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The political settlement and 'deals environment' in Rwanda: Unpacking two decades of economic growth

Pritish Behuria* and Tom Goodfellow**

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* Department of International Development, London School of Economics and Political Science
Email: P.Behuria@lse.ac.uk

** University of Sheffield
Email: t.goodfellow@sheffield.ac.uk

ISBN: 978-1-908749-58-1

email: esid@manchester.ac.uk
Effective States and Inclusive Development Research Centre (ESID)
School of Environment, Education and Development, The University of Manchester, Oxford Road, Manchester M13 9PL, UK
www.effective-states.org

Abstract

This paper explores the political economy of growth in Rwanda during two decades of economic expansion under the Rwandan Patriotic Front (RPF). It builds on recent work emphasising the importance of party-owned enterprises in sustaining this progress, but goes further by analysing state-business dynamics in four key sectors of the economy: coffee, mining, construction and financial services. For each sector, the evolution of the 'deals environment' (Pritchett and Werker 2012) is detailed and the differential degrees of growth, liberalisation and foreign competition are explained. This detailed sectoral analysis enables us to develop a deeper understanding of how political concerns have affected Rwanda's economic growth trajectory. The paper argues that while the Pritchett-Werker framework is a helpful starting point, the 'deals environment' in Rwanda has not progressed along a linear trajectory from 'closed disordered' to 'open ordered' deals as posited in the model. Instead, the maintenance of growth has involved the cultivation of carefully protected pockets of 'closed' deals in strategic nodes of different sectors. Moreover, the combination of rapid economic liberalisation with politically motivated 'closed' deals has led to a degree of continued (or renewed) disorder in some sectors, which may yet threaten growth in the long term.

Keywords: Rwanda, economic growth, political settlement, deals, coffee, mining, construction, financial services

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Introduction

In the two decades since 1994, the Rwanda Patriotic Front (RPF) government has achieved growth rates of over 6 percent every year (with the exception of 2003 and 2013). This has led to praise from diverse groups, ranging from international financial institutions (Tumwebaze 2014, Lagarde 2015) to mainstream (Collier 2015) and heterodox scholars (Kelsall 2013, Booth et al. 2014). However, Rwanda's growth success has been accompanied by criticisms regarding restrictions placed on freedom of speech and human rights (Reyntjens 2011). Debates also persist with regard to whether or not inequality has reduced in recent years (Ansoms and Rostagno 2012; Booth and Golooba-Mutebi 2014a, Watkins 2015)[1] – a crucial issue, given that Rwanda has been the most unequal country in East Africa since 2006 (according to both the GINI index and Palma ratio).[2]

The paper builds on the existing literature on Rwanda's economic development trajectory and the theoretical frameworks provided by the political settlements approach (Khan 2010; Whitfield et al. 2015) and Pritchett and Werker's (2013) analytical emphasis on the 'rents space' and 'deals space'. It concurs with recent analyses that argue the RPF government is 'developmental' in orientation (Booth and Golooba-Mutebi 2012), but challenges the linear simplicity of existing narratives about Rwanda and seeks to deepen the analysis of its economic strategy and state-business relations in a number of ways. Unlike existing analyses, we show how different state-business relationships in specific sectors have influenced Rwanda's developmental trajectory. Drawing on Sen (2013) and Pritchett and Werker (2013), we also focus on the difficulties associated with developing state-business relationships that are conducive to both promoting growth accelerations and *maintaining* growth.

This paper examines four specific sectors of the economy in detail: coffee, mining, financial services and construction. Tensions between facilitating rent creation and pursuing an agenda of liberalisation play out in different ways in different sectors, with important implications for sustained productivity increases. While Pritchett and Werker's (2013) framework is adopted as a starting point and analytical tool, limitations of the framework are also explored. Rentier behaviour and competition coexist *within* specific sectors and change over time, complicating any simple explanation of feedback loops into institutions. It is also important to distinguish between types of firms and investors in different sectors and, in particular, to analyse how the role of international versus domestic firms affects the 'deals space', and how this influences both growth prospects and institutional development.

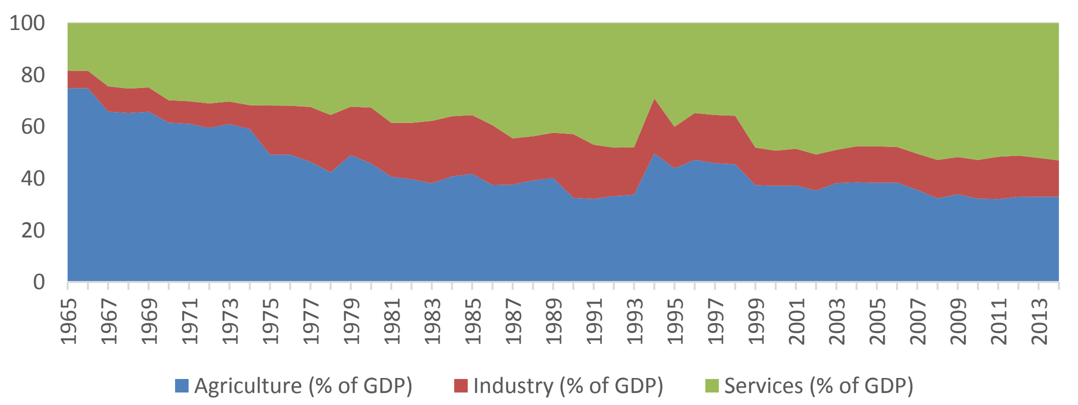
[1] Kar et al (2013) show that Rwanda has dropped from 23rd to among the 15 lowest-ranked countries in world income distribution.
[2] See World Bank databases and SID (2014).

Overview of growth and structural transformation experience

Rwanda experienced a large deceleration in growth between 1981 and 1994. However, since 1994, Rwanda experienced a lengthy acceleration episode (Kar et al. 2013). Indeed, Rwanda was among the top 10 fastest growing economies globally in the 2000s (ACET 2014). It has also experienced some structural transformation. Figure 1 shows that agriculture as a proportion of GDP has gradually decreased over time, falling from 49.7 percent in 1994 to 33 percent in 2014. Meanwhile, the services sector contributed 29 percent of Rwanda's GDP in 1994, compared to 53 percent in 2014. Figure 2 provides a breakdown of GDP composition by activity between 1999 and 2013. In terms of the breakdown of employment, between 2002 and 2011, the percentage of the employed population in agriculture decreased from 87 percent to 73 percent, with corresponding increases for the proportion of the employed population in services (from 10 percent in 2002 to 20 percent in 2011) and manufacturing and extractive industries (from 3 percent in 2002 to 6 percent in 2011) (NISR 2014).

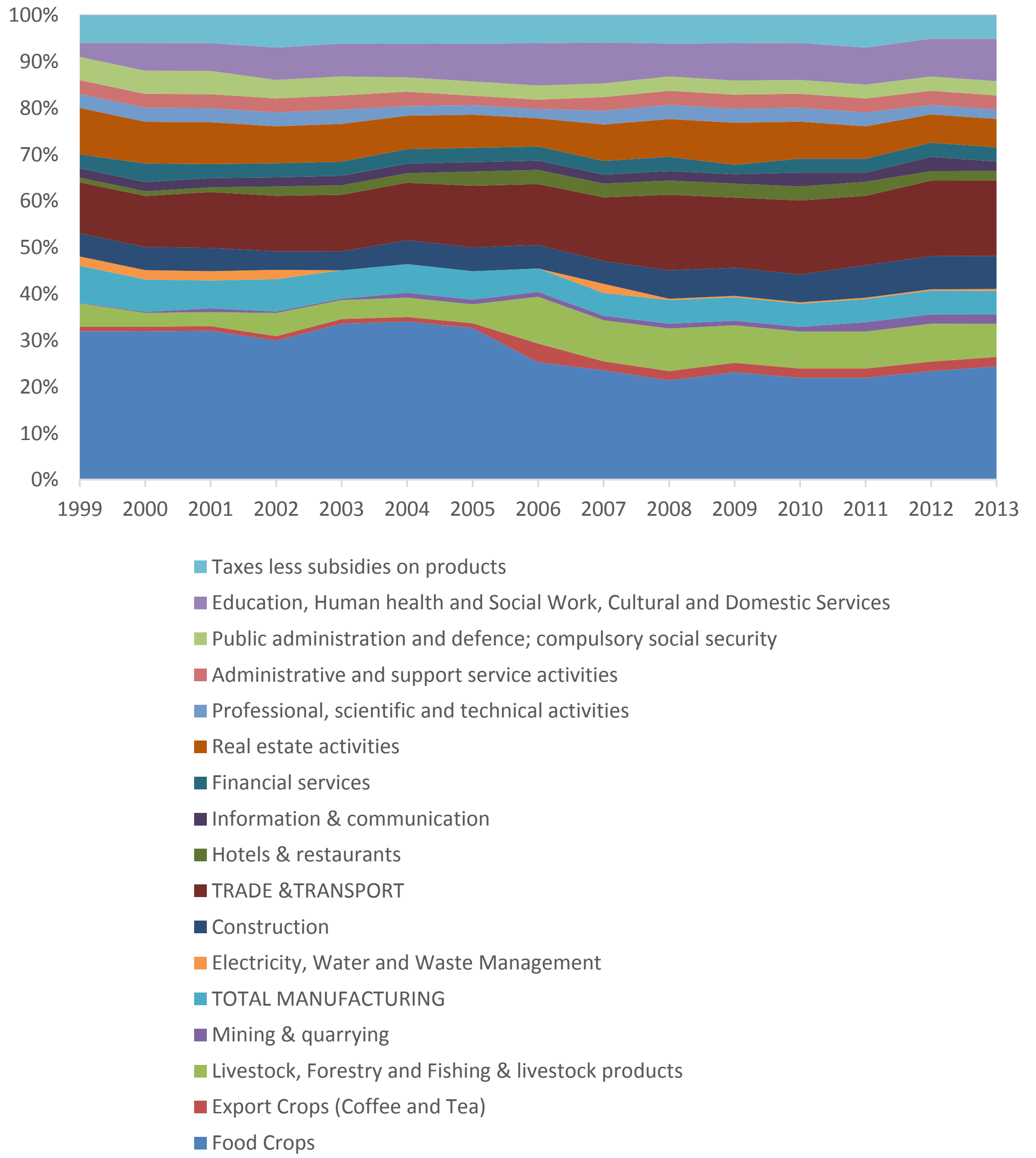
Structural transformation remains limited, however. Rwanda is one of the least transformed countries in Africa, ranking 18 out of 21 countries on the African Centre for Economic Transformation Index – though this is an improvement from the situation in 2000, when it was ranked last (ACET 2014: 197). It remains a largely rural society, with between 70 and 80 percent of its population working in the agriculture sector. Coffee, tea and minerals have accounted for over 90 percent of Rwanda's exports for most of its history. This has gradually changed during the RPF's reign, and Rwanda has shown marked improvement relative to many other African countries in the African Centre for Economic Transformation's ratings on diversification and technological upgrading, despite a lack of progress on measures of export competitiveness and human wellbeing (ACET 2014: 33).

Figure 1: Components of GDP in Rwanda by Sector: 1965-2014



Source: World Bank.

Figure 2: Gross Domestic Product by Kind of Activity

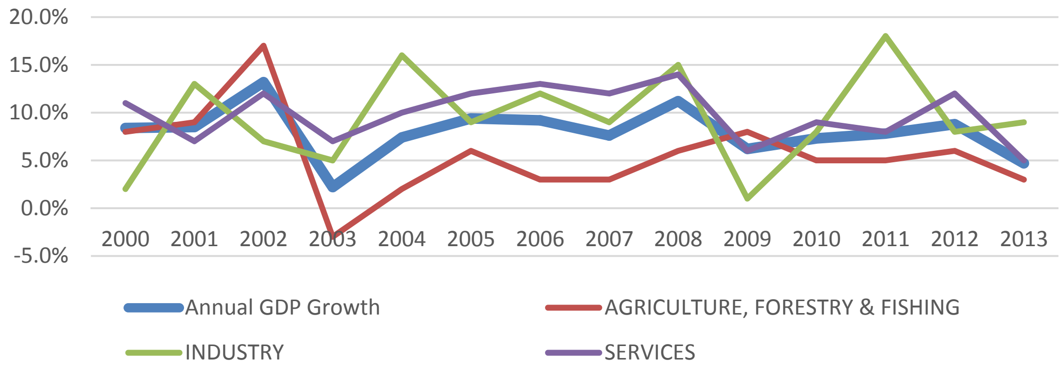


Source: Ministry of Finance and Economic Planning (MINECOFIN).

In 2000, the government announced its intention to become a middle-income country by 2020, as part of its national strategy (GoR 2020). The government identified that such goals would not be achieved unless Rwanda was transformed "from a subsistence agriculture economy to a knowledge-based society, with high levels of savings and private investment, thereby reducing the country's dependence on external aid" (GoR 2000: 4). Lack of attention to manufacturing growth has been a striking feature of this growth strategy. Economic transformation thus far has not involved an increase in the share of manufacturing, as was the case in the East Asian developmental experience – quite the opposite. Industry's contribution has reduced from 21 percent of GDP in 1994 to 14 percent in 2014. Even Switzerland and Singapore, often misunderstood as countries that developed by emphasising the services sector, are actually among the most industrialised countries in the world (Chang 2007). In the Economic Development and Poverty Reduction Strategy 2 (EDPRS 2), the government slightly increased its emphasis on manufacturing, stating an aim of moving "from an agriculture-based economy to an industry and services-based economy" (MINECOFIN 2013: 55).

Though agriculture has grown at a relatively healthy rate between 2000 and 2013, the sector's annual growth rate has remained below the annual GDP growth of Rwanda for most years, while growth in the services sector has been the most steady (Figure 3).

Figure 3: Comparison between Agriculture, Industry and Services Sector with Annual GDP Growth Rates: 2000-2013

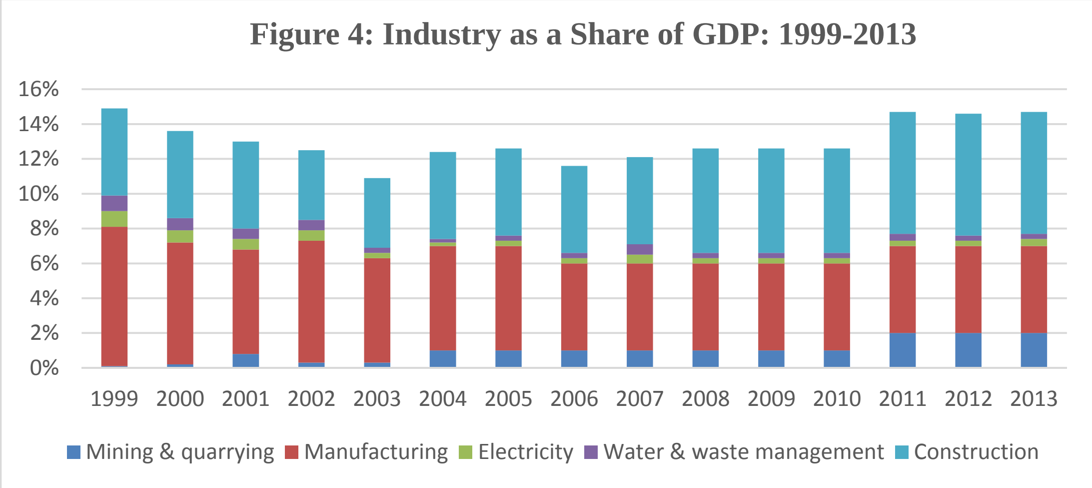


Source: Ministry of Finance and Economic Planning (MINECOFIN).

Figure 4 shows that construction has been a growing component and the most consistent source of growth in the industry sector. The growth that is implied in industrial sector statics can also be misleading, given that mining is included within industry sector statistics. As is evident from Figure 4, manufacturing has shrunk significantly, while construction and mining have grown. The manufacturing sector is still quite young, given that most companies were destroyed during the genocide. Despite some investment and technology acquisition, several factors inhibit further growth in the sector. These factors include the small market size, difficulties in creating supply chains and distribution networks, very high transport costs (the highest in the East African Community), inconsistent access to electricity and problems establishing effective management and production systems.[3]

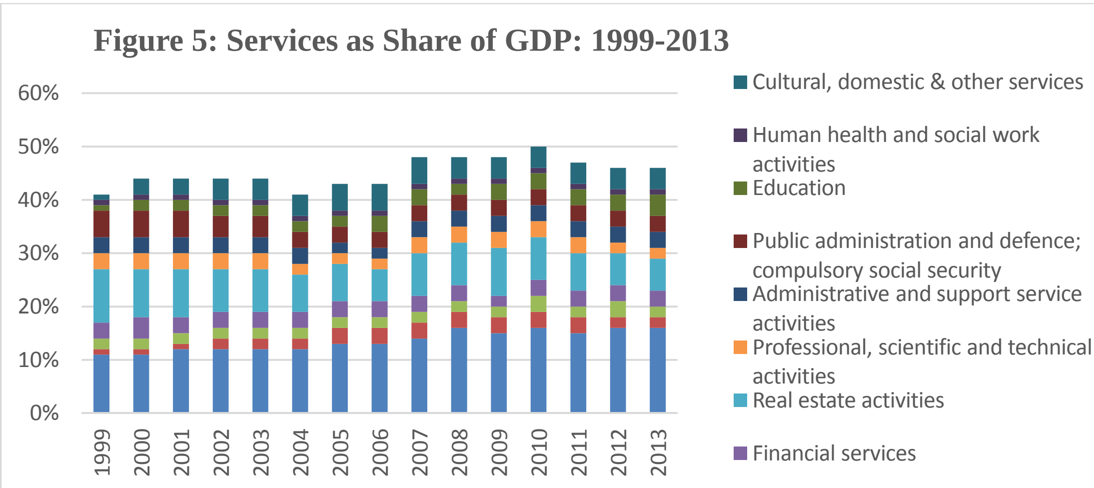
Government officials recognise that not enough emphasis had been placed on the manufacturing sector in the past, but claim that the sector will be increasingly prioritised, also noting the importance of finding linkages to other sectors.[4] The EDPRS 2 recognises the importance of light manufacturing, with IT-related manufacturing recognised as a priority (MINECOFIN 2013).

[3] Various interviews.
[4] Interviews, Ministry of Trade and Industry (MINICOM) and National Bank of Rwanda (BNR) officials.



Source: MINECOFIN.

Growth in the services sector was prioritised after 2000, with the aim of building a knowledge-based economy. Within this sector, finance, real estate, hotels and restaurants, and trading and transport have shown promising growth (Figure 5). The government has also launched a Meetings, Incentives, Conferences and Events (MICE) strategy to augment revenues from the services sector. The growth of the construction sector can also be understood in line with such goals. Rwanda Development Board (RDB) officials claim that revenues from MICE could reach 150 million USD by 2015. Government officials also hope that growth in the tourism and ICT sectors will generate employment opportunities for educated youth.[5]



Source: MINECOFIN.

Theoretical discussion

This section begins with an introduction to Mushtaq Khan's (2010) political settlements framework, which we will periodically refer to when characterising the nature of the political coalition underpinning the current regime. Pritchett and

[5] Interview, Clare Akamanzi, RDB.

Werker's (2013) deals/rules framework (henceforth referred to as PW) will then be briefly discussed, as this provides the basis for the analysis of state-business relationships in the four sectors to be examined.

Political settlements are defined as an "interdependent combination of a structure of power and institutions at the level of a society that is mutually compatible and also sustainable in terms of economic and political viability" (Khan 2010: 20). Unlike in new institutional economics, institutions explored within the political settlements framework are not understood to be neutral and simply used to reduce transaction costs. Instead, institutions are perceived to embody and reflect power relations (Di John and Putzel 2009). Political settlements themselves can differ substantially. Khan (2010) has developed a typology that explores the organisation of ruling coalitions, the time horizons they may develop and their implementation capacities. He focuses on two dimensions. The first relates to the power of factions excluded from the ruling coalition relative to that of the ruling coalition. The second relates to the internal distribution of power *within* the ruling coalition, between higher and lower level factions.

This paper takes the view that the Rwandan Patriotic Front (RPF) government can be categorised as what Khan terms a 'potential developmental coalition', and others (Whitfield et al. 2015) would term a 'strong dominant' regime. In this kind of political settlement, factions excluded from the ruling coalition are relatively weak, as are lower-level factions within the ruling coalition itself. Consequently, the ruling coalition has interests that are strongly aligned with growth and strong implementation capabilities to make growth-oriented policies a reality. Some have also classified the RPF government in this way (Lavers and Hickey 2015), while others have not used the same language but also view the government similarly (Booth and Golooba-Mutebi 2014b; Kelsall 2013; Henley 2013; Goodfellow 2014). However, political settlements are dynamic, and particular regimes may be better represented on a continuum between categories than as rigidly fixed in one box (Lavers and Hickey 2015).

Much of the heterodox literature (including the political settlements approach) has largely focused on explaining why economic growth comes into being, without attention to what explains the continuation of growth over time. Consequently, PW (2013) aim to develop a unified theory of growth that accounts for both growth acceleration and maintenance. Their framework explores the evolution of state-business relationships in particular sectors by focusing on two dimensions that they term the 'deals' space and the 'rents' space. Rather than distinguishing between formal and informal institutions, they introduce a distinction between 'rules' and 'deals'. Only the most developed nations operate in 'rules' environments, with rules being understood as impersonal and applying equally to everyone. Instead, most late developing countries operate in 'deals' environments, where deals are

> "specific actions between two (or more) entities in which there are actions that are not the result of the impersonal application of a rule

> but rather are the result of characteristics or actions of specific individuals which do not spill-over with any precedential value to any other future transaction between other individuals" (Pritchett and Werker 2013: 45).

Box 1 depicts the 'deals space' which operates in most late developing countries. PW argue that the shift from disordered deals to 'ordered deals' environments has been associated with growth accelerations. 'Ordered deals' are deals where investors can be assured that the political elite will deliver on their promises, while 'disordered deals' are those where investors are not assured that political elites will adhere to their promises. This work has argued that "the move from growth acceleration to growth maintenance would depend on the movement in the deals space from closed ordered to open ordered deals, or from disordered deals to open ordered deals" (Sen et al. 2014: 5).[6] Open deals are those deals which are widely available to all investors, while closed deals are deals that the political elite only offer to a small group of investors (Pritchett and Werker 2013).

Box 1: The deals space

		Closed deals	Open deals
Kickstarting growth	Disordered deals	Only those with political connections can make deals, and even they cannot be certain that officials will deliver.	Anyone can make a deal, but no-one is certain that officials will deliver.
	Ordered deals	Only those with political connections can make deals, but they can be confident that officials will deliver	Anyone can make a deal, and they can be certain that officials will deliver.
		Maintaining growth	

Source: Sen et al. (2014), based on Pritchett and Werker (2013).

[6] Sen et al. (2014) recognise that there will not necessarily be a linear 'shift' in the deals space.

In addition, PW present a matrix of the 'rents space' which categorises economic activity along two axes: the degree of competitiveness in the sector; and the degree of export orientation relative to serving the domestic market (see Box 2).

Box 2: The rents space

	High-rent	Competitive
Export-oriented	RENTIERS Natural resource exporters, agricultural concession exporters	MAGICIANS Manufacturing and service exporters, other agricultural exporters
Domestic market	POWERBROKERS Legislative monopolies or oligopolies, natural monopolies or oligopolies, government services	WORKHORSES Importers, traders, retailers, subsistence farmers, local manufacturers, producers of non-tradeables

Source: Pritchett and Werker (2013).

Also central to the PW framework is the idea of feedback loops between economic growth and the deals/rules environment. These can be positive, where economic growth is of the kind that leads to improved institutions for growth, or negative, where growth leads to a situation in which elites have little incentive to improve the functioning or inclusiveness of institutions (Prichett and Werker 2013). Sen et al. (2014) argue that private sector actors in the 'rentier' and 'powerbroker' sectors are likely to push for closed deals rather than open deals, as their rents would dissipate in the presence of more open regulatory institutions. On the other hand, firms in the 'magician' and 'workhorse' sectors are more likely to push for open deals. Therefore, the sector in which growth takes place affects whether feedback loops are likely to be positive or negative.

This paper uses the PW 'rents space' to select sectors in the Rwandan economy, which are then analysed in relation to the 'deals environment'. It demonstrates that the current conceptualisation of the rents space does not differentiate between the kinds of investors that operate in different sectors.[7] We argue that the potential for long-term growth in many of these sectors depends on how the relationship between governments and different investors (whether foreign, party-owned or individual Rwandan capitalists) evolves in particular sectors, echoing broader arguments made by Whitfield et al. (2015). The expectations placed on investment groups and Rwandan capitalists are very different from those placed on foreign investors. Where foreign investors may bring in capital and expertise, the government's strategic task has been to learn from such companies and create national champions (which it has often failed to do, aside from investment groups).

[7] Pritchett and Werker (2013) acknowledge this as an issue.

Methodology

Fresh primary research was conducted for this paper by both authors in January 2015, building on their existing work in Rwanda. The project focused on interviewing representatives from firms working in the four sectors, as well as government, party and military officials where relevant. Most interviews varied in length between 30 minutes and two hours. A total of 79 interviews were conducted by the two researchers. Some interviews conducted as part of previous research are also used in this paper. Attempts have been made to triangulate and cross-check data that was presented by respondents.

To detail the rents space in Rwanda, four sectors were the focus of this study (Box 3). An attempt was made to select sectors that fit within each category in PW's framework. Given the dynamic nature of reforms in Rwanda, however, none of the sectors chosen fit perfectly. There are very few competitive, export-oriented sectors in Rwanda. Since the coffee sector has been liberalised and assets are largely owned by private actors, the coffee sector was chosen as a 'magician' sector. The mining sector was chosen as a rentier sector. Since the late 2000s, the sector has been privatised and trade-and-export operations are liberalised, but given that concessions are assigned to individual investors and are therefore not competitive, the sector is still a good example of a rentier sector. The construction sector was chosen as a powerbroker sector, as it is mostly geared towards the domestic market and party- and military-owned investment groups play a significant role. Again, however, it is not a perfect fit, because in many respects it is open and competitive, as we will discuss below. The financial services sector was chosen as a workhorse sector. The sector has been liberalised for many years, even though the government still has a majority shareholding in the largest bank (Bank of Kigali).

Box 3: The rents space in Rwanda

	High rent	Competitive
Export-oriented or import-competing	*Rentiers* Mining	*Magicians* Coffee
Domestic market	*Powerbrokers* Construction	*Workhorses* Financial Services

Most private sector respondents were fairly open in discussions. Some respondents had been interviewed previously and the researchers had already established a rapport with these respondents. However, it is possible that many respondents downplayed the degree to which personal connections and corruption may have operated in Rwanda. Judgements regarding deals spaces in different sectors have been made on the basis of interviews with respondents working in the sector. It is recognised that such judgements may not represent an accurate picture, given the limited database of interviews on which to make categorisations. The names of respondents have been anonymised, given the sensitive nature of this research.

A characterisation of the deals space

This section explores state-business relationships in different sectors, beginning with an overview, before turning to four sectors in detail. We will show that in all these sectors, the RPF government has had to deal with pressure to embrace market-led reforms, while retaining a preference that domestic firms are able to engage in technology acquisition. In the late 1990s, the IMF pressured the Rwandan government to privatise state-owned enterprises (SOEs) and by 2011, 57 SOEs had been fully privatised, with a further 20 going through different phases of privatisation. Despite the government earning plaudits for this, a consultancy report in 2011 (which studied 44 privatised enterprises) found that only 12 percent of these companies were successful and operational, and 43 percent were not even operational. Acknowledging these mixed results, there is recognition among government officials that state regulation and interventions of different forms are required. However, in most sectors, they have been reluctant to pick domestic winners (other than by setting up investment groups, which we discuss below). Instead, they highlight that government should play a key role in sectors early on and then get out as soon as possible: "Telecom represents a good case of how we made investments first and then liberalised. This prepared economic growth and openness led to innovation in the sector."[8] They also emphasise that initial government investments are meant to spur private investment that would not otherwise have been forthcoming: 'We invested where no one would invest, like in the tourism sector. It is this model of going in where others will not that has spurred growth in the Rwandan economy."[9]

The choice of which strategy to embrace in specific sectors depended on a number of factors, including the degree of donor pressure, the nature of domestic competition and the degree of technology acquisition required. Where no private investor was coming in, the government chose to invest themselves. Often, investment groups (or party- and-military-owned holding companies) were used. These groups have been detailed in the existing literature (Booth and Golooba-Mutebi 2012; Gokgur 2012; Behuria 2015).

Representatives of investment groups claim to follow a strategy of investing in strategic sectors, increasing productivity in those sectors, breaking even and then eventually leaving. Representatives of Crystal Ventures Ltd. (CVL) attribute the success of many of their firms not just to government backing, but to the philosophy they have 'inherited' from the RPF and their commitment to rebuilding the country.

[8] Interview, Emmanuel Hategeka, MINICOM Permanent Secretary.
[9] Interview, MINICOM official.

Other observers spoke of the 'preacher's son' pressures to which these state-owned investment groups are subject: there is a sense that they have to perform well because everyone is watching.[10] CVL representatives emphasise their commitment to 'crowding in' rather than 'crowding out' domestic private firms and cite some state-owned companies under their umbrella that were allowed to fail – such as DPS, a printing firm, and the media company MSG.[11]

Investment groups are the largest domestic players in the economy. However, the private sector has also developed an organised platform (with government support and even 'direction'), the Private Sector Federation (PSF), which groups together 10 professional and promotional chambers. The Federation's voice has gradually strengthened, according to PSF representatives and firm representatives. It is now compulsory for all government policies to consult with relevant private-sector representatives. In January 2015, one MINECOFIN official said that parliamentarians sent him to back in his office when he presented work on the mining sector that had not been discussed with private sector representatives.[12] However, despite these efforts to support the private sector, most SMEs struggle and few last very long.

This overview is important, because while economic liberalisation in a given sector is not synonymous with an 'open' deals environment in the PW sense, it does affect the degree to which open deals are possible in that sector. PW describe open deals as those that "depend on the actions of agents (including influence activities) rather than identities" – i.e. deals are available beyond specific individuals or organisations (PW 2013: 46). In many sectors, liberalisation has meant the opening up of potential deals in specific sectors beyond an elite that had previously held access to monopoly rents, creating the potential for new (often international) elites, with strong capacity for influencing, to partake in deals. Thus, liberalisation has, as we show below, often been associated with a move towards more open deals. However, in these sectors, closed deals are often still used for strategic investments and to ensure rents remain under centralised control. The following four sections describe the trajectory of state-business relationships in four sectors, with explicit reference to PW's 'deals space' framework. In each case, a brief overview of the sector's history, its current firm structure and the general evolution of the deals environment will be outlined.

Coffee (magician)

Coffee occupies a significant role in the Rwandan economy, because it has been the predominant export for most of Rwandan history and because during the previous regimes of Grégoire Kayibanda (1962-73) and Juvénal Habyarimana (1973-94), coffee production was a strategic priority. Before 1994, the coffee sector remained in a relatively stagnant 'closed ordered' deals space, with rents from the coffee sector centralised under both the Kayibanda and Habyarimana regimes. New exporting companies were sometimes licensed (although they never gained a substantial

[10] Interview with foreign adviser, January 2015.
[11] Interview with CVL representative, January 2015.
[12] Interview, MINECOFIN official.

foothold in the sector).[13] However, there is no indication that there were any 'open' deals operating in the sector.

Immediately after the RPF assumed power, trade-and-export operations were liberalised. Rwandex continued to be a prominent exporter, but RPF supporters and prominent businessmen who supported the liberation effort also invested. Tribert Rujugiro and Faustin Mbundu were among the first to establish exporting companies. At this time, government officials claimed that any investors were welcome.[14] Though many individuals who set up companies were closely linked to the RPF, there is no evidence to claim that benefits they received (in terms of accessing loans) would not have been available to other investors. In the 1990s, six new companies entered the sector, two of which went bankrupt after two years (MINAGRI 2008). Later, other smaller companies (Salama Café, KAGERA-Coffee and Al Café) that entered in 1994 also went bankrupt (IMF 2000).

Swiss-based RwaCof, owned by Switzerland-based Sucafina, entered Rwanda in 1995 and captured significant market share, partly because of their foreign contacts.[15] Sucafina had already established a presence in the region through its Uganda-based company, UgaCof. Entering Rwanda was "a no-brainer" for Sucafina. There was an opportunity, since "many of the other players here did not have much knowledge of the sector and it was not managed". RwaCof representatives said that competitors "learned, but many who started or misbehaved, did not survive".[16]

RwaCof then gradually competed with Rwandex to become the largest exporting company in Rwanda. Between 2000 and 2002, Rwacof and Rwandex shared about 65-75 percent of the domestic market. Agrocoffee (owned by loyal businessman Hatari Sekoko) and SICAF (owned by Ngoga Mugunga, the husband of the sister of Jeanette Kagame – the President's wife) collectively captured more than 20 percent of the market. Since 2004, competition in the coffee sector intensified. Several new coffee exporters entered the sector. During this time, the government built an institutional environment to fund the coffee sector and donors had also begun supporting the coffee strategy. In 2009, Rwandex's assets were bought by American Scott Ford's Rwanda Trading Company (RTC). RTC used new innovations in the fully-washed coffee chain to capture more of the market. In 2015, 63 coffee exporters operated in the country (nearly double the amount that operated in the sector in 2012).[17]

All respondents in the coffee sector agreed that the government acts primarily as a regulator in the sector. Government officials recognised that their role was restricted to regulation and to ensuring that the sector remained productive.[18] Firm

[13] Interview, National Agriculture Export Board (NAEB) representative, January 2015.
[14] Interview, NAEB Representative, January 2015.
[15] RwaCof bought the Gikondo coffee factory in 1997.
[16] Interview, RwaCof representative, January 2015.
[17] Interview, NAEB representative, January 2015.
[18] Interview, NAEB Representative, January 2015.

representatives also admitted to offering high prices to farmers to capture market share. However, respondents (government officials and private sector representatives) argued that the liberalised environment in the sector was a challenge. This was primarily because fluctuating international prices forced exporters and washing station owners to speculate, which led to coffee being bought at higher prices and sold at lower prices. Some private sector representatives highlighted that the government could do more in investing in fertiliser, getting certification done faster and branding Rwandan coffee under single-brand names like Kenya AA.[19] Significant challenges faced by most companies related to the lack of skills and the availability of working capital, facilities (such as warehouse space) and logistics.[20]

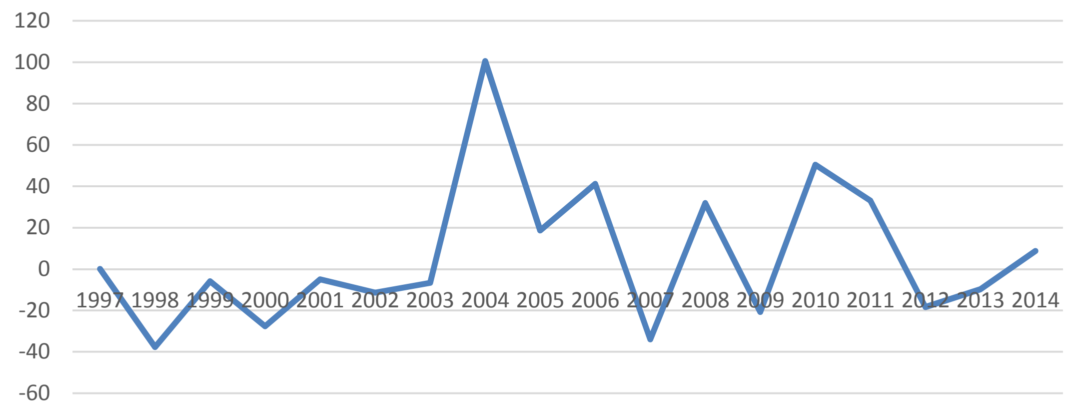
Today, RTC, RwaCof and Coffee Business Company dominate trade-and-export operations. Nigerian company Kaizen entered the sector in 2012. In five months, Kaizen acquired eight washing stations. Kaizen owners initially beat out competition by paying farmers for coffee cherries immediately they were delivered to washing stations. Kaizen's entrance was marked by increased competition in the sector. "The days of big traders sitting and waiting for people to bring coffee are going. To survive in the coffee sector, you have to go closer to the source and make your contacts outside."[21]

The nature of the deals space in the above description can be characterised as open ordered, given the entry of many new firms, and perceptions that government decision-making is relatively predictable. This openness, however, has tended to favour larger operators with access to expertise, international networks and capital. Even the association of exporters – the Coffee Exporters and Processors Association of Rwanda (CEPAR), which was established in 2010 – is restricted to the 20 largest coffee exporters. To facilitate the demands of coffee companies, government officials said they established Memorandums of Understanding with only the 10 largest coffee exporting companies.[22] Local coffee companies and cooperatives (including COOPAC, Rwashoscco and Misozi) continue to occupy a prominent role in the sector. Rwashoscco received significant support from USAID projects and it has continued to flourish as a result of the contacts it developed abroad and the expertise gained by local Rwandans working at the cooperative. These skills have been transferred to other companies. Rwashoscco's exports multiplied nearly three to four times between 2011 and 2015, with the success attributed to high quality and efficient management of the supply chain.[23] Two former managers now head other companies in the Rwandan coffee sector.[24]

[19] Interview, coffee company representatives, January 2015.
[20] Interview, coffee company representatives, January 2015.
[21] Interview, Foreign company representative, January 2015.
[22] Interview, National Agriculture Export Board (NAEB) representative, January 2015.
[23] Interview, Rwashoscco representative, January 2015.
[24] One of these companies is CVL-owned Bourbon. The other is foreign-owned Kaizen.

The growth experienced in the coffee sector in the mid- and late 2000s led to a resurgence of interest in the sector domestically. The coffee sector turned around in 2004, which was the first year coffee production volumes matched yearly government targets (Figure 6). Global coffee prices fell sharply between 1997 and 2003, although 2003 coffee production was also hit by pests and a longer than usual dry season (MINAGRI 2008). During this time, the sector reaped benefits from investments made previously. Investments included reconstructing coffee trees, constructing washing stations and giving farmers incentives to adopt the production of fully washed coffee, rather than ordinary coffee.[25] "People started thinking there was money in coffee. However, when they tried, everyone realised it is very difficult because of the competition and small market."[26] Though foreign investors and donor assistance has contributed to 'transfers of technology' and expertise, some local companies warned that these 'transfers' were not being sustained, as larger players had begun to dominate the market. Representatives from local companies argued that they inevitably suffered when prices fell and new companies speculated in the local market.[27] They argued that there was very little protection for local companies: "It is like a family where you have five children. Two may get PhDs, the other three will not make it to high school."[28] One representative from a local company said, "The government doesn't think about the private sector unless you are a big player. They think that competition will be good for the sector, but it is not good for everyone."[29]

Figure 6: Value of Coffee Exports (Annual Variation - %)



Source: MINECOFIN.

Liberalisation in the coffee sector has been accompanied by the government's choice to prioritise adding value and shifting from the production of semi-washed coffee to fully washed coffee. In 2014, about 40 percent of all coffee exported out of Rwanda was fully washed coffee. The number of coffee washing stations in the country increased from two in 2000 to 229 in 2014. The military, loyal business partners and

[25] Fully washed coffee production entails selling cherries directly to washing stations, rather than pulping cherries at home.
[26] Interview, local coffee company, January 2015.
[27] Interview, local coffee company, January 2015.
[28] Interview, local coffee company, January 2015.
[29] Interview, local coffee company, January 2015.

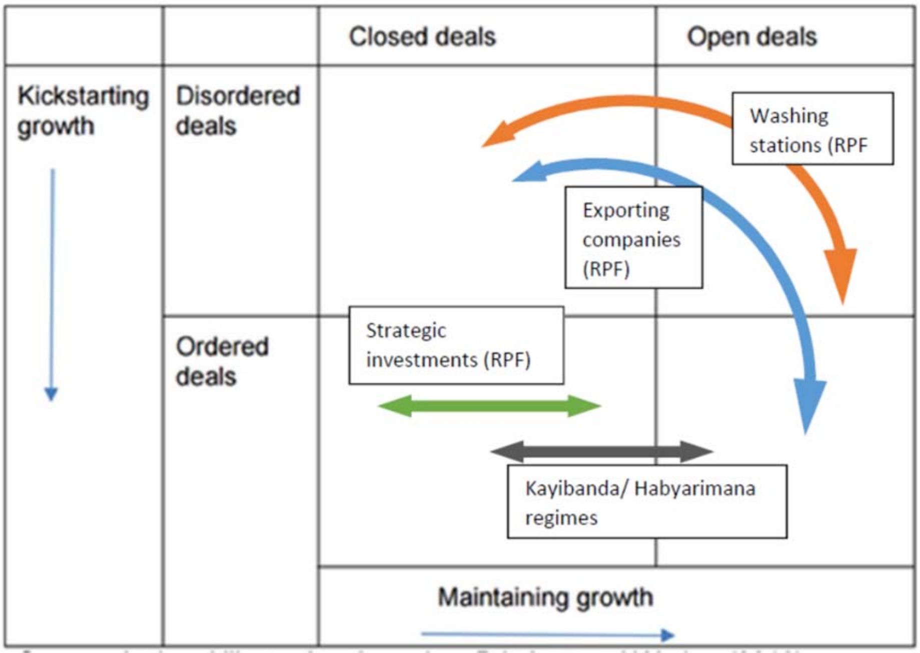
the National Social Security Fund invested in the construction of the first washing stations. Though a large number of washing stations established rapidly, it was on a first-come, first-served basis. For most of the 2000s, those who owned washing stations were making losses unless their investments were supported by donors. Though government officials may have facilitated investments, banks and other actors could not support investors. This is borne out by the fact that of the 229 washing stations constructed in Rwanda, 30 were not in operation and most washing stations operated at 50 percent of capacity (Macchiavello and Morjaria 2015). Government officials stress that new investors now operate under strict guidelines with regard to where washing stations are constructed, showing that, despite the problems with washing stations, the government has made substantial efforts to create an 'open ordered' deal environment in this sub-sector.

In contrast, packaged single-origin Rwandan coffee has been sold through relatively closed but ordered deals. Exporters of packaged coffee included USAID-sponsored Rwashossco, Kaizen and coffee brands developed by domestic coffee companies, owned by domestic elites (Chyrsologue Kubwimana and Faustin Mbundu). The Rwandan government has also targeted coffee domestically. The government (National Agriculture Export Board [NAEB] and Development Bank of Rwanda [BRD]) has worked with partners, the Clinton Hunter Development Initiative (CHDI) and the Hunter Foundation, to create a coffee company – the Rwandan Farmers Coffee Company (RFCC) – and invest in a 3 million USD coffee processing factory in Kigali. In 2015, the RFCC began operations and will produce under the brand – Gorilla's Coffee – and sell to local, African, Asian and European markets. The government has made a commitment to eventually sell shares in RFCC to cooperatives.[30]The government approached international roasters – Starbucks, Costco and Rogers Family – to partner specific local exporting companies and cooperatives.[31] In this deals space for strategic value-addition investments, the government has relied on relatively closed ordered deals, since only certain local firms (with close relationships with the government) are entrusted with risky value-addition attempts.

Box 4 details the evolution of the deals space in the coffee sector.

[30] Interview, RFCC management, January 2015.
[31] Such companies include RPF cadre Alfred Nkubiri's ENAS.

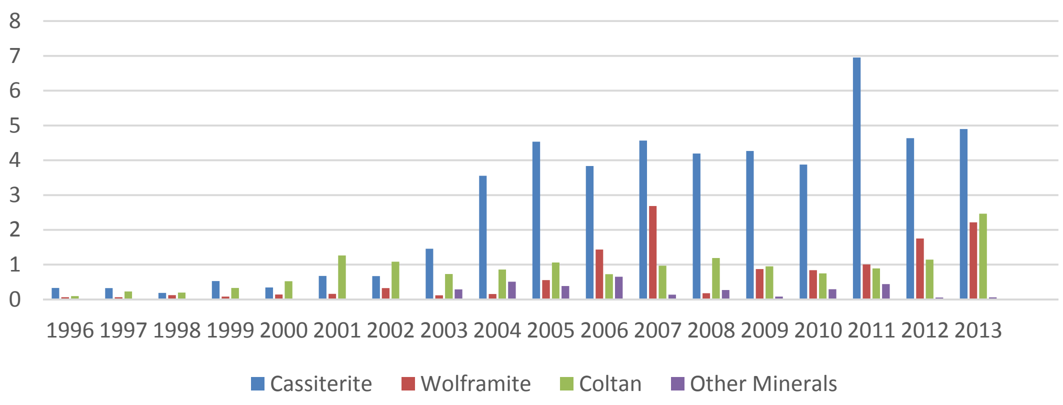
Box 4: Deals space in the coffee sector



Mining (rentier)

Figure 7 illustrates the dramatic turnaround in mineral exports in Rwanda in recent years. For the duration of the RPF's reign, the domestic minerals sector has remained underdeveloped and closely linked with the 'conflict minerals' narrative in the DRC. During the colonial era, concessions were allocated on a first-come, first serve basis. Pre-1994 governments were unable to incentivise companies to fully utilise their concessions.[32] Figure 8 compares annual growth rates in the mineral sector with annual GDP growth rates in Rwanda.

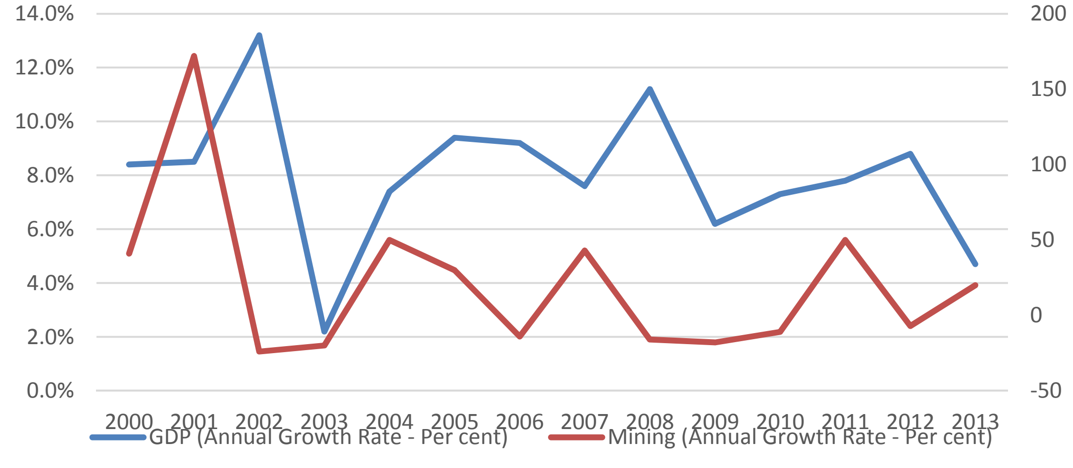
Figure 7: Total Mineral Production (million tonnes): 1996-2013



Source: MINECOFIN.

[32] See Behuria (2015) for a history of Rwanda's minerals sector.

Figure 8: A Comparison of Annual Minerals Sector Growth Rates with National Growth Rates: 2000-2013



Source: MINECOFIN.

In 1994, the new RPF government showed little interest in rejuvenating the mining sector. Government-owned *Régie d'Exploitation et de Développement des Mines* (REDEMI) controlled all concessions during the 1990s. However, government officials claim that during most of the 1990s, growth in the domestic minerals sector was limited by issues of smuggling and theft. Some government officials argued that RPF officials and lower-ranked government officials were the cause of the problem.[33] This showed that there was a 'closed disordered' deals environment in the mining sector at the time.

> "Until the genocide, the sector was actually working well. After the genocide, most assets were stolen. Some powerful people also went into concessions and organised stealing minerals. For the government, it was difficult. They traced maybe one or two mining engineers in the country… But it was not only because of a lack of skills, it was because of all the procedures that were there in the ministry."[34]

As with the coffee sector, it is important to break down the mining sector into specific sub-sectors or nodes, each of which has a distinctive 'deals environment' under the RPF. These nodes are as follows: links with mineral networks in the DRC; ownership of concessions in Rwanda; the trade-and-export of minerals from Rwanda; and the organisation of artisanal and small-scale mining (ASM). The Rwandan minerals sector has been directly linked with the minerals sector of the Kivus in Eastern DRC for most of its history. Trade networks intensified during Rwandan involvement during the Congo Wars and the RPF's later alleged support of rebel groups. However, even critics (UNSC 2011) agree that Kigali retained centralised control over mineral networks in the DRC. Though this may have led to individuals gaining access to rents, discipline was strictly administered from Kigali. Thus, it could be said that rents

[33] Two interviews, Ministry of Natural Resources (MINIRENA).
[34] Interview, local mining company, January 2015.

from minerals networks in the DRC were managed in a 'closed ordered deals' environment, though this central control was sometimes threatened.

Liberalising of trade-and-export operations in the sector picked up pace towards the end of the 2000s. In 2004, one official claimed that REDEMI exported 60 percent of Rwanda's minerals. The sale of REDEMI's concessions took place rapidly, however. Initially, REDEMI controlled 20 concessions, although 12 were not in operation. By the end of 2005, only two concessions that were previously under operation remained under REDEMI control. A flood of companies registered mining companies in the mid-2000s. The Rwanda National Innovation and Competitiveness Report listed 55 private sector companies in the sector in 2005. Most of these companies were small *comptoirs*, who exported small quantities of minerals after buying them from artisanal miners. These companies benefited from the rapid privatisation that was prioritised ahead of the establishment of a mining law in 2009. In two nodes (ownership of assets and trade-and-export operations), the deals environment shifted from a 'closed disordered' environment to an 'open disordered' environment. Government officials admitted that initially they had very little control over the activities of individuals who controlled REDEMI or who managed concessions. Thus, there was a 'closed disordered' environment, since access to profits was restricted to those who operated concessions, but the government had very little power to develop ordered deals. The sale of concessions was later 'open' and subject to competitive bidding, though a degree of disorder remained. Trade-and-export operations operated in a similar way. Disorder was a characteristic of the rapid liberalisation that accompanied this sector. Though there was a rapid increase in the number of companies operating in the minerals sector, many companies operated without licences for several years.[35]

By 2010, 38 large-scale mining licences were granted to (almost entirely) foreign investors. "Most mining companies said they would invest, but nothing ever came. Because of the way we did privatisation, it was difficult to get these companies out after they didn't do what was promised."[36] Most investors obtained vast concessions at low prices. The government retained shares in the two largest concessions, Gatumba and Rutongo. Joint ventures were established and two companies were created to operate these concessions – Gatumba Mining Concessions and Rutongo Mines Ltd.

The rapid shift in 'closed' to 'open' deals was not matched by investments in government expertise, which helps to explain the continued disorder. Gradually, the government adapted the mining law in line with achieving government targets in the sector. Instances where foreign companies were disciplined are evidence of this; for example, government officials argue that one foreign company sold its assets illegally, and the relationship between the government and this company remains

[35] Interviews, local mining companies, January 2015.
[36] Interview, MINIRENA, January 2015.

difficult, as the government has recently become stricter in the sector.[37] Thus, it could be said that there is now a gradual shift to move the deals environment from 'open disordered' to 'open ordered'. However, the openness of deals in the sector exposed the 'capability traps' to which the government was vulnerable.[38] Government officials claim that they have learned from the weaknesses that were exposed in the sector because of rapid liberalisation processes. Similarly, some private sector operators claimed that the government had not delivered on their promises. The government's intent to move towards greater order in the deals environment here has thus not yet been fully realised.

The nature of deals in the sector was also impacted by the Rwandan government's decision to embrace tagging initiatives. The work of advocacy groups, who propagated the 'conflict minerals' narrative, eventually contributed to the inclusion of Section 1502 in the Dodd-Frank Wall Street Reform and Consumer Protection Act of July 2010. Section 1502 directed the US Securities and Exchange Commission (SEC) to promulgate new disclosure rules for SEC-reporting companies that use "conflict minerals" originating in the DRC or adjoining countries. The Rwandan government was among the first countries to adopt tagging initiatives. These actions incentivised foreign companies to invest in the Rwandan minerals sector, which had been previously ignored.

> "Earlier, everyone was doing mining from the Congo. People who had concessions here were not using them. Then there was also the minerals ban in the DRC from September 2010 to March 2011, with no export from the DRC. It pushed companies to produce minerals in Rwanda."[39]

One company took the decision to reinvest in the domestic mining sector after allegations that it was accused of trading minerals from the DRC.

> "We came as a trade-and-export company, but no one knew about Rwanda's reserves. It was an expensive learning curve for us. We left trading in 2002, which was a big, expensive decision… We went into greenfield sites... We are very positive about the potential of minerals here."[40]

Changes in the liberalising of trade and export operations and the sale of REDEMI's assets are also echoed in changes in the organisation of ASM in the sector. ASM was the predominant form of mining in Rwanda for most of the 1990s and 2000s. However, since 2009, there has been a push to formalise ASM operations. By 2013,

[37] Interview, MINIRENA official, January 2015.
[38] Capability traps refer to situations where governments adopt reforms to ensure continued flows of external financing, but do not retain the institutions to ensure the functioning of those reforms (Andrews et al. 2013).
[39] Interview, foreign mining investor, January 2015.
[40] Interview, foreign investor, January 2015.

there were 434 active permits and by January 2015 more than 700.[41] In the ASM node in the minerals sector, there has been an attempt to bring greater order to the deals environment:

> "We have done much better in organising ASM. Some of it is organised, but still some miners go and mine at night without our supervision. Legislation has taken long, but we want to make sure miners are following the plans they promised."[42]

However, there is some way to go before the government's enforcement capabilities are able to match up to needs in the sector.

The Rwanda Mining Association (RMA) was established in 2012. This body includes all private actors operating in the mining sector, including foreign owners of big concessions, *Federation des Cooperatives Minières au Rwanda* (FECOMIRWA) and private operators. The RMA functions as an advocate for mining and trading companies in Rwanda. The organisation has gradually developed a decentralised structure, with representatives from every province in the country. Though most companies still interact with the government individually, the RMA aims to become 'the chief interlocutor' for private actors in the sector.[43] Another body, the Rwanda Mining Investment Forum, was established in 2004. This body is a platform for the largest, foreign investors in Rwanda. Trade-and-export operations are largely dominated by two foreign companies, Phoenix Metals and Minerals Supply Africa (MSA). Though some smaller, local companies have survived, their positions are vulnerable.[44]

Fast-paced liberalisation has also reduced opportunities for national champions to emerge in the sector. FECOMIRWA's growth has been limited, because of a lack of investment, limited availability of skilled personnel and geologists, and difficulties in dealing with the competitive environment in the domestic minerals sector.

> "Initially, we invested a lot in mining cooperatives and in small miners. These miners were illiterate. We gave them technical advice and convinced them to mine, helping them to increase production. Our production should have increased in recent years, but because of the competition, we cannot offer as good prices as others."[45]

Thus, it could be argued that the move from 'closed' to 'open' deals is often associated with increased control of the sector for better-resourced actors, unless there is protection for local actors and cooperatives. Local operators complained

[41] Interview, Rwanda Mining Association, January 2015.
[42] Interview, MINIRENA, January 2015.
[43] Interview, RMA, January 2015.
[44] Interview, local mining company, January 2015.
[45] Interview, FECOMIRWA, January 2015.

about difficulties in accessing finance, poor recovery of minerals because of inadequate mining equipment, lack of skills, and the high cost of exploration and exploitation. "Earlier, it was possible for local companies to compete, but nobody can compete with MSA or Phoenix now."[46] Though 70 percent of companies are still owned by Rwandans, nearly every big concession is owned by foreigners.[47] The government has realised this, recognising the importance of agreeing contracts in line with strategic priorities and bolstering enforcement capabilities within government departments.

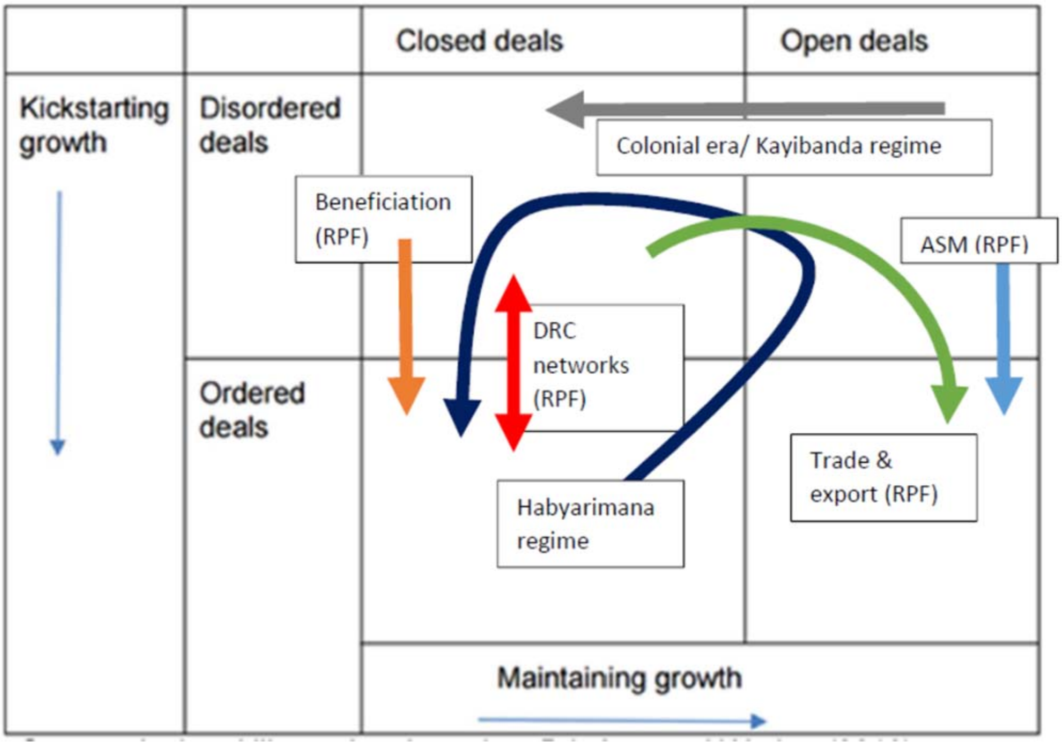
> "Minerals are a public property. When people get a licence, this is a way we can control investors. Some companies came in 2006 and shareholders started fighting with each other. They kept five concessions with a lot of potential. We asked them to reduce their concessions and they still have not proved they are using their concessions. We can't wait for these kinds of investors now. In Gatumba, after the company went bankrupt, we have decided to split up concessions to different people."[48]

Like in the coffee sector, there is recognition that strategic initiatives (e.g. value-addition, in the form of beneficiation) must take place in a 'closed ordered deals' environment. Rwanda's existing tin smelter was sold to *NMC Metallurgie* (later renamed Phoenix Metals) in 2003. This occurred in a competitive bidding process, which was open to all investors. Though Phoenix later made significant investments in the smelter, the government has been unable to mobilise the necessary supply of minerals or provide enough electricity, despite guarantees made by the ministry.[49] This trajectory indicates that beneficiation, although a strategic priority, operated in an 'open disordered' deals environment. Government officials claimed other foreign investors had also shown interest in building other smelters. In the coffee sector, strategic investments were initially 'closed'. However, in the mining sector, strategic value-addition investments have been 'open' and this has not resulted in the same degrees of progress as in the coffee sector. Attempts are therefore now being made to shift to a 'closed ordered' deals environment, with Phoenix being promised guaranteed supplies of electricity and other benefits (which most other firms in Rwanda would not enjoy).

Box 5 illustrates the evolution of the deals space at various nodes in the minerals sector in Rwanda.

[46] Interview, local mining exporter, January 2015.
[47] Interview, MINIRENA, January 2015.
[48] Interview, MINIRENA, January 2015.
[49] Interview, Phoenix, January 2015.

Box 5: Deals space in the mining sector



Construction

Prior to 1994, the majority of major construction projects in Rwanda were undertaken by foreign firms. Chinese firms such as China Road were in Rwanda as early as the 1970s, with another large Chinese firm, CCECC, following in 1984. A number of domestic construction firms were also in operation, including some that have survived, such as EGC, one of the oldest firms of any kind in Rwanda today. The deals environment is likely to have been fairly closed and disordered, with a small number of firms with close relations to government, a small amount of activity and little strategic attention to the sector. At this time, construction had nothing like the significance it does today.

Figure 9: Comparison of Annual GDP Growth Rates with annual growth rates in the Construction Sector

Source: MINECOFIN.

Figure 9 compares Rwanda's annual national GDP growth rates with annual growth Rates in the construction sector. The growth of the construction sector in Rwanda since 1994, and especially since 2000, needs to be understood in relation to the specific factors that have driven demand in this period. The devastation caused by the civil war and genocide, followed by the influx of enormous numbers of returnees, as well as international aid and donor representatives, all contributed to demand for construction services and materials. Physical reconstruction itself necessitated a large amount of building, and in Kigali there was also an "aggressive infrastructure rollout, opening new areas of the city for development".[50] Urban real estate projects proliferated to house the new elite, particularly in previously greenfield areas of Kigali like Nyaraturama and Kibagabaga. Seizing on construction as a potentially critical sector underpinning the growth of other priority sectors, by the late 2000s the Rwanda Development Board had also introduced very attractive incentives in the sector; for projects over $1.8m, there was a flat fee of 10 percent in place of the usual import duties and other taxes, which made investing in construction significantly cheaper.[51]

This provided the context for growth in the sector and spurred the decision to concentrate a significant amount of investment group activity in it. Very different kinds of firms are required for different scales of activity, however, and the government has been keen to bring in international firms, especially for large-scale projects. It is important to note that construction differs significantly from the other sectors discussed here, in that much of the work undertaken by firms takes the form of government contracts, often funded by donor money, generally awarded through processes of competitive tendering. In the analysis of the sectoral 'deals environment' that follows, we find it useful to distinguish between five key categories of firms (four of these are shown in Table 4): Chinese firms; other foreign firms; state-owned firms (notwithstanding the distinctions within this category); other large

[50] Interview with real estate agent, June 2014.
[51] Interview with investment official June 2014.

domestic firms; and domestic SMEs. The list in Table 4 is not exhaustive, but lists some of the main players in the first four of these categories (the number of registered small and medium firms runs into hundreds, though many are non-operational).

Table 4: Categorisation of large construction firms operating in Rwanda

Firm category	Name	Type of activity/major projects
Foreign		
Chinese	CCECC	Amahoro Stadium, Kigali City Tower, Hotels, Vision City residential development
	BCEG	Kigali Convention Centre
	CGC	Water infrastructure, irrigation
	China Road	Major road infrastructure
	Guadong	Commercial buildings
	China Star	Upgrading of Kigali airport; factories in SEZ
Other	Roko (Uganda)	Hotels, airport extension, office blocks
	Seyani (Kenya)	Office blocks, banks, hotels, real estate
	Summa (Turkey)	Kigali Convention Centre
	Bechtel (US)	Infrastructure, large buildings
	Strabag (Germany)	Infrastructure
	Strawtec (Germany)	Low-cost construction materials
Domestic		
Party/military owned	NPD (formerly NPD Cotraco) (CVL)	Infrastructure such as roads (including 34km in Kigali), bridges, the Free Trade Zone, concrete poles
	Real Contractors (CVL)	Residential real estate
	Horizon Construction	Infrastructure – mainly roads and public works; stadium
Other large firms	EGC Construction	Buildings, water supply, water treatment plants, electricity infrastructure
	Hygebat	Union Trade Centre, genocide memorial, public buildings
	Fair Construction	Hotels, commercial real estate

After the genocide, a few new private firms were established to deal with immediate demand, including Hygebat in 1995, which developed a number of public and commercial buildings. As the government's party- and military-owned investment groups consolidated, several construction companies were set up under the aegis of Tri-Star/CVL and Horizon. Among these was NPD (Nyarutarama Property Developers), established in 1996. NPD bought the Belgian firm Cotraco in 2008, forming NPD-Cotraco.[52] While NPD was a real estate developer and Cotraco primarily a public works/civil engineering firm, when the two merged a decision was made within CVL for NPD-Cotracto to focus entirely on the latter and leave real estate development to Real Contractors, another CVL company. Meanwhile the military investment group Horizon had its own construction firm, Horizon Construction.

The relationship between the party-owned CVL firms and military-owned Horizon Construction merits some discussion. While they work together on certain advocacy issues relating to needs in the construction sector, NPD-Cotraco and Horizon are both involved in bidding for infrastructure projects and primarily view each other as

[52]In 2015 the board of directors decided to rebrand from NPD-COTRACO Ltd to NPD Ltd.

competition: "They complain if we get favoured, they complain if they feel cheated…It's normal competition".[53] They also maintain that they operate in an arena that is open and fair, with a significant degree of consistency and order. In the words of NPD-Cotraco:

> "We get harshly treated like everybody. We pay our fair share of penalties, we buy our own capital equipment, we pay 18 percent margins on our loans ... we are doing business, just normal business … I can't tell you how much penalty we've been paying for RRA, penalties for auditing … we pay billions of money out … I think the perception that we are favoured was there at the start, but these guys we compete with can't use the excuse that we are favoured any more. Maybe the competition isn't enough, but that's not our fault."[54]

One Horizon representative also argued that "some might think we get jobs without competing, but let me assure you that we don't. We always compete and often lose."[55] This might mean losing out to foreign (usually Chinese) firms, or to small local firms who have a comparative advantage, due to lower overhead costs. A number of other large domestic firms – such as Fair Construction, Hygebat and EGC – also compete with NPD and Horizon, and sometimes win. Domestic firms also work together in some cases, in joint ventures with foreign ones, and large firms are increasingly encouraged to subcontract to small ones.

The question of how Rwandan firms are treated relative to foreign ones is a source of ongoing tension. The investment groups claim to have sometimes been treated unfavourably. For example, in one case, NPD Cotraco bid to build a particular road and the tender was cancelled, because no foreign company tendered. The tender was subsequently re-advertised. This caused bewilderment within the firm, who claimed to be unaware of a stipulation that a foreign company was needed for the tendering process to be valid. Thus, the investment groups are not always treated favourably or predictably: indeed, the above example suggests a degree of disorder to the deals environment.

More generally, among domestic firms interviewed – whether state-owned or otherwise – there was little sense of unfair discrimination or favouritism on the part of government, apart from in relation to foreign firms, where the sense that government acted preferentially towards foreigners was strong. One investment group representative claimed that 90 percent of construction in 2014 was undertaken by foreign firms, despite growing local capacity.[56] Some domestic firms even claimed that contracts were given to Chinese firms even when local firms could provide evidence of doing the job more cheaply. They also lamented their lack of knowledge, both of Chinese "market tricks" and of "tricks of the so-called consultants", citing the

[53] Interview with NPD-Cotraco representative, January 2015.
[54] Interview with NPD-Cotraco representative, January 2015.
[55] Interview with Horizon representative, January 2015.
[56] Interview with head of investment group, January 2015.

problem that foreign consultants often play key roles in setting the terms and budgets for construction projects before tendering begins, which intrinsically disadvantages locals.[57]

There were also complaints from domestic actors of informality and inconsistency with regard to how contracts were allocated, particularly to Chinese firms, and that policy was guided by a concern to attract as much foreign investment as possible, but with "no clear rules about what foreign firms have to do".[58] That the government is widely seen as providing preferential access to foreign firms is surprising, given its rhetoric of national rebuilding and the need to cultivate domestic capacity in the sector. The investment groups justify their existence in relation to the need to build domestic capacity, yet they maintain that it is often difficult for them to do so in the face of such unregulated international competition. As the head of one claimed:

> "'if we were taking business away from Rwandan firms, we'd call that crowding out. But if the sector is dominated by foreigners, we should go in…Rwanda is the only country I know where you can sit on your computer in China and bid for something and win it.even in Kenya you would have to have local content, and prove that what you were planning to do can't be done by locals."[59]

For their part, most foreign firms suggested that the market was relatively open, if rather small. In the words of one representative "there is no friend or favour … by African standards it really is transparent … it's not about personal relations".[60] Yet some also believed they lost out due to inconsistent policy, corruption and erratic government behaviour. Non-Chinese foreign firms frequently expressed irritation at the number of contracts awarded to the Chinese, which was usually put down to the ability of Chinese state-owned firms to provide their own upfront financing and cheaper services, as well as collusive behaviour among Chinese firms that enabled them to undercut competitors.[61] Some Chinese firms, meanwhile, believed that government sometimes granted contracts to its own state-owned firms under preferential terms, but saw this as a normal and reasonable strategy. One claimed that the government gives local firms "a sort of discount … so if we bid for $10m and a Rwandese firm does too, they consider it more like $9.5m". He added that "there are no rules, it's just certain projects that get that treatment".[62] This contradicts what many domestic firms suggested about a tendency for government to favour foreign firms. Even if this 'discount' did apply in some cases, it was clearly not officially institutionalised.

[57] Interview with small construction firm, January 2015.
[58] Interview with large construction firm, January 2015.
[59] Interview with head of investment group, January 2015.
[60] Interview with foreign construction firm, January 2015.
[61] Interview with foreign construction firm, January 2015.
[62] Interview with Chinese construction firm, January 2015.

All of this suggests that the deals space was relatively open (too open in the view of many firms), with contracts being allocated across a wide range of providers relative to the size of the market – but also that it was relatively disordered and unpredictable. Consequently, most firms felt discriminated against in some way, not because opportunities were closed to them, but because of the lack of clear, predictable order. European and American firms tend to feel discriminated against on grounds of cost – the government prizes low cost relative to the actual value of bids, which they see as unfair. The state-owned firms feel unfairly treated, because they believe that the government's concern to guard against the perception they are always favoured actually loses them some contracts. Ironically, the non-state-owned domestic firms were the least inclined to complain about unfair treatment, though most are too small to compete for the big government tenders. The few larger ones that exist have long histories and well established relationships with the government, having thrived in the wake of the genocide due to their scarce expertise.[63]

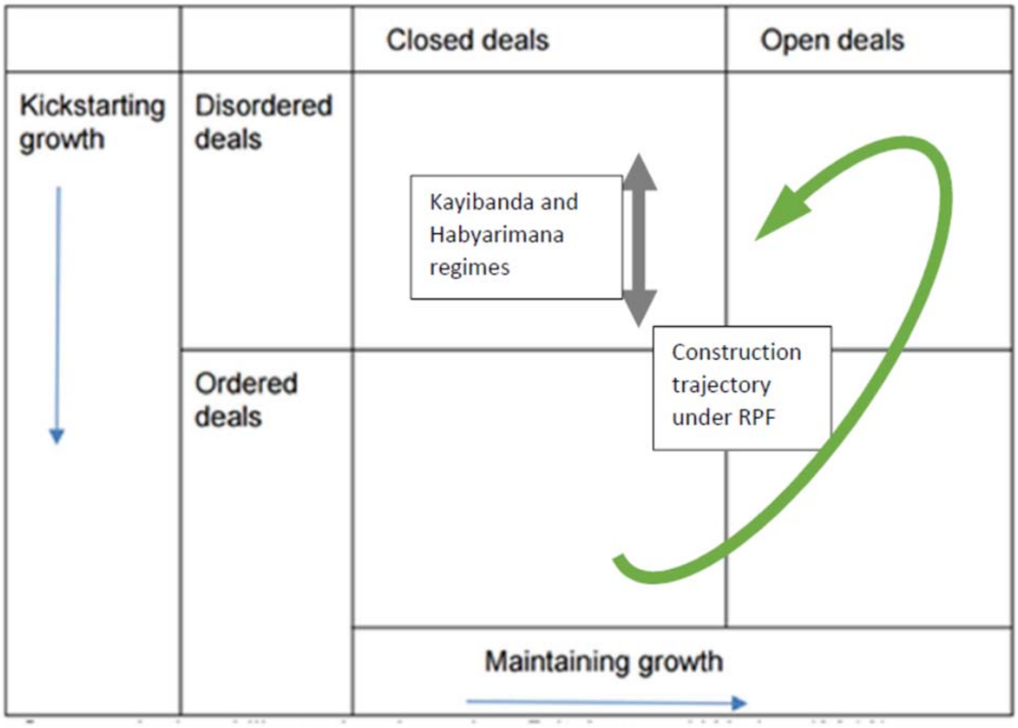
While the sector may be more open than might be assumed, the openness is by no means complete, and there are cases in which the allocation of contracts is completely closed. The process of allocating contracts for four new football stadia across the country for the African Nations Championship is a case in point. Originally, the government tendered for these projects and awarded the contract to a large foreign firm. However, amid rising concern about cost, the government performed a U-turn and cancelled this contract, allocating the jobs to three domestic state-owned companies (NPD Cotraco, Real Contractors and Horizon) and one foreign firm (Roko).[64] This was unusual. Nevertheless, contracts can also be revoked if firms are not seen to deliver on time. For example, there are several cases where local or international firms were seen to have failed to deliver and the government has brought in the RDF Engineer Regiment to take over and finish the job – including in the case of the Kigali Convention Centre, which has been subject to repeated funding and construction-related obstacles.[65] Horizon was also sometimes brought in at the last minute for 'crash projects'.[66]

A final important source of discontent among firms has been the *de facto* ability for all firms to compete for all government contracts, regardless of their size and experience (except where donors stipulate otherwise). This again reflects both openness and disorder. As of January 2015, the Private Sector Federation and Rwanda Public Procurement Authority (RPPA) were trying to categorise and organise all firms in the sector, classifying them for the purposes of more efficient tendering processes. Related to this was a concern that foreign firms defied the law by not registering with the PSF. This impedes communication in the sector, as well as transparency, shared learning and skills transfer.[67]

[63] Interview with domestic construction firm, January 2015.
[64] Interview with foreign construction firm, January 2015.
[65] Interview with architect, January 2015; interview with foreign adviser, January 2015.
[66] Interview with Horizon Construction representative, January 2015.
[67] Interview with small construction firm, January 2015.

Box 6 illustrates the deals space in the construction sector.

Box 6: Deals space in the construction sector

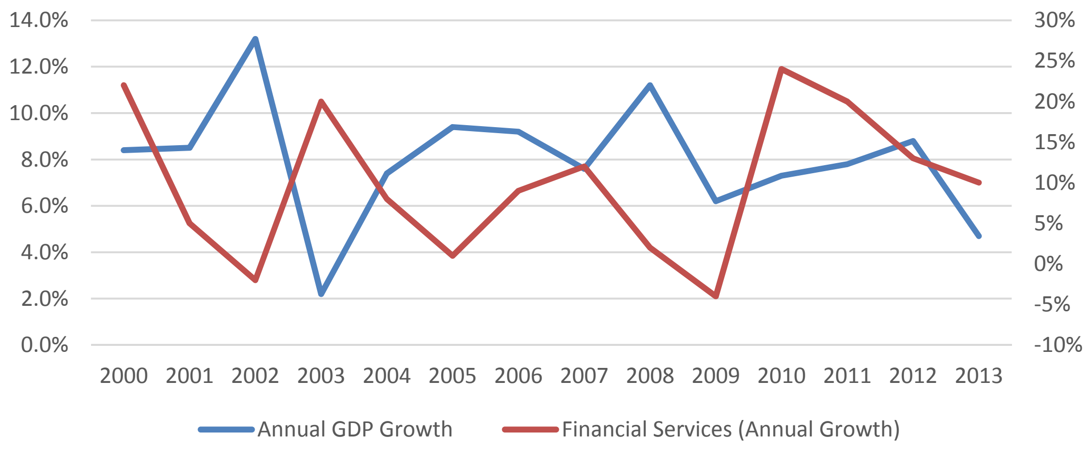


Financial services

Preceding governments retained some control over the financial sector. *Banque Commerciale du Rwanda* (BCR) was incorporated as the first commercial bank in Rwanda in 1963. It shared ownership with *Banque Bruxelles Lambert*. The government retained 42 percent of BCR's share capital. Bank of Kigali (BK) was established in 1966, as a joint venture with Belgolaise SA. Later, *Banque Nationale de Paris* and Dresdner Bank also invested in the bank. The government retained 50 percent of BK's share capital. In 1983, *Banque Continentale du Luxembourg* established the *Banque Continentale Africaine du Rwanda* (BACAR). The *Banque Continentale du Luxembourg* retained a majority of shares, with independent Rwandan investors also owning some shares and the government retaining 4 percent of shares. BCR accounted for 48.4 percent of commercial bank assets, while BK and BCR held 36 and 15.6 percent of total assets, respectively (World Bank 1991).

Figure 10 compares Rwanda's annual national GDP growth rates with annual growth Rates in the financial services sector.

Figure 10: Comparison of Annual GDP Growth Rates with annual growth rates in Financial Services



After the genocide, the local banking sector "was overburdened with non- performing loans and was not in a position to support the reconstruction of a capital intensive sector in the immediate aftermath of the crisis" (Gathani and Stoelinga 2013: 22). The government decided to license two new commercial banks – Bank of Commerce, Development and Industry (BCDI) and *Banque à la Confiance d'Or* (BANCOR). Alfred Kalisa was among the investors who led BCDI. In an interview in 2002, Kalisa (the chairman of BCDI) claimed that the bank started with a capital of one million dollars and had increased total capital to five million dollars.[68] Fick (2002) cites BCDI as an example of entrepreneurial success on the African continent, highlighting Kalisa's innovative policies. Initial investments in BANCOR were made by Ugandan investors. BANCOR increased its share capital from 300 million RwF to 1.5 billion RwF between 1995 and 2001 (Emile 2008). In 2000, Tribert Rujugiro gained ownership of BANCOR. There was also a change in BACAR's ownership in 1995. *Banque Continentale du Luxembourg* sold its shares to a group of Rwandan businessman, with Valens Kajeguhakwa a leading member of this group.[69] In 1999, more than 40 Rwandan investors and state-owned institutions (which owned a minority share) established *Cogebanque*. It is clear that the sector was relatively 'closed' till the mid-2000s. However, it is difficult to ascertain the degree of 'order' in the deals environment during the entire period. In the mid-2000s, both Kajeguhakwa and Kalisa were accused of embezzling funds from their banks.[70] This showed that perhaps for this period, there was some degree of disorder in the deals environment.

The liberalisation of the financial sector gradually gathered pace in the early 2000s. In 2004, Actis acquired an 80 percent stake in BCR. In the same year, Fina Bank acquired BANCOR from Rujugiro. In 2006, the government acquired Belgolaise's

[68] Internal report.
[69] Kajeguhakwa was a prominent Tutsi businessman during the Habyarimana regime.
[70] One newspaper article charged that Kalisa, who owned 31 percent of shares in BCDI, illegally authorised loans to himself, his wife, sister and brother worth 800 million RwF (Mutara 2008). After being imprisoned for several years, he was pardoned in 2010. Kajeguhakwa was charged in 2001 and escaped to the USA. He became a vocal RPF opponent.

shareholding in BK. BK then became 100 percent government-owned. In 2007, liberalisation intensified and there was a movement in the deals space to 'open ordered' deals. In that year, Ecobank bought the struggling BCDI. Ecobank's initial investment was 25 billion Rwf and the bank was restructured and recapitalised.[71] In 2008, Dutch-based RABO bank acquired a 35 percent shareholding in BPR. "When the banking sector became liberalised, it became difficult for BPR as a cooperative bank. RABO's investments then were very important."[72] In 2009, three foreign investors acquired a 40 percent shareholding in *Cogebanque* and in the same year, the Kenyan Commercial Bank (KCB) entered the sector. The following year Nigerian-based Access Bank acquired BACAR, and the year after Kenyan-based Equity Bank. In 2012, I&M Bank acquired a 70 percent stake in BCR. In 2013, GT Bank acquired a 70 percent stake in Fina Bank. In 2014, Ugandan-based Crane Bank entered the sector.

As of 2015, there were 10 commercial banks in the sector, with the government retaining shares in BK, I&M Bank and BPR. There are also four microfinance banks, one development bank (BRD) and a military savings bank, Credit Savings Society Zigama. The BRD also had a commercial bank, which was sold to Atlas Mara (owned by Ashish Thakkar and Bob Diamond).[73]

BK has been Rwanda's largest bank for the last two decades. Though the financial sector is liberalised, BK's share of the market (by assets) increased from 23 percent in 2008 to 36 percent in 2013. In 2013, BK also had a market share of more than 30 percent in terms of total assets, net loans, customer deposits and equity. In 2011, BK reduced its shareholding through an initial public offering of 45 percent of its shares on the Rwandan Stock Exchange, worth 62.5 million USD. Though the government officially has a minority shareholding in the bank, its total shareholding (along with the Rwanda Social Security Board) stands at 54 percent. BK representatives welcomed opening up the sector, arguing that "there is a lot of room in the market" and it helped them learn and compete at the regional level.[74] There are also only three banks in which local Rwandans retain a majority shareholding (BK, BPR and *Cogebanque*).[75] These three banks have retained 50 percent of the market by assets between 2008 and 2014. Most representatives of commercial banks agreed that open deals operated in the sector. One banking official said that Rwanda's banking sector was even more open than most countries in Asia, including India, Singapore and Pakistan.[76]

Most representatives of commercial banks believed an open environment was beneficial on balance, pointing out that each bank has its own niche, so competition is not too damaging, as well as expressing a common belief that "without

[71] Interview, Ecobank representative, January 2015.
[72] Interview, BPR representative, January 2015.
[73] BRD retained 25 percent of shares.
[74] Interview, BK official.
[75] After Atlas Mara's investments, BPR will no longer have a majority local shareholding.
[76] Interview, BCR official.

liberalisation, complacency sets in, and you don't get innovation".[77] The managing director of a leading bank claimed that the banking sector

> "has evolved faster than any other industry. There has been a process of leapfrogging on the technological side. We were where Zambia was in 1993. In 2009, we are probably doing more than what Zambia and Kenya have done."[78]

As the first 'fresh' foreign bank to enter the market, the Kenya Commercial Bank claims to have "shaken up" the banking sector after it entered in 2008, in terms of the range of products offered and quality of service, claiming a "quite phenomenal impact".[79] They had broken even by 2010 and were in stable growth by 2015. Representatives of the newest entrant in the financial sector – Sudhir Ruparelia's Crane Bank – were confident that they could use innovative models and leverage the Ugandan community in Rwanda to take advantage of the growing market and Rwanda's "exceptional savings culture".[80]

Certain sectors are also effectively closed to commercial banks, however; for example, members and former members of the military are forced to save with the military credit and savings society (CSS Zigama). Through this arrangement, Zigama is able to offer very favourable interest rates to its members, which commercial banks cannot match, as well as capital to invest in projects aimed at benefiting its membership (such as real estate development).[81] Operating 'closed ordered deals' with institutions like Zigama allow military institutions to work as 'functional substitutes' (Gerschenkron 1962) for investments in strategic sectors. Zigama is a shareholder in all three military-owned investment groups.

There was a sense that each bank had its own advantages: parastatals and state-owned firms were expected to bank with the government-owned BK, while foreign banks were able to benefit from support from their international parent companies, giving them favoured access to corporate international firms. Though representatives from other commercial banks claimed that BK received some deals "that were allocated without being tendered" and that it was "patronised", there were few complaints and the same respondent even said there was a "level playing field".[82] BK did not receive all government contracts. Some representatives from commercial banks highlighted that, since the government remains the biggest buyer of goods and services, any commercial banks needed government business to be viable.[83]

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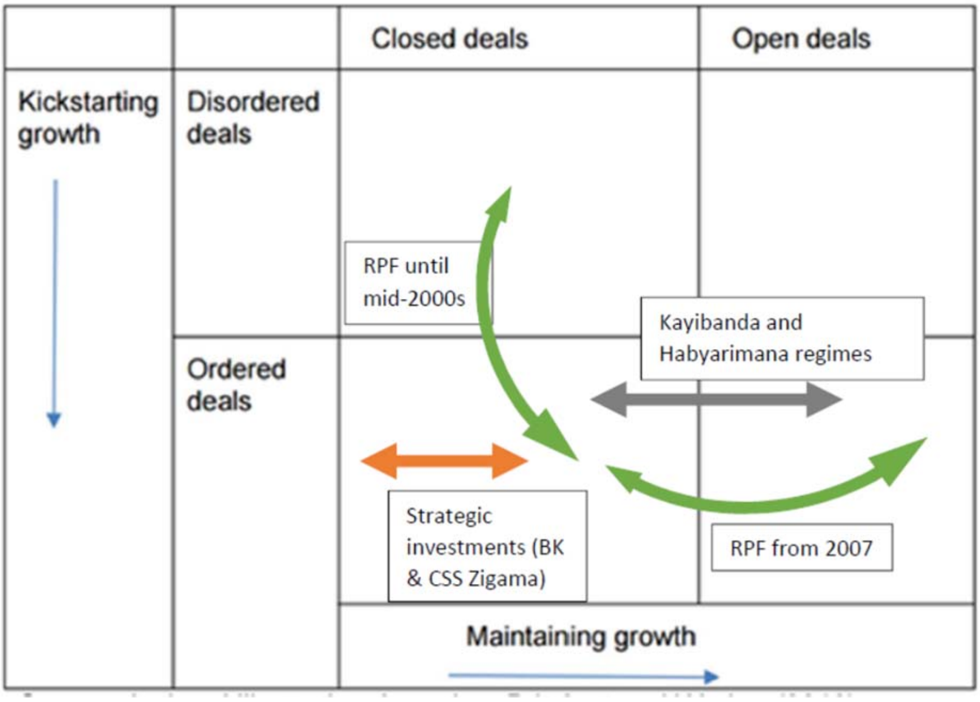
77 Interview with BPR oficial.
78 Interview, Manager of foreign bank, January 2015.
79 Interview with KCB oficial.
80 Interview with Crane Bank oficial.
81 Interview with CSS Zigama official.
82 Interview, foreign bank official, January 2015.
83 Interview, foreign bank officials, January 2015.

The above narrative suggests that, while different banks clearly have preferential access to certain parts of the market, the sector is one in which deals are relatively open and ordered. Most stakeholders stressed predictability and revealed relatively open opportunities to engage in deals. However, the choice to embrace market-led reforms in the sector has been at odds with the need to retain control over financing strategic investments. Some representatives of commercial banks were surprised at the government's readiness to open up the financial sector before "Rwanda can stand on its own two feet".[84]

Box 7 illustrates the evolution of the deals space in the financial sector.

Box 7: Deals space in the financial sector



Political dynamics of growth acceleration

It now remains to consider how the kinds of deals environments discussed above relate to the broader economic growth story in Rwanda. In terms of growth acceleration, it is difficult to isolate specific political drivers in the immediate post-1994 period, given that the economy was decimated and foreign aid rapidly poured in, comprising a large share of GDP. In this post-conflict context, a significant amount of growth (from a very low base) was virtually inevitable, determined as much by a return to economic functionality and foreign support as by political dynamics. The increased concern with corruption, and impressive achievements in relation to containing it, can be understood as indicating a shift towards a more ordered deals environment on the whole. This shift is reflected in the above diagrams, which, if all

[84] Interview, foreign bank official, January 2015.

viewed together, represent an overall shift to the bottom half of the matrix. This concern with order played a role in both securing ongoing aid and attracting some investment, both of which have promoted growth. However, donor pressures to embrace market-led reforms have often detrimentally affected the government's enforcement capabilities. Meanwhile, the initial strategy of centralising rents among loyal investors has partially given way to the opening up of sectors to competition. Such choices have been accompanied by difficulties for the government in retaining control over sectors and empowering national champions.

Pursuing growth while maintaining a stable political settlement under these increasingly open conditions has necessitated undermining both the openness and order of deals in particular sectors at specific times. In this respect, when analysed at the sector level, Rwanda's growth has not taken a linear trajectory from closed disordered to closed and open ordered deals. While the general trajectory has been from disordered to ordered deals, the rapid and arguably premature opening up of some sectors that has accompanied this (represented by a push towards the right-hand side of the diagram) has promoted a degree of disorder in some sectors, with implications for long-term growth maintenance.

Political dynamics of growth maintenance

If growth acceleration in Rwanda can be explained in large measure by the recovery from conflict, influx of international aid and consolidation of a 'strong dominant' political settlement, the maintenance of that growth over the past 15 years necessitates a closer examination of dynamics within and across sectors. The opening of the deals space has taken place across sectors, parallelling a broader economic liberalisation trajectory, but the opening of the deals environment has not been absolute. Government respondents suggested that a strategic target was to ensure all sectors operated in an environment of 'open ordered' deals eventually. However, they also recognised that investment groups often had to lead investments in strategic sectors for unspecified lengths of time.

The promotion of closed or open deals environments can have multiple and contradictory effects on growth maintenance. The opening of financial services, for example, which enabled foreign banks like KCB to enter the scene on a relatively level footing, has arguably spurred financial innovation. Yet, at the same time, many foreign-owned firms struggle with the lack of skilled employees, which frequently results in them bringing in their own foreign ones. This limits knowledge exchange and skills transfer in the domestic economy, with important implications for growth maintenance over time.

Other kinds of negative feedback loops to institutions are also evident. In construction, for example, increasingly open deals have come alongside continued aid into the sector – as well as other kinds of international support, such as Chinese investment or loans – which help maintain growth, but also have certain institutional effects. Different donors fund multiple projects with different rules and tight deadlines.

The result has been that many projects are pursued simultaneously by different kinds of firms suited to those projects, without effective prioritisation and little positive spillover.[85] Aid-driven construction growth can thus promote the proliferation of diverse, poorly integrated institutional processes, which undermines the order of the deals environment, as well as limiting productivity gains across the sector. Meanwhile, in traditional export sectors where growth has not been so strong, the government has attempted to make itself less vulnerable to fluctuations of international prices by embracing value addition. To achieve such goals requires a continued dependence on 'closed ordered deals' with loyal capitalist partners (investment groups or local elites) in strategic investments. This demonstrates a mechanism of protection against the risks of an open deals environment, as well as a feedback loop from volatile growth in such sectors into partial re-closure of the deals environment.

The need to mitigate the risks and dangers of this economic liberalisation means that the government engages in closed deals in certain sub-sectors and sometimes fails to sustain an ordered deals environment, despite the significance it places on policies promoting both openness and order. This mitigation happens in different ways, depending on the nature of the sector. A sector such as construction, which depends on substantial openness due to domestic capacity deficits, exhibits a sort of *state-driven open disorder*, which can foster growth through openness while allowing the state to retain control through sometimes breaking, revoking or awarding contracts. Contrary to the idea that growth accelerations and maintenance depend on a steady trajectory from disordered to ordered open deals, Rwanda's growth has depended on its ability to pragmatically manage a highly variegated deals environment – one that can appeal to donors and investors, whilst also maintaining a stable (yet always vulnerable) domestic political settlement.

Summing up and policy implications

Rwanda's growth episode continues to be vulnerable to external threats – whether these take the form of international price fluctuations, diminishing donor goodwill or rival elites who threaten the regime's legitimacy abroad. Yet the nature of its growth in the context of widespread liberalisation across sectors also leads to threats to growth maintenance that can be seen as more internal in nature, two of which stand out in particular. The first is that a high degree of openness can result in poorly coordinated economic development, without sufficient enforcement capability yet in place for the state to discipline firms to promote robust linkages and spillovers in the economy. The second is that growth highly dependent on open (and especially foreign) competition results in periodically unpredictable and inconsistent behaviour by the government to keep a balance between foreign and domestic firms and a stable political settlement. This creates negative feedback to the deals environment

[85] Interview with foreign adviser, January 2015.

by creating disorder, which could undermine investor confidence and limit the foreign investment the country so desperately seeks.

Aware of these dangers, the government has attempted to guide investors in particular ways, but working out how to place the 'right' conditions on investors – and bolstering government capacity to enforce these conditions – has often taken time. Such efforts to place conditions on open competition matter, because otherwise the domination of certain sectors by foreign firms can easily undermine strategic goals. While this challenge is a general one, any policy recommendation must recognise the crucial differences between and within sectors. For example, policies that were associated with increasing production of coffee or minerals are very different from those required to achieve value addition. Firms in export-oriented sectors (magicians or rentiers) must be analysed in relation to how state-business relationships can be developed that promote long-term growth, rather than simply take advantage of high prices at a given point of time. Meanwhile, sectors that are directly dependent on flows of international resources but largely serve the domestic market, such as construction, need to develop institutions for contracting that can deal with the tension between getting tasks accomplished quickly while also ensuring national firms are able to gain in technology acquisition.

The pace of any shift towards open deals must be matched by the bolstering of the government's enforcement capabilities. If not, the order that has thus far been achieved in the deals environment can be undermined. During shifts from 'closed' to 'open' deals environments, the government needs to retain the capacity to discipline and monitor enterprises. Yet, as well as the economic risks of opening up to foreign investors, there are also distinct political risks, and the government must balance the demands of market reforms with the need to include elites who may otherwise threaten the RPF's centralised control. For growth to be sustained in Rwanda, the government may need to prioritise closed ordered deals to promote economic diversification. To develop closed ordered deals, the government must find additional capitalist partners, as a reliance on investment groups alone may not be a viable long-term strategy. Given the exclusion of prominent RPF cadres, frictions within the political settlement may contribute to reducing the capacity of the government to develop a wider pool of business partners with whom to take risks and develop closed ordered deals.

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email: esid@manchester.ac.uk
Effective States and Inclusive Development Research Centre (ESID)
School of Environment and Development, The University of Manchester, Oxford Road,
Manchester M13 9PL, UK
www.effective-states.org