*ALFRED NOBEL UNIVERSITY*

***Department of the Global Economics***

**Bachelor's Thesis**

# The development and ways of implementation of International Investment Project *"Opening of automobile centre"* in Rwanda

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Group: MEB-17a

Specialty: 292 International economic relations

Supervisor: Professor Anatolii Zadoia

**Dnipro, 2021**

**ALFRED NOBEL UNIVERSITY**
**DEPARTMENT OF GLOBAL ECONOMICS**

First (bachelor) level
Specialty 292 International economic relations

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# The Bachelor’s Thesis Assignment

**Appiah Wendy**

*Student’s full name*

1. Title: **The development and ways of implementation of International Investment Project *“Opening of automobile centre”* in Rwanda**

2.Supervisor: **Anatolii Zadoia, Doctor of Science, Full Professor**

*(last name, initials, scientific degree, academic status)*

Approved with the Order of «___" _____________ 20___, No. _________

3. Deadline for submission June 1, 2021

4. Aim of the paper: The purpose of the work is to study the current state and trends in the development of the Rwandan economy, assess its foreign economic activity, as well as develop and identify ways to implement an international investment project to create an automobile centre in this country

5. Thesis outline (list of issues to be developed):

1. Economy of Rwanda: current state, problems and development trends
2. Foreign economic activity of Rwanda and assessment of its investment climate
3. Justification of the international investment project "opening a car center in Rwanda"

6. Date of issue of the assignment March 1, 2021

7. Thesis schedule

| no | Stages | The deadline for submission | |
|---|---|---|---|
| | | Schedule date | Actual date |
| 1 | Chapter 1 | April 1, 2021 | |
| 2 | Chapter 2 | April 25, 2021 | |
| 3 | Chapter 3 | May 25, 2021 | |
| 4 | The whole paper | June, 1 2021 | |

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# ABSTRACT

The development and ways of implementation of International Investment Project *"Opening of automobile centre"* in Rwanda.

This thesis examines the current state and development of international Investment projects in Rwanda. Rwanda is one of the most favourable business environments on the African continent and amongst the fastest growing economies in the world. It has been revealed that Rwanda is one of the most growing countries in Africa, showing high rates of economic changes and success in the international world too especially with the economics relations. At the same time, the country experience issues concerning trading (import and export) via sea because it is a land locked country. This makes taxes of importation of goods very high and creates unfavourable conditions for business and citizens as well because everything cost.

Public investments have been the main driver of growth in recent years. External financing through grants, foreign direct investment (FDI), concessional and non-concessional borrowing played an important role in financing of public investments. The private sector will play a bigger role in helping to ensure economic growth. Low domestic savings, skills, and the high cost of energy are some of the major constraints to private investment. Stronger dynamism in the private sector will help to sustain high investment rate and accelerate the growth. Promoting domestic savings is viewed as critical.



*Keywords: Economic changes, International Investment Project in Rwanda, Taxes, Foreign direct investment (FDI), Public investments. Growth, Domestic savings*

# АНОТАЦІЯ

*Розробка та шляхи реалізації міжнародного інвестиційного проекту «Відкриття автомобільного центру» в Руанді*

Ця кваліфікаційна робота досліджує сучасний стан та розвиток міжнародних інвестиційних проектів у Руанді. Руанда - одне з найбільш сприятливих бізнес-середовищ на африканському континенті та одна з найбільш швидкозростаючих економік світу. Було виявлено, що Руанда демонструє високі темпи економічних змін та успіх у сучасному світі, особливо в економічній сфері. У той же час країна стикається з проблемами торгівлі (імпорту та експорту) морським транспортом, оскільки вона не має виходу до моря. Це робить податки на імпорт товарів дуже високими і створює несприятливі умови для бізнесу та громадян, оскільки все коштує надто дорого.

Державні інвестиції були головним рушієм зростання в останні роки. Зовнішнє фінансування за рахунок грантів, прямих іноземних інвестицій (ПІІ), пільгових та неконцесійних запозичень відігравало важливу роль у фінансуванні державних інвестицій. Приватний сектор відіграватиме більшу роль у забезпеченні економічного зростання. Низькі внутрішні заощадження, кваліфікація та висока вартість енергії є одними з основних обмежень для приватних інвестицій. Посилення динамізму у приватному секторі допоможе підтримувати високі темпи інвестицій та пришвидшити зростання. Сприяння внутрішнім заощадженням розглядається як критично важливе.

*Ключові слова: Економічні зміни, Міжнародний інвестиційний проект у Руанді, Податки, Прямі іноземні інвестиції (ПІІ), Державні інвестиції. Зростання, внутрішні заощадження*

## *LIST OF ABBREVIATIONS*

**WHO** WORLD HEALTH ORGANIZATION

**UN** UNITED NATIONS

**GDP** GROSS DOMECTIC PRODUCT

**HIV/AIDS** HUMAN IMMUNODEFICIENCY VIRUS/ ACQUIRED IMMUNODEFICIENCY SYNDROME

**COVID-19** CORONA VIRUS

**VW** VOLKSWAGEN

**LBIC** LOCAL BUSINESS INVESTMENT CLIMATE

**EDRS** ECONOMIC DEVELOPMENT AND REDUCTION STRATEGY

**KFZ** KIGALI FREE ZONE

**EAC** EAST AFRICA COMMUNITY

**BIT** BILATERAL INVESTMENT TREATY

**IRRM** INTERNAL RATE OF RETURN

**ROI** RETURN ON INVESTMENT

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# INTRODUCTION

*After 1994 everything was a priority and our people were completely broken. But we made three fundamental choices that guide us to this day. One—we chose to stay together. Two—we chose to be accountable to ourselves. Three—we chose to think big*.

—His Excellency President Paul Kagame in a speech on the 20th Commemoration of the genocide against the Tutsi (April 7, 2014)

Rwanda registered a good economic performance over the last years, and thanks to investments in education and infrastructure, it reached the Millennium development goals. The GDP grew by 7.8% in 2019 but the figures were revised upwards after the publication of the performance for the last quarter of 2019 (+ 11.9% compared to the last quarter of 2018). Growth would have reached 10.1% of GDP in 2019, stimulated by a booming construction sector, a dynamic manufacturing sector and good agricultural results. (www.tradingeconomics.com/rwanda/indicators)

According to the updated IMF forecasts from 14th April 2020, due to the outbreak of the COVID-19, GDP growth is expected to slow down to 3.5% in 2020 and pick up to 6.7% in 2021, subject to the post pandemic global economic recovery (www.economy.com/rwanda/indicators)

Rwanda has witnessed huge progress these past couple of years. In recent surveys by United Nations Development Programme (UNDP) indicated that percentage of people living under poverty has dropped by 5.8% from 44.9% in 2011 to 39.1% in 2014 (www.UNDP.com). They have one of the best economies in the world now because there are a lot of new developments and progress in the country. New development trends in Rwanda have helped raise their standard of living and the GDP. Some of these trends are:

1. Sound macroeconomic indicators: Rwanda's economic growth has been rapid after years following the genocide due to their economic policy and high aid flows. Economic growth has been modest in recent years. The GDP growth is 6.1% with a positive outlook. According to fitch ratings, Rwanda's rating is supported by good track record of macroeconomic management and reforms, and the receipt of substantial bilateral and multilateral debt relief.

2. Trading: Exports of goods in Rwanda has increased in the last few years, Rwanda struggles when it comes to trade deficit. Imports have risen since 2004 because of the increasing cost of imported fuel and energy. The government is now seeking ways to increase domestic energy production. Their strong national currency buoyed by the high level of development assistance has favoured imports and discouraged exports

3. Malaria and Other diseases: Over 10 years, malaria has become a leading cause of mortality and morbidity in Rwanda with over one million cases of malaria reported in the past five years, making it one of the leading cause of deaths. However, the malaria case fatality rate has declined drastically in recent times.

4. Education: Education in Rwanda is very critical for achieving sustainable economic growth and development. The Rwandan government aims to ensure that all citizens will acquire basic primary education so it provides free mandatory primary education for all children and conducts awareness campaigns to encourage parents to send their wards to school.

However, with these development trends in Rwanda. There are major problems they face as a country.

Despite the abundance of natural resources in Rwanda, a huge number of the population lives below poverty line. Literacy rate of about 71% is for the total population with female literacy rate leading. Education in Rwanda still falls below expectations compared to some middle-income countries in Africa.

There is high rate of HIV/AIDS in adults of about 3% which causes high death rate. Corruption and poor governance also continue to wreak havoc in Rwanda.

The purpose of our work is to study the current state and trends in the development of the Rwandan economy, assess its foreign economic activity, as well as develop and identify ways to implement an international investment project to create an automobile centre in this country.

In the course of our research, we are planning to answer the following questions:

1. What is the main livelihood of people living in Rwanda?

2. What is the rate of employment and unemployment of people living in Rwanda?

3. To what extent can partners invest in the automobile industry

4. How are other industries in Rwanda likely to be affected when the automobile industry is developed?

To achieve this goal, *the* following tasks will be solved in the bachelor's thesis:

1. To find out if livelihood of people will be affected in case there is a development in the automobile industry.

2. To find out the rate of employment and unemployment of people living in Rwanda?

3. To find out if partners can invest into the automobile industry?

4. To examine if other industries are likely to be affected in the case an automobile industry is set up.

The object of our research is the Rwandan economy and its investment climate.

The subject of the study is the development of an international investment project for the creation of an automobile centre in Rwanda and determination of the way of its implementation.

Qualitative method was used to obtain data for the thesis. Data used were observations, oral histories, documents and records.

The Bachelor’s thesis contains a number of practical guidelines that can be used when making decisions about investing in the Rwandan economy.

# CHAPTER 1

# ECONOMY OF RWANDA: CURRENT STATE, PROBLEMS AND DEVELOPMENT TRENDS

## 1.1. Key indicators of economic development in Rwanda

Rwanda is a rural, agrarian country with agriculture accounting for over 60% of the export earnings. Rwanda has a high population density. Tourism, minerals, coffee and tea are Rwanda's main sources of foreign exchange. The 1994 genocide deduced their economic base, population and stalled the country's ability to attract private and external investors. However, the last 10-15 years have been different because they have made progress in stabilizing and restore its economy. According to moody analytics, GDP has rebounded with an average annual growth of 6%-8% since 2003 and inflation has been reduced to single digits. In 2015, 39% of the population lived below the poverty line, according to government statistics, compared to 57% in 2006. Rwanda is seeking to become a regional leader in information and communication technologies and aims to reach a good income status with the help of the service industry.

**(A) Rwanda government budget:** According to National bank of Rwanda, Government Budget in Rwanda decreased to -6.20 percent of GDP in 2019 from -4.30 percent of GDP in 2018.

The 2019/2020 budget is FRW2,876.9n which is an 11% increase on the 2018/2019 revised budget (FRW2,585.2 bn). The domestic revenue is assumed to contribute 68% of the budget which is still consistent with 2018/2019 domestic revenue contribution to budget which is a good indication that in coming years the budget will soon be largely domestically funded *(Fig. 1.1)* (PWC Rwanda)

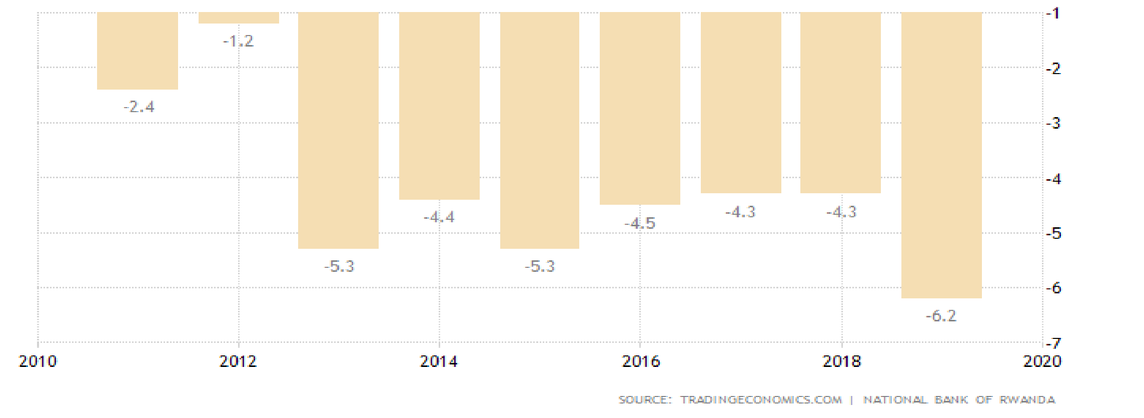


**Fig. 1.1. Rwanda government budget**
***Source: National Bank of Rwanda (2020)***

**(B) Rwanda Inflation Rate:** Rwanda's annual inflation rate eased for the sixth straight month to 3.5 percent in January of 2021, reaching its lowest level since August of 2019. Prices slowed down mainly for food & non-alcoholic beverages (3.4 percent vs 4 percent in December); alcoholic beverages & tobacco (3.2 percent vs 5.4 percent); clothing & footwear (4.7 percent vs 5.8 percent) and furnishings (5.1 percent vs 5.8 percent). On a monthly basis, consumer prices were down 0.8 percent, after decreasing 1.3 percent in the previous month *(Fig.1.2)*.


**Fig. 1.2. Rwanda Inflation Rate from April 2020 - January 2021**
**Source:** ***National Institute of Statistics of Rwanda (2020)***

**(C) Rwanda Unemployment Rate:** In Rwanda, the unemployment rate measures the number of people actively looking for a job as a percentage of the labour force.

Unemployment Rate in Rwanda decreased to 16 percent in the third quarter of 2020 from 22.10 percent in the second quarter of 2020 *(Fig.1.3)* ( National Institute of Statistics of Rwanda).

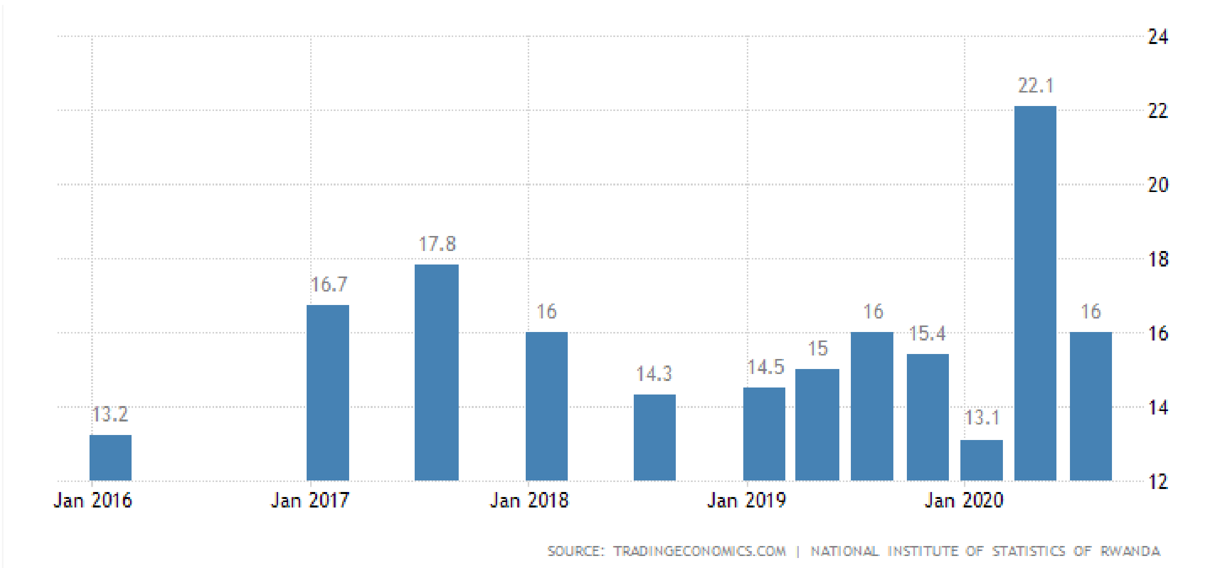


**Fig. 1.3. Unemployment rate in Rwanda**
***Source:* National Institute of Statistics of Rwanda 2020**

**(D) Rwanda Coronavirus cases:** Rwanda recorded 18553 Coronavirus Cases since the epidemic began, according to the World Health Organization (WHO). In addition, Rwanda reported 258 Coronavirus Deaths (*Fig.1.4)* (World Health Organization).

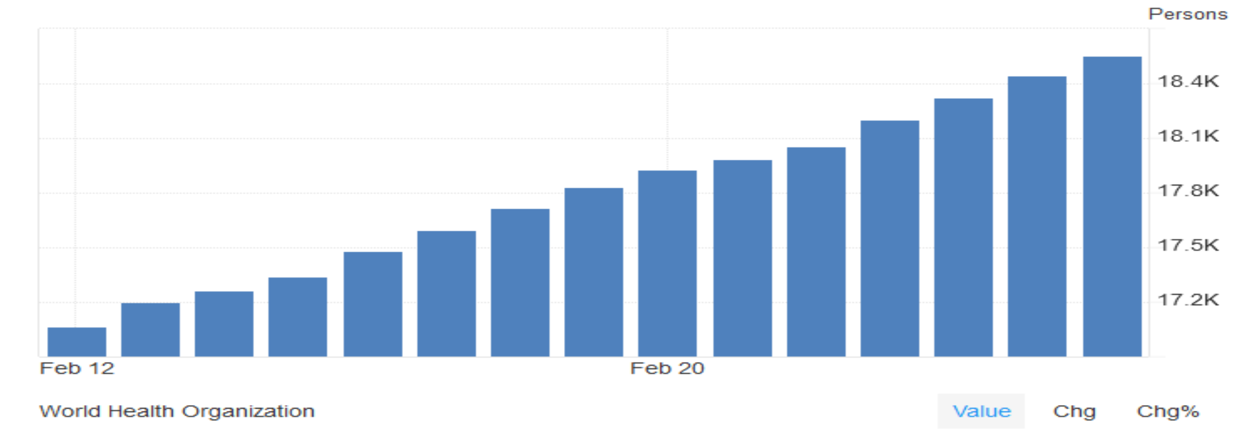


**Fig. 1.4. Rwanda coronavirus cases**

***Source: World Health Organization, Coronavirus cases 2020***

**(E) Rwanda Coronavirus Deaths:** Rwanda recorded 258 Coronavirus Deaths since the epidemic began, according to the World Health Organization (WHO). In addition, Rwanda reported 18553 Coronavirus Cases *(Fig.1.5)* (World Health Organization)

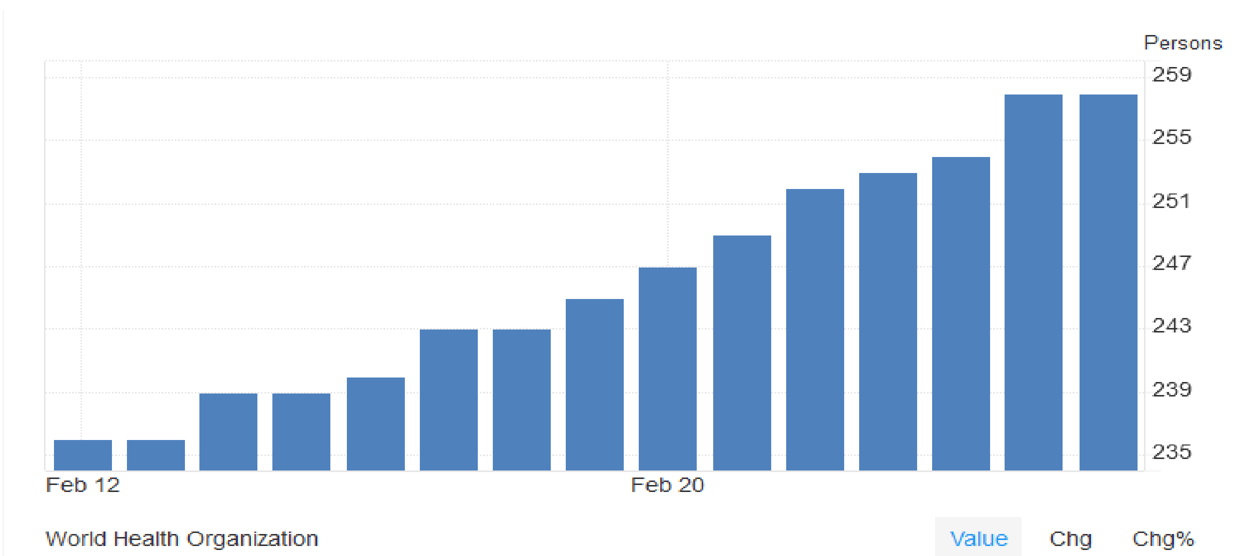


**Fig. 1.5. Rwanda Coronavirus Deaths**
***Source: World Health Organization, Coronavirus cases 2020***

**(F) Rwanda Coronavirus recovery:** Rwanda recorded 17302 Coronavirus Recovered since the epidemic began, according to the World Health Organization (WHO). In addition, Rwanda reported 258 Coronavirus Deaths (*Fig 1.6)*.

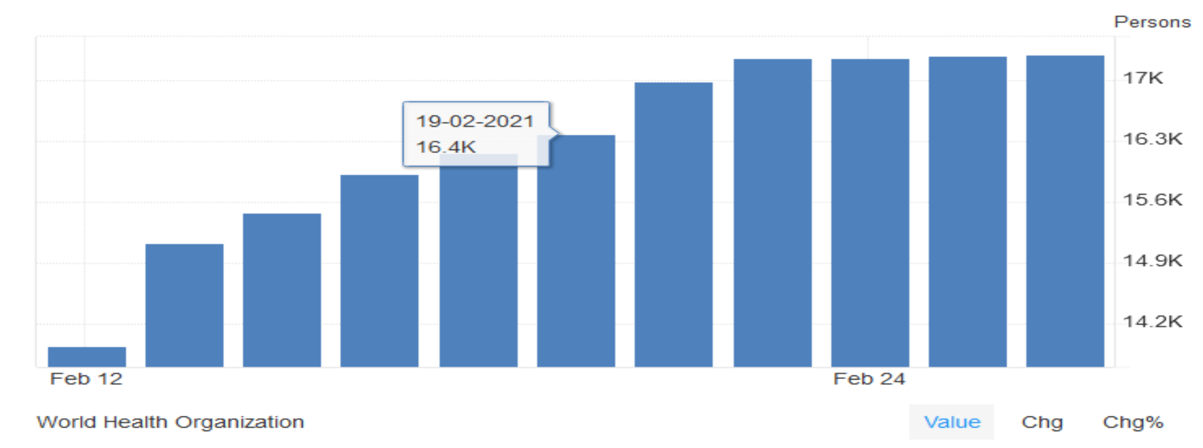


**Fig. 1.6. Rwanda Coronavirus Recovery**
***Source: World Health Organization, Coronavirus cases 2020***

**(G) Rwanda GDP annual growth rate:** The Gross Domestic Product (GDP) in Rwanda expanded 10.80 percent in the third quarter of 2020 over the previous quarter *(Fig. 1.7)* (National bank of Rwanda).

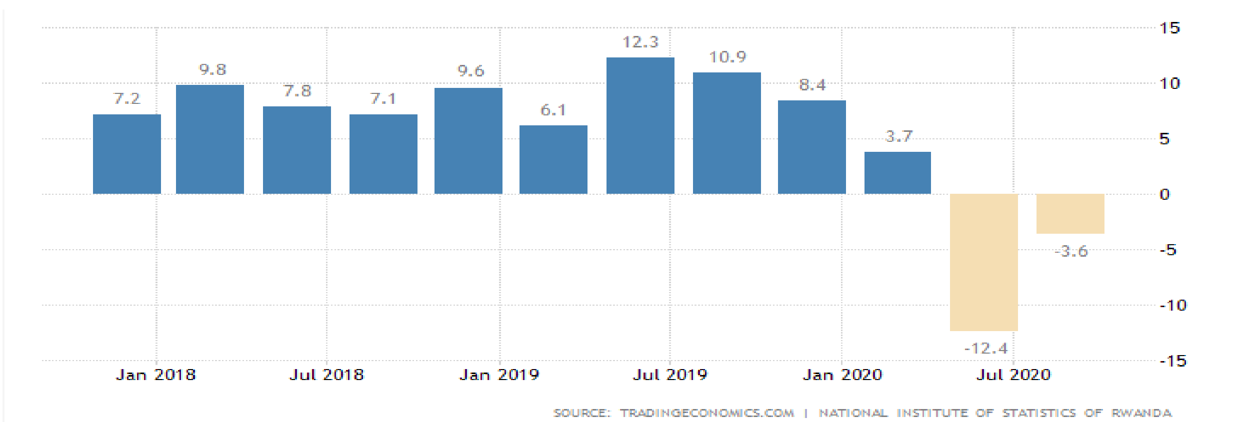


**Fig. 1.7. Rwanda GDP annual growth rate from January 2018- July 2020**
***Source: National Institution of Statistics of Rwanda, 2020***

**(H) Rwanda Government debt to GDP:** Generally, Government debt as a percent of GDP is used by investors to measure a country ability to make future payments on its debt, thus affecting the country borrowing costs and government bond yields.

Government Debt to GDP in Rwanda increased to 51.40 percent in 2019 from 45 percent in 2018 *(Fig. 1.8)* (National Bank of Rwanda).


**Fig. 1.8. Rwanda Government debt to GDP from 2010-2020**
***Source: National Bank of Rwanda, 2020***

**(I) Rwanda Interest Rate:**

The National Bank of Rwanda kept its key interest rate unchanged at 4.5% during its February 2021 meeting. Policymakers said the current stance was still appropriate considering that inflation is projected to evolve below the medium-term target of 5% in 2021, and acknowledging the need to support the economic recovery. The bank said that short-term indicators point to a gradual recovery in the second half of 2020, which is expected to continue in 2021, supported by policy interventions to revive business activities, despite the uncertainty around COVID-

19. The headline inflation is projected to be around the lower bound of 2% in 2021 owing to subdued inflationary pressures *(Fig.1.9)* (National Bank of Rwanda)

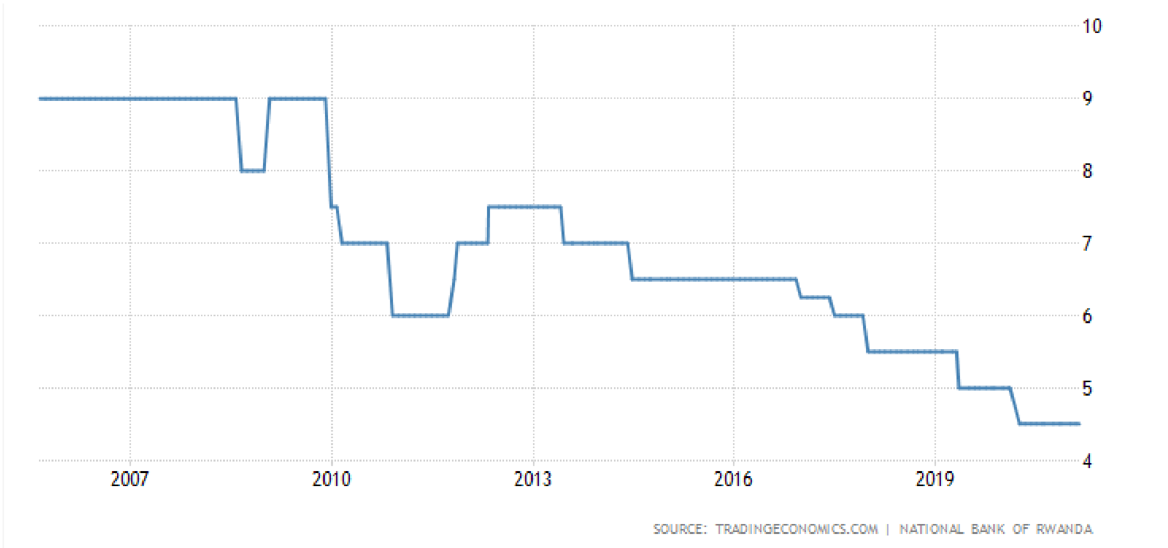


**Fig. 1.9. Rwanda Interest Rate (2007-2019)**
***Source: National Bank of Rwanda (2020)***

### 1.2. Trends and Peculiarities of Rwanda's economy

***Rapid Growth***: Increase in population growth rate is an issue in Rwanda. The last decade in Rwanda's history has been of the transition and rebirth. It is very disturbing how high population shot up. 17 years ago, the country was emerging from several years of strife and civil conflict but the overgrowing population is very alarming.

Rwanda being one of the smallest African countries located in central Africa with current population growth rate of 2.7%, the country's population could increase by twice or even thrice by 2030 if measures are not put in place to curb the growth rate immediately and they must be enforced too.

The country's economic growth is at about 8% while the fertility rate is at 5.5% with Rwandan women on average giving birth to 5 to 6 children. Figures recorded from UN currently indicate, Rwanda is ranked 21 among countries with the highest fastest population growth rate. The increased population growth rate we can represents one of the biggest problems for a country. Because it means basic amenities like food, infrastructure and services become high in demand and will not be enough for the population. These are expenses that most high growth countries have very little ability to provide in recent times.

The increase in population growth hinders government's efforts to effectively fight and eradicate poverty and achieve better development programs for the people. (www.Newtimes.co.rw)

***Increased Access to healthcare***: Rwanda can be located in Central Africa. Rwanda is a relatively small landlocked and hilly country. Rwanda is 10,000 square miles with a population density of more than 1,000 people per square mile. The immerse overcrowding and tension on the insufficient resources led to stifled agricultural growth and increment within the country. The farming sector is doing its best to support the population in the best way possible but there is very little to no space for new fields for crops. Because the population is increasing each and every day with people building homes for their families. The population explosion also stagnates food production. (www. borgenproject.org)

***Geography and Resources***; Rwanda is 10,000 square miles with a population density of more than 1,000 people per square mile. The immerse overcrowding and strain on limited resources lead to stifled agricultural growth within the country. The farmland supports the population to the best of its ability, but there is very limited space for new fields for crops. The population explosion stagnates food production.

***Family planning and education***: Family planning is very important in life. Family planning helps reduce the size of a family. Family planning is done by providing families with birth control and introducing them to the different birth control methods. Some people don't even know that there's even an option like birth control. This helps to eliminate unplanned births. Making family planning easier and more accessible to everybody should help reduce the overpopulation in Rwanda. Another extremely important point is education. Education also helps in curbing rapid growth population in any country. By investing in education people especially women tend to have fewer children. They are also being educated more on the effects of rapid growth population on the economy. Normally, people who live in the rural areas do not have access to education so they do not see anything wrong with having a lot of children. (www.borgenproject.org)

***Poverty rates***: Poverty in Rwanda is still very significant this is due to the fact that around 39% of the country's population lives below the poverty line. One of the contributing factors is that Rwanda is suffering from a very poor education system. This means the education is very low. They have a system where only 68% of the first graders end up completing all 6 years of primary education (basic education).

Another factor is that domestic private investment in Rwanda has yet to take wing. This is as a result of low domestic savings. Adding to this, many rural Rwandans work on subsistence farms and thus very limited disposable time and income.

Some of Rwanda's President Paul Kagame's policies drew international outrage. In 2012, Kagame gave his support to Congolese rebels which resulted in the United States and European Union hanging international aids. Another similar occurrence may be on the horizon with recent reports of Kagame's regime manipulating poverty statistics. In 2019, a financial times investigation about poverty statistics discovered that government was misreporting a data to inflate the poverty rate. Despite that claim, the world bank didn't back out. They continued their countless or extremely great number of investments in the country and also, so have many other major and important donors. However, as many countries on a global scale focus more of their resources domestically due to the COVID-19 pandemic, the international aid to Rwanda is in danger. Aid is still very necessary to prevent catastrophic consequences as Rwanda is experiencing a dire humanitarian situation. The good thing about all of this situation is that many of Rwanda's usual donors are still willing and ever ready to help. One sector the pandemic has affected greatly is tourism and exports which play a huge role in supporting the economy of Rwanda. *(www.borgenproject.org)*

***Reducing Inequality***: Income inequality is on the rise- the richest 10% have up to 40% of global income whereas the poorest 10% earn only between 2 t0 7%. If we take into account population growth inequality in developing countries, inequality has increased by 11%.

Income inequality has increased in nearly everywhere in recent decades, but at a different speed. Its lowest in Europe and highest in the middle east. These widening disparities require sound policies to empower lower income earners and promote economic inclusion of all regardless of sex, race or ethnicity.

Income inequality requires global solutions. This involves improving the regulation and monitoring of financial markets and institutions, encouraging development assistance and foreign direct investment in regions where the need is the greatest. Facilitating the safe migration and mobility of people is also key to bridging the widening divide.

In addition, we will give several facts that characterize the features of the development of the Rwandan economy:

**1.** In 2016, 22% of global income was received by the top 1%compared with 10% of income for the bottom 50%

**2.** In 1980, the top 1% had 16% of global income. The bottom 50% had 8% of income

**3.** Economic equality is largely driven by the equality ownership of capital. Since 1980, very large transfers of public to private wealth occurred in nearly all countries. The global wealth share of the top 1% was 33% in 2016

**4.** Under "business as usual", the top 1% global wealth will reach 39% by 2050

**5.** Women spend, on average. Twice as much time on unpaid housework as men

***6.*** Women have as much access to financial services as men in just 60% of the countries assessed and to land ownership in just 42% of the countries assessed *(rw.undp.org)*

## 1.3. Structural changes in Rwanda's economy over a period of fifteen (15) years

Rwandan's economy has come a long way following the genocide. Rwandans are living in a healthy and peaceful state now. Poverty has fallen rapidly as well. General characteristics of the development of the Rwandan economy over the last 15 years are

- Rapid growth: Rwanda is one of the fastest growing economies in Africa and the world. Rwanda's GDP growth increased around 8% in 6 years. The growth is driven by construction, agriculture, services and manufacturing.
- Aid dependence: Foreign aid to Rwanda increased after the country started rebuilding after genocide. A large amount of government revenues still comes from aids.
- Reducing inequality: Life expectancy, literacy, education and healthcare have all improved.
- Poverty rates: Percentage of people living under poverty lines has been reduced in the last 15 years

The term structural changes in the economy are most frequently used to explain the transformation in the composition of production, employment, demand and trade, which appears along with the development of a country. (Doyle, 1997.)

Some of the structural changes in Rwanda's economy are:

- ***Structural Changes in Development Economy***

Development economics is explained as dealing with different issues of structure and growth in less developed (developing) countries *(Syrquin, 1988).*

Rwanda has a sound macroeconomics which has helped them to be able to allocate resources, income distribution, improved industrialization and most importantly agricultural activities especially farming.

- ***Structural Changes in Modern Economic Growth***

The increase of productivity in developed countries, mostly relies on technical innovations, being the only factor of growth for them. For developing countries, growth and development are less dependent than pushing the technological limits and more dependent than directing production towards activities with a higher level of productivity "*(UN Economic and Social Affairs, 2006).* Rwanda is one of the developing countries using innovations to move into the modern world especially in Agriculture and the industrial services. When we observe the economic growth of Rwanda over time, it has changed considering following the genocide era. There has been upgrade in technologies used by the country and accumulation of physical and human capital.

- ***Changes in the location of economic activities***

Rwanda' s economic activities has been changed over the years and it has caused the locations to change because an activity like industrialization which is gaining grounds in the country has most of its warehouses situated in the urban areas instead of the rural areas which is helping the economy because sales are more in the urban areas as compared to rural areas.

- ***Rwandan's labour market and its participation in international migration processes***

Rwanda's economy has experienced a fast economic growth during the last decade. There have been improvements in the business sector, the new governance and human development which are helping improve the economic development. The working poor are declining steadily and the middle-class people are evolving Some structural transformations on the employment was in progress, e.g., a drop in employment in the agricultural sector that moved towards the service sector and slightly in the industry sector; and an upsurge in more formal employee. Employers consider the labour market as effective in the country, their growth has brought about migration internationally, for e.g., Volkswagen (VW) set up a $20 million operation expected to produce up to 5,000 vehicles a year and create about 1,000 jobs.

In Kigali, VW also placed a wager on another first for its global operations: ride-hailing services.

This has brought attention to the country and a lot of companies want to invest their resources there.

Thus, the modern economy of Rwanda is a booming in the African continent and the world. After the genocide incident, a lot of countries have given aid to Rwanda to boost their economy thereby causing them to be able to invest and move from their agricultural sector into manufacturing sector in the space of 10-15 years.

Rwanda's economy has experienced fast growth which has brought improvements in the sectors and helping the country improve the economic development.

# CHAPTER 2

# FOREIGN ECONOMIC ACTIVITY OF RWANDA AND ASSESSMENT OF ITS INVESTMENT CLIMATE

## 2.1. The scale, geographic and product structure of Rwanda's foreign trade

Rwanda's economic policy is not closed to foreign trade which considers 51.5% of the GDP (World Bank 2018). However, benefiting from the US Rwanda Bilateral Investment Treaty (BIT), which became effective in 2012, Rwanda is a member of the East African Community (EAC), one of the most vital regional communities in Africa, the Common Markets of Eastern and Southern Africa (COMESA) and the WTO. Custom duties are relatively low in Rwanda (7.3% on average) and non-tariff barriers are practically nonexistent.

Rwanda mainly exports petroleum oils, gold, tea and coffee, while imports are led by pharmaceutical products, radio-telephony transmission tools and cement. The country's leading trading partners are some of its neighboring countries like Democratic Republic of Congo (31.8%), Kenya (16%), the UAE (14%) and

Switzerland (8.8%); with its imports coming in chiefly from China (21.2%), followed by Uganda (11.2%), Kenya (7.8%) and India (7.4%).

Because of Rwanda's strong growth and high demand for manufactured goods, Rwanda has a structural trade deficit. After reducing in 2017, the deficit rose up in 2018 from $829 million to $907 million (World Bank, 2018). In 2018, the imports of Rwanda got to $2.58 billion while exports amounted to $1.7 billion. Rwanda exported services worth $798 million and imported $931 million (WTO, 2018)-(nordeatrade.com)

## 2.2. Foreign Direct Investment in the Rwandan Economy: Major Investors and Investment Areas

*Foreign Direct Investment in Rwanda*

Even though FDI stocks have increased in recent years because of Rwanda's stability in politics and measures focused on upgrading the business climate, FDI flows increased from $382 million in the year 2018 to $420 million in 2019. FDI stocks estimated at $2.6 billion at the end of the year 2019. Investments are mainly aiming at the sectors of mining construction and real estate, infrastructure and information and communication technologies. According to the statistics from Rwanda Development Board (RDB), the leading investment countries are Portugal, the UK, India and the UAE. In the year 2019, Rwanda recorded a total investment level of $2.46 billion, 37% of which in foreign direct investment (RDB).

The factors explaining this growth further into details on the investment are support mechanisms such as the One Stop Center, follow-up services and exchange platforms between senior management and business leaders. The Bugesera International Airport project alone amounted to $400 million. Rwandan government is looking forward to attract more FDI and in 2015, they approved a new investment code. Its aim is to provide tax breaks and other incentives to its investors. In addition to this, the country has no statutory limit to foreign ownership or control nor any official economic or industrial strategy that discriminate against foreign investors. Nevertheless, the low level of human resource capacity of Rwanda, its poor infrastructure, its landlocked and its very high operating costs are some of the factors that limit the possible attractiveness of Rwanda (with political instability in the neighboring country, the Democratic Republic of Congo, which affected the whole Great Lakes region and has made international companies lose interest in investing in this region). Reports from UNCTAD in 2018, showed that Rwanda first requested a settlement of misunderstandings between investors and States (in English ISDS) which concerns mining rights on its territory, which involved a foreign company. But however, Rwanda has a lot of advantages; a huge methane reserve, an increasing mining potential which is being explored and its reputation of being one of the countries with the least corruption rate in the African countries.

Lastly, its government continued to improve liberal policies to make Rwanda a center of trade and services. This plan of action has been successful since for the past 15 years, the country has been considered one of the most revolutionary states. In the Doing Business 2020 report published by the World Bank, Rwanda impressively ranked 38$^{th}$ out of 190 economies in terms of how easy it is doing business there. (the highest ranked country in Africa and its ahead of Portugal and the country’s low)

*What to consider if you want to invest in Rwanda*

Some of the reasons to consider to invest in Rwanda are:

- A very steady and high growth rate (averaging over 7% in the last decade). Rwanda is known to be one of the most favourable business environments on the continent of Africa.

- Another point to consider is the significant progress governance and its relative political stability.
- Rwanda has very low levels of corruption (for the standards of the region).
- The country has important natural resources. Rwanda has reserves of cassiterite, coltan, gold and precious stones (like aquamarine, ruby, sapphire)
- It also has a high potential for the tourism industry.
- The Country has a good governmental incentive for foreign investors.

Some of the disadvantages that hinders Rwanda's attractiveness for FDIs are:

- Rwanda has a dependence on commodity prices and international aid.
- There's a high exposure to geopolitical tensions in the Great Lakes region because of the country's location.
- Rwanda has a high demographic pressure with one of the highest population density rates in Africa.
- It has a shortage of qualified labor.
- Its small domestic market and also insufficient coordination between the RDB and RRA, the Ministry of Trade and Industry and the Rwanda Directorate of Immigration and Emigration can lead to inconsistent application of incentives for FDIs are also some of the disadvantages.

*Government Measures to Motivate or Restrict FDI*

The Rwandan government is looking to attract more foreign direct investments into the country and in May 2012 accepted a new Investment Codes that is aimed at providing tax breaks and other incentives to its investors, like:

- If an international company has its headquarters or its regional office in Rwanda, a preferential corporate income tax rate of 0%.
- But for any other investor, a preferential corporate income tax rate of 15%.
- A corporate income tax holiday is up to 7years

- There's exemption from taxation on capital gains
- Also, there's exemption of customs tax for products used in Exports Processing Zones.
- Another measure is VAT refund (foreign firms should receive VAT tax rebates within 15days of receipt by the RRA, even though many companies complained about delays in the reimbursement process, which is from a few months up to several years in some cases).
- Accelerated depreciation
- Immigration documents facilitation
- Various Special Economic Zones have been established, including the Kigali Free Zone (KFZ) and the Kigali Industrial Park free-trade zone *(www.santandertrade.com).*

***Major Investors and Investment Areas***

Rwanda's registered investment valued at about $1.3 billion (RWF 1.2 trillion) in 2020, there's a reduction of about 47% as compared to the year 2019 when the country had $2.46 billion. This was the statistics report from Rwanda Development Board (RDB).

According to the board, the COVID-19 pandemic which has caused a global economic slowdown, caused a decline in investment in Rwanda.

The real estate and construction as well as manufacturing accounted for 68% of all investment registered at 48% and 20%.

The other sectors that also attracted very significant investments include agriculture, ICT, energy, mining and financial service.

The largest investment was a One Acre Fund estimated at $193 million. The One Acre Fund is a nonprofit organization which supplies smallholder farmers in East Africa with financing and agriculture training services. The One Acre Fund also operates a seed production plant in Rwanda, which has helped the country to cut down the imports of seeds for different crops.

A residential apartment complex project called Phoenix Plaza, invested an estimated $179 million.

There's also Duval Great Lakes Ltd invested $69 million. It is a subsidiary of French firm, Groupe Duval which in partnership with a local businessman Vicky Murabukirwa. The firm is also building a multibillion mall at the former Ministry of Justice location, opposite the Kigali Convention Centre named Inzovu Mall.

China's Sinohydro Corporation Limited also invested about $66 million in 2020. The firm's construction activities also include a dam for hydroelectric purposes.

Another investment is the construction of affordable homes invested $41 million while Petrocom Building also invested $35million by Girinzu Developers.

Also, in the year 2020, BBOXX Africa Management Ltd, which is involved in off-grid energy solution and also other renewable energy products and they invested $29million in the year.

There are other major investment projects also registered during the year which included of $12 million by Norrsken Rwanda Ltd to construct East Africa's largest center for entrepreneurship and innovation, an amount of $4.45 million by Nexus Academy to start a professional aviation training academy and to give licensed courses in the area of flight training, aircraft maintenance, ground handling.

For the expansion of the brewery to meet the growing demand for their products in the country and for export, the local beverages firm Bralirwa invested $26.2million.

A total of 24,703 jobs are expected to be created by the new investments with the manufacturing and construction sectors are also expected to create 8,661 and 6,372 new jobs, respectively.

Clare Akamanzi, the CEO of RDB said that despite the global economic slowdown resulting from the COVID-19 pandemic, Rwanda registered significant investments in key sectors which is a sign of continuous investor confidence in Rwanda by local and foreign investors.

"We are optimistic that these investments will further accelerate economic recovery by boosting local production and creating needed jobs for our people. The Government of Rwanda is committed to supporting businesses to recover through initiatives like the Economic Recovery Fund-A RWF 100 billion facility to support companies affected by the pandemic so that they can survive, restart work/production and safeguard employment and through the Manufacture/Build to Recover programme that seeks to incentivize investors in construction and manufacturing sectors", she said.

And this programme is expected to incentivize qualifying manufacturing and construction projects in four areas; general construction, general manufacturing, factory construction and project performance. These incentives include Value Added Tax (VAT) waiver on imported and domestically sourced construction materials, and VAT exemptions for domestically sourced raw materials and machinery. *(Newstimes.co.rw)*

### 2.3. Rwanda Investment Climate Assessment

The investment climate in Rwanda being to two sets of countries that has firms in Kenya, Tanzania, Uganda, Burundi and the Democratic Republic of Congo at the regional level, and India, China, Vietnam and Thailand at the international level. Looking at the analysis carried out from the viewpoint of regional trade and integration, agenda being adopted by the government of Rwanda.

Integration which can help Rwanda defeat some of its basic detriment of poor geography which includes its landlocked location, insufficient natural resources and small economy. Successful integration is necessary for realizing the country’s perspective of becoming a regional service and trade hub. Ie. Economic development and Poverty Reduction Strategy (EDRS). In order to realize this vision, Rwanda needs to pick up the pace on its efforts to make the business environment more attractive than its current state for regional investment and trade, decrease the costs of production that way domestic firms can also have a chance to compete on the regional infrastructure investment and services actions which includes its efforts to increase the functioning of cross-border transit systems, poor pools and regional skills development program.

Kenya, Tanzania, Uganda and Burundi are very practical comparators because of their geographic closeness to Rwanda, and they are also part of the East Africa community. Even though regional comparisons are important, as the world is now becoming more integrated, enterprises in Rwanda will gradually find themselves contending with enterprises from outside East Africa, both within Rwanda and also in the export markets. Together with comparing the investment climate in Rwanda with that of these regional comparators, this part of the paper also differentiates Rwanda’s investment climate from that of four countries in Asia namely China, Vietnam, India and Thailand. Comparing investment climate in Rwanda to those face by firms internationally also helps to throw more light on the areas in which the country is already strong and in areas that might need improvement.

The results of the productiveness indicates that Rwanda is still an unattractive place for the manufacturing of firms, as compared to countries like Kenya and Tanzania, this is even after controlling for the skills and technology differences. The productivity of firms in Rwanda is equal to that of Uganda and Burundi. The variations in the investment climate can be widely described as the condition of a country's infrastructure, economic and social policy institutions, governance mechanisms, which also includes the country's exclusive attributes on geography which also add to a company's cost advantages of disadvantages and the results of its general competitiveness internationally. A more detailed evaluation of these situations may provide a more insight into why Rwanda has not been able to attract more foreign investments, and also help concentrate on reforming initiatives.

This chapter is organized as follows. We have to first of all analyse the rankings of business conditions across all sectors. We then analyse the major reported business constraints in Rwanda into details. We also have to analyse the problems in infrastructure provision and its costs, transport, electricity, telecommunications which also includes ICT. Afterwards, we look into problems in the government regulations. Also, we analyse the business constraints relating to governance and service, delivery, which includes the areas where Rwanda has a made tremendous progress. We also look into how the positive changes in these sectors have made impact in the competitiveness in Rwandan firms regionally and internationally. Another important part to be considered in this chapter is the information on other business environment constraints.

*Business Environment- Key Findings*

To begin with, let us examine by presenting data on perception based on findings. From the reports of perceptions data gathered through surveys globally by World Bank Enterprise, these were correlated with fair indicators of the business environment submitted by firms and these can be used by the decision makers to structure its significance for reforms and investments and they are cautiously finalised by "Doing business which are indicators centred on experts' surveys" *(Doing Business, 2004-2007)*

The final provides a more corresponding cross-country interpretation across a well detailed range of regulation but not a firm-level view of the de facto severity of regulatory and infrastructural barriers. Both of the methods are corresponding and are used in examining Rwanda's business environment.

The enterprise examination of 340 firms in Rwanda which includes proper manufacturing, microenterprises with few workers (less than five) and also firms in the retailing and residual sectors like construction, restaurants, hotels etc. The rankings across all the sectors can be seen in the figure below

- Exceeding 70% of firms in the manufacturing sector recorded electricity to be huge constraint which was followed by tax rates
- 50% of firms and also transport and then there was access to finance
- 40% of firm. The total constraint rankings were lesser for firms in the services sector.

How do these constraint rankings compare with findings of most current surveys of the private sector? (Private Sector foundation, local Business Investment Climate). The local Business Investment Climate survey contained various completed questions on ranking of various sectors of business environments as leading constraints-chief together with transport, access and cost of land, tax rates, finance and electricity and bureaucracy, which have been recorded as main constraints by higher than 50% of enterprises in all aspects.

Some of the variances exists between manufacturing and services. Apart from corruption, constraints are very highly ranked. Many firms in manufacturing along with workforce being of major importance to the particular group.

Relating over time, the rankings of constraints pointed out by the enterprise survey are similar to that of PST-OTF survey, with the exclusion of electricity. Electricity a main constraint is the only important element that has been declined comparative to the other constraints.  Constraints concerning access to finance, tax rates, transportation are still the main constraints today as they were in 2006.

Another important feature that is also a major constraint is access and cost of land this present-day survey. This is due to the fact that the question on access to land was being asked in different ways across the surveys (unlike the local business investment climate-LBIC) survey, the enterprise survey asked only about the access, rather than the cost pf land and access, so it can be said that rankings for that question is not comparable.

A different method used in analysing business environment constraints is to ask the firms to select one constraint that can be regarded as the major obstacle to operation and growth. When assessed separately, this may not be considered to be a useful indicator. How serious a firm's choice of a particular constraint may not be known but when analysed together with the ratings data above, it can give useful assistance towards the binding constraints.

The 2008 LBIC also made firms decide which of the constraints should be prioritized the most and this was comparable to the enterprises. Survey questions why are related to the constraint's prioritization Most firms more than 20% both the service and manufacturing. Areas picked the taxes rates as a man priority, the next that had most rankings was land by 16% of firms in manufacturing and also 9% in services. Another greatest priority was the finance for about 9% of firms in both areas.

Firstly, assessing constraints in the provision of infrastructure and costs, transport, electricity, telecommunications which include ICT. Followed by the assessment in Government regulations which also includes Tax rates and Tax administration, and adding to constraints which relates to governance. In the order business constraints, bribery and corruption are ranked very low, it is important to compare these in a more regional context and the correlating competitive advantage of doing business in Rwanda. The examination of other business constraints which are not ranked as serious by a huge majority of firms, where the country's rankings is not significantly different from other countries regionally.

- Infrastructure

One of the key factors that is cost and access of infrastructure ie what will influence and move the government of Rwanda's trade and regional integration agenda. Both direct and indirect costs are included which relates to electricity, transport, costs of clearing custom etc. It was indicated earlier that high cost and access of infrastructure in Rwanda together with its land lockedness contributed to the rise in trade costs and also its hindering Rwanda's competitiveness.

- Transportation

An extremely important factor is the capability of a country to connect firms, suppliers and consumers to a global supply chain effortlessly and this is very necessary for its competitiveness. The poor or no paved roads, freight and basic passenger transport system can also be through railway and air transport are all part of the things that have direct influence on business activities in any country. It is considered as one of the first direct impact on the level of business activity. It can reduce the rate of entry of enterprises. The economies with low cost, but well-functioning infrastructures strengthens entry and the growth of enterprises, the lack of good transportation systems reduce entry to only the firms or companies that either supply to fragmented regional markets or the people that can exploit market opportunities with returns very high enough to pay for the increased transportation costs. Transports unlike power, where energy supply can improve or go down rapidly. Transports are normally long-term. Poor roads, restricted rail and air linkages is one of the things considered by entrepreneurs when they are starting their business.

Due to the fact that Rwanda is landlocked and hilly, the transportation infrastructure must be very efficient to balance its geographical disadvantages. However, this does not seem to be the care. In 2007, The country Economic Memorandum *(World Bank)* saw that the railway and air transportation were basically not in existent. The roads were in bad conditions and the distance to the nearest port was very far and also costs a lot and these currently is equivalent to about 50% of value of the goods and it depends on the bulkiness and weight of the goods.

In research, the low quality of infrastructure was spotted. Recently, there is a study by the world bank and is based on a big survey of freight forwarders and the operators of transports across the world, gives seven measures of its accomplishment to access the logistics gap across the countries. Rwanda was ranked 148 out of 150 economies, which was at the bottom of the list and also behind Kenya (76) and even its landlocked neighbouring countries like Uganda (83) and Burundi (113). The absence of paved roads in most part of the country outside Kigali and the very high costs of local and international transport are hindering competitiveness.

Because of increased transportation costs and bad quality of road infrastructure that is found in these country surveys. Rwanda being ranked as serious concern for many firms was not surprising in the enterprise survey.

- Electricity

The issue of power outages in most of countries in sub-Saharan African has been documented. The current country Economic Memorandum for Rwanda analyses this problem in details and it includes the issues of underinvestment by Rwanda’s central power generation utility Electrogaz and increased electricity rates that are higher than that of Uganda and Tanzania. The report analyses this problem for a different perspective (international) and including the extent of power issue faced by the enterprises within Rwanda and its burden cost on the firms (*Fig 2.1)*.

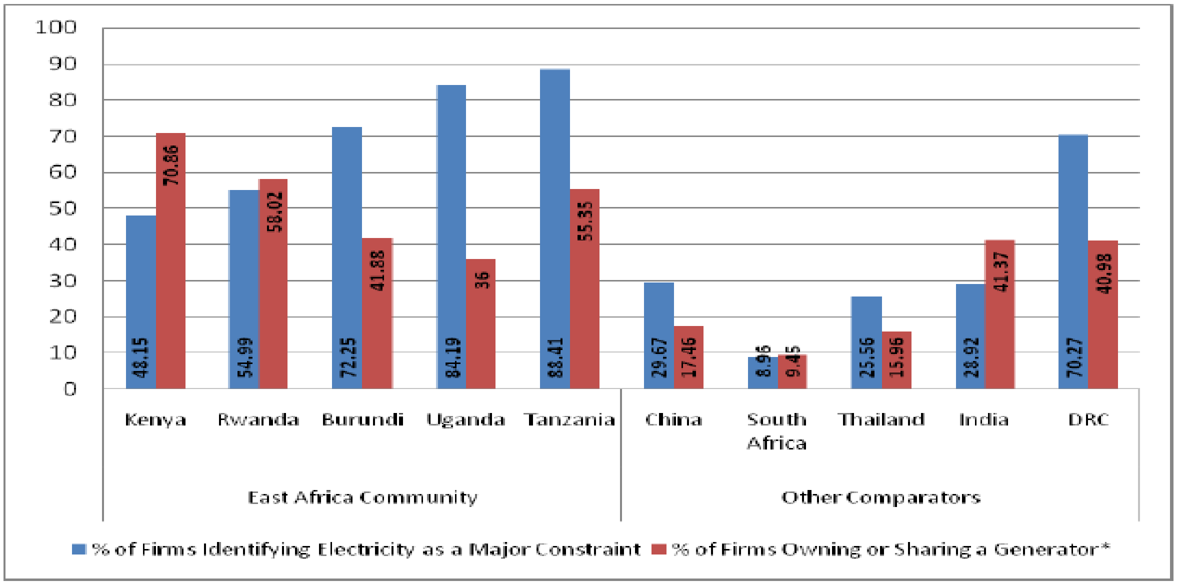


**Fig. 2.1. Electricity problems: Rwanda versus comparator**

*Source: World Bank Enterprise survey*

From the above table, it shows that a lot of firms in Rwanda were more likely to report that electricity is their major problem as compared to countries like the Asian countries and south Africa. But electricity issues are more serious in Tanzania and Uganda if we are talking about the East African Community (EAC), the issues in Rwanda are similar to those of the firms in Kenya.

The owner or patronization of generators amongst manufacturing firms in Rwanda is high, more than about 60% of firms in manufacturing sectors have generators. Also, survey shows that the ownership of generators across other sectors are quite minimal with only about 6% of microenterprises owned or shared generators in Rwanda. And also, it was recorded that none of the firms in the services sector owned generators. Even though they all ranked electricity as the biggest problem for their operators.

The rankings of electricity by businesses can be determined by a combination of factors. Being cost of electricity available, the issue of power outages and also the increased cost of alternative fuel in the case if the firm has a generator. In Rwanda, the cost of electricity.

From the public grid is at 24 cents/kush which almost twice of that of other countries within the EAC (ranging 10c-12c/kwh) and quadruple as that of firms in south Africa and china (4c/kwh). There is an increase in diesel fuel for generators correspondingly.

The increase cost of electricity together comes with frequent power outages. The data also recorded that on an average, companies in Rwanda reported power outages almost 15 days in month, with an average of 2 hours of power per day. The firms were told to record an estimate percentage of sales lost because of the outages. The results together with the enterprise energy cost is presented above. The energy share for the manufacturing sectors is increased in Rwanda consisting of almost 6% of sales, as compared to 4% in Kenya, with fewer than 4% in Uganda and fewer than 2% in Tanzania also. The service sectors also have a much-increased shares.

With more than 5% sales which is similar to Tanzania but increased higher than firms in Kenya (2.5%) and Uganda (4%).

But however, firms in Uganda and Tanzania deal with a more serious power issues as compared to firms in Rwanda. There are losses caused by power outages with an average more than 10% in Tanzania more than 8% in Uganda, including around 6% in Rwanda and Kenya. While their losses and quite lower than the other countries regionally, these are balanced by the increased energy costs for the electricity available which produces higher costs of structures of firms in Rwanda.

- Information and Communications Technology

The fast spread of ICT in all parts of the world is one of the most dramatic changes over the past decades. In vision 2020, the government of Rwanda stated its main goal of being the ICT capital of Africa. The current years have seen the expansion of investment in the ICT sector. International companies such as

Microsoft, Nokia and Terracom are some of the ICT based investments that Rwanda benefited from. But, a lot of these mobile phone, landline and internet access users only concentrated in the capital city of Rwanda (Kigali) and the surrounding areas only.

- Taxes and Tax Administration

Government taxes and incentive policies are essential in any country's business climate. Taxes are very important for providing public services, they should also be regulated in a way which is favourable to growth. This part analyses the recent system and tax administration in Rwanda and if it contributes to business development. The rankings of taxation and tax administration by businesses are surveyed across countries and also a firm within Rwanda. These are checked together with actual rates and leading tax burden compliance in Rwanda in order to access the role of role of Texas in impacting the climate in Rwanda.

- Governance and Corruption

Good governance is still the centre-stage when discussing the importance of economic growth. A lot has been talked currently about the low corruption levels and good governance in Rwanda. Most of the discussion is based on traditional measures of corruption described as the "abuse of public office to private gain". Behind the definition is the image of a predatory state seen as a large "grabbing hand" taking money from companies for the benefit of politicians, most top officials and bureaucrats. Much lower has been analysed in the investment climate research about the role of companies in shaping in with rules of the game that systematically benefit, benefits companies at the expense of society and the importance they have on industrial competition and economic growth. This part talks about governance and corruption in Rwanda from different perspectives and gives new directions for policy based on these political economy problems.

- Customs and Trade Regulations

In 2009, doing business ranked Rwanda lowest amongst comparators. The reports showed that it takes 42 days for companies to clear their goods via exports or imports, at a high cost of $3,275 per container for export and $5070 for imports. De Facto costs and delays are also recorded through enterprise level surveys. The most current data available from the BICS survey (PSF/BICS, July 2008) reported that it takes 14 days for a container to depart from the port in Mombasa after being prepared for export in Rwanda at a cost equal after being prepared for export in Rwanda at a cost equal to 17% of the value of container but however, only to 17% of the value of a container. But however, six companies in their survey reported. And there were no costs provided for transport and port handling for the most part of manufacturing companies that use imported inputs, it would take up to about 20 days for a container to be to be cleared from customs in Kigali after it has arrived in Mombasa at cost equal to 53% of the container's value.

Also, evidence points towards the high cost of transport through Kenya. At the meeting of EAC heads of state in Kigali on June 2008, the Rwandan president at that time took over as the chairman of EAC. He said that a researcher whom he sent on a truck to Mombasa was stopped at 47 road blocks between Kigali and the Kenyan port *(EIU, Rwandan country report, August 2008).* Each road block gives a chance for corruption and high cost of trade. However, Rwanda depends on its neighbours to reduce these barriers. The BIZCLir report in July,2008, stated that positive changes are going on in legal reforms and institution building for trader. All these points towards positive side than negative within the trade regions.

- Crime

In this section also, good governance is once again highlighted, low rankings on crime as a problem to company operations in Rwanda. The figure below shows the rankings on crime across different countries and it shows that only 4% of companies in Rwanda consider crime as main business problem. This is lower than all other countries regionally and also lower than all other countries internationally.

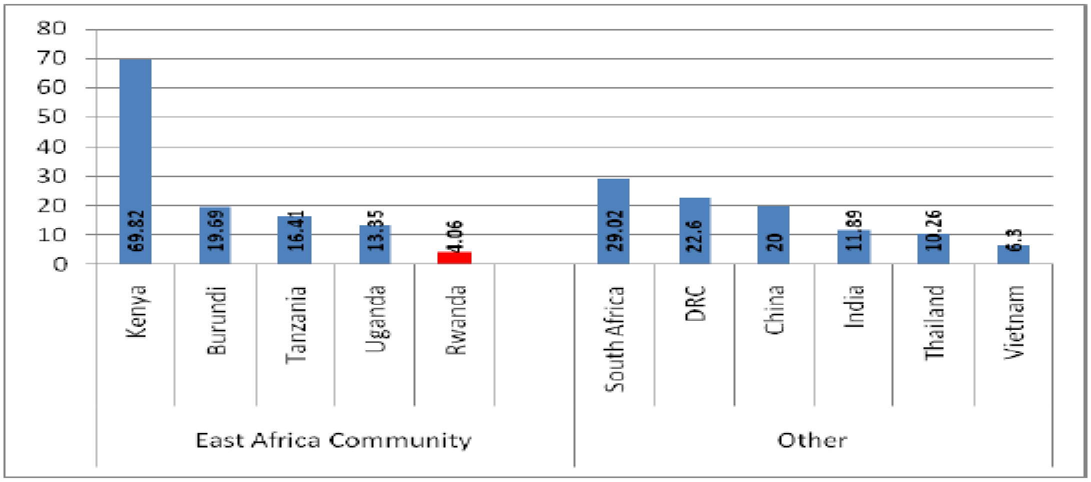


**Fig. 2.1. Crime rate as major constraints**

*Source: World Bank Enterprise survey*

# CHAPTER 3

# JUSTIFICATION OF THE INTERNATIONAL INVESTMENT PROJECT "OPENING A CAR CENTER IN RWANDA"

## 3.1. Assessment of the state of the car market in Rwanda

Transport sector is one of the key engines in economy growth. Improving transport infrastructure and services is a major building element for reducing transport costs, attracting domestic and foreign investment and expanding access to economic opportunities. Rwandan government recognizes that a lot is need to be done to address existing constraints in the transport sector. A good transport sector is central to achieving the objectives of Rwanda goals to transform the country from a low-income agrarian economy to a medium income export oriented and knowledge-based economy.

The capacities of available cars in Rwanda for transportation are becoming more and more inadequate in providing the required services of the growing demand, while public transport is the main transport service of most commuters. Due to limited extent of transport service, newly developed parts of Rwanda are deprived of transport services and people have to walk long distances to access bus stops. Considering all these changes in the country, the government has the attention to help improve the transport system.

The vision of the Government of Rwanda transport, is to create modern infrastructure and cost effective and quality services with due regard to safety and environmental concerns under Vision 2020

The ability to improve public transport services relies on the ability to measure the public transport system performance. According to (Polzin et al., 2002), the planning and operation of transport service are closely tied to the ability to measure the spatial and temporal accessibility of the transport systems. n January, German car manufacturer Volkswagen AG made headlines when it announced it would establish a new car assembly plant in Rwanda, the first-ever automotive investment in the small East African nation. The plant is poised to launch this month and should produce up to 5,000 cars per year across three different models for local sale.

The deal is not Volkswagen's first foray into the region: in December 2016, the company opened a plant with equivalent capacity outside Nairobi, Kenya. PSA Group (Peugeot) followed suit in 2017 and several European and Asian manufacturers are reportedly in talks to establish similar production units in the coming year. Four decades after shutting down most of their African assembly lines, established carmakers are returning to the continent with a renewed, if cautious, appetite.

## 3.2. Ways of realization and development of the international investment project "Opening of automobile center" in Rwanda

*Project Analysis*

This deals with the estimating of future outcome of a particular project to facilitate the decision to invest. Its purpose is to ensure that the project is managed as expected and also within the budget. There are several advantages to conducting a project analysis and the advantages are:

- Determines the success of the project: Project analysis makes a project a success because it determines whether the right things are being done or not.
- It helps in Budgeting: It is important for investors to work within budget. Project analysis helps project to run within the budget stated.
- Boosts Project Planning: Issues that come up during execution are pointed out and work on immediately with project analysis. The project can continue smoothly when the issues are handled well.
- It finds and reduces risks: Risks are always found in projects. Implementation of projects could make risks vary. Project analysis helps with finding and limiting the risks and making sure they are prevented from causing damages in the project.

## 3.3. Idea of international investment project in Rwanda

The purpose of my project is to establish an automobile centre in Rwanda. The creation of an automobile centre in Rwanda is to be able to make cars to provide cheap transport of goods and people from one town to the other. The target market for this project is for the middle-class people and farmers who cannot afford cars that are sold in Rwanda. It offers an opportunity for perishable goods to be delivered on time easily and ease movements. Parts of the advantages in this project is that car can be given out on loans to farmers and middle-class people who are working and payment can be spread over 2-5 years.

Starting price of one car is $1,600 and the price increases depending on the specifications and type of car whether four-wheel drive, salon car or farm cars.

The firm has a total of $2,299,780 to invest and we expect to be in the market for the first three years, producing and selling 200 cars per year.

### 3.4. Cost of implementing project

In this project, we seek to find the absolute cheapest we can get this project done for. Materials needed to implement this project are;

A. RENT 1 MONTH: Our firm needs an office to accommodate visitors, and potential buyers. Cost per month is $3,123

B. OFFICE DEPOSIT: Office deposit is need. It costs $1,302

C. LEGAL CONSULTATIONS: Lawyers are need for the company in case there is a legal issue to be solved. This costs $3,200

D. REGISTRATION OF COMPANY: Our firm needs to be registered to be able to operate in the country. This costs $326

E. ADVERTISING EXPENSES: Advertisement is very important to be able to let people know. This costs $9,000

F. REDECORATION OF OFFICE: The office needs to be decorated again. This costs $10,000

G. BRAND DEVELOPMENT: The brand of the firm needs to be developed to be able to attract more potential buyers. This costs $15,000

H. COMPUTER: Computer is needed to help do a lot of typing in officers and do other online stuffs. It costs $6,000

I. PRINTER: Printer is need to print out documents. This costs $100

J. CLEANING COMPANY PER MONTH: Company needs to be cleaned. It costs $150 per month.
K. SOFA: Needed at the reception to accommodate people. it costs $100
L. ROUTER: Needed for internet connection at the firm. This costs $14
M. LITTER BINS: It is needed to trash away rubbish in offices. It costs $30
N. CHAIRS: Needed to be sat on by workers and sometimes buyers. This costs $975
O. TABLES: Things and other equipment needs to put on tables. This costs $2,460
P. RAW MATERIALS: Raw materials are needed to make a new car. This costs $450,000
Q. INTERIOR MATERIALS: Interior materials are needed for the cars. This costs $ 250,000
R. ELECTRICTY PER MONTH: Electricity is needed at the firm to be able to carry out services at the centre and its offices. This costs $8,000
S. PAINTS: Paints are needed to spray cars after manufacturing or repairing. It costs $10,000
T. ASSEMBLING MACHINES: Assembling machines are needed put the car parts together. Cost is $1,500,000
U. SPRAYING MACHINES: Our firm needs spraying machines to spray our cars after manufacturing or repairing. This costs $30,000

**Table 3.1**

**SALARIES**

| JOB POSITION | NUMBER OF PEOPLE | WAGE (USD) MONTHLY | TOTAL (USD) |
|---|---|---|---|

| | | | |
|---|---|---|---|
| 1. WELDER | 15 | 2231 | 33,465 |
| 2. REPAIRMEN | 22 | 1413 | 31,086 |
| 3. INTERIOR DÉCOR | 20 | 1209 | 24,180 |
| 4. CLEANER | 5 | 595 | 2,975 |
| 5. ADMINISTRATOR | 2 | 1200 | 2,400 |
| 6. SPRAYER | 15 | 1056 | 15,840 |
| 7. MECHANIC | 22 | 2112 | 46,464 |
| 8. AERO DYNAMIC ENGINEER | 5 | 1584 | 7,920 |
| 9. TOOL DESIGNERS | 10 | 1760 | 17,600 |
| 10. ELECTRICIAN | 15 | 1232 | 18,480 |
| 11. AIR CONDITION SPECIALIST | 7 | 1056 | 7,392 |
| | | **TOTAL PAYROLL** | **$207,802** |

**TOTAL PAYROLL WITH SOCIAL SECURITY (15%)**

**207,802 X 0.15 = $31,170**

**Table 3.2**

## EXPENDITURES

| **NAME** | **AMOUNT (USD)** | **AMOUNT (USD)** | **AMOUNT (USD)** |
|---|---|---|---|
| 1. SALARY | 238972 | 250000 | 275000 |
| 2. RENT | 3123 | 3450 | 3600 |
| 3. REPAIR OF PRODUCTION, EQUIPMENT AND FACILITIES | 1000 | 1200 | 1500 |
| 3. OTHER COSTS | 300 | 450 | 550 |
| 4. UTILITIES | 500 | 600 | 650 |
| 5. DEPRECIATION COSTS | 10500 | 1575 | 23625 |
| **TOTAL** | **254,395** | **257,275** | **304,925** |
| **YEARLY** | **254,395 * 12 = 3,052,740** | **257,275 * 12 = 3,087,300** | **304,925 * 12 = 3,659,100** |

**Table 3.3**

## ESTIMATED REVENUE

## YEAR

| SERVICES | EXPECTED NUMBER OF ORDERS PER MONTH | PRICE (USD) | TOTAL PER MONTH | TOTAL PER YEAR | $2^{ND}$ YEAR | $3^{RD}$ YEAR |
|---|---|---|---|---|---|---|
| 1. ENGINEERING SERVICES | 12 | 10000 | 120000 | 1,440,000 | 1,468,800 | 1,512,000 |
| 2. MECHANICAL SERVICES | 12 | 8000 | 96000 | 1,152,000 | 1,224,000 | 1,296,000 |
| 3. SPRAYING SERIVCES | 7 | 5000 | 35000 | 420,000 | 528,000 | 576,000 |
| 4. UPHOLSTERY SERVICES | 7 | 7000 | 49000 | 588,000 | 604,800 | 613,200 |
| 5. WELDING SERVICES | 5 | 12000 | 60000 | 720,000 | 878,400 | 892,800 |
| 6. ELECTRICIAN SERVICES | 6 | 2000 | 12000 | 144,000 | 184,800 | 220,800 |
| 7. LOCKSMITHS | 12 | 9000 | 108000 | 1,296,000 | 1,368,000 | 1,411,200 |
| 8. AIR CONDITIONING REPAIRS | 4 | 1000 | 4000 | 48,000 | 57,600 | 62,400 |
| 9. GEAR BOX PROGRAMMING SERVICES | **5** | 3000 | 15000 | 180,000 | 192,000 | 237,600 |
| **TOTAL** | **-** | **-** | **499,000** | **5,988,000** | **6,506,400** | **6,822,000** |

## 3.5. Investment risks and its assessment

The investment risk is a possibility of an investment bringing a result other than anticipated. Some or all of investment funds can be lost even though profit was anticipated. It is important to realize that every investment entails some risks.

At the point of identifying the risk, a statement of the factors which are likely to happen in the series of the whole project should be obtained. The following are the constantly mentioned tools/methods used to point out the risk factors: the checklists, the Delphic technique, the brainstorming, the internal audit in a firm etc.

The identification and verification of risk should begin from the simplest technique which is using both the quantitative variables as well as the qualitative variables *(Table 3.1)*.

**Table 3.5**

**Risk listing with pattern of risk**

| LP | The main of risks | Owner of risk | Reason/cause | Effect | Probability | Impact | Level of risk | Risk response strategy |
|---|---|---|---|---|---|---|---|---|
| Designing risk | | | | | | | | |
| 1 | Lack of acceptance by investor of design of car proposals | Investor | Delays in approval | Increase in costs due to the suspension of work of the design team | 5-40% | 50-70 | Low | Market observation, alternative designing solution |
| 2 | Delays and difficulties in obtaining | Investor | Delay of registration and legal | Slows work | 15-45% | 100 thous-2m | High | Early diagnosis of the permit issues and organizing of |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | permits | | works | | | | | meetings preceding |
| 3 | Conflict among designing team members | Designer office | Insufficient flow of information among team members | Disturbed designing process | 0-5% | 50-500thous. | Low | Response of a team leader to all form of conflicts-mediation in the team |
| 4 | Too optimistic assessment of employee workload | Designer office | Approval of unrealistic deadlines for individual work | Delay of designing work | 5-40% | 10-20thous. | Low | Proposing for employees to work overtime |
| 5 | Incorrect information from investor/lack of clear guidance | Investor | Design may be issued with duplicate error or detected error can generate timing constraints | Verification of errors will increase costs and time due to the development of the next revision of design | 40-70% | 2-5million | High | Application to investor for extension of time to complete a design due to additional circumstances |
| 6 | Staff do not have sufficient knowledge about the subject of manufacturing | Mechanic's office | Errors in manufacturing | Verification of errors will increase time due to the repeated checks of designing work | 20-40% | 1-4million | Medium | Mechanic team leader strengthens control over work, providing for employee's consultation with an expert |
| Time risk | | | | | | | | |
| 7 | Acceptance of unrealistic deadlines in contract | Investors | Faulty contractual provisions | Deterioration of design quality of failure to meet the deadline | 40-70% | 2-5million | High | Employment of new employees or ordering part of work to another party during a contract |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Budget risk | | | | | | | | |
| 8 | Underestimation of design budget | Investor | Budget may not be sufficient to carry out designing tasks | Deteriorating of budget | 40-70% | 2-4million | High | Limiting scope of design to necessary minimum |

## 3.6. Calculation of investment requirements for project implementation and their composition

Project implementation is to carry out activities proposed in the application form with the aim to achieve project objectives and deliver results and outputs. The success of a project depends on internal and external factors.

During project implementation, there is monitoring of the project so that things can fall in place. Overall management is taken over by the project manager and lead partner. The project management must have an efficient management system and also flexible to current changes in situations.

Composition of Project implementation are:

*Implementation of work plan*: Project implementation consists of carrying out activities with the aim of giving out good output and monitoring progress compared to the work plan. The project manager is responsible for the monitoring process but partners should also contribute effectively towards the monitoring process. The whole partnership will benefit from monitoring of project progress because it:

- provides support for project implementation and acts as an indicator of whether targets are being met or not;
- through feedback activities, it gives improvement in project results based upon observations of the value and the quality of the various elements of the project;
- provides reliability and credibility of results;
- foresees potential problems in good time and simplifies decision-making, especially if corrective actions are necessary.

*Keeping track of the project*

The application that was approved is the baseline for the implementation of the project. It is the main document that helps the manager to track progress while project is ongoing. It contains objectives, activities to be done, the output and result indicators to show that they have been achieved. However, things might go sideways sometimes, you do not always expect the project to be implemented as planned. There are always little issues during implementation. This should be anticipated and the aim of the of the project management is to track these issues and make sure it stays on the course of the project. Modifications will be improvements in the project and that is the change in the project management. Once project has started, the objectives should be regarded as unchangeable because if it is altering everything will have to be started from the scratch.

*Financial Management*

Funding is very important when it comes to project implementation, once the funds are allocated to a project, they are “locked” in the project and cannot be released until after the project is completed. This means that the funds cannot be used to do other projects.

*Managing Risks*

Risks are internal or external events that may occur during implementation and could be a threat to the achievement of project objectives and project s a whole. A risk could be, for example, a partner dropping out or a key change in policy that goes against what the project is trying to achieve.

Basic risk management is important for projects but it depends on the project and the number of risks involved which can have impact on the achievement of the objectives. This involves three steps:

1. Identifying the risks; This is where the source of the risks is located. It may include team members, sub-contractors, stakeholders etc
2. Assessing risks: Once risks have been identified, they need to be assessed to know the probability of it occurring again or not. The impact can be often estimated in relation to the budget and time lost or indicators that have not been achieved.
3. Dealing with risks: When there is a problem, it is often too late to take any preventive or alternative actions. The manager and partners concerned therefore decide in advance how to hand risks while there is enough time.
4. Revising of the work plan: Work plans are short term planning tools that contain a lot of detail on the activities carried out in the project and can only cover the immediate future of the project. It is advisable that each work plan covers the working period between the main project meetings.

Calculation of investment requirements in project implementation gives you greater insight in the team’s performance. The return on investment (ROI) is a metric used to denote how much profit that has been generated from an investment has been made in a project. It comes in two primary forms depending on when it’s calculated:

1. Anticipated ROI
2. Actual ROI

Anticipated ROI is calculated before a project starts and it is often used to determine if a project makes sense to pursue or not. It uses estimated costs, revenues, and other assumptions to determine how much profit the project is likely to generate.

Actual ROI is the true return on investment generated from a project. It is often calculated after the project is completed and uses finals costs and revenues to determine how much profit has been made compared to what was estimated

ROI formula is typically calculated by taking the actual income from the project and subtracting it from the actual costs. That is the total profit that the project has generated or is expected to. That number is then divided by the costs

The formula of ROI is written as:

**ROI= [(Financial value-Project Cost)/ Project Cost] x 100**

**Table 3.6**

**INVESTMENT EFFECTIVENESS**

**YEAR**

| **INDICATORS** | **0** | **1** | **2** | **3** |
|---|---|---|---|---|
| INVESTMENT (USD) | 2,299,780.00 | | | |
| REVENUE OF SALE (USD | | 5988000 | 6506400 | 6822000 |

| | | | | |
|---|---|---|---|---|
| EXPEDINTURES (USD) | | 3052740 | 3087300 | 3378435 |
| PROFIT BEFORE TAXATION (USD) | | 2935260 | 3419100 | 3443565 |
| TAX 18% | | 528346.8 | 615438 | 618841.7 |
| NET PROFIT (USD) | | 2406913.2 | 2803662 | 2823723.3 |

## 3.7. Main indications of its attractiveness

It is necessary to calculate and compare the net income with the initial cost of the project *(Table 3.2)*.

Cash flow forecast (1st year) = Beginning cash + Projected Inflows - Projected Outflows = Ending Cash

**Table 3.7**

**Discounted Cash Inflows**

| | Cash Flow | Discounted Cash Inflows |
|---|---|---|
| Year 0 | - | - |
| Year 1 | $2,417,413.2 | $2,082,359.73 |
| Year 2 | $2,805,237 | $2,002,97.65 |
| Year 3 | $2,823,959.55 | $1,669,807.28 |

*Payback Period*

This is the number of months or years it takes for an investment that has been made to return

PP = 2,299,780 / (5,754,264 :3) = 1.20 years

PP**:** 1.20 years

*Return on Investment (ROI)*

This is a performance measure used to gauge the profitability or effectiveness of an investment or project. Relative to the investment cost, ROI tries to measure the amount on a particular investment directly

ROI = Net Profit / Cost of Investment x 100%

ROI = $ 8,043,298.5 / $ 2,299,780 x 100% = 349.74%

*Profitability Index (PI) & Net Present Value (NPV)*

This is a method used to evaluate a proposed project's cost and expenses by dividing the estimated capital inflow by the investment.

NPV: Difference between the discounted cash flow and investments

NPV = 5,754,264 - 2,299,780

NPV = 3,454,484

PI = ECF / NPV

PI = 5,754,264/2,299,780

PI = 2.50

If PI > 1 then it means the project will be profitable and should carry on

### 3.8. Evaluation of the economic efficiency of the investment project implementation

Enterprise can largely influence its success by responsibly planning of their business activities *(BIERNACKA, 2008)*, i.e., to elaborate the investment project.

It is very important to evaluate the effectiveness, efficiency and feasibility of an investment project implementation.

According to DRÁBEK (2002), investment project can be evaluated by the following methods:

- static methods - costs comparison, profit comparison, calculation of profitability or payback period,
- dynamic methods - Net Present Value, Profitability Index, Internal Rate of Return, Discounted Payback Period,
- complementary methods - return on investment, break-even point analysis method, the commercial viability of the project,
- methods of controlling - Finite Value of the project, Modified Internal Rate of Return.

Two controlling methods of evaluation of the economic efficiency of the investment project are Method of the Finite Values and Modified Internal Rate of Return (IRRM) because they are based on the time value of cash flows.

We consider as a significant positive of the Finite Values method that the evaluation of the investment is not base only on the comparison of cash flows, but also in the evaluation are included cash flows with financial character. It means that the project is evaluated comprehensively. The complete financial plan of the investment project is the prerequisite of this method (DRÁBEK, POLACH, 2008).

Internal Rate of Return (IRR) is that rate at which the present value of cash inflows equal to present value of capital expenses. The following pattern presents the calculation of IRR (FOTR, 1995):

$$\sum_{t=1}^{n} \frac{P_t}{(1+IRR)^t} = \sum_{t=0}^{n} \frac{K_t}{(1+IRR)^t}$$

where:

K – capital expense,

Pt – cash incomes in different years,

n - economic life,

t – each year of life,

i – required rate of return of the project

IRRM is such interest rate (rate of return), in which the capital expenses are equal to the discounted terminal value of the investment project. We derive the IRRM as follows *(economicworld.eu):*

$$K = \frac{\sum_{t=1}^{n} P_t (1+i)^{n-1}}{(1+IRR_M)^n} \quad \text{, potom} \qquad IRR_M = \sqrt[n]{\frac{\sum_{t=1}^{n} P_t (1+i)^{n-1}}{K}} - 1$$

## CONCLUSION

From the research above, we can clearly state that if an investor decides to invest in Rwanda, it would be a good idea not only will it be profitable for the investors but the economy also. Rwanda is part of the top three countries that ease doing business in Africa and it might take the lead because of how easy it is to register your business. Following countries like Mauritius and South Africa. Rwanda is also considered to be a country that has low rate of corruption. With the government providing very good incentives for investors. The global pandemic caused the economy to suffer some losses but it's temporary as it is expected to pick up this year. Starting a transport business in Rwanda would be profitable for the economy and also provide the citizens with employment and diverse means of transportation. The country is developing very fast and the economy is considered to be one of the best in the world today. Rwanda has a good and stable security which makes it very encouraging and also attractive to invest there. The country also has a big market with more than 10million people and also because it is located in the center, it has little to no competition in many niches.

We can also say Rwanda can be considered to have an investor friendly climate.

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