-statals in a timely manner, as it does from any other enterprise. The party-statals apparently enjoy tax exemptions, however, possibly benefiting from tax deferrals as well. It has recently been documented that six of the eleven leading registered domestic investors receiving tax incentives between 2006 and 2010 were major party-statals: Rwanda Energy Company, Ultimate Concepts, CIMERWA, Real Contractor, Rwanda Investment Group/KIP and CSR-Kacyiru Project, another real estate company (IPAR and ActionAid, 2011). Like subsidies, tax exemptions are economically inefficient and make income distribution more unequal by transferring funds from average taxpayers to owners of capital. As calculated in this study, the amount of total government revenues foregone in Rwanda due to tax incentives (not only to party-statals, even though they were among the beneficiaries) amounted to 3.6 % of the GDP in 2008, rising to 4.7 % of the GDP in 2009 (IPAR and ActionAid, 2011). It has only been in recent months, in response to increased pressure by the international donor community, that the GoR has announced its decision to reconsider tax incentives, along with its plans to eliminate many of them for domestic and international investors (The East African, 2012a).

In addition to tax exemptions, several private domestic investors have already claimed that party-statals have received preferential tax treatments from the GoR (PSF, 2010). Such treatments can take several forms: non-payment or simple deferral of payment for income taxes, payroll taxes or the employers' contributions of the CSR. (The latter would have a nega-

[24] Tangible fixed assets can easily be used as collateral to obtain secured loans.

[25] As discussed later, the generation and payment of dividends to the Treasury constitutes only one of many indicators of developmental impact. While both MTN and CIMERWA have contributed dividends to the Treasury in exchange for the GoR's share, MTN has managed to bring along consumer benefits, while CIMERWA's unrealised investments have had a negative impact on consumers, forcing them to pay higher prices for imported cement.

tive impact on CSR, given that it is a major shareholder in many party-statals; see Table 4). For example, according to a publicly available list prepared by the RRA, only 11 party-statals (less than half of the 25) were among the top 307 large taxpayers in 2010. It is interesting to note that Inyange Industries, a subsidiary of CVL, which has a high level of market concentration in all its products, is not among the top taxpayers. On the other hand, its two immediate competitors (Sina Gerard's company Urwibutso and Sonafruit), which have smaller market concentrations, do appear on this list. If the reporting is correct, there is no justification for the absence of Inyange Industries from the list of top taxpayers in 2010. Such preferential treatments should therefore be measured and documented as additional foregone revenues for the RRA.

Fourth, through its exposure in party-statals, the GoR is carrying additional direct and indirect fiscal risks, which may have to be borne by next generations. Such risks are generated by unwise investments, as well as by explicit or implicit guarantees on loans taken by SOEs or party-statals. For example, CSR has particularly broad fiscal exposure. In 2007 and 2008, it faced a serious actuarial deficit, and it was reported as unable to meet its obligation to pay benefits to contributors as they came due. As recently noted by the IMF, the CSR's direct investment in housing and construction has made the system vulnerable. In its public document, the IMF mentions (albeit with restraint) that CSR has been providing funding to party-statals that have been heavily investing in construction and that are now facing inadequate use and occupancy (IMF, 2011).

Another state-owned enterprise, MMI (a major equity partner of Horizon), is facing similar fiscal problems. This enterprise apparently had no risk-management policy in place, thus risking an inadequate internal audit procedure in 2010. This posed a risk that misappropriation and mismanagement of funds within MMI would not be detected (Gökgür, 2011). Another SOE, Primeholdings (which indirectly holds equity shares in party-statals), also lacks a risk-management policy, despite the fact that such a policy is required for its uncoordinated investments in various party-statals (see Table 4 and Annex B).

Another case illustrates the close and opaque connections between the Rwandan state, state-owned enterprises and party-statals, along with their impact on the scarce resources of the GoR. RwandAir, the national airline company, was launched in 2002 by two enterprises, Nyarutarama Property Developers (NDP) s.a.r.l (77 %) and Silverback Cargo Freighters s.a.r.l (23 %), under the name of Rwandair Express. The majority owner, NPD, is a party-statal, a fully owned subsidiary of the investment holding company (CVL). In 2009, the GoR decided to buy 99 % of the shares of Rwandair Express (with 1 % through a nominee, the Chair of the Board), renaming the company RwandAir and making it almost a fully state-owned enterprise. It is unclear, however, how much the GoR paid at the time of the transaction with the party-statal. Furthermore, RwandAir has been receiving subsidies and transfers on an annual basis since 2009. In 2010, the net lending from the Treasury to RwandAir alone accounted for 0.7 % of the GDP (MINECOFIN, 2011). The GoR has taken several measures to improve the performance and profitability of RwandAir. The government apparently forces public institutions to fly RwandAir, even though its prices are higher than those offered by competing international airlines.[26] Additional research is needed in order to determine the net fiscal impact of all SOEs and party-statals on the Treasury.

[26] Information was gathered through a telephone interview held in Rwanda in March 2012 with a government official, to whom anonymity was guaranteed.

Whenever SOEs or party-statals make unwise investments, the Treasury carries the fiscal risks and ultimately assumes the fiscal burden. This burden is not merely absorbed by the Treasury. It is ultimately imposed on Rwanda's taxpayers, *as well as* on development partners and the taxpayers in their respective home countries. Development partners (bilateral and multilateral agencies) have been providing generous support to Rwanda over the past 18 years through budgetary grants and individual capital (and project) grants. International financial institutions have also provided loans, in either concessionary or non-concessionary terms. If debt-relief measures are implemented, the entire international community will ultimately bear the ultimate cost of inefficiencies and distortions of SOEs and party-statals.

6.2.2. Owners and Operators of Party-Statals

In order to remain in business and to expand horizontally and vertically, most party-statals must be either profitable enough on their own or rely either on equity injections from the Treasury or on loans from the banking sector. Nevertheless, not all party-statals are in commercially profitable businesses. For example, a subsidiary of Horizon, Horizon Logistics, provides support services to Rwandan troops in Sudan. Such political activity is possible only through cross-subsidisation from one of the two more profitable Horizon subsidiaries.

It is surprising to note that those who are performing well have thus far not decided to broaden their ownership by selling their shares through the Rwandan Stock Exchange (RSE) and raising equity. It could be that these enterprises are reluctant to make their operations (along with their annual reports) transparent and publicly available. To date, the tiny RSE lists only the shares of four companies: two from Kenya (Kenya Commercial Bank and National Media Group) and only two from Rwanda (Bralirwa and the recently added Bank of Kigali). The website boasts about the 'wider benefits of trading shares: raising capital for expansion, mobilising savings for investment and improving corporate governance and efficiency to satisfy demand of shareholders'. None of the presumably 'developmental' party-statals has expressed any plans to list their companies on RSE. Instead, they seek to sell their equity shares to foreign investors (Rwanda Development Board, 2011).

6.2.3. Domestic and International Investors

The reports of the RDB highlight the market concentration of the party-statals with pride, noting in some cases how they have begun to control the lion's share of the markets in which they operate. Inyange Industries, a party-statal and a subsidiary of CVL, is one of these examples. Inyange has become the largest and leading agro-processor of milk, yogurt, mineral water and fruit juice. It has a market concentration of 80 % in mineral water, 70 % in fruit juices, 70 % in yogurt and 55 % in pasteurised milk. In addition to capturing the domestic market, it has begun to export to neighbouring countries, including DRC, Burundi, Uganda and Tanzania (Rwanda Development Board, 2010). Similarly, MTN RwandaCell (in which CVL maintains a minority shareholding of 35 %) has a market share of 88 % in mobile telephony and 47 % in the national market for internet service (Rwanda Development Board, 2011).

Despite the lack of information and analyses regarding the market concentration of CVL's other subsidiaries, those in construction, building materials and real-estate development are likely to dominate their respective markets – if not alone, certainly in conjunction with other party-statals (i.e. subsidiaries of the two investment holding companies Horizon and RIG). For example, Graphic Printing Solutions, the manufacturer of printing and packing materials, is the sole provider of packaging products to Inyange Industries, given that they are both horizontally integrated under the same investment holding company (CVL). Furthermore, it is likely to be the only firm licensed to import packing material. One report asserts that there is no producer of packaging materials in Rwanda and that companies must therefore import packing products at high prices, which subsequently has a heavy impact on the profitability of their businesses (PSF, 2010).

The same report examining the reasons for disinvestments in Rwanda also refers to complaints made by private firms with regard to the competition that they face from party-statals. For example, Inyange Industries has become the sole provider of soft drinks in all government institutions and services, as the GoR pressures these units to buy only from Inyange Industries. Publicly-funded primary-school feeding programmes are also instructed to purchase exclusively Inyange products. Other private firms are aware that the GoR continues to hold substantial shares in companies in key economic sectors through its party-statals. They assert that the companies in which the GoR owns shares or which maintain close ties with the government benefit from preferential treatment, not only for market access, but also with regard to access to credit and the enforcement of tax compliance (PSF, 2011).

The complaints of domestic private firms are not restricted to the increasing market concentration of party-statals and their preferential treatment with regard to procurement and taxation. These firms are also concerned about the availability of credit, as they are negatively affected by the heavy borrowing demands of party-statals, which tends to crowd out access to credit (and thus investment by private firms). Several domestic firms are struggling to survive. Eight firms, some in agro-processing and some in textiles, are seeking external partners, as they are unable to pay their debts, let alone invest to increase productivity (The East African, 2012b).

Despite these concerns, no proper financial studies have examined party-statals with regard to borrowing, loan-repayment or the possible rollover of their unpaid loans. The April 2011 merger between the state-owned Housing Bank of Rwanda (HBR) and Rwandan Development Bank (BRD) raises doubts about the HNR's loans to party-statals in the construction and real estate sectors.[27] Even prior to the merger, BRD's 2010 Annual Report cites a default rate of 13.5 % on its loan portfolio, with 31 % of the value of its loans in Kigali City with a gross exposure of 59 % (Banque Rwandais de Developpement, 2010).

Domestic investors are not the only parties to be are negatively affected by the presence of party-statals in Rwanda's enterprise landscape. For example, when one of the state-owned tea factories was seeking private investors and operators during its privatisation, Multi-sector Investment Group (MIG), a subsidiary of RIG, was among the bidders, along with a private company in Tanzania. The Tanzanian company (MAC Group) decided to withdraw its bid after having learned that MIG had a better chance to win the deal and that the GoR would

[27] In 2004, HBR rose from the ashes of a housing-finance institution and a real estate developer when the National Bank of Rwanda granted it a provisional licence to operate as a housing bank. In 2005, the shareholders increased their share capital and changed the name to HBR. Prior to its merger with BDR, 53 % of its shares were held by the GoR, while 36 % were held by CSR and the rest held by other fully or partially owned SOEs (MINECOFIN, 2010).

obviously prefer to sell to its own party-statal (The East African, 2009). If it had been successful, however, the presence of a Tanzanian company might have introduced better competition to tea factories. Since that time, the party-statal MIG has purchased several tea factories and coffee-washing stations in Rwanda (with help from the GoR), and it has penetrated the agro-processing sector vertically, while working horizontally with its sister company, Inyange Industries. As mentioned earlier, another international company has indeed managed to enter the Rwandan market (unlike the Tanzanian MAC Group), although it is now claiming to have suffered the expropriation of its assets and intellectual property, as the GoR decided to give preferential treatment to another party-statal.[28]

6.2.4. Rwandan Workforce

Party-statals are not necessarily engaged in generating productive employment. Their operations are heavily concentrated in such non-tradable commodities as construction, real estate and property development. Employment in the construction sector alone represents 2 % of all employment (see Table 5). On the other hand, agro-processing (e.g. food and beverages, energy, pyrethrum processing, furniture making, communications and broadcasting) generate productive jobs and even have the potential to contribute to industrial upgrading. Nevertheless, party-statals hold either monopoly or oligopoly positions within these markets, thus impeding competition and making it difficult for other companies to enter and generate additional employment within the same sectors.

Additional research is needed in order to explain the direct and indirect impact of party-statals on the workforce. It is currently difficult to assess the extent to which party-statals generate indirect employment. According to some speculations, only those sub-contractors who pay RPF dues are allowed to sell their products and services to party-statals. Most subcontractors operate as informal micro-enterprises or, at best, small companies with low productivity. Furthermore, the bulk of all employment (almost 80 %) is concentrated in the service sector, in which 95 % of all businesses operate. This sector is also the least likely to engage in any industrial upgrading or significant productivity increases.

[28] A legal claim has been filed by Dane Associates Ltd. (United Kingdom) against the Government of Rwanda and Kibuye Power Ltd., Case # 17664/ARP, to International Chamber of Commerce and International Court of Arbitration, Geneva Switzerland, 7 June 2012.

Table 5 Employment by Economic Sector, 2011

	Share of Employment	Share Of Businesses
AGRICULTURAL SECTOR	**8**	**0.5**
INDUSTRIAL SECTOR	**13**	**4.1**
-Mining	0.1	0.0
-Manufacturing	9.4	3.7
-Construction	2.0	0.0
-Electricity/Water	0.1	0.3
SERVICES SECTOR	**79**	**95.4**
-Retail trade/repair of motor vehicles and cycles/ transportation, storage	34.1	52.5
-Accommodation/food service activity	21.2	26.7
-Other services	23.7	15.8
TOTAL IN PERCENTAGES	**100**	**100**
TOTAL EMPLOYMENT AND BUSINESSES	**281,946**	**123,526**

Source: Compiled from Establishment Survey 2011.

One-third of all businesses (29 175) are located in Kigali City, with the rest divided almost equally among four other regions. The Eastern Province represents the lowest concentration, with only 22 605 businesses. The same applies to the distribution of employment across five regions. Almost one third of all jobs (82 500) are located in Kigali City, with the rest divided more or less equally across the other four regions. In this respect as well, the Eastern Province has the fewest workers (37 400).

Party–statals occupy a unique place within this employment landscape. In terms of size, most could be classified as LEs. Given that the total number of businesses includes multiple branches of the same enterprise, party-statals are likely to constitute more than half of the 51 LEs in Kigali City alone (see Table 6). Large companies employ only 16 % of all workers (formal and informal sectors combined). The rest (84 %) work primarily in unincorporated SMEs and micro-enterprises, with more than half employed in micro-enterprises.

Table 6 Distribution of Employment by Size Category of Businesses, 2011

	Kigali City	Southern Province	Western Province	Northern Province	Eastern Province	TOTAL
			LARGE (+100 Workers)			
Businesses	51	16	22	12	5	**106**
Employment	12,600	4,900	17,800	8,800	900	**45,100**
			MEDIUM (30 – 100 Workers)			
Businesses	204	123	74	71	41	**513**
Employment	10,100	5,800	3,400	3,400	1,900	**24,600**
			SMALL (4 – 30 Workers)			
Businesses	3,147	1,508	1,518	1,242	1,133	**8,548**
Employment	25,400	12,800	11,500	9,700	8,200	**67,000**
			MICRO (1 – 3 Workers)			
Businesses	25,767	22,253	24,147	20,750	21,412	**114,329**
Employment	34,300	27,400	29,400	27,000	26,400	**144,600**

Source: Compiled from data in Establishment Survey 2011.

The present market concentration of party-statals among LEs does not seem to be contributing to the much-needed generation of productive employment. According to the projections of the ILO, Rwanda's population is expected to increase by some 300 000 people per year over the next 15 years, reaching 13.7 million by 2020. During the same period, the labour force alone is expected to increase by well over 40 % (2 million people). This suggests that, in addition to reducing the large backlog of working poor, the labour market will have to absorb an annual increment of approximately 120 000-125 000 new labour-market entrants each year (International Labour Office, 2010).

Rwanda needs to improve the competitive dynamics in its formal enterprise sector. It can do so by reducing the proportion of its party-statals amongst the country's large capital and skill-intensive firms and by formulating an inclusive employment strategy emphasising productivity and jobs, in order to improve its effectiveness in absorbing the excess labour force that is leaving its agricultural sector. Expanding the *missing middle* (i.e. SMEs) with productive jobs is unlikely to be sufficient. Smaller and less productive firms in Sub-Saharan Africa have difficulty advancing in size and productivity (Van Bieseboreck, 2005). Throughout the world, although SMEs tend to employ large numbers of people and create more jobs than large firms do, their contributions to productivity growth are lower than are those of large firms (Ayyagari and Demirgüç-Kunt, 2011).

6.2.5. Rwandan Consumers

Consumers in capitalist (and mixed) economies benefit from entrepreneurial activity in three ways: increased availability, better quality and affordable prices of goods and services provided by efficient enterprises operating in competitive markets. Upon closer examination, the products produced by party-statals do not land in the consumption baskets of ordinary Rwandans.

First, the products and services of party-statals are purchased primarily by the state and its public-investment and infrastructure-development programmes, as well as by the urban elite (consisting of Rwandans and foreign expatriates). They are not thus destined for ordinary Rwandans. In a recent report, the IMF acknowledged that commercial and housing construction had shown strong growth, albeit with inadequate use and occupancy. Housing prices are well above the budgets of even the most affluent Rwandans, let alone the 45 % who are living below the poverty line (IMF, 2011). *Second*, the prices charged for consumer goods are also beyond the reach of the daily consumption baskets of nearly half of the Rwandan population. Examples include the cement supplied by the country's sole cement producer (CIMERWA) and the milk, water, yogurt and fruit-juice products supplied by the agro-processing party-statal, Inyange Industries. It is doubtful whether even those earning a meagre income above the poverty line would be able to afford the luxury of consuming any of Inyange's products, buying cement from CIMERWA (or even higher priced imported cement as a consequence of CIMERWA's inability to invest and increase production in the five years following its acquisition of the state-owned plant in 2006). Despite its record in the area of poverty alleviation, 45 % of Rwandans continue to live on RWF 900 (USD 1.5) a day (Lapido, 2012).

The same is also true of consumer goods produced by other party-statals (e.g. Inyange Industries, a subsidiary of CVL). According to recent reports, the cost of milk has increased to RWF 1 200 (USD 2) per litre. The recent acquisition of the formerly state-owned Nyagatare milk plant by Inyange industries served to increase Inyange's market concentration while making it almost the sole producer. The milk producers presumably receive only RWF 130 (USD 0.22) through the cooperatives. Inyange Industries buys directly from the cooperatives and sells the processed milk to end consumers at a retail price of almost ten times that amount (African Dictator, 2012).

7. Conclusions and Recommendations

Rwanda's party-owned business empire (i.e. its ruling party's fusion of political and economic entrepreneurship in party-statals) has now been operating for almost two decades, beginning with Crystal Ventures (formerly Tri-Star) and continuing with the recent entry of two Horizon Group Limited and Rwanda Investment Group SA. Even with incomplete data, however, closer examination reveals that Rwanda has a long way to go in order to catch up with and join Botswana, Mauritius and other democratic developmental states (Meyns and Musamba, 2010). The policies of the Rwandan state are by no means as anti-developmental as were those involved in the case of Zimbabwe (Dawson and Kelsall, 2012). Nevertheless, there is sufficient evidence to argue that Rwanda's party-statals cannot and should not qualify as developmental.

First, there are fundamental differences between the Rwandan state and the East Asian states to which Rwanda's developmental ambitions (and presumably its rent-management) are compared (Booth and Golooba-Mutebi, 2011a and 2011b). While the East Asian states effectively managed rents in order to benefit the national interest before establishing competitive economies in their transformation to market capitalism, Rwanda lacks all the necessary compulsions to do so. The absence of economic and political distance between the Rwandan state *and* its party-statals (in which the state is involved either directly or indirectly as an equity partner through its SOEs or the military) inevitably compromises its ability to manage rents in a manner that would enhance growth and productivity. This stands in significant contrast to the successful East Asian states, which employed proper incentive mechanisms for both granting *and* withdrawing rents, as necessary. The East Asian states were also careful about avoiding negative development outcomes from cases in which powerful groups were able to protect rents and the state lacked the capacity to monitor and withdraw rents from underperforming enterprises. There is no evidence that Rwanda has any mechanism for managing rents (whther effectively or temporarily) that resembles those employed in Korea, Taiwan or Malaysia (Kahn, 2004). More importantly, the researchers claiming that party-statals are developmental have chosen not to reveal the details of any such mechanisms. In their simple assertions, they have failed to untangle or present any critical evaluation of the 'empirical dynamics' (i.e. the benefits and pitfalls of anonymous interviews), given the propensity to be self-serving (Booth and Golooba-Mutebi, 2012, 2011a and 2011b).

Second, the concept of 'rent' is also poorly suited for distinguishing the developmental from the parasitic. It is impossible to determine the extent to which an 'economic surplus' comprises normal profit and economic rent for economies in which markets do not (or are not allowed to) function. There are no counterfactuals to indicate what a legitimate private enterprise would have been able to deliver, had it received the same kind of fiscal, financial and political support currently enjoyed by party-statals. The advantages granted to party-statals go beyond the actual right to create and receive rents. These firms also receive fiscal subsidies, equity injections, preferential tax and dividend treatments and preferential access to loans, in addition to legal protection, all of which are unavailable to other operators in order to maintain what would otherwise have been normal profits. Furthermore, there is no evidence of any mechanism that could ensure that the scarce resources received by the party-statals will generate higher productivity or gainful employment than would have been the case in their absence.[29]

Third, there is sufficient evidence to document that the Rwandan state is suffering from elite capture. The power and influence exercised by its party-statals prevent the GoR and its institutions from exercising any control over them in order to increase their efficiency and productivity, or even to insist on cost reductions and other financial and operational performance improvements.30 Elite capture has obviously become inevitable, due to the inefficient resource allocation of the government's meagre budgetary resources (and even those of the development partners). The cases of CIMERWA and the Housing Bank of Rwanda (HBR) illustrate the failure of the Rwandan state to exert control when it was most needed. The inefficient operations of these two enterprises should be more than sufficient to alarm donors. There is no evidence to suggest that the other party-statals are operating any differently. Their developmental impact (individually and combined) can be detrimental to the Treasury, as they extract far more fiscal flows in terms of subsidies, equity injections and guarantees (explicit and implicit) than they ultimately pass on in terms of aggregated dividends and taxes. Private investors (both domestic and international) are also negatively affected by the absence of competition in sectors in which competition is feasible and desirable, but which are dominated by party-statals. Several foreign and domestic private investors have apparently taken the GoR's treatment of their contractual agreements into arbitration. Similarly, the Rwandan workforce is not a direct beneficiary. The absence of competition among large enterprises and the exclusive use of RPF-linked sub-contractors are discouraging growth and competition amongst SMEs, which are striving to increase productivity and employment. Rwandan consumers are also affected negatively as well. The products and services provided by party-statals are not destined for their consumption baskets, with 45 % of the population living on RWF 900 (USD 1.5) a day.

Instead of remaining wilfully oblivious, development partners should insist on transparency and accountability, with full disclosure regarding the assets of party-statal, as well as on the accumulation of their economic rents or profits and the allocation of their operating surplus to investment and social obligations. Fiscal impact assessments for party-statals engaged in building roads and community works could be measured separately, in order to ensure that they are indeed acting as 'nation builders', in contrast to the rest, which are engaged in speculative real estate development and construction. At the same time, party-statals that produce consumer goods should demonstrate their genuine efforts to realise industrial upgrades and improvements in labour productivity, in addition to sharing transparent reports of their progress with the public. In addition, they could plan exit strategies, in order to increase competition within sectors in which competition is feasible and desirable, to the benefit of the hapless private sector.

[29] Private conversations held in May 2012 with Berhanu Abegaz, professor of economics and director of Africana Studies at William & Mary College, Williamsburg, Virginia (USA), and an expert on Ethiopian party-owned enterprises.

[30] Booth and Golooba-Mutebi conducted in-depth interviews with top managers from most of the party-statals (a luxury not available to many researchers, including myself). They apparently collected no comprehensive financial, operational and fiscal data, however, nor did they analyse such data with interest and rigor.

Third, there is sufficient evidence to document that Rwandan state suffers from elite capture. As its party-statals exert power and influence over the GoR and its institutions, the state itself cannot exert control over them to raise efficiency and productivity or even to insist on cost reductions together with other financial and operational performance improvements.[31] Elite capture naturally has become inevitable and unavoidable with inefficient resource allocation of the government's meager budgetary resources (and even those of the development partners). The two cases, CIMERWA, and the Housing Bank of Rwanda (HBR), illustrate the Rwandan state's failure to exert control when it was most needed. The inefficient operations of these two enterprises should be more than sufficient to alarm the donors. Most party-statals are not necessarily operating differently or, at least, there is no evidence to the contrary. Their development impact (individually and combined) can be detrimental to the Treasury as they extract far more fiscal flows in terms of subsidies, equity injections and guarantees (explicit and implicit) than what they in turn pass on in terms of dividends and taxes in aggregate. Private investors, both domestic and international, are also negatively impacted as long as they lose from the absence of competition in the sectors, where competition is feasible and desirable, and party-statals dominate. There are apparently several foreign and domestic private investors who have taken the GoR's treatment of their contractual agreements to arbitration. Similarly, Rwandan workforce is not a direct beneficiary. The absence of competition among large enterprises and the use of only RPF-linked sub-contractors discourage the growth and competition among the SMEs—the sector which strives to increase productivity and employment. Rwandans consumers are also negatively impacted. The products and services provided by party-statals are not in their consumption basket while 45% of the population are living on RwF 900 (US$ 1.5) a day.

Instead of remaining willfully oblivious, development partners need to insist on transparency and accountability with full disclosure on party-statal assets, accumulation of their economic rents or profits, allocation of operating surplus to investment and social obligations. Fiscal impact assessments for party-statals engaged in building roads and community works can be measured separately to make sure that they are indeed acting as "nation builders" in contrast to the rest engaged in speculative real-estate development and construction. At the same time, those party-statals producing consumer goods need to demonstrate their genuine efforts for industrial upgrading and increased labor productivity, and share progress transparently with the public. They might also plan to exit in order to increase competition, where competition is feasible and desirable, in order to nurture the hapless private sector.

The Rwandan state can also devise strategies to separate itself from ruling party-owned enterprises (i.e. party-statals). With increased competitive politics over time, opposition parties and civic organizations can intensify their demands for de-corporatizing the ruling-party owned party-statals and prohibiting them from engaging in for-profit activities just like in Taiwan. Alternatively, three investment holdings (CVL, Horizon and RIG) can transfer their assets to public sector or to a trust fund to guarantee and ensure transparency with better public monitoring (Abegaz, 2010). Only then Rwandans might be able to enjoy economic competition and job-rich private sector development and, hopefully, one that is combined with political competition. If the present Rwandan state is indeed developmental, it should not wait any longer to replace its extractive economic and extractive political institutions with truly inclusive ones and thereby benefiting all Rwandans.

[31] Booth and Golooba-Mutebi conducted in-depth interviews with top management of most party-statals (a luxury not available to many researchers including this one) but apparently they did not collect comprehensive financial, operational and fiscal data and analyzed them with interest and rigor.

Appendix A - Limitations and Quality of Available Data

Data has been limited both at aggregate and enterprise level for proper analysis. At aggregate level, there is no publicly available data (or even privately) measuring the magnitude and economic weight of all enterprises in terms of employment, investment and value-added by ownership type: SOEs (those wholly and partially owned by the GoR), party-statals (enterprises owned either alone or jointly by the ruling party, state, military and the new business elite) and private firms alone. SOEs are shareholders in party-statals either directly or indirectly. While direct shareholdings are recorded in the Government Portfolio of Public Enterprises at Ministry of Finance and Economic Planning (MINECOFIN), their indirect shareholdings—the investments made by SOEs themselves in party-statals--are not documented accurately in any publicly available information. Even the International Monetary Fund (IMF) lumps the SOE investments together with those from the rest of the private sector.

Furthermore, no annual reports on party-statals exist. It is therefore difficult to document their assets, employment, shareholding structure, turnover, profits and losses, dividends and taxes. Their websites offer only scanty information. No one to date has systematically and periodically measured the fiscal burden and fiscal risks of SOEs and the party-statals on the Treasury. SOEs' as well as party-statals' financial relations with the banking sector is not documented anywhere. Both sets of enterprises have been borrowing from domestic commercial banks (state-owned and private) but no comparative reports exist identifying the nature and the amount of loans by the SOEs, party-statals and the rest of the formal private sector with their respective payback rates.

Data quality on enterprises is also questionable. Three different enterprise surveys to date does not provide for a proper trend analysis. In 2006, Foreign Advisory Services (FIAS) of the World Bank has conducted the very first enterprise survey. In 2008, Private Sector Foundation (PSF) has followed suit creating its own report. In 2011, together National Institute of Statistics of Rwanda (NISR), PSF conducted the most recent enterprise survey, this time naming it "Establishment Census" instead. The three surveys are not comparable and do not allow measuring enterprise formation over time in comparable categories. This might be one of the reasons why the PSF website has recently removed the 2008 survey from its website. *Enterprise Census 2011* has its own short-comings even though it claims to serve as a business register and help policy makers to accelerate the pace of development in non-agricultural sectors. It does not segregate the businesses surveyed according to ownership and thus making it impossible to assess market concentration and develop relevant policies. Its definition of "private sector" includes party-statals even though they cannot and should not be called private enterprises. The enterprises surveyed under the categories of public and mixed businesses seem unclear and they might well include the SOEs.

Moreover, while *Enterprise Census 2011* surveys all businesses (corporated and incorporated) in formal and informal sectors, it does not include the Household Enterprises (HEs). On the other hand, HEs were measured by two separate World Bank studies both in 2006 and 2011. However, the number of HEs and micro-enterprises in enterprise surveys do not match either. Some HEs are most likely counted as micro-enterprises in *Enterprise Census 2011*. NISR is expected to come up with a new study in June 2012 defining the type of jobs (paid and self-employed) for those working in off-farm employment and it might perhaps address the inconsistencies.

Appendix B - State-Owned Enterprises (SOEs) in Government Portfolio of MINECOFIN

SOEs with More than 50% Controlling Government Share

	Name of the State-Owned Enterprise	Year Established	Controlling Interest	Indirect Shareholding
1.	Automobile Guarantee Fund	2002	100%	--
2.	Rwanda Air	2002	99%	1%
3.	Prime Holdings (Serena Kigali and Serena Kivu Hotels)	2008	100%	--
4.	CAMERWA	2000	100%	--
5.	Rwanda Civil Aviation Authority	2004	100%	--
6.	EWSA (electric power and water)	1976	100%	--
7.	Military Medical Insurance Scheme (MMI)	2005	100%	--
8.	National Bank of Rwanda (BNR)	1964	100%	--
9.	National Medical Insurance Scheme (RAMA)	2001	100%	--
10.	National Post Office	1922	100%	--
11.	National Social Security Fund of Rwanda (NSFR) or Caisse Sociale du Rwanda (CSR)	1962	100%	--
12.	OCIR COFFEE	1964	100%	--
13.	OCIR THE	2001	100%	--
14.	ONATRACOM	1978	100%	--
15.	Rwanda Utilities and Regulatory Agency (RURA)	2001	100%	--

Source: Compiled from "Fiscal Risk Review of Government Investment Portfolio," Government Portfolio Unit, MINECOFIN, June 2010; 9 out of 16 enterprises with controlling government interest were created within the last ten years; Rwanda Housing Bank (HBR) was another SOE with 53% of direct GoR shares but merged with Rwanda Development Bank in April 2011.

SOEs with Less than 50% Controlling Government Share

	Name of the State-Owned Enterprise	Less than Controlling Interest	Indirect Shareholding
1.	Lotto Rwanda	40.00%	--
2.	SOPROTEL (LAICO Hotel)	40.00%	--
3.	Rwanda Development Bank (BRD)	38.20%	--
4.	Bank of Kigali	21.34	34.00%
5.	Commercial Bank of Rwanda (BCR)	19.80%	--
6.	FINA Bank	18.00%	--
7.	ZEO-Reinsurance	10.89%	--
8.	CIMERWA	10.00%	--
9.	MAGERWA	10.00%	--
10.	Bralirwa	5.00%	--
11.	MTN	10.00%	--
12.	National Insurance Corporation	6.50%	--
13.	PTA Bank (Kenya)	2.31%	--
14.	Africa Reinsurance Corporation	0.34%	65.00%
15.	Africa Export-Import Bank	0.24%	--

Source: Compiled from "Fiscal Risk Review of Government Investment Portfolio," Government Portfolio Unit, MINECOFIN, June 2010; Rwanda Development Bank took full control of Rwanda Housing Bank (BHR) on April 27, 2011.

Appendix C - Party-statals under Crystal Ventures Limited (CVL) (Former Tri-Star)

Enterprise Name	*Year started*	*Acquired Enterprise(s)*	*Product*	*Number of Employees*	*Ownership Structure*
CVL – Biggest investment holding company	2009; new name	Tris-star Investments established fin 1994	Agro-processing, construction, real estate, communications and broadcasting	1,000 permanent, and 2,000 temporary and casual staff	100% RPF
CVL's FULLY-OWNED SUBSIDIARIES					
Real Contractors	2005	Merger with former Bond Trading s.a.r.l	Construction, engineering and real estate (including 50 luxurious Kacyiru apartments in Kigali)	n.a.	100% CVL
NPD/CONTRACO s.a.r.l	1996	Merger of Nyarutarama Property Developers and CORACO s.a.r.l	Civil engineering/ leading participant in community civil works (Umuganda)	200 permanent and large temporary and casual workers	100% CVL
MUTARA Enterprises	1995	New	Furniture importing and furniture making	n.a.	100% CVL
Inyange Industries— Leading processor in agro-business	1997	New and old (state-owned Savannah Milk Plant)	Milk, yogurts, mineral water, fruit juice drinks	400	100% CVL
Bourbon Coffee Shops	2007	New	Coffee from farmers to consumers in Rwanda and overseas	n.a.	100% CVL
Graphic Printing Solutions	2009	New	Printing and packaging materials	n.a.	100% CVL
InterSec Security	1994	New	Security	2,000 employees	100% CVL
Media Systems Group	n.a.	New	Communications and broadcasting	n.a	100% CVL
CVL's PARTIALLY-OWNED SUBSIDIARIES					
MTN RwandaCell	1997	State-owned RWANDATELL's mobile phone license through privatization	Mobile telephony; internet services	n.a.	CVL 20%, MTN Mauritius 55%, GoR 10%, 15% (by not identified owner)
Building Material Investments (BMI) Ltd; its subsidiaries: East African Granite Industries Ltd and Ruliba Clays Ltd	2009	New	Clay blocks and brick-making	n.a	CVL , CSR and Horizon Group

Source: Compiled primarily from company websites and various other sources. When ownership equity shares were not easily identified, only the names of the owners are mentioned instead.

Appendix D - Party-statals under Horizon Group Limited

Enterprise name	Year Established	Acquired Enterprises	Product/Market Share	Number of Employees	Ownership Structure
Horizon Group Ltd – Investment holding company	2006	New	Construction, manufacturing, peacekeeping	n.a.	Former Microfinance Cooperative Bank (ZIGAMA CSS)--now Military-Owned Commercial Bank--and Military Medical Insurance Company (MMI)
HORIZON'S FULLY-OWNED SUBSIDIARIES					
Horizon Construction Ltd	2007	New	Construction of buildings and roads	n.a.	Horizon Group Ltd. (100%)
Horizon Logistics	2007	New	Support of RPF peacekeepers in Sudan	n.a.	Horizon Group Ltd. (100%)
HORIZON'S PARTIALLY-OWNED SUBSIDIARIES					
Horizon SOPYRWA	2009	Soprywa (privatized in 2000)	Pyrethrum	n.a.	70% Horizon Group and 30% former private owners of Sopyrwa
Gaculiro Property Developers (GPD)	2008		Construction of 4,000 housing units in Kigali	n.a.	CSR and Horizon Group
Building Materials Industries (BMI) (subsidiaries: East African Granite Industries Ltd and Ruliba Clays Ltd)	2009	New	Roofing tiles and brick-making	n.a.	Horizon Group, CSR and CVL
Commercial Complex in Kigali City	2010	New	Construction of real estate	n.a.	Horizon Group and Kigali City Council (public entity)
Green Horizon	2010	New	Fiber optic	n.a.	Horizon Group and Rwanda Development Board
Africa Agropharm	2011	New	Insecticide	n.a.	49% Horizon Group and 51% UK's Agropharm

Source: Compiled primarily from company websites and various other sources. When ownership equity shares were not easily identified, only the names of the owners are mentioned instead.

Appendix E - Party-statals under Rwanda Investment Group (RIG) SA

Enterprise Name	Year started	Acquired Enterprise(s)	Product	Number of Employees	Ownership Structure
Rwanda Investment Group SA – Investment holding company	2006	New	Cement, energy and other investments	n.a.	41 shareholders (6 institutional investors, 4 mid-sized private companies, 31 individuals)/ Equity US$ 25 million
RIG's MAJORITY-OWNED SUBSIDIARIES					
CIMERWA	2006	Former state-owned cement plant via privatization	Cement production	n.a.	90% RIG, 10% GoR initially; GoR had to increase its share to 26% in 2011
Rwanda Energy Company (REC)	2008	New	Using peat to produce heat for CIMERWA, tea plantations and coffee washing-stations	n.a.	Initially 99.99% RIG, the remaining 0.01% (not specified owner) initially; now 60% RIG and 40% ECOENERGY of KENYA
Peat Energy Company (PEC)	2009	New	Peat mining	n.a.	100% RIG; possible entry of Indian investors discussed
Multisectorial Investment Group (MIG) SA	2008	New but one state-owned tea factory	Agro-processing: coffee washing stations, tea plantations, honey making	n.a.	100% RIG
RIG's MINORITY-OWNED SUBSIDIARIES					
Ultimate Concepts	2010	None	Designing Kigali Convention Center	n.a.	80% RIG, 20% Primeholdings (state-owned enterprise)
Kigali Convention Center	2010	New	Total complex	n.a.	25% RIG, 25% CSR, 50% Primeholdings

Source: Compiled primarily from company websites and various other external sources. When ownership equity shares were not easily identified, only the names of the owners are mentioned instead.

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