IGC International Growth Centre

IGC Growth Forum in Rwanda
Summary

17 February 2011

The IGC Growth Forum was held on 17th February 2011 at the Serena Hotel and designed around a visit from Professor Paul Collier at the request of Ambassador Claver Gatete, Vice-Governor of the National Bank of Rwanda. Its purpose was to bring international experience to bear on critical issues highlighted by Rwandan policy-makers. Participants included a number of government institutions, including BNR, MINECOFIN, MINICOM, RDB and the President's Office, academia, the private sector, and the IGC's host institution in Rwanda, the Institute for Policy Analysis and Research (IPAR).

10:45 – 11:00 Opening Ceremony

The Forum began with opening remarks from the IGC Rwanda Country Director, Richard Newfarmer (pictured). Newfarmer described the IGC, and noted that President Kagame has requested that the IGC assist with research and policy analysis in selected topics in the areas of infrastructure, trade and diversification, agriculture and finance, as well as decentralization as a cross-cutting theme. He saw this as an opportunity for the best academic minds internationally working with local researchers to tackle the policy challenges facing Rwanda.

The Forum was officially opened by the Guest of Honour, Hon. John Rwangombwa, Minister of Finance and Economic Planning. He expressed his pleasure at the opportunity to welcome the researchers and distinguished colleagues from the IGC. He noted that Rwanda had made enormous progress and was growing rapidly, despite the difficulties in the global economy, but that sustaining this pace of growth required greater effort – including by the development partners – to reach the objectives of becoming a middle-income country in a few short years. In that sense, the International Growth Centre could play an important role if it manages to combine effective research with actionable policy options for consideration of the government.

11:00 – 12:30 The Promise and Peril of Public Private Partnerships: Lesson Learning from International Experience

Professor Ronald Fischer

Professor Ronald Fischer is a professor at the Centre of Applied Economics at the University of Chile. He participates in the adjudication of Public Private Partnership arrangements in Chile as a member of the Expert Panel on Infrastructure Concessions. Professor Fischer's articles published in international journals in 2010 articles include (with E. Engel, A. Galetovic), 'The Economics of Infrastructure Finance: Public-Private Partnerships versus Public Provision" and "Public-Private Partnerships, When and How'.

IGC Rwanda,
Institute for Policy Analysis and Research (IPAR)

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Recognizing that PPPs can be dangerous and must be handled with care, Professor Fischer's presentation highlighted recommendations for Rwanda's policymakers based on the Chilean experience. Chile has had significant success with PPPs, particularly in the provision of roads, airports and seaports. Chile's experience with PPPs began with the passage of a law in 1991 that allowed the government to franchise most public works. Chile's total cumulative investment in 50 concessions awarded by the Ministry of Public Works is approximately US$11.3 billion, or 10 per cent of Chile's GDP. However, Chile has also made costly mistakes related to excessive contract renegotiations, and has seen the senior members of the government and PPP unit (including the Minister) imprisoned for corruption.

One of Professor Fischer's key messages is that there is no such thing as a free lunch – PPPs do not generate new resources. In the case of a PPP that is able to generate revenue through user fees to pay for itself, the government could have collected the same user fees and contracted private companies to provide construction, operations and maintenance services. However, under a PPP arrangement, it is the private sector that takes responsibility for securing financing, typically in exchange for government guaranteed levels of demand. In the case of a PPP that requires periodic government payments (more likely in low-income countries), there is no financial difference between a PPP and the government asking for a loan to build, operate and maintain the project. One major exception is where a multilateral bank's involvement reduces the risk of default, and unlocks commercial lending that otherwise would not be available.

Professor Fischer highlighted the following pre-requisites for PPP success:

1. Specific legislation on PPPs and clear institutional arrangements
2. Unless bankable demand predictions indicate that a project will generate sufficient user fee revenue to pay for itself, projects should be subject to cost-benefit analysis; this will ensure that there is not a more beneficial alternative use for the scare public resources that will be used to subsidize the project via periodic payments.
3. Projects should be in final design form before being franchised; at the beginning of their PPP programmes, Mexico and Columbia awarded projects as PPPs before project designs have reached their final stage – this meant that renegotiation was often required, which can be costly ($8 billion in Mexico).
4. The procedure for awarding projects should be transparent and open to the public for inspection; all information should be put on the internet, including the winning and losing offers - this will attract private sector participation by signalling that the rules governing the PPP process are not discretionary.
5. The supervision and regulation of PPPs should be outside of the agency charged with promotion development of new projects; the body rewarded for promoting PPPs may be reluctant to strictly regulate and supervise existing PPP contracts for fear of making it harder to attract interest in new projects.
6. Be prepared to be lobbied by foreign governments whose companies are involved in PPPs.

14:00 – 15:15 The Changing Role of Government in Growth: From Takeoff to Sustained Growth

Professor Paul Collier

Professor Paul Collier, CBE, is a Professor of Economics and Director for the Centre for the Study of African Economies at the University of Oxford. From 1998-2003 he was the director of the Development Research Group of the World Bank. He is the author of three books; *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, published in 2007; *Wars, Guns and Votes: Democracy in Dangerous Places*, published in March 2009; and his most recent book, entitled *The Plundered Planet: How to reconcile prosperity with nature*, which was published in May of 2010. His research covers the causes and consequences of civil war; the effects of aid and the problems of democracy in low-income and natural-resources rich societies. Paul Collier is one of the Academic Co-Directors of the International Growth Centre (IGC).

Professor Collier's presentation focussed on the role of government in fostering sustained high levels of economic growth. He focused on two critical roles for government – fostering the development of productive organizations, and increasing investments with a high rate of return.

In terms of creating and encouraging effective organizations, Collier highlighted that size matters – larger firms and (larger cities) have been shown to significantly increase productivity. IGC research in Ethiopia found that larger firms often do not grow out of small firms, but either start larger or grow out of trading activities. He lamented that an inappropriate public sector model has been promoted throughout Africa, resulting in unsuitably motivated governments.

In terms of generating a high rate of investment, a cautionary fact is that most investment booms have not produced faster growth because of the low quality of investment. As such, a 30 per cent-plus investment to GDP ratio is necessary but not sufficient – governments must invest in investing. This means developing a public sector that can select and implement projects well and creating a conducive environment for private sector investment – the rate of return

on public road investment is dependent on private sector investment in trucks.

Additionally, the unit cost of investment must be reduced – the unit cost of physical infrastructure in Africa is three-times higher than world levels, and African countries often pay far more than the border price for equipment and machinery because importation is often controlled by monopolies and cartels. Prof. Collier indicated that investment can be financed through borrowing, making sure that borrowed funds are ring-fenced for investment, and ensuring rigorous processes are in place to ensure investments have a decent rate of return.

Additionally, governments should invest in creating cities that are specifically designed to provide first time urban dwellers with what they need to contribute to economic growth, invest in services exports (perhaps Rwanda could be the Dubai of the region), carefully managing the discovery of mineral resources, and investing in an educated workforce.

15:45 – 17:00 Leveraging Rwanda's Regional Trade Agreements for Growth

Professor Jaime de Melo

Professor Jaime de Melo is a professor at the University of Geneva, a CEPR Research Fellow, and member of the Board and Faculty Member of the World Trade Institute. He has worked for the World Bank as the Division Chief of the Research Department's Trade Policy Division and as editor of the *World Bank Economic Review*.

Professor de Melo's presentation explained that regional integration is necessary, but not sufficient. Rwanda is increasingly focusing on integrating into global markets through trade because exports remain an untapped potential source of growth. Rwanda has rightly sought regional integration through the EAC, but adopting the common external tariff (CET) has been costly, non-tariff barriers are still rife, and the costs of trade remain high. As such, the cost of producing for export compared to the cost of selling domestically discourages exports – and reversing these incentives is a high priority.

To reverse the price disincentives facing exporters, Rwanda needs to push for 'deep integration'. High common external tariffs are a key disincentive that puts Rwanda at a particular disadvantage, so the coming renegotiation of the CET offers an opportunity to adjust the incentives to Rwandan export activities, particularly by targeting the 'sensitive list"'of products with tariffs greater than 25 per cent.

Additionally, continuing to push for reduced non-tariff barriers, such as corruption and excessive weighbridges along the Northern and Central Corridors, is critical. This might in part be achieved by enlisting the private sector to assist with monitoring efforts. Finally, maintaining a competitive real exchange rate is essential.

Closing Remarks – Governor Francois Kanimba, National Bank of Rwanda (BNR)

Governor Kanimba summarized that, in the area of PPPs, it was useful to discuss the importance of having an effective and organized public sector workforce. In terms of regional integration, the forum concluded that integrating regionally is important, however Rwanda must negotiate carefully to maximize the benefits of membership. On exchange rate management, he took note of the discussion of its consequences for the real sector, including exports, and elaborated on the complexity of the management issues for a small economy like Rwanda. He concluded with his expectations for the IGC – that they get hands on, look deeper into the areas being discussed, and find ways to help the government.

Follow-on Activities

On 18th February, Professor Fischer led an interactive technical seminar on PPPs at RDB for RDB, including the PPP Unit, MINECOFIN, and MININFRA.

Additionally, Professor de Melo met with a team from MINICOM, led by Hon. Monique Nsanzabaganwa, to discuss the regional integration process.

The IGC in Rwanda

The IGC is directed and organized from hubs at the London School of Economics and Oxford University and is funded by UKaid from the Department for International Development (DFID). The IGC was created to provide demand-led policy advice based on frontier research.

The IGC's Rwanda country office was established in November 2010. The IGC team in Rwanda consists of the Country Director, Richard Newfarmer, the Senior Advisor, Uzziel Ndagijimana, and country economists, Laura Collinson and Jonathan Argent. The Government has asked the IGC to support government programmes in four areas: trade and diversification; agriculture; infrastructure, and finance. Contact us at Rwanda@theigc.org.

Note: This summary has been produced from the notes of the IGC Rwanda country economists, who take full responsibility for any errors or omissions.

About the International Growth Centre

The IGC offers independent advice on economic growth to governments of developing countries. Based at the London School of Economics and in partnership with Oxford University, the IGC is initiated and funded by the UK Department for International Development (DFID).

The IGC has active country programmes in Bangladesh, Ethiopia, Ghana, India, Pakistan, Sierra Leone, Tanzania, Mozambique, Zambia and Rwanda and supports over seventy individual research projects on issues of governance, human capital, agriculture, infrastructure, trade, firm capability, state capacity, macroeconomics and political economy.

The IGC is directed by a Steering Group consisting of an Executive Director (Gobind Nankani) in collaboration with a Deputy Executive Director (Mark Henstridge) and two Academic Directors, one from LSE (Robin Burgess) and one from Oxford University (Paul Collier). The Steering Group also includes Chang-Tai Hsieh from the University of Chicago, Timothy Besley at LSE and Stefan Dercon at Oxford University.

The organisational structure of the IGC spans a London hub, country offices in partner countries, a group of 10 research programmes with participation from academics in world-class institutions, a network of policy stakeholders in the developing world and a range of public, civil society and private sector partners.

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