NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

FOREIGN PRIVATE CAPITAL IN RWANDA

YEAR 2017

RWANDA DEVELOPMENT BOARD

National Institute of Statistics of Rwanda

PSF FSP Beyond Advocacy

NATIONAL BANK OF RWANDA
BANKI NKURU Y'U RWANDA

FOREIGN PRIVATE CAPITAL IN RWANDA

YEAR 2017

FOREWORD

The Rwanda Foreign Private Capital 2017 Report, is the eighth in a series of annual censuses jointly conducted by the National Bank of Rwanda, the Rwanda Development Board, the National Institute of Statistics of Rwanda and the Private Sector Federation. The Census collected data on foreign direct investment, portfolio and foreign borrowing in resident enterprises and other variables pertaining to private sector investment. The report presents the findings of foreign private capital census that was conducted in 2017 collecting data for the year 2016. The census covered 218 companies comprised of newly registered companies as foreign direct investments by Rwanda Development Board in 2016 and the existing companies interviewed in the previous censuses.

This annual foreign private investment census would not have been successful without the involvement and cooperation of key stakeholders. We wish to extend our special appreciation to our valued respondents, for the cooperation in providing the information. The National Bank of Rwanda also acknowledges and appreciates the technical and financial support of partner institutions that made this exercise a success.

The Foreign Private Investments census is an important activity for the Government of Rwanda in its efforts to attract and retain foreign private capital in the country to complement domestic resources. The information generated is used in the compilation of the country's Balance of Payments and International Investment Position statistics and shall also contribute to the improvement of private investment policies.

RWANGOMBWA John
Governor, National Bank of Rwanda

LIST OF ACRONYMS

BNR	National Bank of Rwanda
BOP	Balance of Payments
BV	Book Value
COMESA	Common Market for Eastern and Southern Africa
EAC	East African Community
FAL	Foreign Assets and Liabilities
FDEI	Foreign Direct Equity Investment
FDI	Foreign Direct Investment
FPC	Foreign Private Capital
GDP	Gross Domestic Product
GF	Grossing-up Factor
LDCs	Least Developed Countries
LLDCs	Landlocked Developing Countries
MEFMI	Macroeconomic and Financial Management Institute
NISR	National Institute of Statistics of Rwanda
OC	Other Changes
OECD	Organization for Economic Co-operation and Development
PCMS	Private Capital Monitoring System
PFA	Private foreign asset
PSED	Private Sector External Debt
PSF	Private Sector Federation
PTA	Preferential Trade Area
RDB	Rwanda Development Board
RIEPA	Rwanda Investment and Export Promotion Agency
RWF	Rwandan Franc
RWG	Rwanda Working Group (on Private Capital Monitoring)
SADC	Southern African Development Community
SIDCS	Small Islands Developing States
TNC	Transnational Corporations
UNCTAD	United Nations for Commerce Trade and Development
WEF	World Bank Economic Forum
WIR	World Investment Report

TABLE OF CONTENTS

FOREWORD i
LIST OF ACRONYMS ii
LIST OF TABLES vi
LIST OF FIGURES vii
EXECUTIVE SUMMARY ix
CHAPTER ONE 1
INTRODUCTION **1**
1.0 Introduction **1**
1.1 Global Foreign Direct Investment trends **1**
1.2 Africa FDI trend and prospects **3**
1.3 Monitoring foreign investment in Rwanda **5**
1.4 Doing Business in Rwanda **6**
CHAPTER TWO. 9
METHODOLOGY AND GENERAL FINDINGS 9
2.0 Introduction **9**
2.1 Organization of the Census **9**
2.1.1 Institutional Framework 9
2.1.2 Scope 9
2.1.3 Compilation of Investors' Register 9
2.1.5 Questionnaire 10
2.2. Field work and Data quality **10**
2.2.1 Training of technical team 10
2.2.2 Fieldwork 11
2.2.4 Data Processing 12
2.2.5 Data quality and estimation for non-response 12
2.2.6 Timeliness 12
2.3 General findings **13**

2.3.1 Entity turnover 13
2.3.2 Contribution on external trade 13
2.3.3 Employment 14
2.3.4 Compensations of employees 16
2.3.5 Corporate social responsibility 17
CHAPTER THREE 19
FOREIGN PRIVATE INVESTMENTS IN RWANDA 19
3.0 Introduction 19
3.1 Foreign Private Capital attraction in Rwanda 19
3.2 Foreign Private Investment in Rwanda 20
3.2.1 Foreign Private Investment by sector of economic activity 22
3.2.2 Foreign Private Investment by country of origin 23
3.3. Foreign Direct Investment 24
3.3.1. Foreign Direct Investment inflows and stock 24
3.3.2 Foreign Direct Investment Inflows and Stock by sector 25
3.3.3 Foreign Direct Investment Flows and Stocks by origin 26
3.4. Foreign Portfolio Investment 26
3.5. Other investments 27
3.5.1 Other investment inflows and stocks by Sector 27
3.5.2 Other Investments Inflows and Stock by Source in 2016 27
3.6. Income on investments 28
3.6.1 Income on investment distribution by sector 28
3.7. Return on equity by sectors in 2016 29
3.8. Private Sector External Debt 31
CHAPTER FOUR 33
INVESTOR PERCEPTION 33
4.2. Results by Theme 34

4.2.1 Legal Framework 34

4.2.2 Governance 34

4.2.3 Tax and Investment framework 35

4.2.4 Infrastructure 36

4.2.5 Economic and financial factors 36

4.2.6 Domestic Resources 37

4.2.7 Support Services 37

4.2.8 Trading Across Borders 38

CONCLUSION 39

REFERENCES 41

ANNEXES 42

LIST OF TABLES

Table 1.1: Top six African countries 7
Table 1. 2: East African countries in doing business ranking 2018 7
Table 2.3: Distribution and response rate per sector in 2016 11
Table 2.4: Entity turnovers by sectors in 2014-2016 ($ million) 13
Table 2. 5: Exports-Imports in 2016 ($ million) 14
Table 2.6: Employment by Category in 2016 15
Table 2.7: Distribution of employment by sector 2014-2016 16
Table 2.8: Compensation of Employees 2014- 2016 ($ million) 17
Table 2.9: Corporate Social Responsibility by Sector 2014- 2016 ($ million) 18
Table 3.10: New Foreign Private Investments registered (2014 – 2016) 20
Table 3. 11: Foreign Private Investments Inflows by Category 2010-2016 ($ million) 21
Table 3. 12 : Foreign Private Investments flows 2016 ($ million) 22
Table3.13: Inflows and Stocks by Origin in 2016 ($ million) 23
Table3.14: Foreign Private Investment Stock & Inflows by Region in 2016 ($ m) 24
Table3.15: Inflows and Stocks of FDI by type 2013-2016 ($ million) 25
Table 3.16: Top ten Foreign Direct Investment Flows and Stocks by origin in 2016($ million) 26
Table 3.17: Other Investments Inflows and Stock by Source, 2016 ($ million) 28
Table 3.18: Income on investment 2014 - 2016 ($ million) 28
Table 3.19: Income on investment distribution by sector in 2016 ($ million) 29
Table 3.20: Foreign Direct Investment Return on Equity 2014 - 2016(%) 30
Table 3.21: Inward Return on FDI Equity 2013-2016 (percent) 31
Table 3. 22: Foreign Private Sector Debt2014 – 2016 ($ million) 32

LIST OF FIGURES

Figure 1: Global Foreign Direct Investments trends in 2014-2016 ($ Billion) 3

Figure 2: Foreign Private Direct Investment, in Africa, 2015-2016 ($ billion) 5

Figure 3: Distribution of employment by gender in 2016 15

Figure 4: Corporate social responsibility by type of recipient in 2016 ($million) 18

Figure.5: Foreign Private Investment Inflows and Stock by 2016 ($ Million) 21

Figure 6: Foreign Private Investment Inflows and Stocks by Sector ($ million), in 2016 22

Figure 7: FDI Inflows and Stocks by Sector in 2016 ($ million) 25

Figure 8: Other investments inflows and stocks by sector in 2016 ($ million) 27

Figure 9: Perception Index 33

Figure 10: Legal Framework 34

Figure 11: Governance 35

Figure 12: Tax and Investment Framework 35

Figure 13: Infrastructure 36

Figure 14: Access to finance 37

Figure 15: Domestic Resources 37

Figure 16: Support Services 38

Figure 17: Trading Across Borders 38

EXECUTIVE SUMMARY

The Government of Rwanda continues to promote private sector led economy, aiming at fostering both local and foreign investment by undertaking reforms with the objective of making the country a favorable place for investment and ensure sustainable economic growth and development.

The Foreign Private Capital Census (FPC) 2017 is the eighth in a series of annual censuses conducted jointly by the National Bank of Rwanda in collaboration with National Institute of Statistics of Rwanda, Rwanda Development Board and Private Sector Federation. The main objective of the census was to collect information required for the compilation of Rwanda's Balance of Payments, International Investment Position statements and determine the magnitude and trends of Foreign Private Capital in Rwanda. It provides data for macroeconomic analysis to inform policy decisions, specifically policies and strategies aimed at improving country's investment climate and ultimately attracting more foreign private investments. The 2017 FPC census provides actual flows and stock of foreign private capital statistics in Rwanda for the year 2016.

A total of 218 questionnaires were administered during the census from which 201 enterprises responded, representing a response rate of 92.2 percent. Overall, all the enterprises declared total turnover of $ 2,129.1 million during 2016 compared to $ 1,554.5 million registered in 2015, representing 36.8 percent of the country's total turnover. The findings indicated that total employment generated was 58,827 employees as at the end of 2016 from 41,192 employees in 2015, an increase of 43.0 percent. Profits made increased from $ 65.0 million in 2015 to $ 131.4 million recorded for 2016 coming mostly from finance and insurance services and Electricity and gas generation sectors.

FPC inflows registered an increase of 13.6 percent from $ 476.3 million in 2015 to $ 541.2 million in 2016. The census results show that foreign direct investment inflows declined by 9.9 percent from $ 379.8 million recorded in 2015 to $ 342.3 million in 2015 due to lower inflows of new equity on the account of the slowdown in the global economy and uncertainty associated with elections period. Foreign Portfolio investment inflows increased from $ 2.5 million in 2015 to $ 3.0 million in 2016. The inflows of other investments composed of debt from foreign non-affiliates increased by 108.7 percent from $93.9 million in 2015 to $ 195.9 million in 2016.
The equity capital and loans from affiliate components of FDI declined by 21.1 percent and 35.0 percent respectively in 2016 from their levels in 2015, whereas the retaining earnings doubled from $58.5 million to $131.1 million in 2016.

The inflows of other investments, mainly loans, from foreign non-affiliates doubled from the level of 2015. This increase came from the borrowing of well established companies from international development agencies such as International Finance Corporation (IFC) and Preferential Trade Area (PTA) Bank. Other investments represent 62.7 percent of total external loans disbursements in 2016.

In terms of country of origin, most of the FPC flows came from Mauritius ($ 167.2 million) followed by IFC ($ 66.7 million) and PTA ($ 41.3 million) accounting for 50.5 percent of total FPC flows in 2016 and investing mostly in finance and insurance, ICT and manufacturing sectors accounting for 69.0 percent of total inflows.

The census indicates that the stock of foreign private capital increased from $ 2,077.9 in 2015 to $ 2,527.9 million in 2016. The stock of foreign investment in ICT amounted to $ 698.5 million followed by finance & insurance services with $ 631.3 million and manufacturing with $ 384.1 million.

The stock of Private Sector External Debt (PSED) as at end 2016 stood at $ 1,563.4 increasing by 20.0 percent from $ 1,302.8 million recorded in 2015.

In addition, the retained earnings to profits made stood at 71.0 percent in 2016 and the FDI equity rate of return of 12.8 percent which was above the global rate of return of 6.0 percent. This gives an indication of the country's investment profitability.

The prospects for 2017 are for higher flows, as we expect a rise in the next year's FDI inflow owing to the fact that 2017 new investment projects attraction was growing to over $ 1.1 billion worth of foreign private investment projects registered in that year, with some new companies expected to start making profits.

There is therefore the need to continue consolidating efforts geared towards improving the investment climate so that investors can gain higher returns and reinvest.

CHAPTER ONE

INTRODUCTION

1.0 Introduction

Foreign Private Capital (FPC) refers to inward investments in terms of equity or/and non-equity (debts) from nonresidents into Rwanda and outward investments of Rwandan residents to the rest of the world. It is composed of foreign direct investment which is the most important component, portfolio investment and other investments.

This chapter presents an overview of the global performance of the Foreign Direct Investments (FDI) flows in 2016 with a focus on Africa.

In 2016, FDIs to Africa declined by 3 percent from $ 61 billion in 2015 to $ 59 billion in 2016 as a result of the slowdown in the global economy. In contrast, East Africa recorded higher FDI inflows rising by 13 percent from $ 6.3 billion in 2015 to $7.1 billion in 2016. The prospects for Africa is positive with a projected growth in FDI inflows of 10 percent in 2017 to $ 60 billion. FDI investments in oil and gas continue drive the prospects in Africa.

1.1 Global Foreign Direct Investment trends

Foreign Direct Investment is at the center of foreign private investment analysis as one of the major components in foreign investments and its benefits to economies. In his publication, Charles W. L. Hill (2015), asserts that foreign direct investment can make a positive contribution to a host economy by supplying capital, technology, and management resources that would otherwise not be available and thus boost that country's economic growth. Other components of private foreign investments are considered short term and volitile and therefore less analysed on global level.

The According to WIR (2017), global FDI inflows in 2016 fell by 2 percent to $ 1.75 trillion from $ 1.76 trillion in 2015. Investment in developing countries declined even more, by 14 per cent, and flows to LDCs and structurally weak economies.

After a strong rise in 2015, global FDI flows lost growth momentum in 2016, showing that the road to recovery remains bumpy. FDI inflows decreased by 2 per cent to $1.75 trillion, amid weak economic growth and significant policy risks, as perceived by multinational enterprises.

Inflows to developing economies were especially hard hit, with a decline of 14 per cent to $646 billion. FDI remains the largest and most constant external

source of financing for developing economies compared to portfolio investments, remittances and official development assistance. Overall inflows were down across all developing regions.
FDI flows to developing Asia contracted by 15 per cent to $443 billion in 2016. This first decline in five years was relatively widespread, with double-digit drops in most subregions except South Asia.

FDI flows to Africa continued to slide, reaching $59 billion, down 3 per cent from 2015, mostly reflecting low commodity prices.

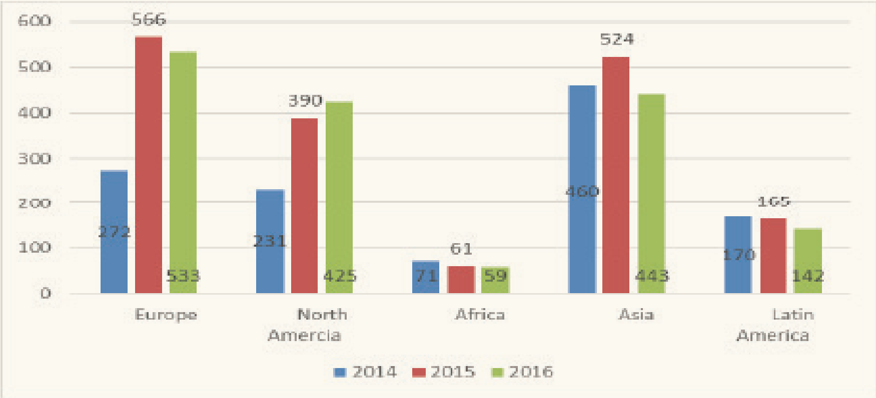
The downward trend in FDI flows to Latin America and the Caribbean accelerated, with inflows falling 14 per cent to $142 billion, owing to continued economic recession, weak commodity prices and pressures on exports.

FDI in structurally weak and vulnerable economies remained fragile. Flows to the least developed countries fell by 13 per cent, to $38 billion. Similarly, those to small island developing States declined by 6 per cent, to $3.5 billion. Landlocked developing countries saw stable FDI, at $24 billion.

Global investment is seeing a modest recovery, with projections for 2017 cautiously optimistic. Higher economic growth expectations across major regions, a resumption of growth in trade and a recovery in corporate profits could support a small increase in foreign direct investment (FDI). Global flows are forecasted to increase to almost $1.8 trillion in 2017, continuing to $1.85 trillion in 2018, a level that is still below the 2007 peak. Policy uncertainty and geopolitical risks could hamper the recovery, and tax policy changes could significantly affect cross-border investment.

FDI prospects are moderately positive in most regions, except Latin America and the Caribbean. Developing economies as a group are expected to gain about 10 per cent. This includes a sizeable increase in developing Asia, where an improved outlook in major economies is likely to boost investor confidence. FDI to Africa is also expected to increase, with a modest projected rise in oil prices and advances in regional integration.

Figure 1: Global Foreign Direct Investments trends in 2014-2016 ($ Billion)



Source: UNCTAD, World Investment Report 2017

1.2 Africa FDI trend and prospects

In Africa and on the global level, FDI is the main component of Foreign Private Investment and is the most reported and analyzed component of FPC. This section discusses the FDI trend in Africa according to the UNCTAD World Investment Report (2017) and regional private sector investment reports.

UNCTAD (2017), FDI inflows to Africa declined by 3 per cent to $59 billion, Africa's share in global FDI decreased marginally from 3.5 per cent to 3.4 per cent.

FDI flows into North Africa rose by 11 per cent, to $14.5 billion, driven by foreign investment reforms and new gas discoveries. As in 2015, much of the growth was due to investments in Egypt, where FDI inflows increased by 17 per cent to $8.1 billion. The discovery by Shell (Netherlands) of gas reserves in Egypt's Western Desert continued to drive investment in the country's hydrocarbons sector. FDI inflows to Morocco, in contrast, were down by 29 per cent to $2.3 billion in 2016, owing to reduced European consumer demand, which negatively affected export-oriented FDI in the country. After registering negative inflows in 2015, Algeria attracted $1.5 billion in FDI in 2016, led partly by improved investment policies and a recent recovery in its oil production. Low oil prices and continued conflicts kept FDI flows to the rest of North Africa subdued.

FDI flows to West Africa increased by 12 per cent to $11.4 billion in 2016, driven by recovering investment into Nigeria. Although flows to Nigeria rebounded to

$4.4 billion in 2016 (up 45 per cent from a 2015 low), they remained well below previous record levels. Nigeria's FDI remained relatively depressed, as its oil output declined to historic low in 2016, and the country fell into recession for the first time since 1991. FDI inflows to Ghana increased by 9 per cent to $3.5 billion. Vitol Group (Netherlands) and Eni (Italy), in partnership with Ghana's National Petroleum Corporation, continued development on the $7 billion offshore oil and natural gas project in West Ghana. Ghana's and Côte d'Ivoire's industrial policy efforts to combine cocoa processing bode well for future investment regionally, although the latter experienced a minor decline (-3 per cent) in FDI inflows in 2016. FDI flows to Senegal slid by some 4 per cent in 2016,

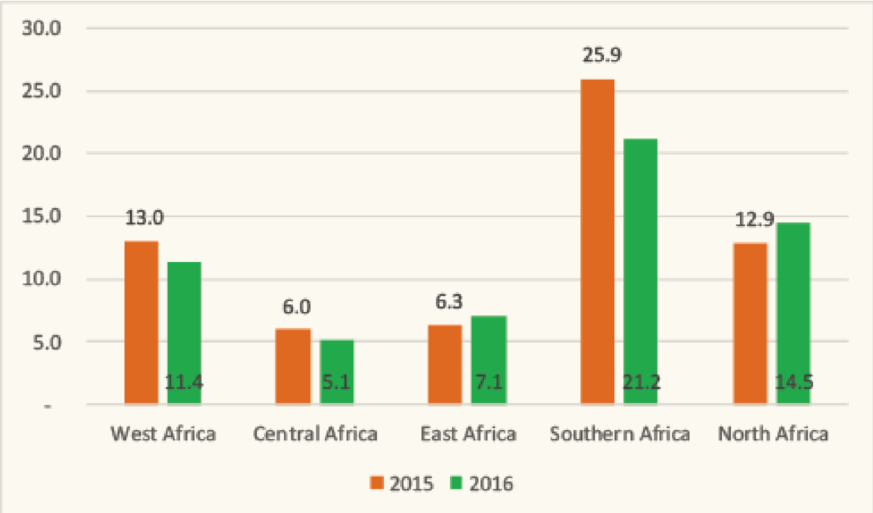
FDI flows to Central Africa fell by 15 per cent in 2016, to $5.1 billion. The Democratic Republic of the Congo saw FDI decline of 28 per cent to $1.2 billion in 2016, as the country attracted only investment into its mineral sector. Central Africa's major net oil exporters saw mixed performances, highlighting the importance of strong government responses to macroeconomic and financing conditions. Equatorial Guinea saw a substantial decline in FDI inflows (-77 per cent to $54 million), Chad experienced no change, while flows to Gabon increased by 13 per cent to $703 million. FDI in the Congo rose by 8 per cent, to $2 billion, mostly due to continued investments by Chinese companies operating in cobalt and copper extraction.

East Africa received $7.1 billion in FDI in 2016, 13 per cent more than in 2015. However, the aggregate increase masks divergent FDI performance within the sub region. Flows to Ethiopia rose by 46 per cent to $3.2 billion, propelled by investments in infrastructure and manufacturing. FDI was also buoyant in Mauritius, thanks to a variety of services investments and in Madagascar, in the context of a continued recovery since the decline in 2014. FDI into Kenya continued its decline, slumping by 36 per cent to $394 million in 2016 – only slightly more than a quarter of its 2011 level – despite investment reforms and a supportive domestic policy environment.

Yet the trading value on Kenya's liquid stock exchange overtook that of Nigeria's exchange for the first time last year. This propped up cross-border Mergers and Acquisitions (M&As), with the private equity fund Helios (United Kingdom) buying 70 per cent of Telkom Kenya from Orange (France). Flows to the United Republic of Tanzania shrank by 27 per cent to $393 million, despite policy efforts to attract more investors, such as the revamping of the country's special economic zones, in partnership with Mauritius.

In Southern Africa, FDI inflows contracted by 18 per cent to $21.2 billion. With the exception of Malawi and South Africa, FDI fell in all the economies of the sub region. FDI flows to Angola declined by 11 per cent to $14.4 billion, mainly due to a decline in reinvested earnings, reflecting the impact of low prices on profit margins. Flows to Mozambique declined by 20 per cent, although they remained sizeable at $3 billion. Despite a serious financial crunch, investors remained upbeat about long-term value in Mozambique's commodity sector, with Eni (Italy) approving $8 billion in offshore gas exploration at the end of 2016, and ExxonMobil (United States) buying a multibillion-dollar stake in Eni (Italy). Flows to Zambia fell sharply, dropping 70 per cent to $469 million, amid low commodity prices. South Africa, the economic powerhouse on the continent, continues to underperform, with FDI at a paltry $2.3 billion in 2016; that was up by 31 per cent from a record low in 2015 but still well off its past average. Nonetheless, State-owned Beijing Automotive International Corporation (China) agreed to build a $759 million automotive plant the biggest investment in a vehicle-production facility in the country in four decades.

Figure 2: Foreign Private Direct Investment, in Africa, 2015-2016 ($ billion)



Source: UNCTAD, World Investment Report 2017

1.3 Monitoring foreign investment in Rwanda

Globally, countries around the world have committed to collect information on foreign private flows following international standards on data collection methodology and share their information with World Bank and UNCTAD for comparability and communication. Rwanda has also committed to annually conduct this exercise and share the results.

With the objective of complementing internal resources, Rwanda has actively attracted FDI by creating and sustaining a sound and conducive investment climate through important reforms which has made easier for businesses to get started, get loans, pay taxes, etc. A whole package for investment promotion in general can be found within Rwanda Development Board.

The package for investment promotion includes among others: regulatory framework, registration facilities and requirements, change of registered businesses, closing of businesses, disclosure requirements, and other facilities such as working permit, government's protection of investments, settlement of disputes, transfer of funds, special economic zone facilitations, public private partnership (PPP) where RDB is chief negotiator between public and private sector.

Rwanda enacted a new investment code in 2015 which includes additional tax incentives, principles of national treatment, free transfer of funds and protection in case of expropriation. According to the World Investment Report (2017), Rwanda improved its world ranking to 41st position in the world in doing business, up from 62th last year. In Africa, Rwanda ranks 2nd from 3rd last year and remains number one in the East African Community.

1.4 Doing Business in Rwanda

Moving up fifteen places globally from 56th to 41st position means that Rwanda has become even more competitive and that the business and investment environment of the country is improving. Rwanda, which ranks second in Africa in Doing Business 2018, is an example of an economy that used Doing Business as a guide to improve its business environment. From Doing Business 2005 to Doing Business 2017 Rwanda implemented a total of 47 reforms across all indicators. Rwanda is one of only 10 economies that have implemented reforms in all of the Doing Business indicators and every year since Doing Business 2006.

These reforms are in line with Rwanda's Vision 2020 development strategy, which aims at transforming Rwanda from a low-income economy to a lower-middle-income economy by raising income per capita from $290 to $1,240 by 2020.

In the Doing Business Report 2018 that was launched on 31st October, 2017. Rwanda's overall ranking has made positive shift from 56th position to a position of 41st worldwide. Rwanda managed to register 5 reforms which were captured and reflected in this doing business report 2018. Today, Rwanda is again ranked the 2nd easiest to do business in Africa after Mauritius. The reforms that impacted our business regulatory environment include;

Dealing with construction permits: Rwanda increased quality control during construction by introducing risk-based inspections.

Registering property: Rwanda made registering property easier by implementing online services to facilitate the registration of property transfers.

Protecting minority investors: Rwanda strengthened minority investor protections by making it easier to sue directors, clarifying ownership and control structures and requiring greater corporate transparency.

Paying taxes: Rwanda made paying taxes easier by establishing an online system for filing and paying taxes.

Enforcing contracts: Rwanda made enforcing contracts easier by making judgments rendered at all levels in commercial cases available to the general public on the judiciary's website.

Table 1.1: Top six African countries.

Country	Ranking 2017	Ranking 2018	Change in rank
Mauritius	49	25	24 ↑
Rwanda	56	41	15 ↑
Morocco	68	69	1 ↓
Kenya	92	80	12 ↑
Botswana	71	81	1 ↑
South Africa	74	82	1 ↓

Source: World Bank Group, Doing Business Report, 2018

Table 1. 2: East African countries in doing business ranking 2018

Country	Rank in 2016	Rank in 2017	Change in rank
Rwanda	56	41	15 ↑
Kenya	92	80	12 ↑
Tanzania	132	137	5 ↓
Uganda	115	122	7 ↓
Burundi	157	164	7 ↓

Source: World Bank Group, Doing Business Report, 2018

A majority of East African economies did not make significant reforms to create an easier environment to do business from the previous doing business report to the current. Only Rwanda and Kenya made notable changes to improve doing business in the region, moving twelve and ten places up globally, respectively while Tanzania dropped 5 places, against 7 drops for Uganda and Burundi each.

CHAPTER TWO

METHODOLOGY AND GENERAL FINDINGS

2.0 Introduction

This chapter discusses the methodology that was used in conducting the Foreign Private Capital census 2017 which collected information for the year 2016. It covers the activities undertaken during the census as well as the organization of the census, data processing, data quality and adherence to the international standards.

2.1 Organization of the Census

2.1.1 Institutional Framework

In conducting foreign private capital censuses, four institutions are involved namely; the National Bank of Rwanda, National Institute of Statistics of Rwanda, Rwanda Development Board and the Private Sector Federation.

2.1.2 Scope

The census involved collection of data for the year 2016 from companies with foreign investments in Rwanda covering industrial activities as defined by the UN International Standard for Industrial Classification (ISIC 4). It covered companies located in both Kigali and out of Kigali.

2.1.3 Compilation of Investors' Register

Prior to the fieldwork, the investors' register was updated to cover all the foreign private investments. The register provides a comprehensive list of companies with foreign private investments. It contains company investments pledges, main activities, value and status of investment. Information about companies that were either rehabilitated, expanded, relocated, merged or had their business names changed was updated.

The census frame of 240 companies was established with the objective of covering all enterprises in Rwanda with foreign direct investment, portfolio investments and foreign borrowing in 2016. During the field work, 218 companies were interviewed. 22 companies could not be located as they had relocated, closed, put under receivership or have not started operation by the census period.

After compilation of enterprise register, all the companies in the register were considered in the census.

2.1.4 Perception Index computation

In this census, we followed the method used in the Investor Perception Index done by Ministry of trade and Industry (MINICOM) in 2012. The perception was part of the questionnaire and targeted FPC companies. This index helps to measure the responses of firms given in relation to eight broad themes pertaining to the investment climate they operate in. In this framework, selected investors responded to a number of questions within each theme which was asking the respondent to rate these sub-theme issues on a scale of 1 to 7, where 1 indicates the issue being very problematic and 7 indicates that the issue is not a problem at all. These sub-themes were given an equal weighting, and their scores were aggregated into a rating for the theme as a whole. Each theme then had a weighting of one eighth, and were further aggregated to form the overall rating.

The rating was then converted from the 1 to 7 format into a percentage score using the following formula: $\left(\frac{Score}{7}\right) * 100$

This was also done at the theme level, providing a theme-specific index value for investor perceptions. The aggregated Index value is that which is used in the Common Performance Assessment Framework (CPAF).

2.1.5 Questionnaire

The questionnaire for the FPC census 2017 was designed in conformity with International Monetary Fund's (IMF) sixth edition of balance of payments and international investment position manual. It was designed to capture information on company particulars, industrial classification, equity, non-equity and income on investments. In addition to the main questions on foreign assets and liabilities, trade in goods and services, the questions on investor's perception were added to capture qualitative information on the investment climate in Rwanda.

2.2. Field work and Data quality

2.2.1 Training of technical team

A training of technical team was conducted prior to the commencement of the survey. The objective of the training was to equip technical staff with the background, the purpose of the activity, understanding private investment components of the Balance of Payments (BoP) and International Investment Position (IIP) in the context of the sixth edition of Balance of Payments and International Investment Position Manual ,understanding the survey questionnaire; familiarization with investor perception questions and related issues; practical training on how to extract information from financial statements to complete the census forms and how to check for consistency in the data provided by the respondents and discuss the census logistics.

2.2.2 Fieldwork

In order to have a smooth monitoring and evaluation of census activities, the fieldwork was implemented in two phases. The first phase involved distribution and collection of questionnaires in Kigali city where most of the companies have their headquarters while phase two covered the distribution and collection of questionnaires in other provinces. In Kigali city, questionnaires were distributed to companies and given two weeks to complete them. After that period, the technical team assisted most of the companies in filling the questionnaires. Before the questionnaire collection, the technical staff would discuss with each respondent to clarify on any issue that was not clear to the respondents and thereafter collect the completed form. The collected information was verified against financial statements to ensure that the collected data is reliable before data entry and processing.

2.2.3 Response Rate

A total of 218 questionnaires were administered to enterprises during the field activities and 201 companies responded, equivalent to 92.2 percent response rate. The distribution and response rate by sector of investments are shown in Table 2.3.

Table 2.3: Distribution and response rate per sector in 2016

Sector	Distribution	Collection	R. rate
Agriculture	16	15	93.8
Construction	12	10	83.3
Education	6	6	100.0
Electricity	5	4	80.0
Finance	38	38	100.0
Human health and social work	4	4	100.0
ICT	17	15	88.2
Legal and Profession activities	9	9	100.0
Manufacturing	40	38	95.0

Sector	Distribution	Collection	R. rate
Mining	12	10	83.3
Real estate	6	5	83.3
Tourism	17	15	88.2
Transportation	8	7	87.5
Water supply	2	1	50.0
Wholesale	26	24	92.3
Grand Total	**218**	**201**	**92.2**

Source: Foreign Private capital 2017

2.2.4 Data Processing

Data entry and processing was done using a MEFMI Private Capital Monitoring System for FAL questions and CSPro for Trade in goods and service and perception. In order to ensure data quality, completed questionnaires were reviewed by the technical team and the team leader to ensure data completeness, consistency and reliability.

2.2.5 Data quality and estimation for non-response

The Census was conducted in accordance with the international standards, classifying economic activities based on International Sectorial Industrial Classification (ISIC) Revision 4.

The data quality was directly related to the quality of field enumeration and supervision; form design and inbuilt checks; respondents' understanding of the concept, classification and census questions; respondents' willingness to complete the questionnaire; technical editing and validation skills by field staff and team leader; the availability of other instruments to compare the data with such as financial statements and previous census returns. All the quality indicators were rated high.
In addition, comparisons of collected data were made with the information provided in the previous censuses at enterprise level for consistency check.

2.2.6 Timeliness

The census findings were disseminated in less than 6 months after completion of fieldwork. This was to meet the timeliness criteria for data dissemination as guided by IMF's framework in the Special Data Dissemination Standard (SDDS), which is within six months after fieldwork.

2.3 General findings

In addition to collection of data on assets and liabilities transactions and stocks, the census collected data on other transactions performed by the same companies. This part presents the aggregate findings on companies' turnover, trade, levels of employment, compensation of employees and corporate social responsibility.

2.3.1 Entity turnover

The FPC turnovers increased from $ 1,554.5 million in 2015 to $ 2,129.1 million in 2016, representing 37.0 percent increase. The FPC turnovers accounted for 36.8 percent of the country's total turnover of $ 5,789.2 million in 2016. The FPC turnovers were dominated by finance and insurance services, ICT and manufacturing accounting for 41.8 percent of FPC companies' turnovers.

Table 2.4: Entity turnovers by sectors in 2014-2016 ($ million)

Sector	2014	2015	2016
Agriculture	43.0	67.9	135.8
Education	5.6	6.3	9.3
Construction	114.0	68.4	37.8
Financial & Insurance	445.3	441.4	450.0
ICT	155.7	195.1	376.0
Manufacturing	414.5	286.2	290.7
Mining	151.3	62.3	64.7
Tourism	26.7	34.3	55.9
Transportation	109.1	37.9	64.2
Wholesale	321.3	334.8	251.6
Other sectors	17.8	26.1	398.0
Total	**1,798.8**	**1,554.5**	**2,129.1**

Source: Foreign Private Capital 2017

2.3.2 Contribution on external trade

The census findings show that the FPC companies are net importers with $ 277 million in 2016, resulting from $ 289 million of exports and $ 566 million of imports. External trade in mining and finance products recorded trade surplus of $ 55.2 million and $ 10.5 million respectively. The mining products are dominated by tin, coltan and wolfram exported by major mining exporting companies in Rwanda.

On the other side, imports are driven by manufacturing and wholesale and retail trade sectors with a lion's share of 71.2 percent of total imports, recording $ 277.1 million and $ 125.9 million respectively in 2016. Wholesale and retail trade sector is mainly made up of petrol stations and supermarkets while the manufactured exports are generally maize and wheat flour. It is important to note that the ratio of Exports/Imports for FPC companies is 51.1 percent which shows that the FPC companies have higher export coverage than the country's formal Export/Imports cover of 26.6 percent.

Table 2. 5: Exports-Imports in 2016 ($ million)

Sector	Imports	Exports	Net Exports
Agriculture	34.9	24.9	(10.0)
Construction	13.9	1.1	(12.8)
Finance and Insurance	6.9	17.4	10.5
ICT	53.2	9.0	(44.2)
Manufacturing	277.1	136.2	(140.9)
Mining	1.5	56.7	55.2
Transportation	4.7	1.8	(2.9)
Wholesale and retail trade	125.9	32.6	(93.3)
Other sectors	47.9	9.3	(38.6)
Grand Total	**566.0**	**289.0**	**(277.0)**

Source: Foreign Private Capital 2017

2.3.3 Employment

The results of the 2017 FPC census indicate that employment grew by 42.8 percent from 41,192 in 2015 to 58,828 in 2016. In terms of nationality of employees, Rwandans were 96.1 percent against 3.9 percent of foreigners. The number of short-term foreign employees was 178 which are equivalents to 0.3 percent of the total. According to the category of employment, managerial positions are occupied by 2,821 staff (4.8 percent), administrative 11,978 staff (20.4 percent); skilled 9,490 staff (16.1 percent) and casual 34,539 staff (58.7 percent). Details are provided in table 2.6.

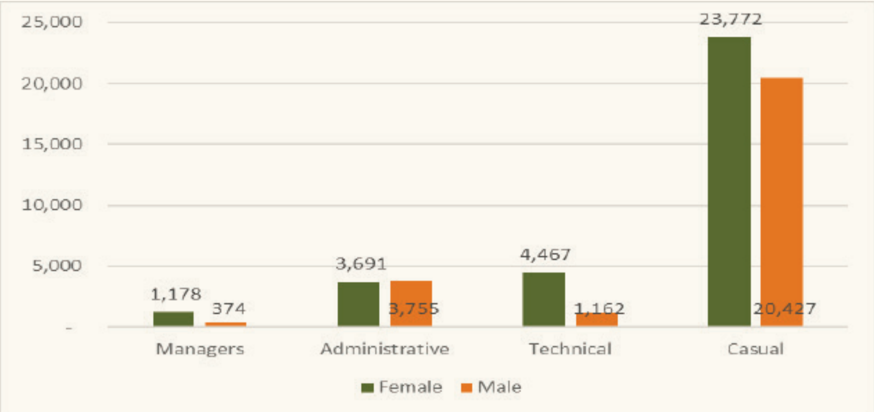
Table 2.6: Employment by Category in 2016

Category	Foreign ST	Foreign LT	Local	Total
Managers/ Supervisors	21	824	1,976	2,821
Administrative/Accounts	18	270	11,690	11,978
Skilled technicians	134	949	8,407	9,490
Casual	5	50	34,484	34,539
Total	**178**	**2,093**	**56,556**	**58,827**

Source: Foreign Private Capital 2017

According to the 2017 FPC, in terms of gender, males represent 56.3 percent whereas females represent 43.7 percent. Most of women are in the category of skilled technicians due to their concentration in the financial sector.

Figure 3 : Distribution of employment by gender in 2016



Source: Foreign Private Capital 2017

Regarding sectorial distribution of employment, agriculture had the highest number with 38 percent of total employees, followed by financial services (33 percent), mining (11.7 percent) and manufacturing (7.8 percent).

Table 2.7: Distribution of employment by sector 2014-2016

Sectors	2014	2015	2016
Agriculture	14,394	14,932	22,398
Financial and insurance	5,434	6,559	16,150
Construction	220	1,260	1,467
ICT	650	862	1,579
Manufacturing	2,878	6,816	3,816
Mining and quarrying	6,830	4,843	5,734
Real estate activities	1,094	86	360
Tourism	2,152	1,527	1,599
Wholesale and retail trade	2,401	1,467	1,497
Other sectors	911	2,840	4,227
Total	**36,964**	**41,192**	**58,827**

Source: Foreign Private Capital 2017

The increase in Agriculture employment mainly came from newly privatized tea factories like Shagasha, Mulindi and Gisakura and the nature of their sector that employs many casual workers. It is labor intensive in tea and coffee plantations.

2.3.4 Compensations of employees

Total compensation of employees (wages, salaries, contribution to pension fund, fringe benefits, etc.) paid to companies' employees increased by 23.5 percent from $331.4 million in 2015 to $409.5 million in 2016. Local employees received the highest share accounting for an average of 84.7 percent of the total compensation in 2016.

The best remunerating sectors were finance and insurance with 48.5 percent of total remuneration, followed by manufacturing with 24 percent. Details are shown in Table 2.6.

Table 2.8: Compensation of Employees 2014- 2016 ($ million)

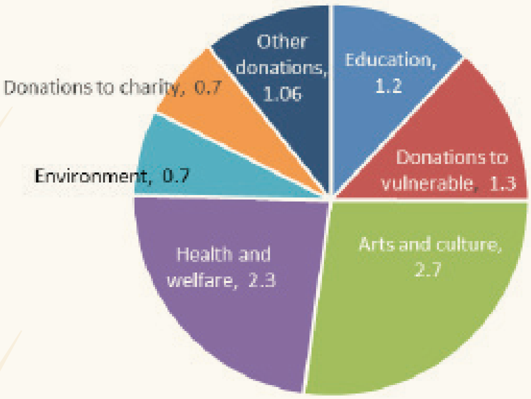
Sectors	2014	2015	2016
Financial services	164.9	90.3	108.4
ICT	15.8	41.7	36.2
Manufacturing	24.0	117.8	114.8
Mining	2.2	4.6	98.2
Tourism	6.0	31.9	1.5
Transportation	40.0	5.9	0.3
Wholesale & Retail trade	9.6	11.0	10.0
Other sectors	55.77	28.28	41.04
Total	**318.3**	**331.4**	**410.4**

Source: Foreign Private Capital 2017

2.3.5 Corporate social responsibility

Corporate Social Responsibility (CSR) is a corporate initiative to take responsibility for the company's effects on the environment and social welfare. Those initiatives are directed to environment, infrastructure, educational programs, health and other social, cultural or community services that benefit the population. The contributions of companies to corporate social responsibility stood at $ 9.94 million in 2016 up from $ 9.4 million in 2015. The activities which attracted substantial CSR contributions are arts and culture (27. 2 percent) Health and welfare (23.1 percent) followed by donations to vulnerable groups (13.2 percent), education (11.9 percent), environment (14 percent), water (10 percent) and sport development (7 percent).

Figure 4: Corporate social responsibility by type of recipient in 2016 ($ million)



Source: Foreign Private Capital 2017

The results show that the financial sector is the biggest contributor to CSR in 2016 as it accounted for 50.5 percent, followed by manufacturing sector with 30.3 percent.

Table 2.9: Corporate Social Responsibility by Sector 2014- 2016 ($ million)

Sector	2014	2015	2016
Agriculture	0.1	0.3	0.5
Financial	0.6	1.2	5.0
ICT	0.0	0.7	0.8
Manufacturing	1.2	2.8	3.0
Mining	-	0.1	0.1
Professional	0.0	0.0	0.0
Tourism	0.1	0.0	0.0
Wholesale and retail trade	0.1	0.2	0.1
Other sectors	0.16	4.25	0.47
Total	**2.2**	**9.4**	**9.9**

Source: Foreign Private Capital 2017

CHAPTER THREE

FOREIGN PRIVATE INVESTMENTS IN RWANDA

3.0 Introduction

This chapter highlights the census findings on foreign private investment that includes, foreign direct investment, foreign portfolio investment and other investments in 2016 and the respective stock as at end of 2016. It presents also the income and profitability by sector.

Foreign Private Capital is composed of Foreign Direct Investment (FDI), other investments and Portfolio investment. FDI is made up of investments of non-residents in resident companies with a shareholding of at least 10% of the company's total capital; and debt from related enterprises, but excludes debt among related financial intermediaries. Portfolio investment are investments in tradable instruments and other investments which are borrowings from outside as well as non-tradable shareholding of less than 10% of total capital of the company.

All these categories are analyzed by type of liability or instrument, relationship, sector of investment, and source country. Foreign Private Capital has two directions which are liabilities including inward investment flows and stocks as well as assets made up of outward investments flows and stocks.

3.1 Foreign Private Capital attraction in Rwanda

Looking at the performance in terms of investment attraction and registration, for the last 8 years (2009-2016), a total of 445 investment projects fully owned by foreign investors or in joint ventures with local investment has been registered with investment pledges worth $ 4,116 million and commitments to create 69,319 jobs.

The following table presents the pledged investments in value, number of projects and annual planned new jobs for the period of 2009-2015.

Table 3.10: New Foreign Private Investments registered (2014 – 2016)

	2014	2015	2016	2009-2016
Number of projects	54	60	47	445
Value($ million)	359.61	822.47	686.5	4,116
Jobs	5,169	6,161	8,017	69,319

Source: Rwanda Development Board, 2017

3.2 Foreign Private Investment in Rwanda

The census results show an increase of 13.6 percent in 2016 compared to the level of inflows which were recorded for 2015. Foreign Private Capital in Rwanda increased in 2016 to $ 541.2 from $ 476.3 million recorded in 2015.

The census indicates that the stock of foreign private capital increased from $ 2,077.9 million in 2015 to $ 2,528.2million in 2016 mainly driven by ICT with $ 631.3 million followed by finance & insurance services with $ 472.3 million and manufacturing with $ 384.1 million.

In terms of stock, total foreign private capital rose by 21.7 percent amounting to $ 2,527.9 million in 2016 from $ 2,077.9 million recorded in 2015 of which FDI amounts to $ 1,680.3 million followed by other investments of $ 747.1 million and portfolio investments of $ 100.5 million

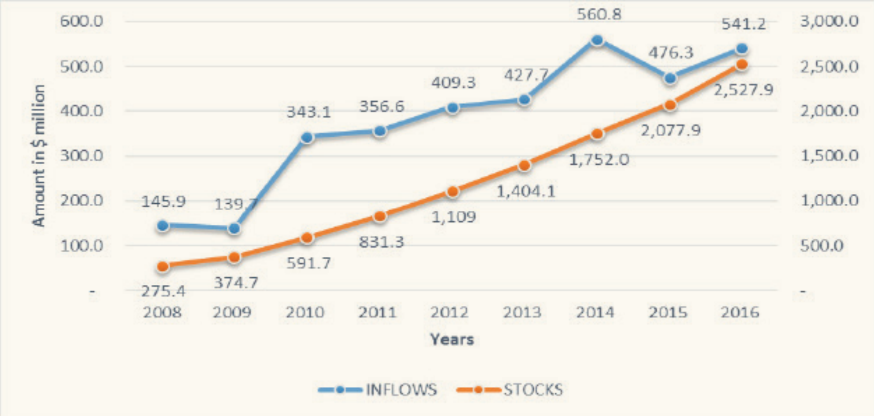
Foreign direct investments include three categories: equity capital, loan from affiliates (shareholders, parent or fellow companies) and retained earnings. In 2016, the FDI inflows reduced by 9.9 percent, from $ 379.8 million in 2015 to $ 342.3 million in 2016. The decline in FDI was mainly on the account of lower inflows of new equity and loans compared to 2015 following the slowdown in global economy.

The inflows of other investments, mainly loans, from foreign non-affiliates increased from $ 93.9 million in 2015 to $ 195.9 million in 2016.The investors opted for non-affiliate borrowings (other investments) which led to an increase in other investments. The intercompany borrowings represent 37.3 percent against 63.7 percent of other investment in total foreign private external debt disbursements in 2016.

The stock of Private Sector External Debt (PSED) as at end 2016 stood at $ 1,563.4 million increasing from $ 1,302.8 million in 2015, mainly driven by loans from foreign banks and developments agencies with share of 63.7 percent.

In addition, the retained earnings to profits made stood at 84.3 percent in 2016 and the FDI rate of return stood at 12.8 percent above the global rate of return of 6.1 which gives an indication of the country's investment profitability.

Figure.5: Foreign Private Investment Inflows and Stock by 2016 ($ Million)



Source: Foreign Private Capital 2017

The flows of foreign private investments have been increasing over the years as presented in the table 3.11 below.

Table 3. 11: Foreign Private Investments Inflows by Category 2010-2016 ($ million)

Years	2010	2011	2012	2013	2014	2015	2016
Fdi	250.5	119.1	255	257.6	458.9	379.8	342.3
Portfolio	1.5	87.3	1	1.7	5.6	2.5	3.0
Other Investment	91	150.2	153.3	168.4	96.3	93.8	195.9
Total	**343.1**	**356.6**	**409.3**	**427.7**	**560.8**	**476.3**	**541.2**

Source: Foreign Private Capital 2017

In the year 2016, total inflows amounted to $ 541.2 million, outflows stood at $ 178.3 million giving the net flows of $ 298.0 million.

Table 3. 12 : Foreign Private Investments flows 2016 ($ million)

Components	2015	2016		2016
	Stock	Net Flows	Other Changes	Stock
Fdi	1,401.80	266.27	12.22	1,680.29
Portfolio	97.4	2.96	0.10	100.46
Other Investment	578.6	160.43	8.11	747.14
Total	**2,077.90**	**298**	**20.43**	**2,527.90**

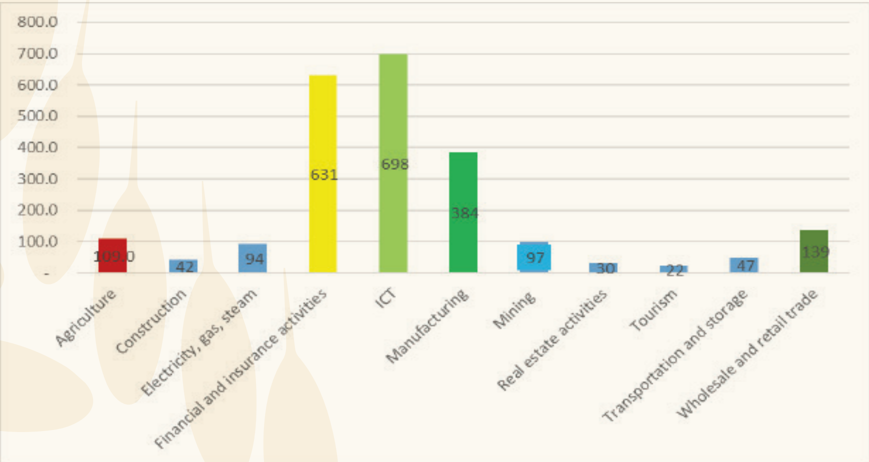
Source: Foreign Private Capital 2017

3.2.1 Foreign Private Investment by sector of economic activity

Considering foreign inflows by recipient sectors, 34.1 percent of total FPC in 2016 was channeled to finance and insurance, followed by ICT with 30.0 percent, manufacturing with 13.9 percent, and Wholesale and retail trade with 10.6 percent, electricity gas and steam 6.1, other sectors with 14.3 percent.

The stock of foreign investment in ICT (27.2 percent or $ 698.5 million) followed by finance and insurance (25 percent or $ 631.3 million) and manufacturing (15.2 percent or $ 384.1 million).

Figure 6: Foreign Private Investment Inflows and Stocks by Sector ($ million), in 2016.



Source: Foreign Private Capital 2017

3.2.2 Foreign Private Investment by country of origin

Most of the inflows were mainly from Mauritius ($ 167.2 million, representing 32.7 percent) followed by International Financial Cooperation (IFC) ($ 66.7 million, representing 12.3 percent), Preferential Trade Area (PTA) ($ 41.3 million, representing 7.6 percent), and Netherlands ($ 33.4 million), all with a combined share of 58.8 percent of total FPC inflows in 2016.

In terms of stocks, Mauritius, Kenya, South Africa, USA, Netherlands, and United Kingdom were leading with a share of 53.2 percent of the total stock. Considering the immediate parent company, Mauritius is the largest investor as a host of many holding companies although the ultimate controlling companies are from different parts of the world.

Table3.13: Inflows and Stocks by Origin in 2016 ($ million)

Origin	Inflows	% Share	Origin	Stock	%Share
Mauritius	167.2	30.9	Mauritius	523.9	20.7
IFC	66.7	12.3	Kenya	219	8.7
PTA	41.3	7.6	Netherlands	150.6	6
Netherlands	33.4	6.2		171	6.8
South Africa					
UAE	33.4	6.2	US	160.1	6.3
Kenya	26.6	4.9	PTA	119.1	4.7
US	24.7	4.6	United Kingdom	79	3.1
Luxembourg	22.4	4.1	IFC	76	3
Sudan	18.2	3.4	Luxembourg	73.2	2.9
Belgium	11.2	2.1	Malaysia	62	2.5
OTHERS	96.1	17.76	OTHERS	894.1	35.4
TOTAL	**541.2**	**100**	**TOTAL**	**2,528.20**	**100**

Source: Foreign Private Capital 2017

With regard to foreign private capital stock by regional economic grouping, the COMESA (Non-EAC) held the highest stock amounting to $585.8 (24.7 Percent) dominated by investment from Mauritius. The European Union (EU) countries held $ 412.6 million (17.4 percent) dominated by investments from Netherlands and United Kingdom directed mostly in finance & insurance and in ICT sectors. While OECD-Non EU had $ 224.1 million (9.4percent) coming mostly from USA, Israel and Russia. SADC (Non EAC & COMESA) had $ 274.2 million (11.6 percent) and EAC had $ 277.6 million (11.7 percent) were especially from Kenya. Asia accounted for $ 238.1 million (10 percent). Stock of investment from international and regional organizations stood at $ 281.0 million (11.8 percent). Other countries classified elsewhere had $ 80.1 million (3.4 percent)

Table3.14: Foreign Private Investment Stock & Inflows by Region in 2016 ($ m)

Region	Stock	Inflows
OECD	412.6	83.0
OECD-Non EU	277.6	32.0
EAC	228.4	60.5
COMESA-(Non-EAC)	585.8	168.8
SADC-(Non EAC & COMESA)	274.2	24.5
Asia	238.1	8.0
Other	80.1	7.0
I.Org.	281.0	120.9
Total	**2,373.5**	**499.1**

Source: Foreign Private Capital 2017

3.3. Foreign Direct Investment

3.3.1. Foreign Direct Investment inflows and stock

Foreign direct investments include three categories: equity capital, loan from affiliates (shareholders, parent or fellow companies) and retained earnings. In 2016, the FDI inflows declined by 9.9 percent, from $ 379.8 million in 2015 to $ 342.2 million. The decline in FDI was on the account of lower inflows of new equity and loans compared to 2015. The big chunk of FDI inflows were loans from affiliates which amounted to $ 137.1 million representing 40 percent, equity capital of $ 86.7 million accounting for 25.3 percent while retained earnings were $ 118.5 million accounting for 34.6 percent. Both equity capital and borrowing from affiliates inflows decreased by 21.1 percent and 35 percent in 2016, respectively compared to level of 2015, while retained earnings doubled from $ 58 million in 2015 to $ 118 million in 2016.

In terms of stock, FDI grew by 19.8 percent to $ 1,680.2 million in 2015 from $1,401.8 million in 2015, driven by 127 percent increase in retained earnings and 13 percent increase in loans and 12.8 percent increase equity) in 2016 compared to 2015.

Table3.15: Inflows and Stocks of FDI by type 2013-2016 ($ million)

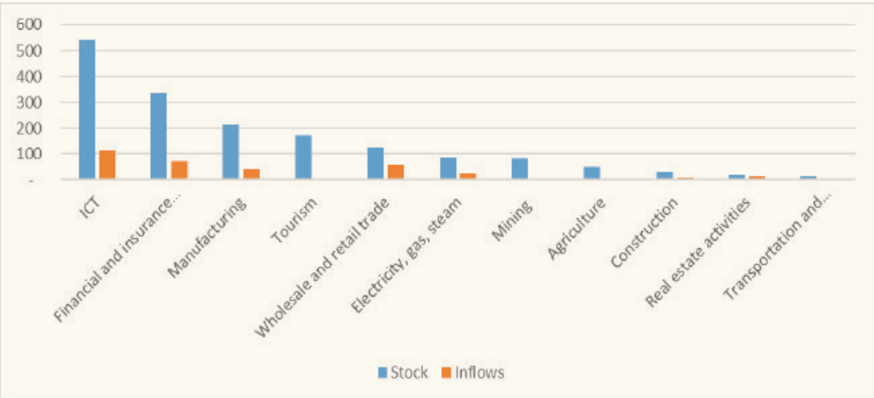
	2013		2014		2015		2016	
	Inflows	Stock	Inflows	Stock	Inflows	Stock	Inflows	Stock
Equity	74.2	373.6	129.6	503.2	110	607.4	86.7	685.1
Loans	144.4	337.3	311.8	504.9	210.9	693.1	137.1	788.4
RE	39	126.7	17.5	144.2	58.9	73.4	131.5	166.7
Changes	0	0	0	0	0	27.9	-	40.1
Total	**257.6**	**837.7**	**458.9**	**1,152.20**	**379.8**	**1,401.80**	**342.3**	**1,680.3**

Source: Foreign Private Capital 2017

3.3.2 Foreign Direct Investment Inflows and Stock by sector

The first four recipients of the foreign direct investment inflows in 2016 were ICT sector with $ 113.1 million, electricity, financial and insurance activities with $ 70.3 million, gas steam with $ 21.8 million and tourism with $ 4.3 million. Regarding stock, only four sectors represented 75 percent of all FDI stock in 2016. ICT took the lead with $ 541.5 million, followed by finance and insurance ($ 338.01 million), manufacturing ($ 213.9 million) and tourism ($ 171.01 million). The stock in these sectors increased by 24 percent, 20 percent, 14 percent, and -2 percent, respectively.

Figure 7: FDI Inflows and Stocks by Sector in 2016 ($ million)



Source: Foreign Private Capital 2017

3.3.3 Foreign Direct Investment Flows and Stocks by origin

By country of origin, Mauritius, USA, China, Kenya, Luxembourg and Switzerland were the major source of FDI inflows, totaling 79 percent of total inflows in 2015. The big chunk of stock is from Mauritius, South Africa and Kenya.

Table 3.16: Top ten Foreign Direct Investment Flows and Stocks by origin in 2016 ($ million)

Country	Inflows	%Share	Country	Stock	% Share
Mauritius	167.10	48.8	Mauritius	543.7	32.3
Netherlands	31.50	9.2	South Africa	169.5	10.0
United Arab Emirates	29.80	8.7	Kenya	150.3	8.9
Kenya	22.10	6.4	Panama	94.8	5.6
Luxembourg	13.70	4	US	87.4	5.2
US	10.20	2.9	Ghana	67.3	4
China	7.50	2.1	Luxembourg	61	3.6
IFC	6.70	1.9	Libya	60	3.5
India	6.20	1.8	Norway	53	3.1
United Kingdom	5.50	1.6	Netherlands	46	2.7
Others	41.90	12.2	Others	347.2	20
Total	**342.20**	**100**	**Total**	**1680.2**	**100**

Source: Foreign Private Capital 2017

3.4. Foreign Portfolio Investment

Portfolio investment which involves the purchase of stocks, bonds, commodities, or money market instruments by non-residents, remains the lowest component of foreign investment in Rwanda mainly due to the low level of financial market development. Its stock increased to $ 100 million in 2016, equivalent to 3.03 percent from $ 97 million recorded in 2015. The significant amount of foreign portfolio investment inflows was recorded in 2011 when for the first time shares were listed on Rwanda Stock exchange, there after we see a stable and low inflows below 6 percent.

In 2016, Rwanda recorded foreign portfolio inflows of $ 2.9 million compared to $ 2.5 million in 2015. This is mainly due to the fact that residents bought shares sold by non-residents.

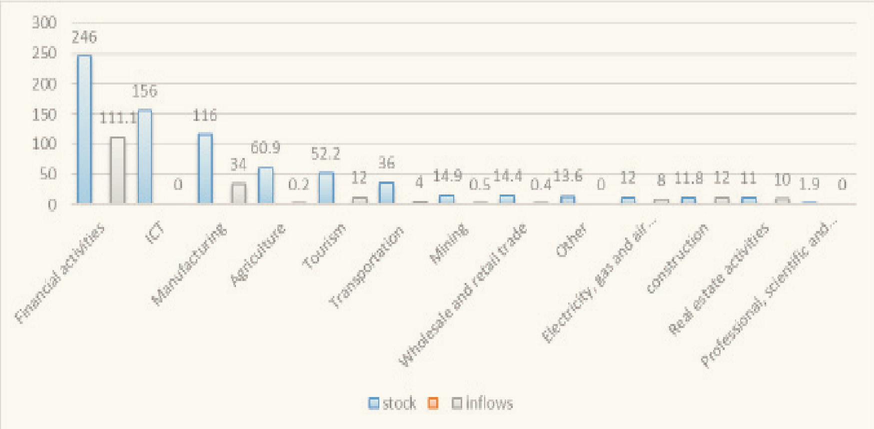
3.5. Other investments

Other investments accounted for 19.7 percent of the overall liability inflows and are made of long term and short term loans from unrelated sources. In 2016, a total of $ 195.9 million of loan inflows were reported, of which $ 92.9 million (98.3 percent) were long term (equal or more than 1 year), and $ 1 million (1.4 percent) short-term (less than one year).

3.5.1 Other investment inflows and stocks by Sector

The sectorial distribution of other foreign investment inflows in 2016 shows that they were mainly concentrated in the financial sector which received $ 111 million followed by manufacturing sector with $ 34 million. In terms of stock, ICT had $ 156.5 million, followed by manufacturing with $ 116 million, Agriculture with $ 60.9 and Tourism with $ 52.2 million.

Figure 8: Other investments inflows and stocks by sector in 2016 ($ million)



Source: Foreign Private Capital 2017

3.5.2 Other Investments Inflows and Stock by Source in 2016

In 2016, IFC was the major lender with disbursement of $ 59.9 million, followed by PTA and Sudan with $ 41 and 18 $ respectively. In terms of stock, PTA was the major source, with $ 110 followed by IFC with $ 102 million, with $ 67.4 million.

Table 3.17: Other Investments Inflows and Stock by Source, 2016 ($ million)

No	Origin	Inflows	Origin	Stock
1	IFC	59.9	PTA	110.2
2	PTA	41.2	IFC	102.5
3	Sudan	18.2	German	67.4
4	US	11.4	United Kingdom	58.7
5	Egypt	10.4	Kenya	45.9
6	EIB	9.9	Zambia	43.4
7	Luxembourg	8.6	EIB	29.4
8	Belgium	8.2	Sweden	24
9	Turkey	7.8	AFD	21.4
10	Others	20.3	Others	40
	Total	**195.9**	**Total**	**747.1**

Source: Foreign Private Capital 2017

3.6. Income on investments

The trend for profits realized became positive since 2011 as shown in the table 3.16. In 2016, the overall net profit amounted to $ 131.4 million rising from $ 65.0 million in 2015, equivalent of 102.5 percent. Out of the profit of $ 131.4 million recorded in 2016, reinvested earnings were $ 93.3 million, representing 71 percent of total profits.

Table 3.18: Income on investment 2014 - 2016 ($ million)

Item	2014	2015	2016
Net Profit/Loss	46.5	65.0	131.4
Dividends Declared	22.4	10.2	38.1
Dividends Paid	34.2	32.2	34.9
Valuation changes	1	0.0	0.0
Retained Earnings/Loss	23	54.8	93.3

Source: Foreign Private Capital 2017

3.6.1 Income on investment distribution by sector

The major profit making sectors were ICT, finance and insurance specifically the banking sub-sector, whole sale and agriculture. The share of dividends declared to net profit is 29 percent whereas the retained earnings are 71 percent. The reinvested earnings to net profit increased by 70.2 percent in 2016 compared to 2015. A big proportion of profits is retained at the rate of 71percent in 2016.

The findings further indicate that the retained earnings and dividends paid are proportioned to the profits made, the more the sector makes the profits, the more it distributes dividends and the more it retains as seen in table 3.20.

Table 3.19: Income on investment distribution by sector in 2016 ($ million)

Sector	Net Profit/ Loss	Dividends Declared	Dividends Paid	RE
Agriculture	11.9	1.5	0.8	10.4
Education	(1.5)	-	-	(1.5)
Electricity	4.6	-	-	4.6
Finance and insurance	46.7	13.9	13.7	32.9
Human health	0.7	-	-	0.7
ICT	58.5	19.2	17.5	39.3
Manufacturing	(4.3)	2.5	2.1	(6.8)
Mining and quarrying	1.4	-	-	1.4
Professional	(1.0)	-	-	(1.0)
Real estate activities	(5.4)	-	-	(5.4)
Tourism	(14.5)	0.1	0.7	(14.6)
Transport and storage	(0.3)	1.0	-	(1.3)
Whole sale	34.5	0.1	0.1	34.4
Total	**131.4**	**38.1**	**34.9**	**93.3**

Source: Foreign Private Capital 2017

In terms of profits made, ICT sector dominated with 44.5 percent followed by finance and insurance with 35.5 percent. Sectors like education, manufacturing, professional, real estate, tourism and transport retained losses at the end of 2016.

The sectorial breakdown of dividends paid shows that most dividends are in ICT sector with 50.1 percent, and Finance and Insurance with 39.2 percent.

3.7. Return on equity by sectors in 2016

Return on equity is the amount of net income returned as a percentage of shareholders' equity. It measures company's profitability by revealing how much profit a company generates with the money shareholders have invested.

Net income is for the full calendar year (before dividends are paid to common stockholders but after dividends to preferred stock.). ROE is useful for comparing the profitability of a company to that of other firms in the same industry. In our case, we use it to calculate sector profitability. According to Aswath (2007), the ROE is calculated as follows:

$$ROE = \frac{\textit{Net Profit}}{\textit{Average FDI Equity Stock}} \times 100$$

The net profit is the net income of the year before dividends is paid to common stockholders, whereas FDI Stock includes accumulated equity capital and accumulated retained earnings as presented in table 3.20.

The main objective of foreign investors in investing in foreign economies is to maximize their global profits. Firms invest abroad when the expected return exceeds the costs (Caves 1982). Among other factors, the rate of return on investments positively affected FDI inflows in Sub Saharan Africa (Opolet et al 2008).

In Rwanda, profitability of 12.8 percent continues to be higher than the world average return of 6.0 percent.

Table 3.20: Foreign Direct Investment Return on Equity 2014 - 2016 (%)

Sectors	2014	2015	2016
Administrative and support service activities	20.1	(2.90)	8.00
Agriculture	12.0	44.56	55.39
Construction	30.5	37.60	38.00
Education	(0.5)	(0.50)	(61.81)
Electricity, gas, steam	19.4	59.39	12.37
Financial and insurance activities	27.1	20.93	32.08
ICT	(0.0)	3.22	25.44
Manufacturing	28.6	10.85	(4.53)

Sectors	2014	2015	2016
Other service activities	10.0	(50.05)	6.47
Tourism	(0.1)	2.31	(17.92)
Transportation and storage	(0.0)	11.02	(5.00)
Wholesale and retail trade	4.0	22.79	73.60
TOTAL	**10.1**	**11.8**	**12.8**

Source: Foreign Private Capital 2017

Considering profitability by sector, wholesale and retail trade sector, agriculture, construction, financial and insurance services, ICT, administrative and support services, electricity, mining and other services activities recorded the profit in 2016. As the table 3.18 above indicates, the remaining sectors including education, tourism, transport and storage, manufacturing made losses in 2016.

The global average rate of return on FDI in 2016 was 6.0 percent, while it was 12.8 percent for Rwanda. According to the world investment report (2017), Rwanda is doing well in FDI profitability as shown in the table 3.21.

Table 3.21: Inward Return on FDI Equity 2013-2016 (percent)

Years	2013	2014	2015	2016
Global	6.5	6.7	6.1	6.0
Rwanda	16.1	10.1	11.8	12.8

Source: World Investment Report, 2017

3.8. Private Sector External Debt

Private sector external debt is mainly comprised of non-equity instruments (mainly loans) contracted abroad by companies operating in Rwanda. In 2016, its stock was $ 1,563.4 million, an increase of 20.0 percent when compared with 1,302.8 million recorded in 2015 (table 3.22). Long-term loans from related parties continued to account for the largest share of private sector external debt (PSED) during 2016, principal repayments (including interest accrued but not paid) represented 19.1 of total disbursements in 2016.

Table 3. 22: Foreign Private Sector Debt2014 – 2016 ($ million)

Type	Maturity	2014	2015	2016
AFFILIATES		**505.0**	**721.0**	**816.2**
Loans	LT	459.9	641.4	710.2
	ST	45.0	79.6	106.1
NON AFFILIATES		**504.7**	**581.8**	**747.1**
Loans	LT	463.2	539.7	689.2
	ST	6.8	7.3	13.7
Trade Credits	ST	28.2	28.4	38.2
Other	LT	6.5	6.5	5.9
TOTAL		**1,009.6**	**1,302.8**	**1,563.4**
Of which:	LT	929.6	1,187.5	1,405.3
	ST	80.0	115.3	158.0

Source: Foreign Private Capital 2017

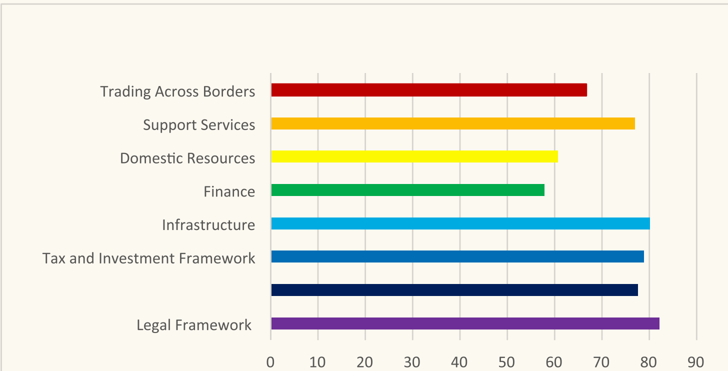
CHAPTER FOUR

INVESTOR PERCEPTION

The Investor Perception part was added in the Foreign Private Capital census 2016 as recommendation from investors in the previous census to capture their feel on different issues pertaining to investment in Rwanda and was conducted with the purpose of providing an absolute indication of perception of the business climate in Rwanda. The Index is a composite indicator measuring investor perceptions across 8 themes: (1) Legal framework; (2) Governance; (3) Taxation and investment framework; (4) Infrastructure; (5) Access to finance; (6) Domestic resources; (7) Support services; and (8) Trading across borders. Investors responded to questions on a number of sub-theme issues, providing ratings on a scale of 1 to 7 where 1 indicates that this issue is very problematic and 7 indicates that the issue is not a problem at all.

Rwanda business climate continues to perform better with the score for the Investor Perception Index (IPI) 2016 standing at 72.6. For the eight themes which are sought to affect the business climate in Rwanda, legal framework leads with 82.1 followed by infrastructure with 80.1, taxes and investment standing at 78.9, governance with 77.5 and support services with 77.0 while low performance is reported on finances and domestic resources with their IPI standing at 57.8 and 60.7 respectively.

Figure 9: Perception Index



Source: Foreign Private Capital 2017

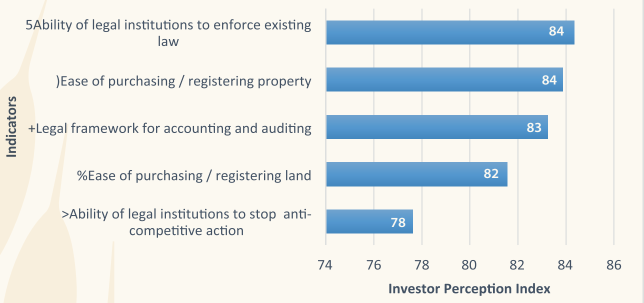
4.2. Results by Theme

The Index on investor perceptions was computed across 8 themes: (1) Legal framework; (2) Governance; (3) Taxation and investment framework; (4) Infrastructure; (5) Access to finance; (6) Domestic resources; (7) Support services; and (8) Trading across borders.

4.2.1 Legal Framework

The legal framework recorded an IPI of 82.1 thanks to the ability of legal institutions to enhance established law whose IPI stands at 84.4 followed by registering property, accounting and auditing frameworks and land registration with their IPI standing at 83.9, 83.2 and 81.6 respectively. The IPI for property and land registry performed better due to the established web-based Land administration information system that has reduced significantly the time required to transfer property. Land registry has on one hand increased efficiency, transparency and security which limits citizens and businesses to question unreasonable procedures but on the other hand it also speeds up mortgages application and access to other credit lines.

Figure 10: Legal Framework

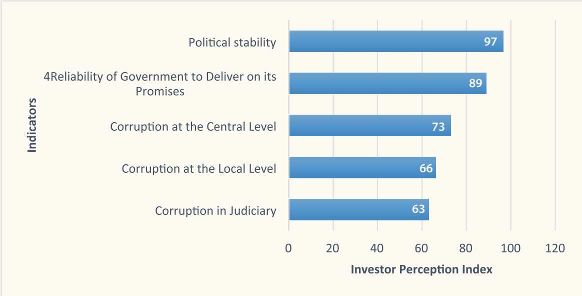


Source: Foreign Private Capital 2017

4.2.2 Governance

The results revealed that governance recorded a good performance with its IPI standing at 77.6 thanks to the continued political stability and security sub-theme whose IPI is 96.6 followed by the reliability of the Government to deliver on its promises with 89.0 while the value of IPI for corruption measures reflects different values for different levels. At central level there were reported more efforts to combat corruption with its IPI standing at 72.9 high from the 66.3 and 63.0 at local and judiciary levels respectively.

Figure 11: Governance

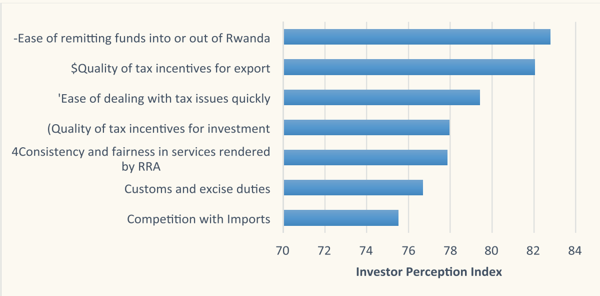


Source: Foreign Private Capital 2017

4.2.3 Tax and Investment framework

Rwanda's tax and investment framework has performed better with its IPI standing at 78.9 due to easing of remitting funds in and out of Rwanda which stands at 82.8. Taxes related indicators though performed better, they are below the preceding investment indicator except for the tax incentives for exports which stands at 82.0. Overall, the IPI for all taxes related indicators stands at 79.0 with the customs and excise duties recording an IPI of 76.7 and the ease in dealing with taxes issues standing at 79.4 and fairness and consistency of services rendered by RRA stood at 77.8. However, the number is still promising after RRA initiated electronic filling and payment systems compulsory starting 2014/2015 which has reduced significantly the time required for a business entity to prepare, file and pay taxes. Finally, competition with imports contributed less compared to other indicators under taxes and investment theme with its IPI standing at 75.5 signaling that local businesses are producing goods at higher costs thus less competitive with foreign goods.

Figure 12: Tax and Investment Framework



Source: Foreign Private Capital 2017

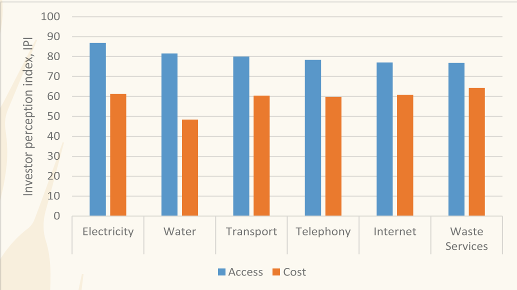
4.2.4 Infrastructure

Results show the overall improvement of the infrastructure sector with its IPI standing at 80.1 driven by better performance of access to telephone (86.8), access to electricity (81.6) and access to internet (80.1). The IPI on electricity is of great importance as it has a direct implication on production process as both domestic and foreign investors prefer areas that offer a reliable and competitively priced supply of electricity.

In addition, water supply, transport and waste services performed better scoring at 77.0, 78.3 and 76.9 respectively.

With regards to cost, electricity cost leads with an IPI of 48.4 followed by transport (59.7), internet (60.4), water (60.9), telephone (61.2) and finally waste services with 64.2.

Figure 13: Infrastructure



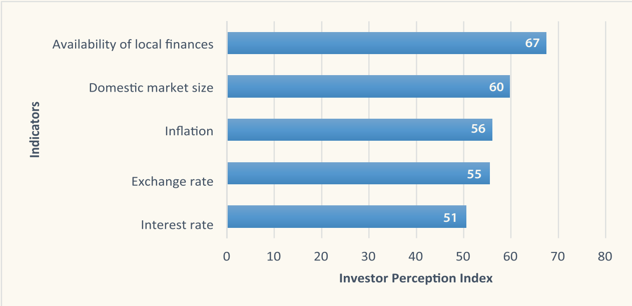
Source: Foreign Private Capital 2017

4.2.5 Economic and financial factors

Rwanda's economic and financial factors reportedly performed moderately with an IPI of 57.8 mainly from the low scoring of all the categories namely interest rate (50.7), exchange rate (55.4) and inflation (56.0). The scores for these macroeconomic indicators capture Rwandan economy in the period under review. First, high interest rates have been increasing the borrowing costs and make harder for businesses to start new projects or expansions and hence negatively affecting the company growth.

Secondly, in 2016 the Rwanda franc (FRW) was under pressure mainly driven by mismatch of a high imports bills and low exports receipts as well as high demand for dollars from different companies and governments projects under the Public Private Partnership (PPP) framework which needed to mobilize hard currency from the domestic market.

Figure 14: Access to finance

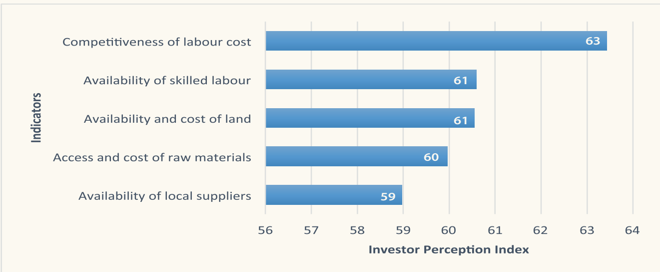


Source: Foreign Private Capital 2017

4.2.6 Domestic Resources

Rwanda's domestic resources performed moderately with an IPI of 60.7. The main drivers to this moderate performance are observed in the low availability of domestic suppliers (58.8), access to and cost of low materials (59.9), availability and cost of land (60.6), availability of skilled labour (60.6) and finally competitiveness of labour costs (63.4).

Figure 15: Domestic Resources

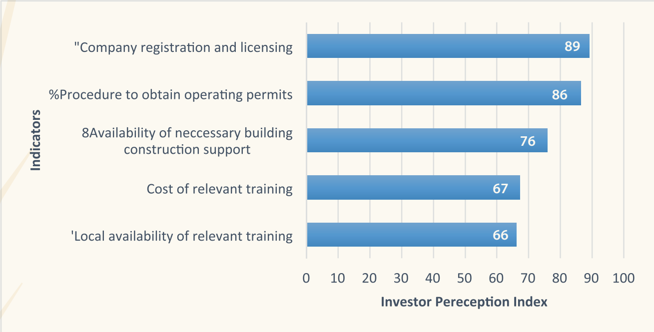


Source: Foreign Private Capital 2017

4.2.7 Support Services

Support services in Rwanda, provided by public sector institutions to private sector operators performed better with an Investor Perception Index of 77.0. Company registration and licensing recorded an IPI of 89.2 prompting it to lead other indicators in the support services theme following the online business registration and licensing. The process to get a working permit follows with a score of 86.4. The IPI on construction also performed better standing at 75.6 following the adoption of a new building code and new urban planning regulations.

Figure 16: Support Services

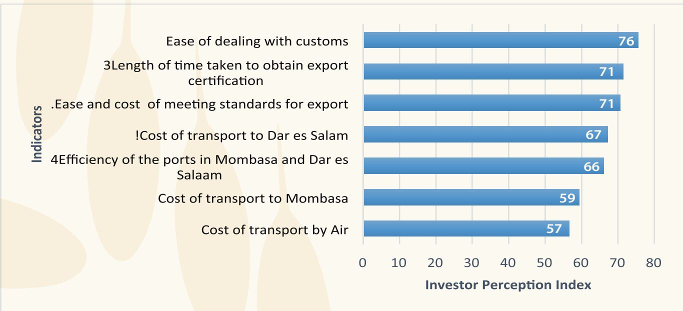


Source: Foreign Private Capital 2017

4.2.8 Trading Across Borders

Trading across borders performed moderately with an IPI standing at 66.7. The score is dominated by ease of dealing with customs with a score of 75.6 following the government's effort to make trade across the borders easier by removing the mandatory pre-shipment inspection for imported products. Time required to obtain export certificates follows with a score of 71.4 while the ease and cost to comply with standards for exports stands at 70.6. Under this theme the low performance was recorded on the transportation costs. The average score of transport costs stands at 61.8 mainly driven by the highest costs recorded under air transports with an IPI of 56.6 followed by the transport costs to Mombasa (59.4) while Dar es Salaam performed better than the previous indicators with its IPI standing at 66.0.

Figure 17: Trading Across Borders



Source: Foreign Private Capital 2017

CONCLUSION

Rwanda continues to record a positive trend in foreign private capital as the stock of foreign investments stood at $ 2,527.9 million in 2016. In 2016, foreign private capital inflows rebounded to $ 541.2 million, a growth of 13.6 percent compared to the previous year. Much similar to the African trend in FDI which declined by 3 percent, FDI in Rwanda also declined by 9.9 percent in 2016. This decline is on account of lower inflows of new equity and loans from affiliates. The respondents attribute the decline in equity capital and FDI loans to uncertainty associated with elections period and slowdown in the global economy. Despite the decline in loans and equity we observe an uptick in retained earnings, which doubled from the previous realization.

The foreign private capital inflows into Rwanda in 2016, were dominated by foreign direct investment inflows (63.2 percent). In terms of country of origin, most of the inflows were mainly from Mauritius ($ 167.2 million) followed by IFC ($ 66.7 million), PTA ($ 41.3 million) and Netherlands ($ 33.4 million) with a combined share of 56.1 percent of total FPC inflows in 2016 and the investments were mainly in finance and insurance, manufacturing as well as ICT sectors accounting for 69.0 percent of total inflows.

In addition, the share of retained earnings to profit made stood at 71.1 percent in 2016 and the FDI rate of return stood at 12.8 percent which gives an indication of the country's investments profitability. There is therefore the need to continue consolidating efforts geared towards improving the investment climate so that investors can gain higher returns and reinvest.

The level of private external loans is increasing as its stock stood at $1,563.4 million at the end of 2016. The government should consider including the PSED scenario in its debts sustainability to mitigate the potential insolvency risk that may accrue in the future.

The ranking for Rwanda doing business continues to improve and this was confirmed by the investor's perception on investment climate in Rwanda. The major area of concern raised in the perception include high interest rate, exchange rate depreciation, high labor cost and scarcity of domestic resources.

The prospects for 2017 are for higher flows, as we expect a rise in the next year's FDI inflow owing to the fact that 2017 new investment projects attraction was growing to over $ 1.1 billion worth of foreign private investment projects registered in that year, with some new companies expected to start making profits.

Major policy implications are, but not limited to sustaining stable macro-economic environment, increasing and maximizing the gains from private capital flows thus contributing to job creation and economic growth. In addition, the measures being undertaken in the area of cost reduction of doing business are key in encouraging new investments and re-investment of earnings needs to be strengthened.

The country needs to continue sustaining the achievements registered in the attraction and retention of private investments. As way forward, the results of this census should be used to guide policy makers on investment sectorial performance and as an evaluation tool of current interventions as well as the design of new policies and programs focusing on priority investment issues.

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ANNEXES

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