POLICY BRIEF

Developing Muhanga District

Findings from a Multidimensional Analysis
SUMMARY

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

This policy brief aims at providing information and guiding deliberations on the development and strengthening of Muhanga, a district of 318,965 inhabitants, located in the Southern Province. It sets out an approach of workforce development, strategic planning and investments to create bottom-up growth and support for opportunity sectors to achieve this goal. Urbanised at a rate of 16% but with a high reliance on agriculture and service sectors, economic policy and infrastructure planning needs to be tailored to the urge to increase the market size of Muhanga. This can be done through rural-urban linkages and promoting urban density building on its strategic position as a hub for Kigali and the province and developing latent extractive and light manufacturing industries.
A. Introduction:
The vision for secondary cities

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%. This urbanisation trajectory is expected to increase socio-economic conditions of the local residents through the creation of more productive sectors such as off-farm activities. 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 growth.

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 each city’s economic reality and its specific opportunities.

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

B. About Muhanga

Muhanga is a district located in the Southern Province at only 50 km from Kigali. Its population is estimated at 318,965 people with population density of 647.7 people per Km². The poverty rate in its urban center is 13% and 33% in the overall district. These high rates are due to the fact that 81% of its population rely on agriculture, with a big part of the sector experiencing low productivity. Employment has increased from 15,000 units in 2014 to 175,000 in 2017 (EICV5) and it is projected to increase by 38% to reach 286,000 in 2031.

In Muhanga district, 87% of the (working age) population is in employment and distributed as follows 76% in agriculture, 7% in trade, 3% in construction and 3% in transport (EICV5). As the city continues to grow, potentially doubling its population by 2031, there is an urgent need to create more jobs.

Planning for the development of Muhanga needs to consider the reality of its relatively small market size and a high proportion of employment in agriculture. However, its strategic location in the centre of the country and close proximity to Kigali offers opportunities for it to act as a logistics hub.

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1 Data presented in this brief is coming from IPAR-Rwanda survey conducted in March-April 2019, unless otherwise specified.
6 EICV5, authors calculations.
building on employment growth in the sector and, over time, a manufacturing centre. Furthermore, natural resources, in particular sand, clay soil and natural resources such as wolfram, cassiterite and laterite, are found in 11 out of 12 sectors. However, they are currently underexploited, with under 1% of population working in mining and quarry, which offers an opportunity to develop the artisanal mining sector and attract foreign direct investment (FDI), and strengthen linkages with logistics and manufacturing.

C. Methodology and sources of information

This policy brief builds on the analysis of qualitative and quantitative data collected by IPAR-Rwanda across Muhanga 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 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, 990 households and 201 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, Muhanga District Development Strategy (DDS: 2018-2024), datasets from EICV5 survey and the fourth national population and housing census of 2012, and a number of other research works on urbanisation.

D. Challenges faced by Muhanga district

Human capital

Currently, 66% of the household heads have at maximum completed primary school, which demonstrates a large skills deficit. Disparities exist within the district with Nyamabuye sector performing better than the others. These longer-term educational problems reduce the ability of workers to start and sustain their own business and form the productive workforce needed for larger-scale investment in sectors such as the extractives and in value addition through manufacturing. These obstacles are well recognized by businesses: 55% of businesses surveyed identified management skills as poor or very poor and 47% of them also reported talented labour as poor or very poor.

Recently, the District registered success in increasing educational attainment at all levels from primary to tertiary levels with the creation of 19 TVET colleges and Institut Catholique Kabgayi, a higher learning institution. However, education provision still faces challenges across the district. These include a low ratio of teacher to pupil (1:54) and poor infrastructure in some schools such as the lack of electricity, which hampers the use of ICT in teaching and learning, and old classrooms making learning impossible during heavy rain. These factors have contributed to the rise of the school dropout rate which was 7.2% in primary schools according to the 2018 district report.

The health sector has benefitted from the investment in infrastructure and the district now has 4 hospitals (including Kabgayi Hospital), 16 health centers in the 12 sectors and 19 health posts, with 93% of the population living within 10km from a health center. However, some health
posts are working from cell offices since they do not have their own buildings. In addition, people travel long distances seeking medical treatment when transferred to the main hospital of Kabgayi. The analysis found that 0.6% of people from Nyabinoni, Kabacuzi and Rongi sectors, which are very mountainous, travel over 50 km for both ways to seek health services in Muhanga town. Finally, the common mode of transport used to carry patients in Nyabinoni and Rongi sectors is the traditional stretcher, which is not efficient.

Currently, there is no solid waste disposal site or central sewerage system: the waste that is collected in the city center is dumped in an unmanaged site 10km away. This lack of infrastructure creates a public health risk and undermines the attractiveness of the city to prospective residents and businesses. This risk will increase as the population increases, particularly in Muhanga city, straining the existing infrastructure.

**Business environment**

The businesses surveyed identified access to finance as the greatest obstacle to growth. Forty-one percent (41%) of these businesses reported using commercial bank loans as the primary source of capital, incurring interest rates from 17% to 18%, (rising up to 24% for Saving and Credit Cooperatives - SACCO), and 33% of the businesses reported using household savings as the primary source to finance capital. Such challenges in accessing financing prevents domestic firms from expanding, holding back their potential to create jobs and increase income.

With reference to the business environmental need, 72% of firms identified ease of land acquisition as one of the main issues (ranked as being poor or very poor). The process to purchase land, either through government expropriation or direct transactions between landowners and investors is lengthy and expensive. However, the introduction of new systems for awarding permits has currently improved this process and the Special Economic Zone (SEZ) has been set up.

A high production cost is another challenge that affects investors in Muhanga District. The survey points to a low level of satisfaction with the cost of utilities estimating the cost/prices for water and electricity as too high. For instance, it was reported that people used to pay 3,000 Frw for water consumption within a range of 0 to 3m3 but they are currently paying 9,000 Frw for the same volume, which implies an increase of water bills. Overall, the monthly average cost per household for electricity and water are 2636 Frw and 815 Frw respectively within Muhanga District.

**Market access and Market size**

The market size of Muhanga is small. It was rated as poor or very poor by 67% of businesses. In addition, unaffordable housing undermines the process of promoting dense urban environments which create agglomeration effects through which businesses benefit from 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 the case for the poorest who constitute 60% of the population in Muhanga city earning up to RWF 40,000 per month. Rent swallows 57% of their income and buying a house would take them 86 years given their current levels of saving. This pushes people into informal settlements in the periphery of city and drains their purchasing power.

Furthermore, public transport is currently inadequate: only 2% people surveyed use it and 85% walk to work. The primary mode of rapid transport within the city is motorcycles. This means that people have limited access to employment and to the markets for their goods, particularly in rural areas. Due to this situation, citizens 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 situation holds back the size of local market, hence hindering income growth, which in turn lowers purchasing power for other goods and services.
E. Policy recommendations

In order to stimulate growth in Muhanga there is a need to improve the human capital, create a conducive business environment and promote access to ready markets. The Government needs to take a holistic approach to addressing these challenges in accordance with the unique challenges and opportunities of Muhanga district.

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

1. Enhancing technical, vocational and training programs

Given the large skills deficit of the workforce in the district, the Government needs to prioritize investment in skills training to increase entrepreneurship and productivity in order to stimulate business growth and FDI. The Government should increase the number of TVET centres/schools as well as vocational programmes offered through increased funding focused on growth sectors in industry and services, which could include private investment. Opportunity sectors include logistics and storage, mining and light manufacturing, particularly in agro-processing and processing of local extractives and construction materials.

2. Increasing Muhanga market size

Increasing the market size through a bottom-up approach is expected to unlock investment opportunities for domestic and international businesses. Firstly, given the reliance on agriculture in the district, the Government should:

i. Increase agricultural productivity by improving irrigation, strengthening extension services and promoting affordable, and timely access to, inputs,

ii. Develop urban-rural linkages through investment in roads and public transport, as well as market facilities, not just in Muhanga city but also in the trading Centres of Kibangu and Kiyumba which are the fast-growing trading centers.

Secondly, the Government should stimulate agglomeration effects through taking measures to encourage the development of dense and affordable housing. This will require a facilitative planning regime that incentivizes dense and affordable housing as well as other steps: developing the market for locally-produced materials, including local timber, incentivizing private sector investment, providing credit or subsidies for poor income groups, and/or creating land with low-cost essential infrastructure for households to develop.

Thirdly, Muhanga is strategically placed to act as an economic hub for the Southern province and Kigali, regarding markets access in Burundi and the Democratic Republic of Congo (DRC). Alongside feeder roads, the Government should plan road investment to strengthen Muhanga’s position as a hub for the logistics and storage sector, as well as the manufacturing sector in the longer-term.

3. Promoting investment in opportunity sectors

The Government should tailor industrial policies to opportunity sectors in logistics and storage, mining and light manufacturing, particularly in agro-processing, and processing of local extractives and construction materials.

The Government should offer tax incentives in strategic sectors, as well as facilitate access to permits and credit. This would expedite the development of the special economic zone in terms of infrastructure development and, possibly, supply of better energy power.

Where commercially viable, the Government should explore strategic investments in further warehousing assets, as well as extractives and landfill and sewerage infrastructure. The Government should explore the opportunities to spread the risk through public-private partnerships.