

**PROVIDING TIMELY EVIDENCE
TO FACILITATE THE SOCIO-
ECONOMIC RECOVERY FROM THE
COVID-19 PANDEMIC IN RWANDA**



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A BUSINESS DELIBERATIVE FORUM

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LIST OF ACRONYMS

BNR	National Bank of Rwanda
DF	Deliberative Forum
ERF	Economic Recovery Fund
FRW	Rwandan Franc
GDP	Gross Domestic Product
IDRC	International Development Research Centre
IMF	International Monetary Fund
IPAR-Rwanda	Institute of Policy Analysis and Research –Rwanda
Kg	Kilogram
MBRP	Manufacture and Build to Recover Programme
MINECOFIN	Ministry of Finance and Economic Planning
MOMO	Mobile Money
NISR	National Institute of Statistics of Rwanda
RDB	Rwanda Development Board
RRA	Rwanda Revenue Authority
SMEs	Small and Medium Enterprises

EXECUTIVE SUMMARY

The business deliberative forum aims at debating the programs/policies that were put in place by the Government of Rwanda to support businesses during COVID-19. These policies/programs include the Economic Recovery Fund (ERF), the Manufacture and Build to Recover Program (MBRP), the Deadline Extension (Income tax), Bank loan restructuring, a Waiver or Deferral of Taxes and Free mobile money transfer, among others. This forum helped the researchers to collect business owners' feedback that is useful in the process of improving existing policies and informing those that will be made for business development and economic recovery. In order to collect this feedback, the business deliberative forum brought together business owners, especially Small and Medium-sized Enterprises (SMEs) from industry, agriculture and services, to discuss the existing recovery policies. The findings from the forum revealed that the majority of businesses were not aware of the economic recovery policies/programs and only a few of those who were aware benefitted from these policies/programs. This is mainly due to the eligibility criteria set such as having regular and updated bookkeeping and accounting, not having any other loan among others, reported corruption in bank loan restructuring, and conflicts of interest regarding the ERF because it is implemented by commercial banks that may also have vested interest in it. Based on the findings from the business deliberative forum, the following key recommendations were formulated: Create more awareness of government's economic recovery programs/policies; improve services regarding monitoring and evaluation of newly implemented programs and Government through Rwanda Revenue Authority (RRA) and reduce tax penalties and set monthly penalties.

About this report:

This deliberative forum report was written by Dr. Jean Baptiste Nsengiyumva and Dr. Martin Ruzima, Researchers at the Institute of Policy Analysis and Research - Rwanda (IPAR-Rwanda).

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The views expressed in this report are those of authors and do not necessarily represent those of IDRC.

1. INTRODUCTION

This business deliberative forum is part of a three-year project that is providing timely evidence to enhance the recovery from the socio-economic impact of Covid-19. The COVID-19 outbreak has negatively impacted the global economy and African countries have been hit hardest (IMF, 2020)¹. Similarly, the Rwandan economy has been hit hard by the Covid-19 pandemic whereby the Gross Domestic Product (GDP) fell by 3.4% in 2020 (NISR, 2021)². In the earlier days of the COVID-19 crisis, countries across the world adopted strict measures such as lockdowns and social distancing to control the spread of the pandemic. These have increased poverty/hunger levels in developing countries, especially in Africa. This led to an urgent need for updated information about changes in people's livelihoods in order to inform planning and recovery measures.

In response to this need, the Institute of Policy Analysis and Research –Rwanda (IPAR-Rwanda), in collaboration with the Aberdeen University and Kivu International, is implementing a three-year project entitled *“Providing timely evidence to facilitate the socio-economic recovery from the covid-19 pandemic in Rwanda”*. The project is funded by the International Development Research Centre (IDRC) and aims at providing evidence-based data to support the recovery from the socio-economic impact of COVID-19. The project is in its final year of tracking the impact of the COVID-19 pandemic on households and businesses in the City of Kigali and the Six Secondary Cities, namely Muhanga, Huye, Rusizi, Rubavu, Musanze and Nyagatare.

The project has two components, which are businesses and households, and the deliberative forum focuses on the business component. Two rounds of surveys have been conducted and the findings from the first survey revealed a very significant impact on sales and profits of businesses: around 50 percent reductions were observed in February 2021³ compared to the previous year; the services sector was the most severely hit, followed by industry and agriculture. To address these COVID-19 negative impacts, the Government of Rwanda has formulated and brought in various measures and policies aimed at supporting businesses during the Covid-19 period and speed up the economic recovery.

These include the Economic Recovery Fund (ERF)⁴, the Manufacture and Build to Recover Programme (MBRP)⁵, Deadline Extension (Income tax)⁶, Bank loan restructuring⁷, a Waiver or Deferral of Taxes⁸ and Free mobile money transfer⁹, among others. The second survey pointed to a huge increase in business sales of around 160% but with a small increase in business profit¹⁰.

The goal of the current business deliberative forum is not only to reflect on the policies that have been put in place by the government to support businesses during the COVID-19 period, but also to contribute to the engagement of business people in the decision-making process at all levels. In this context, researchers collected business owners' feedback that is useful in improving existing policies and inform the ones to be developed for business development and economic recovery. Thus, the business deliberative forum created a platform for business owners, especially Small and Medium Enterprises (SMEs), to discuss the existing economic recovery policies. Additionally, government ministries and affiliated institutions including the Ministry of Finance and Economic Planning (MINECOFIN), the National Bank of Rwanda (BNR), Rwanda Development Board (RDB) and Rwanda Revenue Authority (RRA), have participated in the deliberative forum. The forum covered areas such as awareness about, benefits and challenges of the policies as well as recommendations to improve existing policies or to inform the development of new ones. It also covered the challenges faced during the implementation of ERF, coping strategies and lessons learnt. Thus, the forum was a good platform to get together business owners and policy-decision makers and reflect on the economic recovery policies aimed at helping businesses to recover and revive economics during the COVID-19 period.

This report of the deliberative forum is structured as follows: Section One provides the introduction, Section Two presents business owners' (mainly SMEs) reflections on the policies, Section Three is about reflections of policymakers and PSF while Section Four outlines the key policy recommendations

1 IMF (2020) Transcript of Kristalina Georgieva's Participation in the World Health Organization Press Briefing. <https://www.imf.org/en/News/Articles/2020/04/03/tr040320-transcript-kristalina-georgieva-participation-world-health-organization-press-briefing> (Visited on 28 September 2022)

2 NISR (2021). Gross Domestic product 2020. Department of Economics, National Institute of Rwanda. Kigali, Rwanda.

3 IPAR Rwanda (2021) RWANDA'S RECOVERY FROM COVID-19 PANDEMIC : PRELIMINARY FINDINGS FROM BUSINESS SURVEY <http://www.ipar-rwanda.org/media/presentations/article/rwanda-s-recovery-from-covid-19-pandemic-preliminary-findings-from-business>

4 <https://www.minecofin.gov.rw/news-detail/government-of-rwanda-launches-economic-recovery-fund-erf-to-support-businesses-adversely-affected-by-covid-19>

5 <https://www.gov.rw/blog-detail/prime-minister-presents-to-the-parliament-rwandas-economic-recovery-plan>

6 <https://www.orbitax.com/news/archive.php/Rwanda-Provides-Return-Deadline-41353>

7 BNR (2020) Guidelines on treatment of IFRS9 regulatory capital and relief measures to limit impact due to COVID-19 pandemic.

8 <https://www.newtimes.co.rw/article/179962/News/rra-urges-waiver-beneficiaries-to-pay-tax-for-september-2020>

9 BNR (2020) measures to mitigate the economic impact of the COVID-19 Pandemic.

10 IPAR Rwanda (2022) IMPACT OF COVID 19 ON RWANDAN FIRMS : INSIGHT FROM SURVEY DATA BY IPAR RWANDA. <http://www.ipar-rwanda.org/media/presentations/article/impact-of-covid-19-on-rwandan-firms-insight-from-survey-data-by-ipar-rwanda>

2. BUSINESS OWNERS' (MAINLY SMES) REFLECTIONS ON THE POLICIES

2.1. POLICY 1: THE ECONOMIC RECOVERY FUND

A big number of business/SMEs owners, representing three business sectors namely agriculture, industry and services, revealed that they were not aware of the ERF. Only a small number of them indicated that they were aware of the ERF through Radio and Television, which were mentioned as the main sources of information about the ERF. However, even this small number indicated that they did not benefit from it. The key factors that led to not benefiting from this fund, according to the business owners, include the lack of information and the eligibility criteria that were difficult to meet. These criteria include having regular and updated bookkeeping and accounting, not having any other loan or having paid it up to 70%. Besides, commercial banks tend to sell their loans that have an interest rate going up to 18% rather than letting business owners that the ERF loan that has an interest rate of 10% is also available for them (DF¹/Rusizi Industry Sector). SMEs recommend that the government should initiate an awareness program for the ERF to make it more known by all beneficiaries. This awareness campaign should outline all the information related to the ERF such as the targeted businesses and qualification criteria/requirements, among others. Business owners also suggested that ERF should reach all businesses in need and should be different from other loans, with the government being involved in the process of evaluation and assessment, and granting ERF loans to ensure transparency in the process. With reference to this, the participants suggested that at least one government official should be involved in the process (DF/Rusizi Industry Sector & DF/Huye Industry).

2.2. POLICY 2: THE MANUFACTURING AND BUILD TO RECOVER PROGRAM (MBRP):

The majority of the SME business people in the industry sector that attended the deliberative forum revealed that they are not aware of the MBRP program; only a few of them indicate they are. All SMEs, hardware stores (quincailleries) and clothing industries among others, business owners revealed that they did not benefit from the program mainly because they did not meet eligibility criteria. Interestingly, they do not even know these criteria due to limited awareness about the program. SMEs business owners suggested that the government should put in place an awareness program for the MBRP to make all businesses more aware of it. This awareness campaign should provide all the information related to the MBRP such as targeted businesses and eligibility criteria, among others. Business owners also suggest that the government should keep on improving the MBRP because the more SMEs buy their inputs at low cost, the more their sales.

2.3. POLICY 3: DEADLINE EXTENSION (INCOME TAX)

A large number of SMEs business owners in services and industry were aware of the deadline extension of the income tax and confirmed that they have benefitted from the program. SMEs in Agriculture were also aware of the program but few of them, especially those involved in commercial agriculture benefited from it. The debate on deadline extension also revealed that the program was properly implemented and helped businesses during the pic period of the COVID-19 pandemic. In this regard, SME businesses suggest that government should continue to implement the extension deadline program because businesses are still struggling with the consequences of the COVID-19 pandemic. Generally, business owners consider the tax penalties to be very high and suggest that the government, through RRA, should reduce tax penalties related to the delay in tax payment.

2.4. POLICY 4: BANK LOAN RESTRUCTURING

SMEs knew the program and have benefited from it by revising loan agreements. This helped businesses to get additional time to pay their bank loans. Despite that, majority of businesses did not face any challenges and have benefited from the policy; some businesses did not benefit and have highlighted several challenges in its implementation such as corruption and nepotism (DF/Huye service sector & Rusizi service sector). Principally, businesses recommended monitoring and evaluation of the policy implementation in order to avoid corruption and nepotism. The business also suggested that the policy should be brought back until they recover from the COVID-19 pandemic impacts.

2.5. POLICY 5: A WAIVER OR DEFERRAL OF TAXES

SME business owners knew about the program and have benefited from it through loan agreement revision. This helped businesses to get additional time to pay their bank loans. It should also be noted that even the businesses that did not face any challenges benefited from the policy. Nevertheless, some businesses did not benefit and their owners indicated that issues such as corruption and nepotism were behind this (DF/Huye service sector & Rusizi service sector). It is in this regard that business owners recommended improved monitoring and evaluation of the policy implementation in order to curb corruption and nepotism. The business owners also suggested that the policy should be extended until they fully recover from the COVID-19 pandemic impacts.

The deliberative forum highlighted that the majority of SMEs in the industry and agriculture sectors were not aware of tax deferral and relief measures and did not

¹ DF stands for Deliberative Forum

benefit from them. Some of the reasons include a lack of awareness of the measures and many of those who knew about these did not meet the criteria. However, few businesses especially in targeted sectors of tourism, and hotel knew about the policy and benefited from it. Generally, businesses benefited from the policy through an extended tax payment period, allowing some of them to reinvest the money into other businesses.

Business owners recommend that the government improve of awareness creation about new policies. Besides, business owners in Rusizi District decried smuggling as a cause for price volatility whereby similar businesses can sell the same products at different prices. In addition, some business people buy items from army shops and then sell them in their shops at a much lower price (DF Rusizi/Service Sector).

Furthermore, business owners suggested that RRA should improve its customer care service, especially the way it receives traders and listens to their problems. The following example provided by one business owner illustrates this point:

“*RRA came to check my tax payment history, in their computer system it showed that I was not paying tax but I already had all the hard copies of receipts showing that I have been paying. For them to correct a such mistake, it took very long and most of the times, when I got there, they told me to come back another time” (DF Rusizi/Service Sector).*

Additionally, there is a need to help taxpayers know how to pay taxes through digital systems, as many business owners cannot afford electronic billing machines because they are very expensive.

2.6. POLICY 6: FREE MOBILE MONEY TRANSFER

All business owners in agriculture, industry and services in Rwanda were aware of the free mobile money transfer policy. Businesses benefited from the policy through money exchange between the seller and the buyer without any cost. This has increased the quality of the services and saved the time business owners used to spend going to the wholesaler. Only a few businesses faced challenges such as inadequate network (DF/Rusizi Service & Kigali Agriculture) and lack of, or limited, knowledge about using mobile phone/technology. Additionally, some of the challenges the policy faced include the mindset for some people who are not willing to use Mobile Money transfer and the fact that some people, especially in villages, did not have mobile phones (DF/Agriculture Kigali).

Business owners recommend that the cost of transfer and transaction services should be reduced, the number of MOMO agents should be increased especially in rural and/or remote villages, and more efforts should be put into awareness about the benefits of MOMO at all levels.

2.7. POLICY OPTIONS SUGGESTED BY BUSINESS OWNERS

The government should establish an agricultural loan fund: The Government should facilitate farmers to access bank loans with low-interest rates and to be paid at the end of the agriculture season. This is because the current loan schemes require farmers to start paying just after one month (DF/Agriculture Huye).

The government should regulate the price of unprocessed rice: rice growers are on the losing at the market. This is because farmers are paid FRW300 per Kilogram (kg) of raw rice while the processed rice price is FRW1000 or more per kg. In this regard, the government should set the price of raw rice based on the price of processed rice on the market (DF/Agriculture Huye).

The government should establish the ERF for SMEs that shut down during COVID-19: There is a big number of SMEs that closed due to COVID-19 pandemic impacts. In connection with this, there is a need for the establishment of a special fund that deals only with micro and small business recovery and supports

3. REFLECTIONS ON THE POLICY BY POLICY MAKERS AND PSF

3.1. POLICY 1: THE ECONOMIC RECOVERY FUND (ERF)

Major implementation challenges for the ERF Phase I

- Higher demand than expected;
- Conditions/criteria set were very high for beneficiaries especially SMEs;
- The majority of the applicants did not meet the requirements such as working with a bank, being good clients and having books of account;
- The money was still available even nine (9) months due to the conditions set including paying taxes, having no arrears and trading license among others;
- Funds were insufficient compared to the applicants;
- The restrictions during the pandemic were a big challenge.

Coping strategies

- Creation of a second ERF (150 billion) with an extension to other business categories;
- The government negotiated for the second phase because the first phase fund was not enough;
- The MBRP was initiated to support the construction industry but was later extended to the manufacturing sector, which was not initially considered in the ERF.
- The most affected business sectors were given priority over others.

Lessons learnt

- Eligibility criteria should be set based on the taxation regimes of the business;
- A big number of beneficiaries did not benefit because they did not meet the criteria/requirements;
- The majority of businesses are informal which is one of the reasons for not meeting the established requirements;
- The ERF should target specific business actors instead of generalizing all businesses.
- The majority of business owners were not aware of this scheme.
- Banks did not support this initiative effectively because they are also in business and have similar products.

- The government should have a different entity (rather than commercial banks) to implement the ERF to avoid conflicts of interest.
- More awareness or dissemination of the ERF is needed.
- BDF needs to review the customized selection criteria based on the categories of businesses.

3.2. POLICY 2: THE MANUFACTURING AND BUILD TO RECOVER PROGRAM (MBRP)

Major implementation challenges for the MBRP Phase I

- A good number of beneficiaries were not aware of this scheme;
- There was inadequate information on the requirements and eligibility criteria for beneficiaries (RDB);
- The program was limited in time (between 2021-2022).
- The scheme targeted only the manufacturing, construction and Agro-processing sector; many other sectors were left out.
- COVID-19 restrictions and lockdowns impeded the MBRP implementation (Construction works were delayed because they were allowed to use a reduced number of workers).
- Some companies were exempted from taxes while they did not have the capital to operate.

Coping Strategies

- RDB is advocating for the extension of the program as most beneficiaries are requesting for it.
- Tax exemption on construction materials reduced their cash flow and speeded their work.

Lessons learnt

- Awareness campaigns should be raised. The MBRP scheme should be reviewed to mitigate possibilities of cheating and extended to support targeted sectors while reducing imports
- The program should be restructured in such a way that it benefits the local supply market.
- Sourcing locally is still a problem because some suppliers cheat buyers and there should be a guide on the implementation. Specifically, when

companies buy from a local supplier, they end up having a Bill of Quantity (BQ) that is same as when they would have paid VAT and they end up not making any profit on that BOQ.

- Improve the monitoring and evaluation of the policy implementation to ensure that the applicants are benefitting from locally sourced materials.

3.3. POLICY 3: PAYMENT DEADLINE EXTENSION (INCOME TAX)

Major implementation challenges for the deadline extension Phase I

- An extension of one month was always insufficient for taxpayers.

Coping Strategy

- Monitoring should be improved and taxpayers should be given more support regarding filing and payment of taxes.

Lesson Learnt

- Extending the time for tax payment reduces projected revenues and development.

3.4. POLICY 4: BANK LOAN RESTRUCTURING

Major implementation challenges

- The program was implemented but it did not meet the beneficiaries' expectations.
- Bank loan restructuring increased the interest and the whole loan amount.
- Business owners had insufficient information and/or knowledge regarding loan restructuring before requesting for it.
- Some customers were not happy with how banks restructured their loans.

Coping Strategy

- The National Bank of Rwanda is following up to ensure that banks respect the requirement of putting contracts in a language that their clients understand.

Lessons learnt

- There was a lack of awareness of the policy among potential beneficiaries.
- Beneficiaries were expecting an extension of the payment period without increased interest.
- Applicants signed contracts without knowing the details of what they are signing for.
- Loan contracts should be translated into all three official languages: Kinyarwanda, French and English.

3.5. POLICY 5: A WAIVER OR DEFERRAL OF TAXES

Major implementation challenges

- A waiver or deferral of taxes disturbs expected revenues and affects country development.

Coping Strategy

- Laws and regulations about tax collection should be respected.

Lessons learnt

- Taxpayers always complain and have claims.

3.6. POLICY 6: FREE MOBILE MONEY TRANSFER

Major implementation challenges

- The cost of money transfers is high and this does not help the cashless economy.

Coping Strategy

- Discussions are underway with communication companies in order to reduce the cost of money transfer

Lessons learnt

- With the free MOMO system, everyone was interested and this contributed to achieving the cashless program targets.
- MTN later increased the charges on MOMO pay accounts and business owners now refuse to use these.
- MTN needs to reduce charges; this will not significantly affect its profit because it has many clients.

4. CONCLUSION AND RECOMMENDATIONS

4.1 CONCLUSION

The business deliberative forum aimed at reflecting on the programs/policies that have been put in place by the government to support businesses during the COVID-19 period. These policies/programs include the ERF, the MBRP, the Deadline Extension (Income tax), Bank loan restructuring, a Waiver or Deferral of Taxes and Free mobile money transfer. This has helped to collect business owners' feedback that is useful for the improvement of the existing policies and informing those that need to be developed for business development and economic recovery. The business deliberative forum created a platform for business owners from industry, agriculture and services, especially SMEs, to discuss the existing recovery policies. It also involved policy makers and officials from the institutions involved in setting the policies. The key findings are that the majority of businesses were not aware of the economic recovery policies/programs and few businesses benefitted from these policies/programs due to failure to meet the eligibility criteria. Businesses owners also mentioned that there was corruption in bank loan restructuring and conflicts of interest regarding the ERF because it is implemented by commercial banks that has similar products they want to sell to the same businesses.

4.2 RECOMMENDATIONS

Based on the findings from the business deliberative forum, the following recommendations were formulated:

- **Improve the awareness of government economic recovery programs/policies:** The business owners who participated in the deliberative forum revealed that the majority of them were not aware of the aforementioned economic recovery policies/programs. Similarly, policymakers agreed that there was a lack of sufficient information about these among the beneficiaries. Thus, the government, through implementing institutions, should conduct awareness campaigns providing all the information

about ongoing economic recovery policies/programs. These awareness campaigns should clearly explain which businesses are targeted and eligibility criteria and/or requirements, among others. Besides, the awareness campaign should come first when the government initiates new programs/policies in the future.

- **Improved monitoring and evaluation of special government programs:** Business owners highlighted challenges in policies/programs implementation such as corruption for bank loan restructuring and conflict of interest for ERF. commercial banks tend to sell their loans that have an interest rate going up to 18% rather than letting business owners that the ERF loan that has an interest rate of 10% is also available for them. Business owners recommended monitoring and evaluation of the policy implementation in order to curb corruption and conflicts of interest. They also suggested that the ERF should be different from other loans and government should be involved in the process of assessing applications and granting ERF loans to ensure transparency.
- **Improve services and tax penalties regulations:** The business owners who participated in the deliberative forums indicated that RRA staff are not flexible and do not provide good services to the traders and it takes a long time to solve their problems (DF/Rusizi Agriculture). They suggested that the RRA should improve its customer care services and visit traders. Regarding penalties related to delay in tax payment, business owners revealed that the penalties are too high and charged on daily basis. Thus, they recommend that RRA set penalties on a monthly basis. They suggested that taxpayers should not pay penalties because they registered a delay for two or three days. They also suggested that the penalty rate should be reduced. Additionally, business requested for training on how to use digital tax payment systems and a reduced price of electronic billing machines because many businesses cannot afford them.

APPENDIX 1: PHOTOS TAKEN DURING THE DELIBERATIVE FORUMS




Photo: The participants in the deliberative forum at Lemigo Hotel, Kigali.



Photo: A deliberative forum meeting at Rusizi District Office.

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