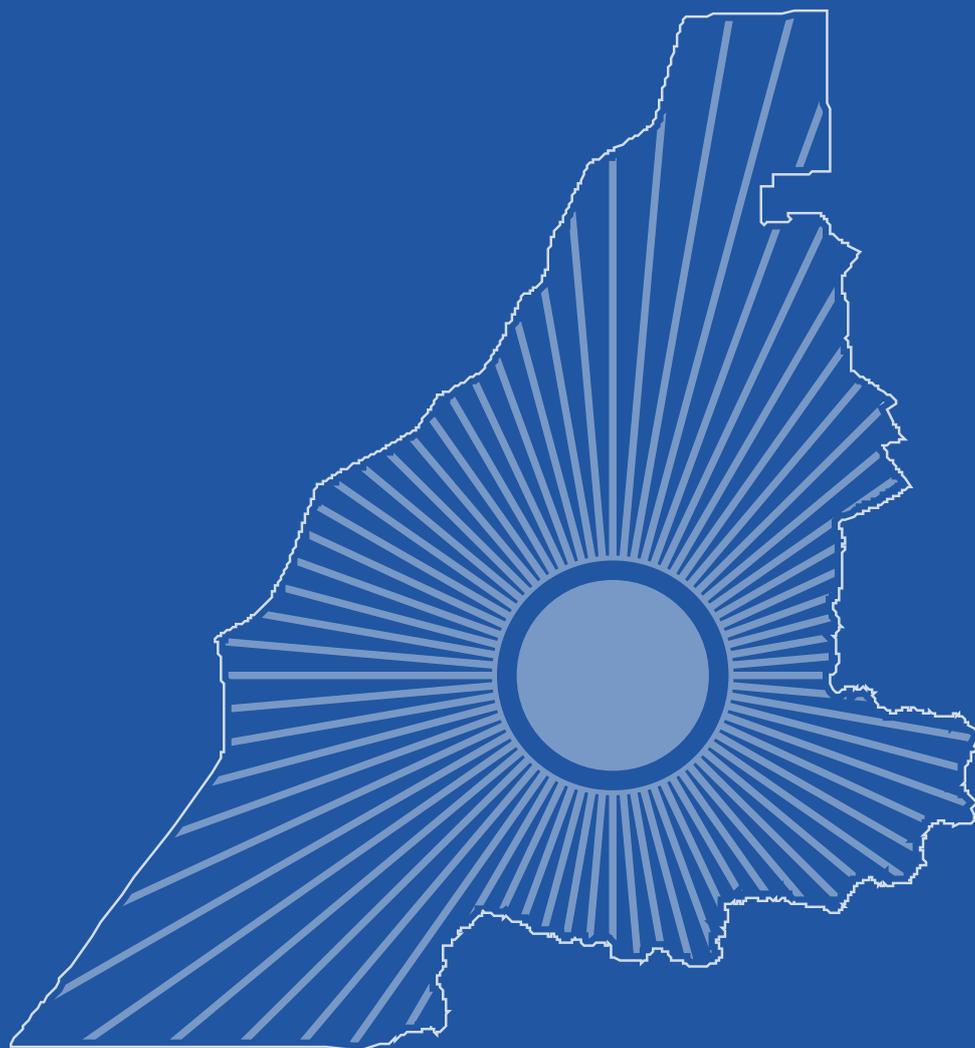


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POLICY BRIEF

Developing Rubavu District

Findings from a Multidimensional
Analysis



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SUMMARY

Secondary cities matter a lot in the provision of a more balanced sustainable urban growth for Rwanda. Stimulating urbanisation through the secondary city agenda is expected to create jobs and reduce poverty. These cities have a potential to act as poles of growth and relieve the pressure on Kigali, which currently dominates the Rwandan economy. With an eye on the Government's target to achieve an urbanisation rate of 35% by 2024, IPAR-Rwanda has conducted an in-depth analysis of the opportunities which are offered by secondary cities and the challenges which they face.

The current policy brief intends to provide information and guide deliberations on the development and strengthening of Rubavu district in the Western Province. Rubavu is an international gateway city located near the border city of Goma in the Democratic Republic of Congo (DRC), and it is considered as a hub for tourism and industry. In terms of actual past growth rates, Rubavu district has had the highest GDP growth rate among secondary cities, averaging about 11% in the last 7 years. The challenge facing Rubavu is that it becomes more difficult to achieve marginal growth given such high growth rates. Therefore, the administration and other private stakeholders need to think innovatively in order to come up with new sources of growth. Given that the district is urbanized at a rate of 42% but still depends on agriculture, economic policy and infrastructure planning needs to be tailored to its increasing market opportunity through rural-urban and cross-border linkages. This can be done by promoting urban density, building on its strategic position as a tourist and business hub because it accommodates tourist areas such as Lake Kivu and hot springs. Besides, Rubavu is a city with a vibrant trade boarder known as "La Petite barrière". Other key development sectors in Rubavu include wholesale and retail trade, construction, and transport and storage.

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. It is also expected to lead to efficient use and management of its natural resources whilst promoting sustainable development through a reinforcement of urban areas and human settlements for local economic growth⁴.

From the 7 years Government programme 2017-2024 (NST-1), which is the national leading strategy towards sustainable development, key pillars to guide urbanisation have been put in place. These comprise, among others, the development of a new master plan for six secondary cities, namely Rubavu, Musanze, Huye, Rusizi, Nyagatare, and Muhanga, in order to promote and accelerate their urbanisation. These six secondary cities 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 secondary cities,

IPAR-Rwanda has identified three key priorities for secondary cities' 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, these investments need to be tailored to its economic reality and its specific opportunities.

This brief sets out an approach of workforce development, strategic planning and investments to create bottom-up growth and support for opportunity sectors to reach this goal. It is made up five sections: Section A briefly described the Government's vision for secondary cities, Section B provides general characteristics of Rubavu, Section C is about methodology and sources of the information for the study, Section D presents three categories of challenges for the city while Section E provides policy recommendations for each category of challenges.

B. About Rubavu

Rubavu is a district of 388 km² and 403,662⁵ inhabitants located in the Western Province. The Poverty rates in urban centers are 20% and 36%⁵ overall. People in Rubavu have a modest to decent quality of life due to a mix of subsistence agriculture, small-scale fishing, casual labour, retail trade, and cross-border trade with DRC. Other important sectors in Rubavu include financial services (finance, insurance), tourism (Lake Kivu, hot springs/amashyuza etc...), mining (coltan, cassiterite, wolfram, beryl and tramline) and

manufacturing. However, agriculture remains the main economic activity in the district. Farmers sell their produce to DRC across the petite barrière, which currently serves a large population of casual labourers and traders daily.

Rubavu district is urbanised at a rate of 42% (EICV5). Employment reached 190,000 in 2017 (EICV5) and is projected to increase to 300,000 in 2031. Employment is distributed across agriculture (56% of workers), services (33%) and manufacturing (11%). Compared to other secondary cities,

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: National Strategy for Transformation (NST 1), 2017 – 2024.

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

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

⁵ Retrieved from <http://www.rubavu.gov.rw/index.php?id=72>

⁶ EICV5, authors calculations.

Rubavu has the smallest agricultural sector and largest trade and services sectors which are growing much faster. This is very positive in terms of sustainable growth. As the city continues to grow, potentially with a high population increase by 2031 and beyond, there is an urgent need to create more job opportunities.

Planning for the development of the city and the district needs to consider the realities of its relatively large market size, its tourism sector, its cross-border trade and its agriculture sector. Rubavu is also strategically located on the border with DRC and in close proximity with Musanze,

creating an economic corridor with high levels of trade and a potential to expand manufacturing.

Rubavu hence offers great opportunities to act as a tourism and a trade hub, building on employment opportunities in these sectors, as well as, over time, a cross-border trade centre. Moreover, minerals such as coltan, wolfram and cassiterite, are found in Nyamyumba and Kanama sectors but employment in this sector is still very low. This is an opportunity to develop the artisanal mining sector in order to attract local and foreign direct investment (FDI), and develop linkages with other logistics and manufacturing activities.

C. Methodology and sources of information

This policy brief builds on the analysis of qualitative and quantitative data collected by IPAR-Rwanda across Rubavu District in March 2019. As part of the master planning process for secondary cities, this analysis was commissioned 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 from all over the district and (iii) the views of key informants, citizens and business people on the future drivers of development in the district.

In total, 1,240 households and 200 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. Different documents were reviewed: the national urbanisation policy, Rubavu District Development Strategy (DDS: 2018-2024), datasets from EICV4 and EICV5 surveys and the fourth national population and housing census of 2012, and a number of other research works on urbanisation.

D. Challenges faced by Rubavu District

Human capital

Presently, 71%⁷ of household heads in Rubavu have at maximum a primary school diploma indicating a large skills deficit. Disparities exist within the district with Nyundo sector performing better than other sectors. These longer-term educational problems mean a reduced ability of workers to establish and maintain their own business and form the productive workforce needed for larger-scale investment in sectors such as extractives and value addition through

manufacturing. These difficulties are well known by businesses in Rubavu: 64% of them identified management skills as being a challenge and 72% of them reported talented labour as very poor in Rubavu.

Recently, there has been progress in increasing educational attainment at all levels, from primary to tertiary levels with the creation and/or development of eight TVET colleges, 2 higher learning institutions, namely the Kigali Independent University (ULK) and the University

⁷ IPAR-Rwanda survey, March 2019

of Tourism Technology and Business Studies (UTB). However, education provision in the district is still facing challenges including a low number of technical schools and higher learning institutions. Due to this situation, the majority of Rwandan students from Rubavu are sometimes obliged to cross the border to seek education in DRC. In addition, this contributes to low skills in service sectors such as tourism and hotel services

The health sector has benefitted from infrastructure investment; Rubavu district now has one District hospital of Gisenyi, 8 health centers and 10 health posts, with 87% of the population living within 5km of a health center. However, some people still travel long distances seeking medical treatment when transferred to the District hospital. The analysis revealed that 35% of people from Nyamyumba sector have to travel around 20 km (a round trip) to seek health services in Gisenyi town.

Nowadays, there is no improved and solid waste disposal site or a central sewerage system: waste collected in the city center is dumped in an unmanaged site on Rubavu hill. This lack of infrastructure is likely to increase public health risks and undermine the attractiveness of the city to prospective residents and businesses. These risks will increase as the city population is expected to reach 420,000 people by 2050, straining the current infrastructure.

Business environment

The business environment in Rubavu is not yet conducive enough to support the local businesses expansion and to attract foreign direct investment (FDI). With low levels of industrialisation, the district is still looking for funding to acquire land in the form of a land bank for future use and develop infrastructure in the industrial zone.

The businesses which were surveyed identified access to finance as the greatest hindrance to growth. Thirty percent (30%) of the businesses reported using commercial bank loans as the primary source of capital, incurring interest rates ranging between 17% and 18% (rising up to 24% for Savings and Credit Cooperatives - SACCO),

while 33% of businesses reported using household savings as the primary source of finance capital. Such challenges in accessing affordable financing prevents domestic businesses and firms from expanding and paying back the loan, which holds back their potential to create jobs and increase income.

For the business environmental need, 96% of firms identified land acquisition as being one of the main challenges (the process was ranked as being very poor). The process to purchase land, either through government expropriation or through direct transactions between landowners and investors is expensive and lengthy. The Government has introduced a new system for awarding permits, which has currently improved the process, though the Special Economic Zone (SEZ) has not yet been set up in Rubavu District.

In addition, the process of acquiring different quality standard certificates can be lengthy, which presents a challenge for small-scale businesses, which often have to incur a loss in the interim. Another significant challenge reported is the competition from the informal sector which is faced by small formal businesses. This informal sector accounts for 94% of the economy and often produces similar products at a lower cost and can then sell them at cheaper prices, putting pressure on small formal businesses.

In addition, the lack of three phase electricity in some areas (Nyamyumba and others) and a shortage of water increase the cost of production, which affect investors in industry, hotels and manufacturing sectors within Rubavu District. For instance, a notable small company has to use the single-phase electricity, which cannot support its heavy machinery, resulting in lower production compared to the market demand. The survey also pinpointed a low level of satisfaction with regard to the cost of water and electricity.

Catalysing markets and improving access

Although the market size of Rubavu is relatively large compared to those in other secondary cities, it was rated as very poor by 83% of the surveyed businesses. In addition, unaffordable housing

undermines the process of promoting dense urban environments. Such urban environments create agglomeration effects through which businesses benefit from a concentrated purchasing power and labour supply, creating opportunities for job creation. Unaffordable housing also affects individuals' purchasing power and a potential to create an urban sprawl. This is particularly astute for the poorest 55% of the population of Rubavu earning up to RWF 40,000 per month. For them, rent swallows 42% of their income and, therefore, they do not have the capacity to save in order to build or buy a new house. This pushes people into informal settlements in the periphery of the city

and drains their purchasing power.

Furthermore, public transport is currently inadequate; less than 4% people surveyed use it and the primary mode of rapid transport within the city is motorcycles. Therefore, people's access to employment and markets for their goods is limited, particularly in rural areas. Thus, this situation brings citizens to spend much on the transportation of their goods and commodities to markets where they are sold at low prices which cannot cover the cost of labour and time. This hinders income growth which, in turn, decreases their purchasing power for other goods and services.

E. Policy recommendations

To accelerate the sustainable economic growth in Rubavu, the Government needs to take a comprehensive approach tailored to the unique opportunities and challenges of the district. The district growth can be achieved through the creation of a favorable business environment, improvement of access to ready markets and development of human capital at all levels.

Secondary cities development involves a number of actors/stakeholders and has implications to financial instruments and the governance architecture. It requires prioritisation across government programs as well as a clear definition of responsibilities at both central and local levels. The following three sets of recommendations are expected to unlock Rubavu's potential, by addressing the challenges and triggering Rubavu's sustainable growth:

1. Improvement of vocational and training programs

Given that most workers have a low level of formal education, the Government needs to prioritise investment in training programs and skill development in order to boost productivity, stimulate business growth and attract FDI. Additionally, the Government should increase the number of TVETs and existing vocational programmes. This could be achieved through increased funding for growth sectors especially in industry, tourism and services.

2. Enhancing Rubavu domestic market

There is a need to boost investment opportunities for local and international businesses. Firstly, given the high dependence on agriculture in Rubavu district, the Government should support the development of the sector and make it part

a priority sector of the District's economy. This implies:

- Developing agro-processing activities, which should create value addition and jobs within Rubavu district.
- Improve transport infrastructure for strong and adequate urban-rural linkages to help farmers to access markets and promote agri-business employment.

Secondly, the Government should take strong measures to expedite the development of affordable housing. This will be achieved through: (i) appropriate planning that stimulates dense and affordable housing (ii) strengthen the market for locally-produced materials, including local minerals, (iii) incentivising private sector investment, (iv) providing credit or subsidies for low- and middle-income groups, and (v) availing

utilities and infrastructure for local households and businesses to develop.

Thirdly, Rubavu is strategically positioned to act as a center for cross-border trading and businesses, as well as access to markets in DRC. The Government should plan long-term manufacturing and infrastructure investment (Car park, modern markets, three phase electricity for the industrial zone, special economic zone) to strengthen Rubavu's position as a business and tourism hub.

Fourthly, the Government should formalise trade regulations, tariffs and information, and work with trader groups, particularly women's cooperatives, in order to boost domestic market opportunities in Rubavu city.

3. Promoting investment in opportunity sectors

Due to the strategic location of Rubavu and its specific characteristics, the Government should channel investment to opportunity sectors,

including tourism, transport, trade, mining, manufacturing and agro-processing.

The Government should facilitate access to permits and credit and give tax incentives in strategic sectors. This would accelerate the development of the special economic zone, which is now inexistent, and the supply of better energy power for production. The development of the SEZ should consider the needs of the local economy with an intent to boost the agricultural sector and stimulate business growth. This envisioned SEZ should align with the economic/market opportunities of Rubavu city itself, but also with the ones of its neighboring cities of Musanze (Northern Province) and Goma (DRC).

Furthermore, the Government should explore strategic investments in extractives, methane gas, landfill and sewerage infrastructure and to spread the risk through public-private partnership in order to transform Rubavu city into a cross-border business and tourism hub.

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