SUPPORTING ECONOMIC TRANSFORMATION

COORDINATING PUBLIC AND PRIVATE ACTION FOR EXPORT MANUFACTURING

International experience and issues for Rwanda

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ACRONYMS

ACET	African Center for Economic Transformation
AGOA	African Growth and Opportunity Act
ATF	African Transformation Forum
CHIC	Champions Investment Corporation
DRC	Democratic Republic of Congo
EAC	East African Community
ESID	Effective States and Inclusive Development
EU	European Union
FDI	Foreign Direct Investment
FIA	Federal Investment Agency (Ethiopia)
IGC	International Growth Centre
MINEACOM	Ministry of Trade, Industry and EAC Affairs
MINECOFIN	Ministry of Finance and Economic Planning
MINICOM	Ministry of Trade and Industry
MoU	Memorandum of Understanding
NECC	National Export Coordination Committee (Ethiopia)
ODI	Overseas Development Institute
PDIA	Problem-Driven Iterative Adaptation
PS	Permanent Secretary
PSF	Private Sector Federation
RDB	Rwanda Development Board
RIG	Rwanda Investment Group
RPF	Rwandan Patriotic Front
SET	Supporting Economic Transformation
SEZ	Special Economic Zone
SMEs	Small and Medium-Sized Enterprises
SPU	Strategic Policy Unit
US	United States
VAT	Value-Added Tax
WDR	World Development Report
WIDER	World Institute for Development Economics Research

EXECUTIVE SUMMARY

Along with accelerated agricultural progress, an expanding role for employment-intensive, export-oriented manufacturing is increasingly recognised as a critical next step in the economic transformation of Africa. This poses substantial challenges of various kinds, not least in small, landlocked countries like Rwanda. The challenges include creating institutional arrangements that are effective in coordinating public and private action around well-chosen policy goals.

In the comparative literature on industrial policy and development, six institutional requirements emerge as particularly needing to be satisfied for success in export manufacturing. Using these as a template, this report examines the status and prospects of arrangements for public–private coordination in Rwanda. Our findings draw on extensive interviews with public and private sector actors in Rwanda carried out at intervals over the past decade and ongoing under the Overseas Development Institute's Supporting Economic Transformation (SET) programme.

The first requirement for success suggested by East Asian and other recent international experience is the establishment of ***economic transformation as a nation-building project***, with shared commitments among key actors extending well beyond a single political cycle. Rwanda stands out in sub-Saharan Africa as a rare example of a country whose underlying political settlement gives a central place to national development goals and protects policy-making from the usual effects of political competition of the patron–client type. The settlement also includes a relatively strong commitment to private sector development. This provides a favourable starting point for building other needed elements of the institutional architecture for public–private collaboration.

Other requirements identified in the literature include the creation of a public agency with sufficient autonomy, budgetary resources and political authorisation to override inter-departmental coordination problems and engage in a practical way with credible private sector organisations. The report discusses this under three headings: coordination in government, engagement with the private sector and the credibility of private sector representation.

Coordination in government: Policy for economic transformation, including export manufacturing, is comparatively well 'joined up' in Rwanda, thanks to the fact that under the political settlement the relevant ministries and agencies are not to any degree political fiefdoms. An impressive-looking formal apparatus for policy coordination has also been created, on conventional civil service lines. However, the Rwanda Development Board (RDB) – the organisation that might have been expected to play the forceful coordination role associated with Asian 'super-ministries' – has not been given a sufficiently focused mandate or the necessary resources. Although its chief executive has cabinet rank, its mandate is limited to implementing policy and providing a broad range of services. This problem is not unique to Rwanda; similar issues have been raised about Ethiopia's architecture for investment and export promotion.

Engagement with the private sector: The services provided by the RDB include investment facilitation and investor 'aftercare'. However, the best Asian models, and experiences at the sector level in some African economies, include a prominent role for public sector departments that are highly knowledgeable about and even socially 'embedded' in the private business sectors they deal with. Lack of experience and an insufficiently focused mandate combine to deny the RDB this crucial quality. In managing relations with investors, the RDB also must contend with a wider civil service culture that is good at following rules but has been rather inflexible in terms of addressing snags in the regulatory regime in response to private sector complaints. In addressing these deficiencies, consideration should be given to the pros and cons of reforming the RDB – politically possible but organisationally challenging – or creating something largely new, for example as an adjunct to the president's Strategic Policy Unit.

We add two important qualifications to this widely shared assessment of the limitations of the current pattern of public–private engagement in Rwanda. One is that, since 2016, the responsible ministry (now Trade, Industry and East African Community Affairs) and the RDB have significantly upgraded their engagement with firms in export sectors, including manufacturing. A series of high-level meetings have resulted in the signing of some 18 bilateral memoranda of understanding (MoUs) in which firms identify export targets and the government commits to addressing the barriers identified by the firms. This is a potential game-changer, but only if the government side can provide the concentrated, specialised capability that Asian experience shows is needed and can be offered even in an inexperienced public sector environment.

The other qualification arises from ongoing SET research showing that Rwanda's own experience of constructive, mutually accountable engagement across the public–private divide is more diverse and interesting than it appears at first sight. As well as continuing to see a role for state, party-owned and military-linked companies, the government has actively supported medium and small domestic businesses moving into sectors, or a scale of operations, in which they previously lacked experience. These efforts, undertaken without fanfare and without central involvement of the RDB or ministries, have not yet steered significant resources into employment-intensive export manufacturing. However, they provide a sound model for doing so, which will be important in ensuring foreign anchor firms in new manufacturing sectors are quickly supported by domestic private investment in related production and infrastructure. They are also of interest in connection with the future character of Rwandan society and politics, since to a striking degree they involve business people from across the spectrum of Rwandan social backgrounds.

Credibility of private sector representation: The international literature is clear about the importance of this issue and about the difficulties it entails in the early stages of economic transformation. Using relevant comparators and historical experience, we find Rwanda's progress in this regard to be satisfactory. The active role of government in setting up and supporting the Private Sector Federation has been consistent with global experience on the role of the state in enabling effective private sector representation. Legislation to reserve more benefits to association members should be considered as a next step.

The international evidence on economic transformation places increasing emphasis on technically justified ***selective support to sectors and firms***, as a necessary complement to improving the broadly enabling conditions for investment. This support needs, however, to be backed by ***mutually enforceable performance standards***, including export targets. Rwanda's most recent experience with firm-by-firm MoUs foreshadows the kind of system that will be needed in the near future for identifying investment partners, agreeing conditional support and regulating the overall 'deals environment'. We identify two major challenges in taking this forward. One is the lack of priority currently being given to the technical basis for investment project appraisal, as distinct from defining strategic priorities – particularly important when alarming balance-of-trade data create incentives to 'do something' in a hurry. The other is to get domestic firms into the emerging performance-linked support system sooner rather than later, given that in Asia this approach has paid off more with domestic than with foreign investors.

The history of industrial policy lends strong support, finally, to the importance of 'discovery' by both firms and their public sector regulators. Gains are maximised in this respect where there is an explicit governmental commitment to ***experimentation, rapid feedback and timely corrections***. Rwandan policies have reflected an exceptional commitment to learning by doing over many years, and President Kagame has emphasised this in economic policy contexts in several recent speeches. However, general adoption of this way of working is in tension with rigorous rule enforcement, which remains a necessary condition of the country's exceptionally corruption-free business environment. The suggested solution is to draw on the central lesson of Asian experience once again by concentrating available capacity to think and work in an adaptive, problem-driven way in an organisation or organisations with a tightly focused mandate.

In summary, Rwanda's political settlement provides an unusually favourable platform for emulating the most successful experiences in other parts of the world in making the breakthrough into employment intensive, export-oriented manufacturing. However, a platform is no more than a platform, and urgent attention is needed to several of the other five requirements for success the international literature suggests. Principally lacking at this point is an adequate concentration of capability, including private sector experience and the ability to use economic appraisal techniques, in a sufficiently empowered public agency. Steps currently being taken to improve public–private coordination are important and serve to reinforce this conclusion.

1 INTRODUCTION

One of the keys to economic transformation across Africa today is a greater role for employment-intensive, export-oriented manufacturing. After taking due account of differences in contexts and time periods, international experience – especially in Asia but also in Africa-region leaders such as Mauritius – points to employment-intensive manufacturing as a crucial and indispensable step in the transition from poverty to development.

The comprehensive Asian survey by Studwell (2013) conveys a clear message. Having achieved some success in raising the productivity of smallholder agriculture, fast-developing Asian states directed investment and entrepreneurs towards manufacturing, where their most abundant resource, relatively unskilled labour, could create value using easily imported machinery. The most successful among them – China, Japan, South Korea and Taiwan – then pioneered technological upgrading in manufacturing through targeted financing and subsidies, which were made conditional upon on export performance. The resulting economic growth was resilient and sustained (ibid. and Box 1).

Previous work under the Supporting Economic Transformation (SET) programme has discussed the challenge of replicating Asian and Mauritian success in manufacturing in continental Africa, paying attention to the new opportunities being created by rising wages and footloose capital in East Asia (Balchin et al., 2016). SET and the African Center for Economic Transformation (ACET) presented a synthesis of the implications for the economic policies and industrial strategies of African governments to the first African Transformation Forum (ATF) in Kigali in 2016 (Ansu et al., 2016a).

A companion paper for the ATF dealt with international experience in coordinating public and private action in support of economic transformation strategies (Ansu et al., 2016b). The present report builds on this synthesis work and explores its implications for the particular case of Rwanda.

A theme of the ATF paper on public–private coordination was that the institutional arrangements supporting successful manufacturing growth in Asia and elsewhere have been diverse. Beneath the diversity, however, there are commonalities. The different models of public–private collaboration fast-industrialising countries have adopted have been contextually appropriate ways of dealing with a small set of basic challenges that were facing all and that may well be inherent in the project of economic transformation.

Box 1: Three critical interventions that led to economic transformation in Asia

'The first intervention – and the most overlooked – is to maximise output from agriculture [pushing] up yields and outputs to the highest possible levels, albeit on the basis of tiny gains per person employed… The second intervention – in many respects, a second "stage" – is to direct investment and entrepreneurs towards manufacturing. This is because manufacturing industry makes the most effective use of the limited productive skills of the workforce of a developing economy, as workers begin to migrate out of agriculture. Relatively unskilled labourers create value in factories by working with machines that can easily be purchased on the world market… Finally, [the] state's role is to keep money targeted at a development strategy that produces the fastest possible technological learning… rather than on short-term returns and individual consumption.'

Source: Studwell (2013: xiii-xiv).

An important distinction in dealing with issues of this sort is the one made by Chang (2007) and Rodrik (2007) and now by the latest World Development Report (WDR) (World Bank, 2017a), between institutional 'form' and institutional 'function'. In the language of the WDR, the necessary minimum levels of commitment, coordination and cooperation can be, and have been, provided in very different ways, the differences reflecting each country's inherited conditions and current circumstances. Nevertheless, finding *some* solution to these universal challenges of development is what makes the difference between success and failure. It is in this spirit that we approach the relevance of global experience to Rwanda.[1]

Ansu et al. (2016b) identified four key functions that were performed more or less effectively in industrialising Asia, as well as in the main Africa-region outlier, Mauritius, but that have proven troublesome in Africa generally:

1. Constructing a consensus among key actors that establishes *economic transformation as a nation-building project*, with shared commitments extending well beyond a single electoral term;
2. Giving at least *one public agency sufficient autonomy, budgetary control and political authorisation* to override interdepartmental coordination problems and engage in a practical way with *credible private sector organisations*;
3. Creating institutional arrangements that can coordinate a sufficient set of public and private actors so as to ensure i) an appropriate level of technically justified public support to promising sectors or firms (based on tackling market and coordination failures); and ii) that this support is conditioned on *mutually enforceable performance standards*; and
4. Enabling discovery of approaches that work for transformation in the particular country context by means of *explicit experimentation, good feedback and timely correction*.

This serves us as a basic template for the discussion that follows, although we discuss the second bullet point at most length, using three sub-headings. In each section, we re-state as concisely as possible the international lessons presented in the ATF paper, consider their relevance to Rwanda, reflect on other relevant international experience and set out what this seems to imply for the forward agenda in Rwanda. We draw on recent and ongoing research carried out in Rwanda by ourselves and others, including the excellent previous discussion of industrial policy in Rwanda by Holden (2012) and the latest from the International Growth Centre (IGC) and WIDER (English et al., 2016; Ggombe and Newfarmer, 2017). We have also undertaken an updated review of secondary literature on industrial policies in Asia and Africa, including the cited synthesis by Studwell (2013).

1 This agrees with the thesis of Behuria (forthcoming), according to which it is a positive that Rwanda has not slavishly adopted 'models', even those from East Asia, but has been prepared to shop around and combine.

2 ECONOMIC TRANSFORMATION AS A NATION-BUILDING PROJECT

2.1 International experience

As argued by Ansu et al. (2016b: 8),

> Economic transformation is a long-term endeavour, requiring a high level of policy consistency through time. It involves tackling deep-seated and long-term market and coordination failures and government failures (ACET, 2014). Private investments in new, more productive economic activities are likely only if government commitments against expropriation of assets and expected profits are not only credible today but also likely to be renewed in future years. Transformation calls for investments in infrastructure and other public goods that pay off over many years. Subsidies and other selective measures to encourage innovation and reorientation to global markets need to be regulated by multiyear plans, with reliable provision for phase-out. All this requires building a consensus around a long-term vision.

Despite early interpretations of the experience of newly industrialising countries in East Asia, the necessary consistency of strategic direction through time does *not* seem to depend on authoritarianism or absence of political competition. The continuity of policy orientation that was achieved was less to do with formal political constitutions than it was to do with the types of power configuration or informal political settlement (Khan and Blankenburg, 2009; Laws, 2012; Kelsall, 2016) that underlay the making of policy. With the possible exception of Taiwan, transformation efforts were founded on a widely shared vision of building a successful nation. In the case of China and Vietnam, they flowed from the comprehensive correction of a previously established trajectory of national development.

The necessary consensus was due in most cases to some kind of shock or threat to the integrity of the nation or the position of the country's elite. In East and South-East Asia – and in Africa-region exceptions like Mauritius (Bräutigam et al., 2002; Subramanian and Roy, 2003) – a critical juncture of some kind led national political and economic elites to abandon 'business as usual' and commit to a shared approach to tackling challenges of economic development that was able to endure across political administrations. This limited the extent to which policy was driven by short-term electoral gain and the exchange of favours between particular business interests and political leaders (Campos and Root, 1996; Woo-Cumings, 1999; Doner et al., 2005; Slater, 2010).

2.2 Relevance to Rwanda

We would argue that Rwanda is exceptional in Africa – along with Ethiopia – in that a nation-building project centred on economic transformation is definitely in place. Moreover, both the historical background to this state of affairs and its consequences for the political economy of policy-making lend themselves easily to comparison with the best-documented experiences in Asia.

Political scientists have drawn attention to two distinctive features of the governance system in Rwanda. First, to an unusual extent, the ruling coalition (the Rwandan Patriotic Front, RPF, and its partners in government) aims to legitimise its rule in a distinct way – on the basis not of procedural norms but of development progress and success in building an inclusive national community (Chemouni, 2016). Second, the qualified power-sharing notions enshrined in the 2003 constitution remove the compulsion to build political followings and party finances on the basis of patron–client relations. As a result of these and related dimensions of the prevailing political settlement, political debate among and within legally recognised parties is able focus to a remarkable degree on policies and programmes and their implementation (Golooba-Mutebi and Booth, 2013; Booth and Golooba-Mutebi, 2014).

Together with the much-cited personal drive and determination of Rwanda's president, Paul Kagame, this combination of factors conveys to ministers and civil servants an urgency and attention to performance that are unusual in the region. Famously, cabinet members and civil servants are held quite rigorously to account against neo-traditional performance contracts referred to in Kinyarwanda as *imihigo*. Performance against these commitments is scrutinised at cabinet meetings and during leadership retreats, with the president in the chair. Under-performers can be and quite frequently are shamed and/or dismissed, which provides ministers, permanent secretaries and other officials with an unusual level of motivation.

Arguably, the consistency and drive that distinguish development policy-making in Rwanda owe a good deal to the origins of the RPF-led regime in the decisive military victory on one of the sides in a civil war (rather than a negotiated peace agreement, as in Burundi). The development-oriented political settlement was, and is, to a significant extent enforced; it is not straightforwardly consensual, even at the level of elites. However, as in parts of Asia and especially Taiwan, an incoming group largely recruited from a minority ethnicity committed itself to an inclusive nation-building vision and to winning a broader consensus around that by demonstrating seriousness in implementation. Elsewhere, settlements with these strengths and limitations have provided an excellent platform on which to build the other arrangements needed for success in economic transformation and building a competitive manufacturing base.

2.3 Other experience

The case of Ethiopia has been the subject of a good deal of recent analysis that facilitates further reflection on international experience of relevance to Rwanda under this and other headings. Restricting ourselves to the matter of the political settlement and its ability to establish economic transformation as a nation-building project, the comparative literature (e.g. Altenburg, 2011; Kelsall, 2013: Chapter 4; Clapham and Mills, 2015; Oqubay, 2015: Chapter 3) sets the Rwandan and Ethiopian cases apart and confirms significant similarities. Points of similarity include the mix of enforcement and consensus-building in the settlement and the dedication of a political leadership from an ethnic minority to promoting an inclusive pattern of development, seeking to remove the conditions leading to destructive conflict on ethnic lines in the past.

In Asia during early industrialisation, the institutional arrangements of developmental regimes differed considerably on several dimensions. One area of difference was the place of private sector interests in the settlement, as revealed in the nature and extent of the established consultative mechanisms. In this respect, there seem to be important differences between the Ethiopian and the Rwandan approaches. Ethiopian government policy under Meles Zenawi and since has been informed by strongly negative assumptions about the domestic private sector – emphasising its record of non-developmental ‘rent-seeking’ (de Waal, 2013; Lefort, 2013). The RPF, in contrast, has been influenced by members and funders from diaspora business networks and is committed to private sector ‘leadership’ of the development process and building up Rwanda’s weak domestic class. As in Ethiopia (Vaughan and Gebremichael, 2011), some of the largest formal enterprises are owned by the main ruling party, the RPF. However, the RPF holding company – Crystal Ventures Limited – is jealous of its credentials as a private operation (Booth and Golooba-Mutebi, 2012).

The significance of these differences may become clear over the longer term. Meanwhile, an important strand of the comparative literature on settlements argues that a critical influence on their potential to support good development outcomes is whether or not a domestic private sector is party to the bargain. In countries like Ghana, Nigeria and Tanzania, where politics takes the form of a more or less competitive clientelism and domestic business has historically been weak, it is hard for the state to be consistently supportive of economic transformation (Kohli, 2004: Chapter 8; Gray and Khan, 2010; Gray, 2013; Whitfield et al., 2015; Whitfield, forthcoming).

2.4 Implications

If this analysis is correct, Rwanda meets a first condition suggested by international experience on the functional requirements for success in manufacturing-based economic transformation. Arguably, this gives the country a distinct advantage relative to other countries of the region, the majority of which lack this framework condition. However, it would be a mistake to rely too heavily on this. Comparative research on development performance has found that the nature of the prevailing political settlement explains some differences in development outcomes between countries that cannot be explained in any other terms. However, settlement types appear to be good predictors of outcomes only when combined with variables shaping the effectiveness of implementation within particular 'policy domains'.[2] This sharpens the questions that need to be asked about the other dimensions of the coordination of public and private action around the vision of transformation. For the purposes of this paper, we divide these further issues into five and deal with them in turn in the following sections.

[2] This is a major finding from the first five years of research by the Effective States and Inclusive Development (ESID) research programme led by the University of Manchester, to be reported in a forthcoming synthesis volume, building on Hickey et al. (2015).

3 COORDINATION IN GOVERNMENT

3.1 International experience

Along with credible commitments against expropriation and the provision of adequate public goods, consistent investment coordination is one of the key proximate conditions enabling sustained economic growth. National governance systems differ greatly in their ability to provide this condition, making it a pivotal consideration for the political economy of economic transformation (Sen, 2013; McMillan et al., 2017). Typically, it is difficult for government ministries, departments and agencies to give direction to investment by coordinating their support for two reasons. First, bureaucratic mandates and interests differ, and, even when they converge, collective action problems get in the way of cooperation. Second, ministries are in effect political fiefdoms, with their allies and clients in different parts of the private sector, making them susceptible to pressures that are counter to any officially agreed policy (Poulton, 2014; Whitfield et al., 2015).

According to the argument of Ansu et al. (2016b: 10–12), success in respect of investment coordination in Asia has been closely associated with the role of particular public agencies that have had sufficient autonomy, budgetary control and political authorisation to override typical inter-departmental coordination problems. Experience in Asia does not suggest that it is necessary or possible to turn the civil service as a whole into an effective, well-coordinated machine as a prelude to industrial take-off. It is, however, possible, and may be essential, to empower a specialised agency or super-ministry to carry the main burden of supporting and signalling to the private investors in the emerging, dynamic sectors.

The necessary ingredients of this empowerment include professional management and staffing, access to, if not direct control of, substantial discretionary financial resources and the political authorisation to override blockages in the bureaucracy or resistance from vested interests. Different authorities emphasise the competency and power elements in this mix to different degrees – for example Wade, 1990; cf. Evans, 1995; cf. Kohli, 2004 – but they agree on their importance.

3.2 Relevance to Rwanda

We need to ask two questions when reflecting on the relevance of this international experience to Rwanda. One relates to how well the conduct of government is coordinated in Rwanda as compared with other countries in the region. The other is whether there are arrangements, in the form of an authoritative public agency or otherwise, that perform well the functions that have served successful development in other parts of the world. The balance sheet is clearly positive on the first score and less so on the second.

By the standards of the region, Rwandan policy is well joined up and quite strongly directed from the centre by an activist head of state. Unusually, ministries and agencies are not fiefdoms within a patron–client political system. As well as a functioning cabinet, there is an Economic Cluster where ministers and permanent secretaries meet to coordinate actions. The several inter-agency coordinating bodies include an Industrial Development and Export Council and, since October 2016, an Export Facilitation Committee, with government, private sector and civil society participation.[3] The Prime Minister's Office coordinates government business in general, and the Strategic Policy Unit (SPU) in the Office of the President plays an influential role. These arrangements are adequate to ensure that policies and major investment decisions by one arm of government are not sabotaged by another, as happens in other East African countries.

3 There is also a National Agricultural Exports Board, an executive agency formed by the merger of the bodies previously responsible for implementation of policies for horticulture, tea and coffee.

That having been said, inter-agency boards and committees tend to have limitations as vehicles of industrial policy. Rwanda's closest role model in Africa, Ethiopia, has relied on similar structures with disappointing results. According to Oqubay's insider account (2015: 99–102), Ethiopia's prime minister has chaired the country's National Export Coordination Committee (NECC), which has ensured the required level of political authority. However, it has been hampered by lack of private sector representation and a focus on export target monitoring rather than on dealing with the major investment coordination and supply-side problems affecting performance. The NECC has lacked the quality of information about industrial constraints and opportunities that could have resulted from greater involvement of industrialists and their associations. It has also been not backed by sufficient analytical capacity.

As we shall see in the following sections, the inter-agency arrangements in Rwanda have some similar limitations. However, it also seems doubtful whether such arrangements are ever likely to perform well without the backing of a specialised agency that takes in hand analytical work, in-depth engagement with investors and supply-side issues. This brings us to the role of the Rwanda Development Board (RDB) – the equivalent of Ethiopia's Federal Investment Agency (FIA).

The RDB was created in 2008 as a one-stop shop for investment promotion, following the merger of some eight government departments. According to one view in government (e.g. Crisafulli and Redmond, 2013: 168), it is modelled on the Singapore Economic Development Board, one of the most celebrated of the Asian super-ministries. As Behuria (forthcoming) explains, however, the RDB is actually a compromise between the Singapore model and an executive agency responding to the New Public Management doctrine favouring unbundling of the policy, regulation and implementation functions of government. It has shown variable ambition over the years but has never aspired to occupy fully the space marked out by super-agencies in Asian tiger states, which would have implied both making policy and enforcing it. Instead, it has contented itself with a service-providing role, with policy-making in the hands of the relevant ministry, now called the Ministry of Trade, Industry and East African Community (EAC) Affairs (MINEACOM). It is widely accepted, moreover, that the service mandate of the RDB is very broad, making it less effective than it might be as an investment coordinator.[4] This may be the inevitable result of creating a new agency by merging a large set of minor bureaucracies, rather than by building new capacity to tackle previously under-resourced tasks.

Several of the same concerns are expressed about Ethiopia's FIA. According to Oqubay (2015: 89-91), the FIA has suffered from equivalent ambiguities of role definition and has been subject to similar pressures to undertake an expanding array of bureaucratic tasks. As a result, it has lacked 'teeth' and effectiveness in performing its main role of implementing and enforcing industrial policies. This comparative perspective makes the limitations of the RDB in Rwanda seem less egregious but it reinforces the case for considering feasible alternatives.

3.3 Implications

Our argument so far has suggested that government coordination in Rwanda is good by the standards of the region but falls short of what Asian experience suggests may be necessary to drive economic transformation. Does this matter, in view of what has been said about the system's *relatively* good record of joined-up policy-making? We would suggest it does. Inter-agency boards and committees are not a substitute for the kind of forceful coordination and concentrated professional capability that seem to have been associated with successful industrial policy elsewhere.

[4] According to the website, 'The scope of [RDB's] work includes all aspects related to the development of the private sector. This involves working with and addressing the needs of companies of all sizes (large, SMEs [small and medium-sized enterprises]) and both local and foreign investors.' The organisation has cross-cutting departments dedicated to Investment Promotion, Strategic Investments, Special Economic Zones and Exports and Competitiveness and Business Communication; and it houses the Office of the Registrar General. In addition, there are 'economic clusters' on Information and Communication Technology Business Development and Tourism and Conservation. A Single Project Implementation Unit manages operations funded by the German Agency for International Cooperation, the Korea International Cooperation Agency, the African Development Bank and the Buffet Foundation (http://www.rdb.rw/home.html, accessed June 2017).

It might be possible to reshape the RDB's basic design to bring it closer to meeting Rwanda's needs in this regard. However, this would imply moving decisively away from the executive agency model and would require a substantial and well-implemented political push from the top of government. While in the normal African context such a change would be a nightmare of bureaucratic foot-dragging and informal political resistance, sweeping changes of structure and leadership do happen within the Rwandan government system when appreciation of the need reaches a critical level. Even so, some consideration should certainly be given to the pros and cons of reforming the large existing organisation that the RDB is as against creating something largely new, for example as an adjunct to the president's SPU.

Whichever the focus of organisational change, the challenges will be numerous, as Oqubay makes clear in the Ethiopian connection. Organising a robust engagement with the private sector and meeting the information and analysis requirements of effective investment coordination stand out as critical tasks.

4 ENGAGEMENT WITH THE PRIVATE SECTOR

4.1 International experience

In industrialising East Asia, relations between the political authorities and private economic actors followed no single pattern. At one extreme, in Taiwan, state-owned enterprises and the organisational power of the Kuomintang party-state played a dominant role. The business community had little formal representation. This was in part the result of the political divide between the mainlander-led government and the indigenous economic elite (Haggard, 1990; 1994). Elsewhere, although the state was often highly interventionist, governments established deliberation councils 'to promote the flow of information, clarify the division of rents among the elites, signal commitment to announced policies, and provide ways for the private sector to participate in economic policymaking' (Campos and Root, 1996: 109). These were regimes with quite highly elaborated systems for ensuring accountability and building consensus. Conventional Western distinctions between authoritarian and democratic institutions failed to capture some of their most essential and relevant features (Campos and Root, 1996: 174; Woo-Cumings, 1999: 16).

Ansu et al. (2016b: 12) explain the importance of effective public–private engagement as follows:

> Some of this is about getting the private sector committed to a new strategic vision – for example one in which there is a stronger export orientation or willingness to participate in global value chains. Some of it is about assuring investors of the stability of the policy framework or the reliability of arrangements for investment coordination. Much of it is about information. It has been argued that the growing complexity of markets and technologies today means that central decision-making authorities are less than ever able on their own to process all of the relevant information. Modern industrial policy needs to include a strong element of network-type governance, based on self-organisation and voluntary horizontal coordination (Altenburg and Lütkenhorst, 2015: 49).

Reflecting this reality, development super-ministries seem to have been most effective when, in the famous language of Evans' book on Korea (Evans, 1995), the organisation has managerial autonomy and political protection against sectional interests but is nonetheless 'embedded' socially. That is, the officials have dense interactions with and knowledge of the productive sectors and players whose investments they support and regulate. Comparative studies of dynamic productive sectors in Africa endorse the finding that public sector bodies with this 'embedded autonomy' are an element in many success stories. This speaks against the emphasis in much donor thinking on strictly separating governmental and business roles for fear of 'collusive' behaviour (Whitfield et al., 2015).

Surveys of African government engagement with the private sector in the current period emphasise the diversity of approaches, including the use of very different methods in different sectors or with different types of investors. Altenburg and Lütkenhorst (2015) note that in Ethiopia the government simultaneously pursues a 'heavy-handed' and a 'light-handed' industrial policy in its two most dynamic export sectors: 'While the government's attitude to the leather industry is one of educating, nurturing and handholding, its support for the cut flower industry is one of removing hurdles on request of the private industry and its association'. The differences reflect in part the different ownership structures of the industries: a traditional sector including many small Ethiopian firms as compared with a new industry led by foreign firms (113–15).

4.2 Relevance to Rwanda

Rwanda, too, follows a multi-method style, to the extent that one approach is taken in pyrethrum agribusiness and road and housing construction and a very different one in mining (Behuria, 2015). In these and other cases, the diversity of approach may well be a permanent necessity, since sectors will continue to have different needs and possibilities, including ability to attract foreign direct investment (FDI). It may also, however, be the reflection of an incomplete learning process in which governments that have espoused economic transformation as a national project, and have begun to create protected and empowered coordination bodies, are still feeling their way towards a viable model for engaging with credible private sector organisations.

The rest of our discussion of this topic falls into two parts. One conveys a message about the need for major improvements in the formal arrangements for engaging with private business. The other suggests there is much more, and more effective, interaction between parts of the government of Rwanda and business people than at first meets the eye. The first is about relations with business in general, including foreign direct investors. The second is, at present, mainly about government engagement with the domestic private sector. It is nevertheless already an important part of the picture of state–business relations, and suggestive of methods that could play a role in steering both domestic and foreign capital into export manufacturing.

4.2.1 Current challenges for the RDB

For some years, a common comment among investors we have interviewed has been that the RDB does a reasonably good job of investment facilitation but has been relatively weak on ‘aftercare’. Efforts have been made to strengthen the agency’s Aftercare Department, but major challenges remain and they are not easily solved.

The streamlining of the Rwandan framework for FDI (reflected in outstanding Doing Business and World Economic Forum competitiveness rankings)[5] is rightly much praised. As foreign investors typically put it, however, the high quality of the environment for business is in some respects illusory. Despite the simplification of the regulatory environment, they say, there is a great deal of actual regulation under the surface, and numerous public agencies have a stake in this. Once investors have done the initial paperwork, which is indeed fast and corruption-free, they have to deal with practicalities concerning land titles, construction permits, environmental compliance and local taxes. Then they may encounter snags and delays they did not expect. The effect can be that the investor gets disenchanted, the blame is put on feckless local officials and this gets communicated to other potential investors.

Interviewing in one western district, we became curious about why officials were said to be frustrating potential investors when they were committed under their *imihigo* to promoting business. Our further enquiries around a couple of such stories did not suggest the behaviour of the local authorities had been unreasonable. In one instance, the investor was insisting on exemption from environmental zoning rules designed to protect water bodies. In the other, the requested land allocation was in conflict with a previous planning proposal. These may and may not be typical cases but they are enough to suggest that a part of the reported problem of foreign investor disappointment may be unrealistic expectations on the part of the investors about the level of flexibility in the application of laws and regulations to which they are entitled.

Wherever the fault lies, however, episodes of this kind do harm. If RDB aftercare does not extend as far as overriding decisions of the country’s regulatory and local government authorities, more needs to be done at the outset to moderate investor expectations, and there should be more active follow-up to establish facts, clarify options and minimise the reputational damage caused by promised investments that fail to materialise on account of regulatory snags.

RDB staff may lack not just the authority and ‘reach’ but also the motivation and business and sector experience to anticipate and navigate these obstacles on behalf of firms. Experienced observers notice two organisational tendencies that are unfavourable to investment facilitation and coordination.

One is the unwillingness to delegate that is common in African management systems in the private as well as the public sector. We observe that several public sector organisations in Rwanda are now breaking with this pattern, but elsewhere the old ways continue. Junior officials have little decision-

5 In the Doing Business ranking, Rwanda is now second in the Africa region, after Mauritius and ahead of Botswana and South Africa (World Bank, 2017b: 7). For the World Economic Forum, it comes third in competitiveness, after Mauritius and South Africa (2016: xiii).

making discretion, so the stock response to a query about rules or regulations is to insist they be enforced. Queries from the private sector that could be settled at an appropriate level and with sufficient speed tend to be referred up the chain of command, where sometimes they get lost. In Rwanda, in addition, officials at all levels have reasons – in addition to the legendary unhelpfulness of some front-line bureaucrats everywhere – for not exercising any discretion they are formally allowed. A perverse side-effect of the country's very effective anti-corruption regime is that mistakes are often penalised and seldom treated as necessary steps in a learning process (although we note some promising trends in this respect further on). This compounds the natural conservatism of rule-governed civil service departments to prevent the effective deployment of knowledge of the needs of productive sectors.

The second observation is that this knowledge is extremely scarce. Even in the RDB there is little direct experience of private enterprise, and the level of 'embeddedness' in productive sectors is slight. Knowledge about international markets for manufactures and what may be required for their penetration is in particularly short supply (MINICOM, 2016b: 16–18). A technical assistance project called Traidlinks, located in the RDB and funded by TradeMark East Africa until 2017, has usefully compensated for this deficiency, providing expert assistance and support to Rwandan firms seeking to penetrate markets in the region such as Democratic Republic of Congo (DRC) and Uganda. However, as with previous projects in the RDB, there appears to have been little interest in scaling up this work and providing organisational resources for its mainstreaming.

Apart from inexperience and competing pressures in the RDB, there may also be (across government) a basic lack of sympathy with business perspectives and issues. As one well-placed interviewee complained to us, civil servants' dealings with the private sector are preponderantly about processing bids for government contracts. The attitudes that are appropriate to this activity – social distance and fiduciary scepticism – tend to be applied without modification to conversations about facilitating private investment. That is, instructions or demands are given to potential investors when the need is for requests and offers of conditional assistance.

4.2.2 Improving trend?

In September 2016, two of the authors of this report attended a consultation workshop on Rwanda's export drive in the conference hall of Kigali's Serena Hotel. Attended by large and medium-scale exporters in the manufacturing sector and senior government officials, including the permanent secretary (PS) of the then-Ministry of Trade and Industry (MINICOM) and the chief operations officer of the RDB, it was one of a series of five such meetings with different sectoral focuses held over two weeks in the second half of September. Other meetings covered tea, coffee, mining and textiles. Following a presentation on the recently launched Export Growth Facility, discussion focused on the barriers facing firms currently exporting from Rwanda or planning to do so.

By all accounts, this was the first such high-level dialogue in some time, and it is exactly the type of frank and constructive exchange that is needed in implementing an export strategy, not least in the manufacturing sector. The company representatives seated around the square of tables were invited in turn to state both their issues and their export targets for the years ahead (in US dollars). Several were frustrated with aspects of the export regime or its implementation. Issues included lack of information about, and slow application of, duty drawbacks and VAT refunds on imported inputs; continued unexplained delays in releasing imports from customs at the Uganda border; failure of the Rwanda Bureau of Standards to adopt EU standards to cover new products demanded in Europe but not known in Rwanda; and the same agency's arguably over-strict labelling requirements on building materials exported to DRC. A senior customs official was called to the meeting to explain, and the PS addressed several other issues there and then. Many firms gave impressive-sounding export objectives and welcomed the opportunity to air their grievances that the meeting had afforded.[6]

The future agenda of public–private collaboration in export manufacturing is certain to need regular repetition of events of this sort, a view we share with the recent brief from the International Growth

6 Some of the same issues are listed in the African Growth and Opportunities Act (AGOA) Action Plan (MINICOM, 2016b).

Centre (English et al., 2016). Following the series of meetings, ministry officials signed memoranda of understanding (MoUs) with some 18 firms in a variety of export sectors. In these documents, firms have identified their export targets and the government has made commitments to resolving the policy-induced problems that the firms see as constraints to their performance. In the government's perspective, this represents an extension to the private sector of the idea of *imihigo*. This may and may not be a wise way of presenting it, but, to the extent that the MoU process commits the government specifically to addressing named private sector priorities, it promises a significant change of gear. It also raises the stakes, as failure to deliver within the specified time periods (as little as one year in some cases) will be highly visible to all concerned.

4.2.3 More than meets the eye

SET research in Rwanda is based largely on extended off-the-record interviews with private investors and business people. An ongoing stream of this work is dedicated to mapping the domestic private sector and its evolution since before the war and genocide. An emerging finding from this research is that in recent years there has been much more constructive engagement with, and steering of, various components of the domestic private sector than appears at first sight.

Previous research by us and others (Booth and Golooba-Mutebi, 2012; Behuria, 2015; 2016; Behuria and Goodfellow, 2016) has documented several innovative arrangements by means of which domestic and diaspora resources were harnessed to economic recovery during the two decades following the war and genocide. These include the formation of a consortium for funding major projects, the Rwanda Investment Group (RIG), an important role for a holding company fully owned by the main government party (Crystal Ventures Limited) and firms linked to contributory insurance and credit institutions under the Ministry of Defence (Horizon Group and others). These arrangements complement more conventional vehicles for converting domestic savings into investments in economic growth, such as public pension funds, banks and state enterprises proper. However, our current research is bringing to light a still wider range of until now undocumented processes by means of which the political leadership has stimulated and steered domestic investment.

Features of this state–private sector engagement include the following:

- It has occurred behind-the-scenes and without fanfare.
- It has involved the personal convening power and influence of top leaders, notably President Kagame and one or more of the elected mayors of the city of Kigali.
- It has taken a differentiated approach to particular social segments: Anglophone and Francophone returnees, rich and poor; Tutsi survivors, rich and poor; old-school Hutu businesses, rich and poor, and their children; and the various diaspora communities, including some of those that consider themselves exiles.
- As well as mobilising finance and enterprise for large-scale construction ventures such as the Kigali Convention Centre and the modern buildings surrounding it (Kigali Heights, etc.), it has reoriented the priorities and preferences in the medium and small segments of private business.

We are finding that, in distinct phases, presidential and/or mayoral interventions have been behind the massive expansion of modern office space that has taken place in the capital, the rapid growth in Rwanda's hotel capacity and the significant level now being reached in the construction of up-market and now low-income housing estates. At the lower end of the spectrum, this has involved shifting capital out of informal sector trading and into formal sector construction and commerce. An interesting instance is the process that led a group of merchants in Kigali's old commercial district (Quartier Mateus) to come together as a Champions Investment Corporation (CHIC) and cooperate in building a smart new business centre. Others were encouraged to invest in the emerging business hub in the Gaculiro area of the city. These processes, facilitated by the Kigali City Council among others, may exemplify an approach that could be applied more broadly to harnessing local private capital to manufacturing and manufacturing-related infrastructure.

Two things are interesting about these findings, the detail of which we will report in a later paper. One is what it shows about the power of a kind of public–private engagement that differs in several ways from the formal investment facilitation that is the current mandate of the RDB. The other is the light shed on the willingness and ability of the RPF-led regime and the presidency in particular to tap all potentially available sources of enterprise and capital in the various social communities of Rwandans, at home and abroad.

On the first point, the aspect that tends to attract media attention is that there are signs of over-investment in offices and hotels, and possibly parking lots and malls. Government signals to investors, working partly through their influence on bank lending, have resulted in some unfilled office buildings and over-capacity in the hotel sector. Whether this is a permanent or merely temporary situation remains to be seen. However, the more significant aspect is what this slight or substantial overshooting reveals about a form of engagement that could work for a manufacturing- and export-oriented agenda in future.

To be sure, embarking on manufacturing operations and/or the infrastructure investments that a manufacturing breakthrough is likely to require (serviced industrial parks) seems at present a risky and unfamiliar undertaking for many of the current investors in real estate and commerce. Our interviews confirmed this. Yet neither office blocks nor hotels were familiar territory to them at the outset. Major learning processes have been gone through. It may be that what has been missing, as much as appetite for risk, is a clear enough signal, conveyed in a similarly active way from the presidency, that the government now wishes to give priority to manufacturing and manufacturing jobs. In our interviews, we solicited views on how investors in real estate and services might be induced to move into building factories or otherwise to contribute to manufacturing for export. One response from a politically well-connected business leader was, ‘No one has ever come to us before to ask these questions.’ This indicates a missed opportunity.

The second thing we are finding relates to the efforts the regime is making to broaden its support base by bringing former enemies and members of communities normally assumed to be hostile or resentful into the nation-building effort. These efforts have been documented previously in a general way (e.g. Behuria, 2015). What we may now add is that they are having effects on the emerging structure of the domestic business community.

People of both Tutsi and Hutu background, long-term residents and returnees from different diaspora communities are not only playing significant roles in the new investment sectors. They are also cooperating and, to an extent to be established, investing together. Interestingly, informants who know ‘who is who’ in this respect in the business community of Kigali and outside are RPF members, other government officials and officers of the Rwanda Defence Forces who live in the same residential areas and who interact socially with business people from different social backgrounds. There appears to be a social ‘embeddedness’ here that is not matched by that of the civil service departments in their formal roles as interlocutors of the private sector. It may be relevant, too, that, in important instances, investment initiatives benefiting from mixed private finance have been backed by rapid provision of complementary infrastructure using party-linked Crystal Ventures or military-linked Horizon Group firms.

4.3 Implications

This discussion has added to the reasons why either the RDB should be reformed or an alternative entity should be created to enable Rwandan industrial policy to follow the main lessons from Asia more closely. Whichever organisational home is preferred, the reforms need to involve not just a more forceful role on coordination of government effort but also a different and better-informed approach to engagement with private investors, foreign and domestic. Measures will be needed to get key staff to think, and to oblige other parts of government including local authorities to think, in a new way – more informed about and more sympathetic to the way investors make decisions. Substantial injections of capability from the outside, especially international private sector networking experience, would need to be part of this, but with the proviso that adding on another ‘project’ will not do the trick.

An appetite for giving the RDB more clout does appear to exist. The post of chief executive officer in the agency was upgraded to a cabinet position in October 2013, and there have been several changes of leadership, each interpreted at the time as an effort to improve the RDB’s effectiveness in its core functions. Reforms that could carry the organisation some way back from the multi-purpose executive agency model towards a more specialised role in facilitating economic transformation may therefore be on the agenda.

Working against this possibility is that it would require a commitment of considerable time and energy to organisational change. This may not be compatible with the current target-driven performance culture in the RDB. It is also relevant that a different model of robust private sector engagement exists already in the system, and largely outside of the RDB. It has not yet been applied in a consistent way to engagement with potential investors in export manufacturing, domestic or foreign, but it can and should be. While there is possibly no substitute for presidential initiative in the Rwandan government system (which is not exceptional in the region in this particular regard), some priority should now be given to institutionalising this type of initiative within a well-resourced public organisation.

5 CREDIBILITY OF PRIVATE SECTOR REPRESENTATION

5.1 International experience

According to Ansu et al. (2016b: 13),

> While informal networking appears essential, there is strong evidence that formally constituted business associations, especially of the most encompassing kind, have considerable benefits both for their members and for the development process. The statistical association between the quality of formal state–business relations (including the contribution of well-established business associations) and economic outcomes is significant, and stronger than other, more often investigated, relationships between institutions and outcomes. With the help of rich data on India and a bit of theory, researchers have made a good case for believing that the casual chain runs from quality government–business relations to economic performance (te Velde, 2010; 2013). The best surveys of country experience agree that the positive functions of credible business associations can be substantial and wide-ranging, including in the areas of protection of property rights, facilitation of vertical and horizontal coordination, reducing information costs and upgrading worker training (Doner and Schneider, 2000).

As the same paper goes on to observe, not many business associations in Africa today are fully credible. Production systems in developing countries are typically highly fragmented, with large gaps between large and small and domestic, state-owned and foreign firms in terms of productivity, formality and relationship to the regulatory regime (Altenburg and Lütkenhorst, 2015: 155–157). Common interests may not be perceived. In addition, the theory of collective action (Olson, 1965) states that individual actors, including firms, will tend not to club together to pursue perceived common interests without some strong incentive to do so because of the ‘free-rider’ effect. Because free-rider effects are worse for large groups than for smaller ones, lobbyists working on behalf of a small number of powerful players will have more influence than those speaking for large constituencies. Apex business associations, which may be the most beneficial, will be harder to organise than sectoral ones.

These problems are in evidence in much of sub-Saharan Africa. Typically, sectoral associations and apex bodies represent only a fraction of their potential membership and have only a limited ability to discipline their members and exercise leverage on government. This does not mean nothing can be done. Doner and Schneider (2000) found that the ability of associations to perform their key functions depended on 1) high member density, 2) valuable benefits reserved for members and 3) effective internal mediation of divergent member interests. Governments can help resolve the problems of collective action that hold back associational development by legislating for reserved benefits. Medical and veterinary professionals have gained influence and ability to promote professional standards in many countries thanks to laws that require practitioners to be members of specified associations (Leonard, 2000). No equivalent restriction is placed on those undertaking business and seeking public contracts in most developing countries, but this does not need to be the case.

5.2 Relevance to Rwanda

The credibility of private sector representation is no worse in Rwanda than among its neighbours, especially bearing in mind the limited economic weight of the formal productive sectors. The formal sector of the Rwandan economy is extremely small, despite fast growth in recent years. The book-length study by Laterite consultancy firm for the IGC has mapped extent of the larger employers in the sector in useful descriptive detail (Gathani and Stoelinga, 2013b). A few firms have foreign equity participation, which apparently assists them to export (Gathani and Stoelinga, 2013a) but, other than Heineken brewers and agencies for the import of equipment and chemicals, companies headquartered in Organisation for Economic Co-operation and Development countries are notable by their absence.

The bigger firms in manufacturing and agro-processing are either long-established properties of families of South Asian heritage (Sulfo Industries, Utexrwa, etc.) or recent investments by Asian-heritage

Tanzanians (Azam/Bakhresa Grain Milling, Azania Millers, etc.). There are celebrated exceptions, such as the Rwandan entrepreneur Sina Gérard, who is a significant player in fruit and dairy processing, and Ameki Color in paints and related products. Other exceptions include the agro-processing and building materials operations of the RPF holding company Crystal Ventures Limited (Inyange, Ruliba Clays, etc.), the pyrethrum-processing plant run by the army-linked Horizon Group and Cimerwa, the recovering cement company in which the government has a large stake. There is beginning to be a constituency for domestic initiatives in import-substituting manufacturing, partly spontaneous (e.g. in household paper and chemicals – Suku Paper Works and Trust Industries, respectively) and partly responding to the very recent 'Made in Rwanda' initiative (mainly clothing). Export manufacturing is very limited in scale and extent.[7]

The apex organisation representing private business in Rwanda is the Private Sector Federation (PSF). The PSF was formed in 2000–2001 on government initiative, replacing the Chamber of Commerce, run under the pre-1994 Habyarimana regime as a department in the Ministry of Finance. The intention was to establish a member-controlled organisation complying with international norms. However, the PSF's membership base was initially tiny, so the government provided a subsidy and remained involved in senior appointments. This continued until 2014, by which time government was financing only 20% of the organisation's budget. Today the PSF finances itself but receives funding for specific activities and initiatives from development partners and entities such as TradeMark East Africa.

According to a knowledgeable interviewee, the defunct Chamber of Commerce had 14 associations in Kigali and two regional affiliates in the southern and northern regions, representing the business community outside Kigali. In 2004, chambers were created out of the former associations. All regions, including Kigali City, were represented. Today there are 11 chambers, each bringing together a group of more specialised associations – the Association of Clearing Agents, Association of Potato Traders, etc.[8] Some chambers and associations appear stronger and more respected than others, possibly because of the different prospects of the activities covered or the extent of their segmentation.

As in other countries of the region, the apex organisation does not collect sufficient membership dues to pay for a significant policy and research apparatus. This weakens its ability to act coherently as the voice of business.

A relevant question is whether the top-down process through which the PSF was formed is on balance good or bad for the organisation's credibility. International observers typically note with concern that the PSF was formed on government rather than member initiative, regarding this as a kind of 'original sin'. However, given what we know about the international experience, this needs to be nuanced.

Overall, the government's commitment to building up the PSF has clear advantages, making it more likely that reserved membership benefits will be created – a key issue according to the international literature. Currently, we understand that some trade facilitation benefits are reserved for PSF members. It is not the case, however, that accreditation with a professional or industrial entity is required in bidding for government contracts, and there would be clear advantages in going down this route. The resulting growth in membership and subscriptions would enable the building of a more substantial analysis and advocacy capability. This speaks against the notion that the PSF's lack of independence is a fundamental problem.

At a more refined level of discussion, observers, including some prominent PSF members, have reservations about some aspects of the evolution of the organisation, which no doubt reflect government thinking about its role. The current trend is for the PSF's structure increasingly to mirror the structure of government, with priority being given to establishing district branches that can dialogue with local

7 New products contributed just 20% to the growth of all merchandise exports over the years 2008–2013 and, according to IGC research, a comparatively small proportion of new products have continued to be exported in the years following their first export (English et al., 2016: 13–14).

8 In addition, there is a Golden Circle, whose members are a 'privileged club' of larger contributors to the PSF budget. Members are accorded VIP status at PSF events, where they get premium seats. The benefits are described as cosmetic but 'they have a good psychological effect' and the arrangement is a useful source of funding.

government authorities. In a resource-constrained organisation, this may be in conflict with recruiting more members wherever they happen to be located. Such an approach may correspond better with the social reality of the emerging private sector that the SET research is capturing. It would lend itself better to facilitating the kind of informal engagement with government that we suggested in the last section as the most effective. Some assertion of independence by the PSF may be needed before priorities be redefined in this way.

5.3 Implications

The credibility of private sector representation in Rwanda is a work in progress, for reasons that apply in many developing countries, as well as on account of the exceptionally limited economic weight of formal business in the country. The fact that the PSF was, and to a degree remains, a government creation has both positive and negative implications. On the one hand, there is a better chance of obtaining the key element of reserved benefits; on the other, the organisation needs to be free to grow organically, following the evolution of the business community rather than reflecting the structure of government. It would be good to see action on both issues.

6 'GOOD DEALS': SELECTIVE SUPPORT WITH EXPORT DISCIPLINE

6.1 International experience

The literature on industrial policy and economic transformation (Amsden, 1989; Wade, 1990; Chang, 2003; Rodrik, 2007: Chapter 4; Altenburg and Lütkenhorst, 2015: 57–58; Whitfield et al., 2015: Chapter 2; Newman et al., 2016) is clear that success calls for a sound balance between improving the general investment climate and more targeted interventions to develop promising sectors or firms. As emphasised by Ansu et al. (2016b: 15–16), this reflects experience suggesting that general or cross-cutting measures are unlikely to be enough on their own. In particular, they will not bring about a change in the *structure* of growth, with more productive and internationally connected (and thus potentially employment-creating) activities playing an increasing role. The argument continues:

> Several of the countries whose governments are most committed to transformative economic development, including Rwanda, have invested heavily in improving their ratings in the World Bank Institute's Doing Business Survey, whose indicators include such measures as the average speed taken to process a new business licence or approve major investment proposal. The results are impressive and not to be disregarded. When linked to a broader attack on public sector corruption, the benefits to smaller businesses and farms as well as to the quality of life of citizens of the country at large are probably considerable. However, comparative historical experience does not suggest improving the general business climate is sufficient for industrial and agricultural breakthrough (ibid.).

The need for targeted initiatives is supported by analysis by Hallward-Driemeier and Pritchett (2015). This compares the average speed at which regulatory hurdles can be cleared according to the Doing Business survey with firm-level reporting under the Bank's worldwide Enterprise Surveys. A key finding is that the difference in treatment for the 'fast' firms and the 'slow firms' in the sample is very large, a fact the Doing Business aggregate results conceal. The authors' interpretation is that 'deals' are more important than 'rules' when doing business in developing countries – that is, for better or worse, what matters most is the understanding arrived at among relatively small groups of players, including at the one-to-one level.

The key thing, of course, is to get the right *kind* of deals. An obvious first requirement is that selective support is reserved for sectors that are technically assessed as promising in the perspective of economic transformation (McMillan et al., 2017) and to 'new' activities (new to the local economy or using new technology; Rodrik, 2007: 114). The second is that support should be time-limited and conditional on an agreed performance level, such as demonstrated international competitiveness achieved by a given date. Finally, the performance-based accountability should be mutual in the sense that the government partner is equally held accountable for the delivery of its part of the bargain. This combination of requirements may well call for some form of third-party monitoring and a robust appeal process (Altenburg and Lütkenhorst, 2015: 50–54).

The challenge is to stop these close relations becoming collusive, in the sense that they degenerate into permanent capture of rents by firms and diversion of the policy from its transformative objectives. This applies especially where the government decides to subsidise learning with important spill-over benefits to other firms in the sector by providing subsidies to new entrants in one form or another. Comparative international experience suggests it is vital that firms understand they have to deliver according to pre-agreed standards, such as employment generation and export performance, and that if they do not show timely signs of doing so the public support will be withdrawn. This element of discipline will be best backed by a mutual accountability framework under which, as mentioned, not only the firms but also the government are held responsible for delivering what was promised (e.g. on providing an agreed quality of infrastructure and enforcement of agreed trade and tax rules).

6.2 Relevance to Rwanda

This is one of the areas in which Rwanda could be considered to have a head start because of its political settlement (Section 2 above). In most developing countries, the funding of politics is reliant on collusive relations in which opportunities to earn rents are handed out to businesses in exchange for election-time contributions. In Rwanda, industrial policy is unlikely to be hindered in this way. However, other threats and challenges remain highly significant. The government is not yet in a position to provide technically justified selectivity. We identify three reasons, concerning respectively the technical basis of investment priorities, the as yet undefined relationship between manufacturing FDI and domestic firms and the challenge of institutionalising mutual disciplines.

6.2.1 The technical basis of project selection

Rwanda has an array of reasonably up-to-date and coherent economic strategy documents, prepared in-house or with well-integrated technical assistance, consulted and negotiated with an appropriate set of internal and external stakeholders and then approved by cabinet. They include:

- A Private Sector Development Strategy, 2013–2018 (MINICOM, 2013);
- A revised National Export Strategy (MINICOM, 2015);
- A Domestic Market Recapturing Strategy (MINICOM and BKP Consulting, 2015); and
- A Strategy to Transform the Textile, Apparel and Leather Sectors (MINICOM, 2016a).

There is also a National Industrial Strategy (MINICOM, 2011), which is scheduled to be updated with assistance from the United Nations Industrial Development Organization, and an African Growth and Opportunities Act (AGOA) Action Plan, developed with assistance from the United States Agency for International Development (MINICOM, 2016b). The former badly needs revision, especially because until recently little of the strategic thinking in Rwanda has taken the needed global value chain approach. The latter includes many sensible recommendations, but it is not clear how much of the diagnostic analysis the government has internalised.

Broad strategy apart, the capacity to make the technical judgments is currently weak in Rwanda, as it is across the region. Even the most basic appraisal methods for distinguishing between suitable and unsuitable manufacturing ventures, whether import-substituting or export-oriented, are missing. This is a serious limitation, as three issues illustrate.

First, Rwanda is estimated to need at least 200,000 new jobs per year to accommodate new entrants to the labour force, and meeting this need is prominent in the Economic Development and Poverty Reduction Strategy for 2013–2018 (MINECOFIN, 2013; World Bank, 2016). Yet some of the country's recent successes in attracting regional investors in manufacturing for the internal and DRC markets are generating much-needed dollars but using a technology that requires negligible labour. The ultra-modern Tanzanian-owned wheat milling operations of Bakhresa and Azania are cases in point. There is insufficient awareness of this limitation.

Second, in the best of the Rwandan strategies, the discussion about export manufacturing has been focused on horticulture and agro-processing, with regional markets particularly in mind. This is not wrong. Were they to be successful in creating substantial backward linkages to primary producers, investments in these fields would be superior in terms of value-added in the country and total (direct and indirect) employment effects. However, on current evidence, this sort of success is hard to achieve quickly on account of the substantial market coordination and supply management problems they involve (Gathani and Stoelinga, 2013b: 61–66). Successful agribusiness may take some years to materialise. It may be wise, therefore, to treat this as a medium-term challenge.

Third, participation in global light manufacturing value chains emerges as an important option in this context, but thinking on the subject is as yet rudimentary. Other things being equal, manufacturing for export to global markets is more likely to permit specialisation according to (dynamic) comparative advantage and thus optimal utilisation of available factors of production (Lin, 2012; Stiglitz and Lin, 2013). This is a major theme of the Africa-wide economic analysis by SET and ACET (Ansu et al., 2016a; Balchin et al., 2016) as well as of Studwell's Asian survey (2013).

Rwanda is not in a particularly strong position to be a pioneer in export manufacturing in Africa (Ggombe and Newfarmer, 2017: 27). The country faces very high land transport costs and non-tariff barriers on imports and exports through East Africa's ports.[9] Energy costs are still comparatively high, although they are projected to fall steadily. Therefore, it should be seeking to export products to the global market that are relatively simple and combine low energy intensity, high labour intensity and high value per unit of output (Hausmann and Chauvin, 2015; MINICOM, 2016b). This means specialising rigorously and wisely, paying attention to potential niches in global value chains where brand names add to output value. Choices should be carefully made and supported with both good technical analysis and excellent market information.

This is an area in which external assistance could make a significant difference. As its contribution, the SET workstream on Rwanda is working on a guidance note on basic methods for appraising of investment options. The problem is not just technical, however. In spite of being ahead of the curve in much of its thinking about economic transformation, the government of Rwanda is as subject as any in the region to crudely ideological policy-making and political knee-jerk reactions, leading to choices – including potentially costly import substitution ventures – that are not underpinned by sufficient economic appraisal. As in much of the rest of Africa, the dangers of establishing an industrial structure that requires permanent subsidies and generates little employment are little appreciated at the political level, even 50 years after they were revealed to all in Latin America.

A current example is Rwanda's embrace of the commitment of the EAC heads of state in early 2016 to phasing out imports of second-hand clothing to the region. It is unclear how exactly this proposal arose and what mix of self-reliance ideology, social prejudice and short-term foreign exchange concerns inspired it (Kabanda, 2016). Whatever the exact story, the government of Rwanda has been in the vanguard of implementing the EAC decision. This has obliged Rwandan senior policy-makers to dedicate their limited resources to a crash programme for stimulating import-replacing small- and medium-scale garment-making cooperatives.

Support measures include zero-rating raw textile imports to the country for domestic market garment makers. These has been criticised as undermining the weak progress that has been made in rebuilding vertically integrated value chains for cotton and for weaving of man-made fibres within East Africa (Gahigi, 2016). It has certainly distracted policy attention from more considered options for export promotion and well-calibrated import substitution signalled in the relevant government strategies. It effects seem likely to include a small substitution of used imports by local production and a large substitution of used clothing imports by low-quality imports from China, which have not been similarly restricted. The move also threatens Rwanda's access to the US market on AGOA terms, as the US authorities see it as breaching AGOA conditions.[10]

6.2.2 Foreign direct investment and domestic firms

Rwanda has a generous scheme of conditional inducements to FDI set out in a 2015 Law on Investment Promotion and Facilitation (RDB, 2015). Additional tax and duty exemptions are offered to firms that guarantee to export at least 80% of their output, as permitted by EAC customs union rules. Currently, however, there are few examples of implementation. The clearest instances are the Chinese-owned textile operation running in the Kigali Special Economic Zone (SEZ) since 2015, C&H Garments and the

9 Actions in the context of the East African Community (EAC) have reduced significantly the time taken in delivering containers from the port of Mombasa to Rwanda but no corresponding reductions in cost have yet materialised, suggesting that the oligopolistic regional logistics companies have captured the gains. The government of Rwanda aims to bring down power costs for manufacturers from the present $0.24 per kWh to $0.12 per kWh, comparable to the rate in Tanzania, by means of a combination of hard bargaining with independent power generators and the gradual introduction of power from peat-fuelled and hydro plants; however, this process will take some years to complete (Esiara, 2016).

collaboration with a local cooperative in Masoro established in 2014 by Kate Spade, the international brand in handbag production.

These are encouraging examples from the perspective of this paper as they are firms that are promising substantial contributions to both exports and job creation. C&H Garments is currently exporting brand name police uniforms to China and the US, as well as 'Kisua Africa'-designed garments for the South African, US and European markets. It is trialling the production of hand-embroidered table cloths for the same markets. Under the 'SEZ terms' it enjoys under EAC rules, it can sell 20% of its output in the region, and the government has encouraged it to produce army, police and school uniforms for Rwanda up to this proportion. Managers currently report that labour productivity and responsiveness to training are higher than in equivalent factories in Lesotho and Ethiopia, which is helping offset higher transport costs.

Crucially, such firms have the potential to act as anchor firms, clustering around them domestic operations that emulate their technology and mode of insertion in a global value chain. That aspect is important. In today's world economy, an aspiring poor country can enter segments of global value chains only with the help of foreign clients and investors. However, this needs to be done in a way that ensures key production and business capabilities pass quite quickly to and are built upon by nationals of the country, so the gains become self-sustaining (Kaplinsky, 2005; 2016; Gereffi, 2014; Oqubay, 2015).

According to Studwell (2013), this is one of the factors explaining why success in Asia has been quite uneven, with South Korea following firmly in the path of Japan, eventually hosting world-beating firms and moving to the leading edge of technological development, Taiwan following some way behind and Malaysia and Thailand disappointing expectations as exporters of manufactures despite encouraging early signs. The latest outputs from the Effective State and Inclusive Development research programme (Sen and Tyce, forthcoming) tell a similar story: governments that relied on attracting foreign-owned anchor firms into export-oriented assembly operations, doing too little to push domestic firms into the same or linked activities, had difficulty moving to the next stage, in which domestic firms lead a process of continuous technological upgrading, providing employment and raising skill levels in the process.

In short, the attention being given to FDI as a means of getting access to global value chains is correct. However, relying exclusively on FDI beyond the initial stage will be a bad idea for a number of reasons. Participation by Rwandan capital and enterprise will be critical to creating conditions in which foreign-owned anchor firms in SEZs or industrial clusters are able to play their role in generating knowledge spill-overs and models that are emulated locally. Unless there is at least a nucleus of domestic firms facing a similar incentive structure, no emulation will take place.

As in the famous Bangladesh garments experience (Khan, 2013), new domestic firms may arise in due course from the circulation of labour from the initial anchor firm. In the meantime, it matters whether those purely domestic firms, including cooperatives, that are actually or potentially exporting manufactures are being offered incentives equivalent to those offered to foreign investors. This does not seem to be automatic at present.[11]

6.2.3 Enforcing mutual disciplines

In addition to the above, it may well be that the power of selective support with export discipline will be fully revealed in Rwanda only when it is applied to domestic firms. Rwandan policy on selective support is for the time being primarily about attracting FDI. However, for a number of reasons the real test will be whether it can be applied to a new generation of domestic firms.

C&H Garments has been afforded exceptional government support in the start-up phase in addition to the normal concessions to exporters, especially in the form of training of the initial workforce. The results

11 On the face of it, one domestic operation, Gahaya Links, is disadvantaged by not qualifying for 'SEZ [special economic zone] status' despite an enviable export and employment record (5,000 individuals trained as suppliers since 2013) and potential for multiplication. It is obliged to pay duty on its main inputs, including the barcodes and tags required by the retailer. The prevailing categorisation of companies and cooperatives may be one of the sources of this problem.

in this important test case will be closely watched. However, as Behuria (2017) has pointed out, reciprocal control mechanisms of the kind that were most successful in East Asia have proven hard to enforce on foreign firms, because of their international mobility. This is supported by Studwell's (2013: 124–130) account of the more and less successful East and South-East Asian experiences in export manufacturing. In Indonesia, Malaysia and Thailand, in contrast with Japan and South Korea, infant industry protection was not accompanied by rigorous export discipline, and this was at least partly because the leading roles were assigned to foreign firms.[12]

Behuria goes on to argue that in Rwanda, until now, mutual discipline has been hard to enforce even in the case of Rwandan investors. This pessimism about domestic firms may not be fully justified, however, as it is based on the experience of RIG, several of whose members are internationally mobile and qualify as members of the domestic business community only on the basis of nationality. The emerging new generations of entrepreneurs may represent a different challenge with better chances of success. For example, recent investors in import-substituting manufactures – such as the owners of Suku Paper Works and Trust Industries – are at present a small but impressively entrepreneurial group. They have grown fast from very small beginnings under normal market conditions, providing a model that others are likely to emulate.[13] Within a few years, they may prove a promising set of partners for import-substituting and export-oriented industrial policies based on the best Asian models.

6.3 Implications

Lessons drawn from international experience increasingly emphasise the limitations of business climate reforms and other general enabling measures on their own for stimulating manufacturing growth and economic transformation. Selective support conditional upon export performance is another essential ingredient of modern industrial policy. The political requirements of success are rather stringent when the priority is striking 'deals' rather than enforcing 'rules'. Because of its political settlement, Rwanda has a head-start in this respect, but two major challenges remain ahead: the establishment of sound criteria for allocating selective support; and moving beyond the immediate challenge of attracting and keeping the right kind of FDI, by beginning to extend the principle of conditional selectivity to new generations of domestic firms. On both issues, the government of Rwanda would benefit from specialised technical assistance.

12 For this reason, the government should be cautious in seeking to involve the private sector in the government's sector-by-sector *imihigo* on export earnings by getting firms to write their targets into MoUs with government. This 'home-grown' approach to the challenge of mutual accountability between private investors and their government counterparts may be too much for many foreign-owned firms. Those with experience in liberal capitalist economies, and especially those accustomed to the free-wheeling business environment of Kenya, Tanzania and Uganda, seem likely to baulk at signing away their freedom to make business decisions.

13 Not accidentally, the owners of the two firms mentioned are currently the chair and vice-chair of the PSF.

7 EXPERIMENTATION, FEEDBACK AND CORRECTION

7.1 International experience

The final argument set out by Ansu et al. (2016: 16–17) is that effective public–private collaboration for transformation involves a large degree of collaborative experimental learning:

> As Altenburg and Lütkenhorst (2015: 61) summarise, today's view of industrial policy for transformation, it should be designed as 'a systematic process of experimental learning'. Experience suggests countries arrive at solutions to the challenges of effective industrial policy through multi-level joint learning processes based on strong formal or informal relations between key officials and actual or potential investors, backed by the necessary political support and an element of independent monitoring and evaluation (likely to remain important as a guarantee against political capture).
>
> A minimum requirement would seem to be that the relationship between government and private investors is structured in a way that enables and encourages rapid feedback on policies that are not working or need to be adjusted. There is much to be done to make this a reality in African countries that are embarking on policy-making for transformation.

An example given of the inadequacy of current arrangements in most countries of the region is the way presidential investors' advisory councils tend to function. The central finding of a study by Page (2013) is that the performance of these bodies, as judged by external evaluators, has been quite varied. None has shown a track record of experimentation – that is, identifying problems and then trying out possible solutions. In general, the councils have succeeded in focusing attention and provoking action on the reform agenda already identified by the World Bank and donors. They have not been strong on defining their own agenda or even collecting feedback on previous actions taken by government.

7.2 Relevance to Rwanda

Many of the issues discussed in Sections 2, 3 and 4 are relevant to this topic. Rwanda still needs to build the general quality of engagement with private firms that might enable the kind of multi-level joint learning processes that international experience indicates. However, an additional discussion point arises from the orientation that President Kagame has sought to give to the making of public policy in Rwanda.

In several recent speeches, including at the opening of the ATF in 2016, the president has emphasised that development processes involve a substantial element of learning by trial and error. In his view, many of Rwanda's policy successes are the product of what Andrews et al. (2013; 2017) call problem-driven iterative adaptation (PDIA). This claim gets some support from case studies of some of the country's flagship reforms, including in Andrews' own book (2013). In formulating its current strategies for economic transformation, the government has drawn quite heavily on the views of the PSF leadership, which are experience-based.

On the other hand, a common observation is that trial and error is quite a rare commodity in the day-to-day practice of government in Rwanda, for several reasons. Sheer inexperience plays an important role in this, especially in view of the fact that, in this highly meritocratic system, relatively young men and women often occupy senior positions. In addition, however, the appetite for risk is low, partly because of the rigorous way administrative errors have tended to be handled – with those responsible often getting summarily dismissed. This is gradually changing, with automatic sackings becoming less common and the president placing a great deal of emphasis at Leadership Retreats on the need for leaders to show initiative and 'think outside the box', but behaviour cannot be expected to respond immediately. As others have observed, the president consistently advocates for a self-critical mind-set, but officials still do not find it easy to admit to having problems and calling for solutions (Kayumba, 2017). Finally, the *imihigo* system itself rewards delivery against pre-established targets on a predetermined timescale. It does not naturally encourage learning from mistakes and making appropriate corrections.

A question this raises is what ought to be the relationship between policy learning by trial and error on the one hand and both rule-governed corruption control and target-based performance monitoring on the other. There is a real tension here. It seems likely that what has been achieved in Rwanda with corruption control and *imihigo* is both important and potentially fragile. It would probably not be wise to try to replace it comprehensively with a more problem-driven and open-ended style of working. But, equally, this may not be necessary. Returning to the theme of Section 2, no successful Asian economy modernised its civil service comprehensively during the early stages of industrialisation. The key learning experiences were housed in a limited set of public agencies charged with the main responsibility of interacting with the private sector. Rwanda needs more PDIA but it does not need it everywhere.

According to the argument of previous sections, there would be gains from either streamlining the RDB or creating a new entity to play a more active and business-attuned role in formulating and implementing industrial policy. Such an organisation would need to be agile, technically capable and small. Adaptive problem-solving should be the basic working method of its core team, implying a positive valuation of experimentation and therefore of ‘error’. Protection of this small but critical part of Rwanda’s public service from normal administrative controls and the standard form of *imihigo* targets would be a sound, pragmatic way of handling what could otherwise be a crippling tension.

7.3 Implications

Presidential advocacy of PDIA-type thinking is one more feature of the Rwandan environment for industrial policy that gives the country a head-start. However, it is important to keep feet planted firmly on the ground in advocating general adoption of adaptive public administration. The gains from rigorous corruption control and performance monitoring with targets should not be put at risk lightly, even though these elements are in principle in conflict with PDIA. The Asian experience does not call for generalised adoption of innovations of this type; it calls for their adoption by the public agency or agencies that are assigned to lead the economic transformation process. This is perhaps the single most important lesson for Rwanda to take from the best-performing Asian models. How to apply it, in view of the specific features of the state in Rwanda, is of course a matter for Rwandans.

8 CONCLUSIONS

Having sustained fast economic growth over a decade or more, Rwanda now needs the breakthrough into the employment-intensive export manufacturing that international experience signals as a necessary step in the transformation of labour-abundant economies. Whether it succeeds or not will depend on the wisdom of its technical choices, taking into account the country's particular circumstances and current conditions in the global economy. It will also be affected by the degree to which institutional frameworks and policy frameworks are capable of coordinating public and private action to guide and support of these choices, which has been the main focus of this paper.

Emphasising 'function' over 'form' – or fundamental developmental challenges over allegedly universal remedies – we have summarised some of the most relevant international, especially Asian, experience. Using this as an analytical template, we have reviewed the current arrangements and frameworks in Rwanda and raised some issues that seem to arise, several of which are also of concern in Ethiopia.

In terms of the 'Asian template', Rwanda starts well, with much evidence of the establishment of economic transformation as a nation-building project, with shared commitments extending over a longer period than is typical in sub-Saharan Africa today. These commitments include a defined role for a domestic private sector, which differentiates the political settlement in Rwanda from the otherwise comparable ruling consensus in Ethiopia. However, a favourable political settlement does not guarantee that contextually appropriate solutions are found to the series of other challenges involved in the breakthrough into export manufacturing. In these other respects, drawing on the most relevant lessons from Asia, we have found there is much still to be done to shape Rwanda's arrangements.

The challenge of providing adequate coordination of public and private effort has several dimensions, which we have tried to address individually. Regarding coordination across government, we have suggested Rwanda's settlement helps avoid the radical dis-coordination that has afflicted the transformation efforts of other countries in the region, which have a deep-seated political source. On the other hand, given Rwanda's ambitions, the bar needs to be set higher than this. The government's goals are unlikely to be met by relying on the classic type of inter-departmental coordination body. The most relevant Asian experience is about the inadvisability of waiting to improve the overall performance of the civil service before taking action, and the value of concentrating capacity and authority in a single public agency. The RDB does not at present correspond to this requirement, even though it has sometimes been presented as equivalent to Singapore's Economic Development Board. This is partly because (as with the equivalent body in Ethiopia) it is over-burdened with routine bureaucratic tasks. Options include streamlining it and creating something largely new, perhaps as an adjunct to the president's SPU. In either case, the initiative requires high-level recognition of its desirability and, in the immediate term, priority to meeting an organisational change objective rather than achieving standard *imihigo* targets.

The most important role of the East Asian 'super-ministries' was to become the principal interlocutor of private enterprise, domestic and international. This involved a dense exchange of information in both directions, with the public agency steering private investors into new fields and the investors informing government about opportunities and constraints to be addressed. The best performers in this role were both protected from sectional interest group pressures that could have diverted them from government priorities (exports, job creation, technology acquisition) and deeply involved, and therefore knowledgeable about, the economic sectors of interest. There is strong evidence that this applies in Africa too. We have argued that a more 'embedded' interaction with existing and potential investors in export manufacturing is one of the main features that a reformed RDB or new entity would require.

There have been some promising recent signs of government interest in tackling this challenge, in terms of more intensive formal interaction with large investors, firm by firm. However, in thinking about models for the future, it is not necessary or advisable to look only to the outside. SET research is documenting the very significant way in which initiatives, mainly but not exclusively presidential, have effectively raised finance and steered and facilitated enterprise into previously non-existent economic sub-sectors, including modern office blocks, hotels, commercial centres and housing estates. Much of the commentary on this phenomenon has focused on whether these are the right priorities and whether they have run ahead of progress in the rest of the economy. We have suggested another angle: the potential that it illustrates for the harnessing of domestic capital to manufacturing goals.

The international literature attributes great importance to the formal representation of business interests, not just firm-level interactions with government. At first sight, Rwanda's PSF seems to suffer from having been to a large extent a government creation. However, drawing on the best comparative theory, we have placed the accent on the benefits of government involvement and some possible, not conventionally expected, drawbacks. We have suggested actions to extend these gains and mitigate the possible limitations, taking due account of the still limited scale and diversity of Rwanda's private sector.

Advanced thinking about the future of manufacturing in Africa agrees with surveys of Asian experience in recommending a sound mix of general investment facilitation and targeted support to firms and sectors, with a strong emphasis on export discipline. While targeted support now exists in Rwanda, particularly for foreign investors in selected sectors, the mechanisms for ensuring the needed disciplines and mutual accountabilities are still at a very early stage of development. Once again, Rwanda's political settlement provides a helpful starting point, in that it removes the main source of pressure to engage in collusive deals with firms. However, we have drawn attention to three areas in which there will need to be changes before the government will be able to apply and enforce a wise policy of selective support:

1. A strengthened and politically well-supported technical basis for selecting investments for support, including enhanced awareness of global demand conditions and supply constraints in Rwanda;
2. A stronger commitment to getting domestic capital and enterprise into manufacturing, to complement and learn quickly from foreign anchor firms in priority sectors; and
3. Awareness of the likely limits of mutual accountability where international firms are concerned and the importance of developing models that can be extended from experience with unusually visionary foreign companies such as C&H Garments into the emerging domestic manufacturing sector, where its main potential lies.

The emphasis now being placed on experimentation, feedback and timely correction in the literature on successful industrial policy, and frequently echoed in President Kagame's speeches, is relevant to all of the above. A general challenge that Rwanda faces is how to reconcile this thinking with the strong emphasis on compliance with rules and plans that most observers see as essential in maintaining the needed performance culture and corruption-free business environment. The medium-term solution to this dilemma, we have suggested, is the typical East Asian one: do not try to improve everything at once, but concentrate on building a top-class public agency or agencies to handle the top-priority tasks.

That it is possible to achieve good, even spectacular, results by concentrating limited resources and prioritising severely is one of the most encouraging lessons from Asia for a country like Rwanda. Another, given some emphasis in our ATR paper (Ansu et al., 2016b) as well as in much government of Rwanda practice, is that, while some development problems are universal, solutions do not need to be imported from abroad and can usefully draw on domestic resources and experience.

In this context, one of the most interesting findings reported in this paper is the one about Rwanda's own recent experience in directing and supporting domestic private enterprise into new sectors. While this has not been the model until now for promoting export manufacturing, this would be an obvious next step. Importantly, a feature of this relatively 'home-grown' cluster of initiatives is that it has deliberately and with some visible success drawn into the economic development effort large, medium and small investors from all of the distinguishable communities of post-genocide Rwandan society. SET is undertaking further research to flesh out this picture, but one of the things it is beginning to suggest is that the future composition of the private enterprise sector in Rwanda will be consistent with the nation-building vision the government espouses. In the longer term, this should assist in a progressive widening of participation in the political settlement.

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