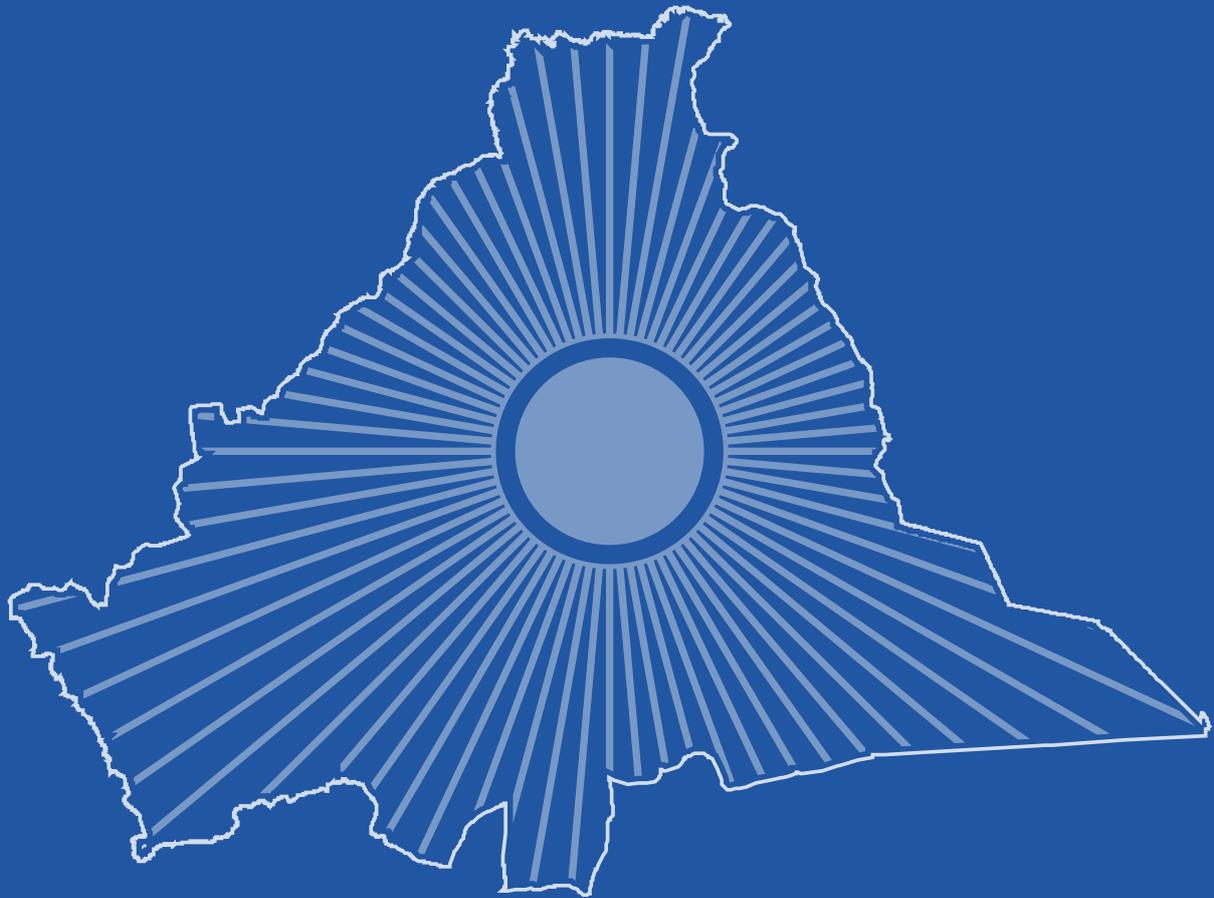


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POLICY BRIEF

Developing Nyagatare District

Findings from a Multidimensional
Analysis



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SUMMARY

The development and strengthening of secondary cities matter a great deal in the provision of balanced sustainable urban growth for the country. Hastening urbanization through the secondary city development program is expected to improve socio-economic conditions by generating jobs and decreasing poverty. Secondary cities in Rwanda are meant to serve as poles of growth and release the pressure on Kigali, which currently leads the Rwandan economy. Based on government target to reach an urbanization rate of 35% by 2024, IPAR-Rwanda has conducted in-depth analysis on the opportunities offered by secondary cities and the challenges they face. It also makes policy recommendations for simulating their growth, individually and across the whole portfolio.

The current policy brief intends to provide information and brief discussions on the urbanization and development of Nyagatare District in the Eastern Province. The last household survey (EICV5) indicates that Nyagatare is the second most populated district of Rwanda with a total population of 600,000 inhabitants of which 56,000 live in urban areas. Urbanised at a rate of 9%, Nyagatare still registers a high reliance on agriculture and wholesale and retail trade. Therefore, policy planning in this district needs to focus on increasing market size through rural-urban linkages and promoting urban density, building on its strategic position as an agriculture and livestock hub for the province and the country.

In order to achieve this target, this brief establishes an approach of labor force empowerment, strategic planning and investments towards a comprehensive growth and support for opportunity sectors. It aims at informing decision and policy makers on key strategic areas of focus, which could help de

A. Introduction:

The vision for secondary cities¹

The Government of Rwanda has put in place strong measures to plan and master its urbanisation for the future. To this end, the country has set its urbanisation target to reach 35% by 2024, from the current 18%.² This urbanisation trajectory is expected to improve socio-economic conditions of the local residents through the creation of more productive sectors such as off-farm activities³. The trajectory is also expected to lead to efficient use and management of Rwanda's natural resources whilst promoting sustainable development through a reinforcement of urban areas and human settlements for local economic growth⁴.

From the 7 year Government programme 2017-2024 (NST-1), which is the national leading strategy towards sustainable development, the key pillars which will guide urbanisation have been put in place. These comprise, among others, the development of a new master plan for six secondary cities, in order to promote and accelerate their urbanisation. These six secondary cities are Rubavu, Musanze, Huye, Rusizi, Nyagatare, and Muhanga and were selected not only to transform the economic geography of the country, but also to reduce the pressure on Kigali,

the country's economic hub.

In order to unlock the potential of the secondary cities, IPAR-Rwanda has identified three key priorities for their growth: (i) developing human capital through education and health services for a more productive work force, (ii) creating an enabling environment to support local businesses and attract foreign direct investment (FDI) and (iii) increasing market access through improving urban density and mobility, strengthening rural-urban linkages and developing connections with local markets in Rwanda and in the region. In order for each secondary city to grow, investments need to be tailored to each city's economic reality and specific opportunities.

This brief is made up five sections: Section A briefly described the Government's vision for secondary cities, Section B provides general characteristics of Nyagatare, Section C is about methodology and sources of the information for the study, Section D presents three categories of challenges facing the city and Section E provides policy recommendations for each category of challenges.

B. About Nyagatare

Nyagatare District is located in the Eastern Province and counts 600,000 inhabitants. About 45% of the population in Nyagatare District are poor. It is worth noting that Nyagatare is the district with the highest urban poverty rate (54%) and the only district where poverty in the urban area is much higher than in the rural area. This situation is a result of internal migration of households in search for land for cultivation and/or job opportunities. Around 79% of the district's population depend on agriculture. The number of employed people in Nyagatare grew from about

251,000 to 294,000 between 2014 and 2017, implying an increase of 43,000 employed people within a period of 3 years. The newly created jobs in Nyagatare are mainly found in agriculture, trade, household enterprises and construction.⁵ Employment is expected to increase in the district and reach 530,000 units in 2031.⁶

Nyagatare District is urbanised at a rate of 9%, counting an urban population of 56,000 people in 2017. Working to population ratio is at 89%. Across Nyagatare, the share of workers in Agriculture is higher than all other sectors

¹ Data presented in this brief comes from IPAR-Rwanda survey conducted in March-April 2019, unless otherwise specified.

² Republic of Rwanda. (2017). 7 Year Government Programme 2017-2024: National Strategy for Transformation (NST 1).

³ The World Bank. (2019). Future Drivers of Growth: Summary.

⁴ Republic of Rwanda. (2017). 7 Year Government Programme 2017-2024: National Strategy for Transformation (NST 1).

⁵ Data presented in this paragraph are Authors' computations from EICV5 & EICV4.

⁶ IPAR-survey, March 2019

combined. The number of jobs in the agriculture sector have grown from 330,000 in 2014 to about 420,000 in 2017, representing 30% growth.⁷ Other key employment sectors in Nyagatare include wholesale and retail trade which account for 11% of the jobs. Construction currently accounts for 3% of the labour market while household enterprises account for 4% of the jobs. As the city continues to grow, potentially doubling its population by 2038, the creation of more jobs through economic growth and sustainable development is highly needed.

Nyagatare development planning needs to

consider the push factors, including lack of enough off-farm jobs in the city, which results in heavy reliance on agriculture and a high level of poverty which, in turn, undermines the agglomeration effects of successful urbanisation. Moreover, Nyagatare's strategic location and close proximity to Uganda offers opportunities to serve as an agriculture and agri-business hub, building on jobs growth in the sector. Furthermore, livestock resources, particularly cows, offer an opportunity to develop the farming sector and attract foreign direct investment (FDI), as well as linkages with the agri-hub and dairy products.

C. Methodology and sources of information

This policy brief builds on the analysis of qualitative and quantitative data collected by IPAR-Rwanda across Nyagatare District in March 2019. This analysis was commissioned as part of the master planning process for secondary cities to outline three aspects: (i) the current socio-economic status and the preferences of a set of representative households from the different sectors of the district, (ii) current characteristics and expectations of a set of businesses across the district and, (iii) the views of key informants, citizens and business people on the future drivers of development in the district.

In total, 1273 households and 205 businesses were surveyed and key informants interviewed. The latter include district leaders, private sector Federation (PSF) members, technical directors, civil society representatives and high-profile business owners, among others. Different documents were reviewed: the national urbanisation policy, Nyagatare District Development Strategy (DDS: 2018-2024), datasets from the EICV5 survey, the fourth national population and housing census of 2012, and a number of other research works on urbanisation.

D. Challenges faced by Nyagatare district

Human capital

The human capital investment is of prime importance in developing a productive labor force, rising the district competitiveness, as well as the economic development through local capacities and internal migration. In Nyagatare 73% of the workers have not completed any level of formal education⁸, while 19% have completed primary school and only 9% of the workforce have attained secondary and tertiary levels of education. This situation reduces the workers' ability to establish

and maintain their own business and form a productive workforce needed for a larger-scale investment in areas such as the productive sector and value addition through manufacturing.

Currently, tangible progress has been made to address education qualification levels in the district. In collaboration with private sector, the district constructed 207 classrooms and 3 TVETS colleges in 2017. Additionally, there are two higher learning institutions in the district; these are the East African University Rwanda

⁷ The total number of jobs is higher than the number of employed people (employment) as one worker may have more than one jobs.

⁸ EICV 5 Authors computation.

(EAUR) and the College of Agriculture and Veterinary Medicine of the University of Rwanda (CAVM). However, education provision still faces serious challenges across the district, including overcrowded classrooms and poor infrastructure in some schools. For example, 70% of the schools lack electricity, which hampers the use of ICT for teaching and learning. These are the factors that have contributed to a high school dropout rate (31.4% in primary schools) as revealed by IPAR's Survey across Nyagatare in March 2019.

In Nyagatare district, the development of health services and facilities has benefitted from infrastructure investment. The district has one hospital, 17 health centers connected to electricity in the 12 sectors and 20 health posts, with majority of the population living within 3.8 km of a health center except for Rwimiyaga sector where health centers are located within 5.5 from household dwellings.

Currently there is no adequate communal landfill and drainage systems for waste and storm water management in Nyagatare. The majority of households dispose their waste/garbage in privately managed refuse areas or use it as compost heaps. This lack of infrastructure creates a public health risk and is likely to undermine the attractiveness of the city to potential residents and businesses. This situation is likely to increase as the population increases, especially within Nyagatare city.

Business environment

According to IPAR Survey in Nyagatare, it was revealed that the lack of start-up capital remains the leading challenge for business owners (confirmed by 35.6% of surveyed businesses). Access to capital is limited due to high interest rates from commercial banks (ranging between 17% and 18%) and the fact that livestock and crops are not highly valued as a collateral. This constitutes a big obstacle to city's growth. Forty nine percent (49%) of entrepreneurs have started their businesses using household savings while 26% used commercial bank loans as the primary source of capital. Such challenges in accessing financing prevents domestic firms from expanding,

holding back their potential to create more jobs and generate more income.

In addition, land acquisition was identified by 46% of firms, as one of the key challenges for business development in Nyagatare. The process of purchasing land is still lengthy and expensive though some improvements were made with the introduction of new systems for awarding permits. In Nyagatare city, plot servicing remains undone and the industrial park (SEZ) has not yet been terraced, roads have not been traced and no three phase electricity (power) is available for industrial use. These unrealized necessities are a major obstacles for the growth of Nyagatare City.

Investors and the local citizens in Nyagatare are also complaining about the high cost of production resulting from high prices of water and electricity, among other factors. Furthermore, electricity supply in Nyagatare only allows for a low voltage connectivity, providing less and very expensive power for industrial use. The cost of electricity was reported to be a burden particularly for the private and industrial sectors operating outside the free trade zone.⁹ However, district officials indicated that negotiations were underway to get concessions or find cheaper sources of energy.

Market development and Market size

From the in-depth analysis by IPAR-Rwanda, it was noted that Nyagatare has a large market size especially for agriculture and livestock production. This agricultural production makes Nyagatare favorable to the creation of agro-industries in the region where value addition (agro-processing), storage and bulking of processed agricultural products can be done for sale to other regions. However, this potential cannot be unlocked as long as the current business competitiveness in Nyagatare remains very low, as reported by 66% of surveyed businesses. The main reasons for this situation are lack of quality infrastructure (23%), limited access to affordable capital (14%), low availability of a demand market (14%), lack of innovation ability by the private sector (11%) and clear government policies (6%).

In addition, housing unaffordability challenges the

⁹ Focus Group Discussion, 2019.

city's growth process because it seriously affects individuals' purchasing power and increase the urban sprawl. This is mostly the case for the poorest who constitute 57% of the population¹⁰ in Nyagatare city, whose monthly income is less than RWF 40,000 and rent takes about 34% of their monthly income. For them, saving towards their own a house would take up to 70 years. This situation pushes people in this category into informal settlements in the peripheries of the city and drains their purchasing power.

Moreover, transport infrastructure to link urban

and rural areas is still insufficient and inadequate. Local people are constrained to walk or use bicycles to go to work and to take their goods to the markets, especially in rural areas. The primary modes of transport within the district are walking, cycling and motorcycling. This situation reduces the size of the local market by hampering income generation, which also lowers the purchasing power for other goods and services in the District.

E. Policy recommendations

There is a need to embark on a multi-stakeholder approach in addressing recurrent challenges taking into account the uniqueness of Nyagatare district; this will also influence administration and governance structures as well as financial mechanisms. Given the predominance of agriculture, the Government needs to prioritize investment in order to increase the agricultural productivity, strengthen rural-urban linkages and promote development in the agricultural value chain. Human capital development is also key in prompting the growth of Nyagatare; it is expected to play a vital role in producing a promising environment for easy access to existing markets and business development.

Developing secondary cities involves a number of stakeholders and has implications for the governance structures and financial instruments. These require prioritization across the government as well as a clear delineation of responsibilities at central and local levels. The following three sets of recommendations could help unlock Nyagatare's potential:

1. Developing Human capacity

Enhancement of vocational and technical training programs is strongly needed to stimulate the development of Nyagatare City. Based on the fact that 73% of the workers have not completed any level of formal education, the government of Rwanda needs to invest in human capacity development to increase productivity and entrepreneurship in order catalyze business growth and FDI. The number of TVET programmes should be increased by scaling up funding and/or public-private partnerships. The curricula should be tailored to the economic opportunities of Nyagatare, with a focus on improving farming practices, relevant business and practical skills in agri-business, and relevant services. These should be aligned with the priorities of the SEZ, which is under development.

The Government should also prioritize extension and agricultural support services provided to the district by MINAGRI and other relevant government bodies, as well as donors. This could be done through innovative pilot schemes and associated trainings.

2. Increasing Nyagatare market size

Increasing the market size is needed in order for Nyagatare to boost its attractiveness and opportunities for domestic and international businesses investors. The Government needs to take measures to increase the city market size taking into account the district's high dependence on agriculture and livestock. Measures should focus on:

- i. Developing the agri-businesses and agro-processing activities: this could include

awareness raising for farm owners who stay in Kigali city to develop their farm businesses in Nyagatare. This will positively impact on the creation of new jobs in the District and increase agricultural productivity.

- ii. Strengthening urban-rural linkages through the development of transport and business infrastructure as well as utilities across the district (roads, local markets and others) to help smallholder farmers to access markets and promote agri-business jobs.
- iii. Expedite the Gabiro Agri-hub which will contribute to mobilizing value additions activities.

Additionally, the Government needs to boost the development of dense and affordable housing for efficient land use and city development. This will help to develop the market for local products, incentivise private investors and provide subsidies for poor income categories.

3. Promoting Investment

The growth of Nyagatare Secondary city will mostly depend on the promotion of investment in opportunity sectors. Therefore, there is a need to adapt industrial policies to local opportunities in agro-processing, value-addition for local agriculture and livestock products and ensure that they are aligned with trade policies given the opportunities for export to Uganda. Besides, tax incentives should be offered to these development and strategic sectors. This would ease access to sustainable investment. Particularly, energy seems to be a big challenge in Nyagatare District:

electricity supply only allows for a low voltage connection, giving less and very expensive power for industrial use. The Government should avail three-phase electricity to improve access to electricity and decrease its cost for industries, with the main focus to the agri-business sector.

The Government needs also to invest in the development of the special economic zone (industrial park), which is still lacking in Nyagatare District. Research in other secondary cities has shown that there have been problems with uptake, with the cost of land being a key barrier. Thus, as the Government invests in Nyagatare, it should target existing and potential agri-businesses to understand specific cost related barriers to investment that these players are facing. There is also a need for suitable infrastructure for the sector, including veterinary and extension services, and other targeted infrastructure. The SEZ strategy should be aligned with interventions to increase the agricultural productivity and business growth through integrated services to i) farmers such as input provision, mechanisation, finance and ICT; and ii) the off-farm value chain to improve post-harvest quality and reduce losses through aggregation, primary processing, storage and transport. This targeted approach can ensure that the SEZ reflects the economic potential and addressed challenges faced by Nyagatare city.

For a clean and attractive environment, the Government needs to expedite the establishment of an adequate communal landfill and storm water drainage systems. This infrastructure development constitutes an opportunity for both public and private investment.

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