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## Chazen International Study Tour Report

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# Rwanda: Efforts Toward a Private-Sector Economy

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## **Chazen International Study Tours**

Designed to enhance the classroom curriculum, Chazen International Study Tours offer students and their faculty adviser an intense, firsthand experience of the business culture of their chosen country or region. Study tours are initiated by students and organized with the help of the Jerome A. Chazen Institute of International Business. During study tours students meet with leading executives and government officials while visiting businesses, factories and cultural sites. Recent destinations include China, France, India, Japan, Russia and Scandinavia.

While many developing countries struggle under the yoke of grinding poverty and recurring health epidemics, the tiny East African nation of Rwanda faces a unique additional challenge: overcoming the legacy of a brutal genocide in which one million people were slaughtered. At the end of a three-month period in 1994, nearly 12 percent of the population was dead and economic activity, from agriculture to industry, had all but dried up.

Twelve years later, Rwanda's business and government leaders are intent on rebuilding—and, in some cases, building for the first time—viable industries and services. They have laid out a series of ambitious goals in a document called Vision 2020. One of those goals is to raise Rwanda from its current status as a low-income economy with a per capita GDP of \$220 to a middle-income economy, as defined by Vision 2020, with a per capita GDP of \$900. Large sums of aid from wealthy governments and foundations, many of which are doing penance for their inaction during the genocide, have helped the process.

But the challenges remain enormous for this country of nine million people: a severely under-educated population, unreliable access to electricity and other utilities, landlocked and mountainous geography that restricts export opportunities, some dismal public-health indicators, rapid population growth and, despite the foreign aid, a dearth of resources to address many urgent needs. In addition, as one of our hosts told us, the genocide ripped the country's social fabric, leaving behind mistrust and deep emotional scars that may take years to heal.

A delegation of 12 Columbia Business School students visited Rwanda in January 2007 on a trip organized by the School's Social Enterprise Program and supported by the Chazen Institute for International Business. We were joined by faculty adviser Tim Baldenius from the Accounting Division and Carolyn Champ, associate director of the Social Enterprise Program.

We found a country that is clean, orderly, visually stunning and receptive to new energy and ideas. In some respects, progress has apparently been quick and effective, as is evident in the newly paved roads and Internet cafés. In other respects, the pace has been dispiritingly slow. In particular, the private sector remains woefully underdeveloped. For the country to achieve the economic and social goals laid out in Vision 2020, Rwanda and its people must grow private enterprise. As we discovered, that will require aggressive investment in infrastructure and education and, perhaps most important, a new mindset of creativity, competition and entrepreneurship.

The opportunities for growth exist, especially in areas like tourism and agricultural processing. But the question remains: Will Rwanda have the ability to grab those opportunities and build a solid, viable economy?

## **Rwanda's Private Sector**

Unlike many African nations, Rwanda has few natural resources—no diamonds, no oil, no significant mineral deposits. Instead, its economy has long been dependent on agriculture. About 90 percent of Rwandans work in agriculture, often merely subsistence farming. The sector contributes approximately 40 percent of GDP, according to the Economist Intelligence Unit.

The government would like to see that share drop to 20 percent by 2020, according to John Bosco Kalisa, executive assistant at the Rwanda Private Sector Federation, with 55 percent of GDP coming from services (versus 39 percent now) and 25 percent from manufacturing (versus 20 percent now).

But bringing in investors has proven difficult, not least because of infrastructure constraints. The cost of transportation—moving exports out of the country and bringing raw materials into the country—is prohibitively high. “Our tax structure is a bit lower than the rest of the region [about 11 percent on average], but the cost of transport is the biggest hurdle. With the cost of transport, we find we can’t be competitive,” Kalisa said. Utilities present a similar challenge; electricity costs 7 cents per kilowatt-hour in Kenya, versus 20 cents per kilowatt hour in Rwanda.

Rwanda must also address the legal and institutional backdrop necessary for private industry to flourish. The country’s courts have been focused almost exclusively on genocide cases for the last decade, Kalisa said. This year, Rwanda is introducing private commercial courts to hear cases on contracts and other business conflicts. At the same time, a commission was recently convened to update the country’s commercial laws, many of which date back to 1932.

The government of President Paul Kagame is insistent on instilling a private-enterprise mindset in Rwanda. He eschews programs that might create a “culture of dependency”; as a result, few services are given away. A national health-insurance card costs \$2, not an insignificant amount for the 64 percent of the population living below the \$140-per-year poverty line. Population Services International’s Rwanda office, led by Staci Leuschner ’01, charges a nominal fee of 10 cents for condoms in its HIV/AIDS prevention program. Farmers take out loans to buy fertilizer at the Millennium Village Project in Mayange rather than receiving it for free.

## **Social Constraints**

Still, every official and expert with whom we spoke echoed that Rwanda’s single greatest challenge is a lack of expertise and human resource capacity. “This is a country of dreamers. It’s a country where ambitions far, far exceed capacity,” said Josh Ruxin, head of the Millennium Village Project and director of the Center for Global Health and Economic Development, a joint venture between Columbia University’s Mailman School of Public Health and Earth Institute.

The skills vacuum is the result of several factors. First, the educational system is inadequate. Thirty-nine percent of Rwanda’s children complete primary school, 10 percent continue through secondary school and only 2 percent attend universities. The school system historically has failed to encourage independent thinking; instead, students learn by rote and do not grow up to be problem solvers. Second, because Rwanda has never had a robust private sector, workers have rarely developed the sense of initiative and innovation that comes out of a competitive economy. Third, many of Rwanda’s professionals—engineers, scientists, teachers, technicians—were killed in the genocide or fled after it.

Rwanda is looking both to its own educational institutions and to partnerships with other countries to close the skills gap. “We’re working with the government of Japan to set up a vocational training institute focused on electronics. Canada is helping to set up a tourism college,” Kalisa said. “The resource we have is our people. That’s why human resource development is our key.”

As it looks to fulfill its 2020 goals, the Rwandan government has identified several sectors as priorities, including tourism, food processing, and information and communication technologies. The last one is a special focus of President Kagame’s. As the Economist Intelligence Unit noted in its 2006 country report, though, “The government’s long-term economic plan is to transform Rwanda into a ‘knowledge economy.’ At present, however, fewer than 100,000 Rwandans are

estimated ever to use the Internet.” This figure is likely to improve as New Jersey–based TerraCom finishes laying fiber-optic cable through much of the country.

## **Tourism**

Rwanda’s greatest opportunities may lie in tourism. With three unique national parks and the beautiful coast of Lake Kivu, Rwanda offers travelers a range of recreational choices. But these are not exploited nearly as well as they could be.

As one small example, we were dismayed to find that postcards—a staple tourist purchase—were hardly available except at a couple of upscale hotels and tourist offices; not even the National Museum stocks them. As another example, the final 20 miles of the road to Akagera National Park are unpaved and unlit. If Rwanda hopes to drive a tourism boom, it needs to make its attractions as accessible as possible.

In 2001, the government began an effort to “rebrand” Rwanda and reintroduce it to the world, with advertisements in major overseas media and a presence at tourism trade shows. By last year, visits to the national parks reached pregenocide levels, a milestone for the country.

Building on this comeback, the government’s plan is to target high-end tourists, primarily by marketing the country’s natural assets. The mountain gorillas at Volcanoes National Park, as before the genocide, are Rwanda’s main draw. In small groups and accompanied by a guide, tourists can visit the gorillas by purchasing permits from the government’s tourist office. This year, the price of permits will rise from \$375 to \$500 per person. They are expected to sell out.

As sales of gorilla permits top out, the government needs to diversify its tourism offerings. It is working with On the Frontier Group (OTF), a Boston-based consulting firm that helps governments of developing countries identify and exploit their competitive advantages. “We’re now looking at experiences, pushing the cultural aspects of the country and other natural assets like orchids and bird-watching,” said Joan Mazimhaka, a consultant at OTF. “We’re also pushing to the diaspora market” of Rwandans who live abroad.

One delicate topic is how Rwanda will manage its history of conflict and slaughter. While this history may keep some visitors away, it is a draw for others who wish to understand the genocide and war. The countryside is dotted with memorials—some simple, some chillingly literal—and the capital city, Kigali, is home to a genocide museum modeled in some respects after the Holocaust Museum in Washington, D.C. One person we spoke with noted, Rwanda “has to figure out how to position itself within the tradition of ‘genocide tourism.’”

## **Entrepreneurship**

Rwanda has a large pool of people who are unemployed (officially, 60 percent of the population) yet not skilled or experienced enough to take on the professional jobs that are waiting to be filled.

We found this dilemma particularly moving at the Kigali Institute for Science and Technology (KIST), where students earn four-year degrees in engineering, computer science and other fields. Many of the graduates, however, are unable to find jobs, either because they lack sufficient experience or because there are not enough opportunities in their chosen fields.

KIST began an entrepreneurship program in 2005 to address this problem. The guiding philosophy of the so-called Technology and Business Incubation Facility (TBIF) appears to be, if jobs do not exist, create them yourself. The facility provides business-consulting services—everything from writing a business plan to mastering new accounting software—and space, resources and subsidized rent for entrepreneurs. KIST also operates a loan fund for entrepreneurs who lack access to traditional bank funds.

“Ninety-nine percent of those who come have no entrepreneurship experience,” said Rajeev Aggarwal, director of KIST’s Department of Private Sector Development. “They’ve never written a business plan. Mostly, they’re raw.” The TBIF has provided business-consulting services to 231 clients since its inception, including teaching 103 people how to write a business plan.

We met several entrepreneurs who are benefiting from TBIF. One started a technology training company that comes to workplaces and homes to teach people how to use Windows software. Another began a handicrafts business and is now hoping to export her products around the world.

One goal is to encourage people to adopt an entrepreneurial mindset. That did not seem to be a problem for Balthazar Manirakiza, a TBIF client who started a buildings inspection firm in Kigali in response to the building boom currently taking place there. “There have been a lot of construction accidents. That’s why I thought about that service,” he said.

Rwanda’s challenges were summed up by Edouard Ndayisaba, cofounder of a small biogas firm. “Before the genocide, there was no entrepreneurship in Rwanda. None. So we don’t have any background from our parents. Now it’s government policy—‘you people create your own jobs. Then you can develop our country.’”

## **Conclusion**

We heard a great deal of optimism and ambition in our two weeks in Rwanda, but the question nagging at us all along was How many of these goals are achievable?

We posed this question to one experienced development professional. He considered it for a moment and said, “In other countries I’ve been, people don’t follow through. Follow-through is always the problem. But here, people have a vision of what has to be done and they keep on striving.” He noted that Rwandans’ deep sense of moral purpose, driven by former exiles who have returned to help rebuild as well as those who never left, is a unique asset that will help push things forward.

As we heard continuously from our many hosts and new friends, “Rwanda is a new country. It is only 12 years old.” Perhaps by the time it reaches adulthood, Rwanda will be healthy, vibrant and on track to reach its Vision 2020 goals. We will all be watching closely.