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TRADE POLICY REVIEW

RWANDA

Report by the Secretariat

This report, prepared for the Trade Policy Review of Rwanda, has been drawn up by the WTO Secretariat on its own responsibility. The Secretariat has, as required by the Agreement establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), sought clarification from the Government of Rwanda on its trade policies and practices.

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SUMMARY OBSERVATIONS

(1) ECONOMIC ENVIRONMENT

1. Thanks to the economic reforms undertaken by Rwanda following the 1994 genocide, by 2000 real GDP had recovered its 1990 level. The economy grew at a rate of 6 per cent in 2000, 6.7 per cent in 2001 and 9.4 per cent in 2002, with an estimated growth for 2003 of 3.5 per cent. Considerable progress was made in liberalizing the economy, inter alia *by revising the tax system. A restrictive monetary policy coupled with measures to boost public revenue helped to bring inflation down to below 4 per cent in 2000.*

2. Rwanda still suffers from the economic consequences of the genocide, such as lack of infrastructure and the public expenditure involved in compensating victims and keeping numerous persons in prison awaiting trial for crimes relating to the genocide. Rwanda's prolonged involvement in the 1998-2002 war in the Democratic Republic of the Congo (DRC) was yet another source of public expenditure. The budget continues to be heavily dependent on foreign aid (US$45 per inhabitant and 9.2 per cent of GDP in 1999).

3. With a per capita GDP of approximately US$220, Rwanda is among the least developed countries. It is also a heavily indebted poor country (HIPC) with an overall external debt of US$1.4 billion at the end of 2002. Its balance of payments suffers from a chronic deficit, owing chiefly to the low coverage of goods imports by exports as well as to a high services account deficit. However, official transfers and long-term loans have enabled Rwanda to maintain a slightly positive overall balance, and official gross reserves equivalent to approximately six months of imports in 2001 and 2002.

4. Agriculture employs more than 90 per cent of the population and accounts for some 44 per cent of Rwanda's real GDP, as against approximately 10 per cent for manufacturing activities and 46 per cent for services. The mining sector's contribution is negligible, although Rwanda does have certain mineral resources, notably coltan, tungsten and cassiterite, the mining and export of which increased in 2001. The low level of foreign investment, partly due to insecurity in the region, has not favoured diversification of the country's production and export structure. This lack of diversification has left Rwanda vulnerable to external shocks of a climatic nature or resulting from international market fluctuations.

5. Rwanda exports essentially primary products, in particular coffee and tea (the main cash crops), and since 2001, coltan. These three products accounted for 77 per cent of exports in 2002. The share of manufactured goods has remained very small, in spite of the Government's determination to promote the exportation of non-traditional products. In 2002, re-exports, chiefly to the DRC, accounted for some 16 per cent of total exports.

6. Rwandan imports are dominated by manufactured goods, particularly machinery and transport equipment, and their structure has remained largely unchanged. The increase in imports of consumer goods, telecommunications equipment and office machinery reflects the economic recovery and, in particular, the expansion of services activities. The other main categories of goods imported into Rwanda are food products and products of the mining and quarrying industry, in particular petroleum products.

7. The African countries are the chief destination for Rwanda's exports and the main source of its imports. Among its main trading partners, Kenya alone accounted (on average) for close to 55 per cent of exports and 24 per cent of imports during the period 1997-2002. Europe is the second destination for Rwandan exports, and its second source of imports.

8. Foreign direct investment (FDI) has been uneven, with flows reaching RF 186.1 billion in 2001, 4.5 billion in 2002 and 9.7 billion in 2003. This represents considerable progress with respect to the annual average of US$3.1 billion for the period 1995 to 1999. However, the high cost of energy, water and telecommunications, the lack of local raw materials and skilled labour, and conflicts and insecurity in the Great Lakes region have hampered FDI flows. The services sector, in particular telecommunications and finance, accounts for the largest share of these flows. The share of the manufacturing sector has also grown thanks to investment above all in the chemical, sugar and tobacco industries. The same applies to construction activities. The evolution of FDI and its sectoral distribution continues to be influenced by privatization operations. The main investors are India, the United States, Kenya, Germany, Belgium, Canada, Great Britain, the Netherlands, Switzerland, South Africa, Lebanon and the Sultanate of Oman.

(2) INSTITUTIONAL FRAMEWORK

9. The fifth Constitution of the Rwandese Republic was adopted by referendum on 26 May 2003, replacing the Basic Law of the Rwandese Republic of 1994. Rwandan law establishes the primacy of international legal instruments, including the WTO Agreements, over domestic legislation. In the hierarchy of laws, international treaties and agreements are followed, in decreasing order, by the Constitution, organic laws, ordinary laws, decree-laws, presidential orders, Prime Minister's orders, ministerial orders, instructions and regulations. The Government's trade policy is laid down by the Ministries responsible for foreign trade and Finance. Depending on the matters involved, trade policy is coordinated with other relevant ministries, such as the Ministry in charge of agriculture, and other government institutions, such as the National Bank of Rwanda (NBR), the Rwanda Revenue Authority and the Rwanda Investment Promotion Agency (RIPA). The private sector too is consulted in meetings held on the initiative of both parties and, informally, through the Public/Private Partnership Forum headed by the Chairman of the Rwandan Private Sector Federation. A Presidential Economic Council, without formal ties to the ministries, advises the President on such issues.

10. Rwanda considers trade to be an essential economic growth factor. Accordingly, the main aim of its trade policy is to contribute to the country's social and economic development and to poverty reduction. Rwanda plans to accelerate its economic growth, to stimulate its economy through programmes geared towards disadvantaged areas and social strata, to promote food security by using quality seeds and fertilizer and improving storage facilities, to diversify its exports, to encourage its small and medium-sized enterprises, and to make more effective use of its natural and human resources. It recognizes that development of the private sector calls for more extensive liberalization, further privatization and strengthening of the partnership between the public and private sectors. Consequently, there is a need to integrate trade policy into a broader strategic framework, a process that could be facilitated by the implementation of the Integrated Framework for Rwanda.

11. Rwanda is an original Member of the WTO, and grants at least MFN treatment to all of its trading partners. It has not signed any of the WTO plurilateral agreements. Rwanda needs considerable technical assistance from the international community in order to be able to benefit fully from its participation in the multilateral trading system. Its technical assistance needs relate notably to the implementation of the WTO Agreements, particularly in the areas of customs valuation, sanitary and phytosanitary measures (SPS), technical barriers to trade (TBT), and TRIPS; capacity building in the trade negotiations area; formulation of trade policies; supply constraints; and the integration of trade policy into the development strategy. Rwanda *has also requested technical assistance to achieve a better understanding and hence more effective implementation of the WTO Agreements, and has applied to benefit under the revised Integrated Framework for Technical Assistance and Capacity Building.*

12. Rwanda is a member of the Common Market for Eastern and Southern Africa (COMESA) and is party to the treaty establishing the Economic Community of the Great Lakes Countries (CEPGL), the trade provisions of which are not always applied. It is also a member of the Economic Community of Central African States (ECCAS), the Regional Integration Facilitation Forum (RIFF), the Organization for the Management and Development of the Kagera Basin (KBO), and the African Union (AU). Rwanda enjoys non-reciprocal preferential access to the European Union market under the Cotonou Agreement and the "Everything But Arms" initiative, to the United States market under the African Growth and Opportunity Act (AGOA), and to the markets of the other industrialized countries under the Generalized System of Preferences.

(3) TRADE POLICY INSTRUMENTS

13. Since 1994, Rwanda has made significant progress in liberalizing its economy by reducing its customs duties and taxes and joining the COMESA free-trade area on 1 January 2004. As a safeguard against possible losses in public revenue and in order to improve tax collection, the Rwanda Revenue Authority was established in 1997 and VAT introduced in 2001. Since 1 January 2004, Rwanda has been using the transaction value method of customs valuation. In order to boost the economy and reduce non-essential government expenditure, in 1996 Rwanda enacted a law on privatization and public investment, as a result of which 37 enterprises were privatized between 1997 and January 2004.

14. Customs duties constitute Rwanda's chief trade policy instrument. The applied MFN tariff comprises only ad valorem *duties corresponding to the four rates of the COMESA common external tariff (zero per cent, 5 per cent, 15 per cent and 30 per cent). The simple average tariff rate in Rwanda in 2003 was 18 per cent, with a largely escalating structure. The coefficient of variation of approximately 0.6 shows moderate dispersion. The modal rate (which is the most common) is 30 per cent and applies to some 40 per cent of the total number of lines. Non-agricultural products according to the WTO definition are the most protected, with an average tariff rate of 18.8 per cent, compared with 13.2 per cent for agricultural products. Average rates remain relatively lower in the agricultural sector (7 per cent) and the mining sector (6 per cent) than in the manufacturing sector (19 per cent) when using the International Standard Industrial Classification (ISIC, Revision 2). Imported goods may also be subject to VAT, consumption tax and advance corporation tax. The preferential tariff (zero per cent) is applied only to products originating in countries that are members of the COMESA free-trade area.*

15. During the Uruguay Round, Rwanda completed the binding of all its tariff rates. These bindings comprise ad valorem *rates only, ranging from zero to 100 per cent. Duties on non-agricultural products were bound at rates ranging from zero to 100 per cent, and duties on agricultural products at rates ranging from zero to 80 per cent. The simple average of the bound rate is 89 per cent (76.2 per cent in the case of agricultural products and 91.3 per cent for the others); 75.3 per cent of lines are bound at a maximum rate of 100 per cent, 12.9 per cent at a maximum of 80 per cent and only 0.8 per cent are bound at zero per cent. Other import duties and taxes were bound at zero. However, since 2002 a surcharge of 25 per cent has been applied to sugar imports, and pre-shipment inspection costs and computer costs are paid by importer. Moreover, for 241 tariff lines (essentially lines that were bound before the Uruguay Round and have not yet been transposed into the Harmonized*

System), the rates of duty applied are higher than the bound rates.

16. Import prohibitions are for the most part governed by international agreements of which Rwanda is a signatory. The only products the importation of which is expressly prohibited in the customs tariff are asbestos and products containing it. For health reasons, the importation of certain products is subject to approval by the Ministry of Health. Imports of products such as explosives or arms require the prior consent of the competent authorities. Rwanda has no legislation on anti-dumping, countervailing or safeguard measures.

17. The last remaining export taxes were abolished in 1999. The obligation to surrender foreign exchange was abolished in 1997, enabling exporters to use the totality of their export revenue for current transactions. However, the foreign currency repatriation obligation is still in force. Rwanda does not subsidize its exports; incentives are provided for in its customs legislation (drawback) and the Investment Code of 1998. Unlike the RIPA, however, the free economic zones provided for under the Code have not yet been created. The VAT rate applied to exports is zero.

18. In the area of standardization, considerable progress has been made recently with the establishment, in 2002, of the Rwanda Bureau of Standards (RBS) responsible for defining national standards, and the subsequent adoption of some 40 national standards in the area of food, health and the environment. The legislation on stock breeding and veterinary medicine is old. For the protection of plants against diseases, Rwanda refers to the International Plant Protection Convention; it has no specific laws or regulations of its own. Rwanda is a Member of the African Union's Inter-African Phytosanitary Council (IAPSC).

19. Government procurement in Rwanda is still governed by legislation dating back to the colonial era. A draft law on government procurement is in the process of enactment, and will enable contracting authorities to grant a margin of preference to local products provided that the margin is clearly indicated in the tender documents. A margin of preference of up to 15 per cent on prices may likewise be granted to Rwandan entrepreneurs. Since the creation in 1997 of the National Tender Board (NTB), which is responsible for monitoring the implementation of the relevant legislation and organizing and managing the government procurement process, certain provisions of the draft law are already applied pending its adoption.

20. Rwanda has no specific legislation governing competition. At present, the subject is covered by Law No. 15 of 28 January 2001 on the Organization of Domestic Trade. The Law establishes liberalization; it does not ban monopolies. A regional competition policy is being developed within COMESA. A draft order has been prepared on price control which, once adopted, will confirm price control for goods and services such as petroleum products, medicines, sugar, rice, cement, medical consultations, water, electricity, public transport and postal services.

21. Rwanda's industrial property legislation is old and obsolete. Its current laws on patents, industrial designs, and trademarks and the ministerial orders to implement them date back to 25 February 1963. In order to align Rwanda's legislation with international standards, a draft law has been prepared with technical assistance from WIPO and should be adopted in 2004. Copyright is governed by Law No. 27/1983 of 15 November 1983. Rwanda has no domestic legislation on the protection of new varieties of plants.

(4) SECTORAL POLICIES

22. Agriculture plays a key role in Rwanda's economy, particularly in terms of employment and exports. Agricultural *production consists mainly of family and subsistence farming. It was affected by the 1994 genocide, and remains subject to climatic uncertainties. The main cash crops are tea and coffee, which provide more than half of the country's export revenue. They are managed by the Office for Industrial Cultivation in Rwanda (OCIR-Thé (Tea Board) and OCIR-Café (Coffee Board)). The tea sector performs well, and is one of the country's leading employers, providing some 60,000 jobs not counting indirect employment. Climatic conditions and soil quality are Rwanda's main assets in that area. Tea accounts for approximately 36 per cent of State revenue. Coffee is produced by some 400,000 smallholders - there are no large coffee plantations. A third industrial crop (pyrethrum) was revived at the end of the 1990s.*

23. Rwanda's agricultural policy targets food security. This involves shifting from subsistence farming to market-driven agriculture, and reducing the number of people employed in the sector. Liberalization of the agricultural sector began in 1998. During the 1990s, customs duties were reduced, and in 1999 the last export tax – the tax on coffee – was abolished. In 2003, customs duties in the sector, as defined by the ISIC, averaged 7 per cent, with a maximum of 30 per cent. In December 2002, however, a special 25 per cent tax was introduced on imports of sugar. The Rwanda Pyrethrum Board (OPYRWA) was privatized in 2000, and the privatization of tea factories is expected to begin in 2004. Unprocessed agricultural and livestock products, inputs, and agricultural machinery and equipment are exempt from VAT. There are no customs duties on agricultural inputs. A credit line was established to facilitate the importation of chemical fertilizers.

24. The manufacturing sector is still embryonic. Production focuses above all on beverages, textiles, tobacco, cement, tea and coffee. This is the most protected sector of the economy, with an average customs duty of 19 per cent. The maximum rate of 30 per cent is applied above all to imports of manufactured goods. The generally positive escalation of tariffs reflects effective levels of protection that are much higher. The production of leather and hides and of textiles could potentially contribute to the development of the sector and of exports. The Government plans to give this sector a leading role in its poverty reduction strategy, by channelling investments into light industry, and, through the establishment of free-trade zones, to promote local processing of certain goods prior to export.

25. Like other sectors, the mining sector suffered from the effects of the 1994 genocide. In 2001, mining production stood at 77 per cent of its 1990 level. However, the mining sector's contribution to exports has substantially increased over the past few years (35.5 per cent of total goods exports in 2002). The sector is dominated by the Mining Production and Development Board (Redemi), and exports the totality of its production. It is one of the non-agricultural sectors which, together with coltan, could contribute to the development of non-traditional exports.

26. Rwanda is a net importer of services. The leading subsectors are wholesale and retail trade, public services, and communication. The State remains a significant shareholder in the banking, fixed-line telephony and transport subsectors, which are included in the ongoing privatization programme. Fixed telephony services are supplied by RwandaTel SA, a State company which also holds a 28 per cent share in MTN Rwandacell, the mobile telephony operator. Two licences were granted in 2003 – one to MTN Rwandacell for fixed telephony and the other to RwandaTel SA for mobile telephony. In practice, however, the two operators still remain specialized. Financial services are not very developed; loans are generally short-term, and are chiefly used to finance distribution activities, the working capital needs of manufacturing enterprises, and tourist activities. Rwanda's road density is among the highest in Africa. However, the implicit tax on international trade due to the *poor state of the roads exceeds US$160 per tonne. The national airline (Rwandair Express) serves domestic and regional destinations. Tourism revenue has yet to reach its pre-genocide level. The Rwandan Office of Tourism and National Parks (ORTPN) was restructured in 2003 so that it could devote greater efforts to the implementation of sectoral policy and the promotion of tourism in Rwanda.*

27. Rwanda's commitments under the General Agreement on Trade in Services (GATS) are limited to certain professional services, adult education services, and sewage and similar services; hotel and restaurant services; and recreational, cultural and sporting services in centres promoting eco-tourism. For each one of these services, Rwanda has undertaken not to maintain any market access or national treatment restrictions for modes of supply 1 to 3 (cross-border supply, consumption abroad and commercial presence) and not to maintain any restrictions on the presence of natural persons. However, there has been no binding with respect to measures affecting the presence of natural persons for the supply of medical and dental services and hotel and restaurant services.

(5) TRADE POLICIES AND TRADING PARTNERS

28. The reforms introduced by Rwanda since the end of the 1994 genocide reflect its commitment to liberalism and the multilateral trading system. It is essential to pursue the macroeconomic and structural reforms, since this alone can provide the Rwandan economy with the competitiveness and dynamism it needs if it is to reap the full benefits of the country's participation in the multilateral trading system and its recent accession to the COMESA free-trade area.

29. The delay in Rwanda's implementation of some of its multilateral commitments can be explained in part by the genocide, which coincided with the end of the Uruguay Round. To enable Rwanda to make up the delay as quickly as possible, the international community must accord particular attention to its technical assistance needs, inter alia *in the areas of capacity building, improvement of supply capacity and integration of trade policy in its development strategy.*

30. Technical assistance should also enable Rwanda to transpose its previous bindings into the Harmonized System and to introduce the tax reforms needed to strengthen its commitment to the principles of the WTO. These reforms, coupled with improved commitments under the GATS, would contribute to the transparency and predictability of the country's trade regime, and would attract the capital needed to diversify its economy. In addition to providing technical assistance, the partner countries could help Rwanda in its unilateral reconstruction effort, inter alia *by eliminating practices which affect the markets for products of interest to Rwanda and by guaranteeing broader and more stable access to their markets.*