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Priorities for mineral-led industrialisation in Rwanda



In brief:

- Rwandan officials outside the mining sector need to become more actively involved with the new Mining Policy for its effective implementation.
- Minerals based industrialisation may not necessarily follow the pathways defined so far by the African Mining Vision (AMV, 2009) but still achieve its wider goals.
- A full diagnosis of the artisanal and small mines sub sector must precede interventions to influence its structure and operations.
- Rwanda needs to remain steadfast to its vision of the industrialisation of the mining sector, free of donor influence.
- A regional framework must be an essential part of that Vision.
- A politically emotive argument has been prevalent in African discourse that each country should be self-sufficient: African countries need to break from this tradition in order to exploit the opportunities available in the sub region.
- A greater competitive edge may be possible through a regionally collaborative approach: This can support minerals-based industrialisation that is not limited by domestic mineral sources.
- Rwanda needs to focus on promoting the enabling environment for minerals driven industrialisation, beyond the country's major minerals.

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Background and context: Rwanda's new mining policy

Mineral commodities are among Rwanda's leading sources of forex revenue, yet the mining sector contributes a disproportionately low share to GDP – less than 10%. Rwanda is among the leading producers of Tin and Tantalum, but most processing occurs abroad, limiting further economic gains from accruing locally. Domestic processing of Rwanda's traditional commodities has been a long-standing national objective which has so far proved challenging to achieve. Further, upstream, Rwanda's mining sector is predominantly composed of Artisanal and Small Mining operations known to produce below their achievable potential.

The Rwandan Government in 2017 intervened by restructuring the minerals sector and establishing a new public entity to handle all mining petroleum and gas matters. A new Mining Policy and Law accompanied this in the following year. Following a request from the government, the IGC provided peer review of the draft policy and law. This policy brief follows from a second follow-up mission supported by the International Growth Centre (IGC) to provide peer-review of the 2017 - 2024 mining policy.

Observations and recommendations

1. Active engagement of non-mining sector officials on the policy implications for their respective sectors is essential for the effective implementation of the actions identified by the new policy that go beyond mining. The introduction of a major change in public policy requires constant and repeated presentations for the benefits to become apparent, understood, and more importantly, for officials to determine and embrace the new methods to be adopted, and eventually, implement the changes.
2. **Establishing a long-term investment vision for the minerals sector**
Minerals can be a growth-driver in an economy where the resources involved are large relative to other sectors, but even where resources are not extensive, the overall results as envisaged by the African Mining Vision (AMV, 2009) is still possible. For example, where large reserves of minerals are not present, the sector could still be a driver for growth through longer-term plans for investments relating to mining sector services or other links in the minerals value chain that could serve sub regional markets. This is elaborated further in seven below.
3. **Performing a comprehensive ASM sector diagnosis**
In the case of Rwanda, where most mining is performed by artisans and technology is rudimentary, a full diagnosis of the sector, as distinct from analysis of one or more aspects of its operations, must precede interventions to influence its structure or methods of operations.
4. **Cultivating an independent vision**
In a country that is new to mining or lacks experience in management of the sector, there is a danger that donor influence may divert it from a *home grown* approach to reaching its goals. The current donor supported interventions, need to be under constant scrutiny to avoid conflicting pursuits or initiatives that diverge from the specific goals of the Government's vision.
5. **Establishing a regional planning framework**
The AMV provides a very useful framework for industrialisation and the role of the minerals sector for African countries. However, at the level of the sub region, significant changes will be required in regional planning. There are two major obstacles to be surmounted: 1) The usual internal organisation for the management of a national economy is confined to the borders of the country rather than the more outward looking approach implied by the AMV; and 2) the sluggish pace at which sub-regional opportunities offered by the East African Community (EAC) are exploited so far.
6. **Breaking from tradition: Beyond internal markets and import substitution**
Until recently – the last ten to 15 years – the structure and pattern of production in African

countries were legacies of their colonial past. Production was structured to satisfy domestic needs and to export raw materials to the metropolis. Whatever industrialisation took place was largely determined by investments from foreign private sector, hailing from the former colonial countries. Investments from neighbouring countries were limited - with the exception of Southern Africa.

Thus, there is a long history, and even tradition, for planning and budgeting that is limited to the borders of the country. Given the size of the average country in Africa (less than 20 million), optimal plant sizes have tended to be small. They have therefore tended to miss the benefits of scale in all sectors, except those directly linked to and producing for the former colonial countries. Similarly, systems in place continue to be for national plans and budgets that focus on internal small markets.

The AMV calls for programmes that go beyond national boundaries to the sub-region and eventually the continent. This requires changes in both systems and attitudes. At the same time, with few recent exceptions, industrialisation where it existed was mainly of the import substitution type. Again, the focus was on the small internal market. For over 50 years, hardly any of these efforts led to matured industries in sub-Saharan Africa servicing countries in the sub region (the airline industry is a notable exception).

Recently, Ethiopia (leather), Kenya (agro-processing), Lesotho (textiles), and some others are breaking the chain by venturing outside the local market. Evolving from the earlier and flawed import substitution approach may be difficult. This is due to the politically emotive argument that each country should be self-sufficient, rather than depend on a neighbour to produce what it can also produce itself. This narrative ignores relative costs/benefits arguments rendering more difficult the task of transforming tradition, systems, attitude, and political demagoguery.

7. Harnessing economies of scale and collaborative advantage

The second challenge is less obvious but equally important. The AMV assumed that continental industrialisation can be achieved by the sum total of individual industrialisation programmes i.e. each country should have its own mining vision. This is flawed; by optimising industrialisation within national boundaries, the opportunities for enjoying the gains from scale, and from relocating links in the minerals value chain are effectively eliminated.

Furthermore, while local factor endowments may suggest that industrialisation based on a certain mineral is the best driver of growth for country X due to the comparative advantage argument, a greater competitive edge may well be possible through a collaborative approach: For example, production relying on a mineral from neighbouring countries may generate much greater returns to all parties due to lower production costs leading to more competitive pricing for the sub-region.

Put differently, Rwanda need not be limited to the '3Ts' (tin, tungsten, tantalum) as the driver of minerals-based industrialisation. For example, notwithstanding the relatively small levels of production of gemstones, an enabling environment in Rwanda for manufacturing could create the conditions for the local processing of gemstones that will attract exports from its neighbours.

8. Fostering an enabling environment for broad-based industrialisation

All this points to a path to minerals-based industrialisation through creating the conditions for attracting processing plants, i.e. the enabling environment for private investments, and not only through the country's major minerals.

Conclusions

Rwanda should continue with the adoption of a clear strategy for minerals-based industrialisation that need not be constrained by the size of its known mineral deposits. This is partly because of inadequate information on its current reserves, and also because, from a regional perspective there are opportunities for attracting other minerals-based industries as well as capturing more rewarding links in the supply and value chains of minerals in neighbouring countries. The building blocks for such a strategy are contained in the new Minerals Policy, but this is not enough. The industrialisation policy and the development plans may have to be revisited to ensure full complementarity with this wider vision of the Minerals policy.