

# Rwanda dials up investment opportunities by playing to its strengths

By Jaco Maritz

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**My first impressions of Kigali, Rwanda's capital, largely agreed with the 'Singapore of Africa' analogies I've heard and read about. Things are efficient, orderly and extremely clean. The difference between Rwanda and some other East African countries can be likened to removing yellow-tinted sunglasses after having worn them for a while – the world just looks different when it's not covered in a layer of dust.**

Kigali's cleanliness can be attributed to a combination of factors, including people generally not littering, having enough street sweepers to clean up after those who do, a ban on plastic bags, and the fact that, on the last Saturday morning of each month, it is compulsory for Rwandans to come together and clean their neighbourhoods. This community work forms part of a government-led effort to build a shared national identity, and to boost economic and social development.

I was in town to attend the Afreximbank (short for African Export-Import Bank) annual general meeting, held at the impressive new Kigali Convention Centre. The event brought together prominent African government and business leaders, such as Paul Kagame, Olusegun Obasanjo, Tony Elumelu and Aliko Dangote.

In recent years, Rwanda has transformed itself into one of the region's most business-friendly destinations. It is second in Africa (56th globally) in the World Bank's ease-of-doing business rankings, and is the continent's third-most competitive economy, according to the World Economic Forum's Global Competitiveness Index. Its economy has also grown rapidly, expanding by an average annual rate of 7.6% between 2007 and 2016.

But despite its reforms, Rwanda has a number of drawbacks: a small population of about 12 million, few natural resources,

and no seaport. While the fact that Kigali is safe with relatively little congestion is great for jogging or driving to work, it doesn't exactly leave one with the sense that there is a massive market of under-served consumers the same way that Addis Ababa or Lagos does. This raises the question: Why Rwanda? What opportunities are there for business to leverage the country's welcoming environment?

One of sessions at the conference aimed to provide some answers. It featured public and private sector representatives, who discussed business opportunities in priority areas such as the knowledge economy and information and communications technology (ICT), financial innovation, light manufacturing, and intra-regional trade. Here are some of the discussion's main takeaways.

## KNOWLEDGE ECONOMY AND ICT: AN AFRICAN TECH HUB

The knowledge economy is central to Rwanda's growth plans. For instance, the government's goal is to attract \$1 billion worth of ICT investments by 2020. It is targeting technology-enabled companies operating in a variety of industries, from fintech and smart energy grid development to agritech and business process outsourcing.

"Rwanda has been a pioneer in laying countrywide broadband infrastructure, and internet is now available throughout the country, with 4G covering 90% of the entire country. That enables us to provide the highways that are needed for serious business and opportunities for e-commerce and ICT-related businesses," said Emmanuel Hategeka, chief operating officer of the Rwanda Development Board, an agency responsible for enabling private sector growth.

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## The knowledge economy is central to Rwanda's growth plans.

Personally, I had no issues connecting to the internet in Rwanda, with wifi available virtually everywhere. Even the taxi driver who transported me around most of the week offered internet connectivity in his car.

Kigali Innovation City (KIC) – located in a special economic zone (SEZ) – is one of the ways in which Rwanda plans to attract the world's top technology companies. KIC is positioning itself to be a hub for tech companies and higher education institutions.

Carnegie Mellon University (CMU) Africa, one of KIC's anchor tenants, is expected to open its new campus next year. CMU Africa, a branch of the Pittsburgh tertiary institution, offers two master's programmes in Rwanda: one in information technology and the other in electrical and computer engineering. The African Institute for Mathematical Sciences (AIMS) and the African Leadership University (ALU), founded by well-known businessman Fred Swaniker, are also expected to operate from KIC. It will furthermore host the Rwanda Innovation Fund, a partnership between the government and the private sector developed to support growth-stage companies.

"What's distinctive about [KIC] in comparison to other tech cities or other tech hubs that are coming up across the continent, is the deliberate focus on high-quality human capital development," said Crystal Rugege-Ntore, director of business strategy and operations at CMU Africa.

"Our institution is quite young, but we have students from 11 different countries. I know that AIMS, as well as ALU, have similar models that bring talent from across the continent. So I see Kigali really becoming the centre of high-quality technical talent to really accelerate this ICT agenda," she added.

### FINANCIAL INNOVATION: BANKING ON RWANDA'S GROWTH

Innovation is also critical for the financial services industry to remain relevant, and Rwanda has been involved in initiatives to modernise its banking system. For instance, both Visa and Mastercard have

formed partnerships with Rwandese entities to offer electronic financial payments.

Rugege-Ntore believes digitising financial services is an area with significant growth potential.

"Sixty-six percent of the adult population in Africa have mobile phones, 35% have formal bank accounts, and 12% have mobile money accounts. I think it is clear that people have adopted technology much faster than formal banking. And with internet and mobile penetration rates really growing very quickly, I think there is a really huge opportunity to bring the unbanked population into the formal banking sector."

"And the problem we have right now is it is very segmented. It is either telecomms companies that are offering different products, or banks offering different products, and there is really a huge opportunity to create an interoperable platform that can bring everybody online," she explained.

In January last year, Atlas Mara, former Barclays chief executive Bob Diamond's banking group, made a high-profile investment in Rwanda's financial sector when it acquired a 45% stake in Banque Populaire du Rwanda (BPR). It was merged with another bank, BRD-Commercial Bank, which it bought in 2014. Atlas Mara owns a 62% stake in the new entity, trading as BPR, which is now the second-largest lender in the country.

Afriqye Ramba, the chief operating officer of BPR, said the bank was previously mostly focused on retail customers, but now the new shareholders' vision was to build a "universal" lender that would also take advantage of "corporate" opportunities.

According to the Rwanda Development Board, commercial banks are still the most important provider of financing in Rwanda. However, their activities tend to be constrained by the maturity of their liabilities, which consist mainly of local short-term deposits. It is anticipated that the presence of international banks will help introduce new capabilities, such as financing for large infrastructure schemes,

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advisory services for the privatisation of government projects and trade finance.

The Rwanda Development Board further highlights agricultural financing as an untapped business opportunity, and suggests that innovative products and services – such as weather-based crop insurance and warehouse receipt schemes – can be introduced to boost agricultural value chains.

Another potential growth area for banks is financing to small and medium-sized enterprises (SMEs). The common obstacles SMEs face when it comes to accessing finance, include high bank interest rates and the need for collateral.

“I think as a bank, we need to lend to SMEs, because it is the biggest sector ... If every bank is going to fight for corporates, then you are not going to do business. So, if you want to be in business, you need to lend to SMEs,” commented Ramba, acknowledging that interest rates are steep, but that this is partly because of the relatively high percentage of non-performing loans and a lack of accurate information on SMEs to inform decision-making.

It was suggested that Rwanda's economy is too small to get major international banks interested. However, Robert Opirah, the director-general for trade and industry at the Ministry of Trade, Industry and East African Community Affairs, said banks should look beyond Rwanda's borders and use the country as a base for pan-African operations.

“There are a lot of untapped resources in Africa. There is a need for infrastructure, there is a need for power, there is a need for everything. All that is [a] market that all these big banks should be targeting.”

“With the technology today, you don't have to open a branch to be able to serve a client. So, you could have an office in Rwanda here as a bank, but be able to serve anybody across Africa ... The opportunities are bigger than just our country,” he explained.

## **LIGHT MANUFACTURING: IMPORT SUBSTITUTION**

Those seeking opportunities in manufacturing need to look no further than the aisles of the Nakumatt grocery store in downtown Kigali, remarked an entrepreneur in the audience.

“When you go to that supermarket, most of the items are imported. What does that tell you? That in Rwanda we still have a number of opportunities,” she said, highlighting the manufacturing of cooking oil as a product with potential.

Rwanda is actively encouraging investment in light-manufacturing and wants to increase industrial contribution to GDP to 26% by 2020.

The Rwanda Development Board has identified five specific investment opportunities in manufacturing, namely: construction materials, textiles and garments, packaging materials, soaps and detergents, and motorcycle assembly. To get manufacturers on board, the government has established four industrial parks throughout the country, as well as the Kigali SEZ that offers investors a range of financial incentives and infrastructure, such as roads and the internet.

George Ndirangu, a journalist at CNBC Africa who moderated the session, highlighted the fact that, not too long ago, Rwanda's manufacturing sector had contracted because of high production costs and a lack of reliable electricity supply.

However, if the experiences of Jean de Dieu Kagabo – managing director of Rwanda-based packaging company Soft Packaging – are anything to go by, these challenges are being addressed. He said that over the past year, the longest his factory, which is situated in the Kigali SEZ, has been without power, was seven minutes. “We never faced a shortage of electricity for more than seven minutes. Even if there is maintenance going on, they phone us at least a day in advance ... saying tomorrow at midday we are going to cut off the power, so make sure you are prepared.”



## INTRA-REGIONAL TRADE: NOT LANDLOCKED, BUT LANDLINKED

One of the stumbling blocks for the manufacturing sector is Rwanda's relatively small population. But manufacturers can access a much larger market for their products by exporting to neighbouring countries, namely Burundi, the Democratic Republic of Congo, Tanzania and Uganda. Rwanda is also part of the East African Community (EAC) economic bloc, which gives it preferential trade access to a market of 170 million people.

The government has adopted a "glass-half-full" approach to the fact that Rwanda doesn't have direct access to the sea. Instead of complaining about being landlocked, "we normally consider ourselves landlinked because we form the centre of this continent", said Opirah.

Rwanda wants to take advantage of its central location by becoming a regional logistics hub. Last year, Dubai-based DP World was granted a concession to build and manage a new inland container logistics centre in Kigali. The completed depot will provide warehousing, truck parking, a container yard and other auxiliary services, and is expected to improve the flow of goods to both regional and international markets.

"Rwanda aims to enhance the country's logistics industry to support the export of products for regional and international markets. The DP World Kigali Logistics Centre will contribute to this," said Sultan Ahmed Bin Sulayem, chairman of DP World, in an interview.<sup>1</sup>

But while the EAC's cross-border trade potential might look attractive on paper, in reality there are big impediments to intra-regional commerce.

According to Opirah, there are non-tariff barriers – defined as laws, regulations, and administrative and technical requirements (other than tariffs) – holding back trade. "Non-tariff barriers are like 65% of what impedes the growth in intra-EAC trade ... You find it is easier to export to the EU and US than to a neighbouring country or another African country," he said, adding that issues around double taxation and the harmonisation of standards (for both goods and professional qualifications) needed to be ironed out.

## CONCLUSION: FOCUSING ON THE OPPORTUNITIES

Rwanda's slick PR machine often glosses over the fact that a large portion of the population still live in extreme poverty and that the country remains dependent on foreign aid.<sup>2</sup> However, after visiting the genocide memorial, which has an excellent view of the Kigali CBD's modern skyline, I couldn't help but admire all that has been accomplished since those dark days in 1994.

During the panel discussion's question-and-answer session, I asked the panellists to identify one untapped business opportunity in Rwanda that investors can take advantage of.

Soft Packaging's Kagabo responded by identifying a simple but widely-used product: matches. He said virtually every household – whether lower or upper class – used matches. Yet, the product was still imported instead of being manufactured locally.

"It is very easy to produce, but no one has thought about doing it – it is a big opportunity. So that's like one [idea] I can name, I've got more than a hundred in my mind," he added.

<sup>1</sup> Douglas, Kate. "What Kigali's new inland port could mean for trade in East Africa." *How we made it in Africa*, 8 Apr. 2016, [www.howwemadeitinafrica.com/kigali-new-inland-port-mean-east-africa/](http://www.howwemadeitinafrica.com/kigali-new-inland-port-mean-east-africa/). Accessed 25 Sept. 2017.

<sup>2</sup> Hutt, Rosamond. "5 things to know about Rwanda's economy." World Economic Forum, 7 Apr. 2016, [www.weforum.org/agenda/2016/04/5-things-to-know-about-rwanda-s-economy/](http://www.weforum.org/agenda/2016/04/5-things-to-know-about-rwanda-s-economy/). Accessed 25 Sept. 2017.