



National Bank of Rwanda

Foreign Private Investment and Investor's Perceptions Report-2010

FOREWORD

The Rwanda Working Group on foreign private capital flows (the National Bank of Rwanda, Rwanda Development Board and National Institute of Statistics) presents the report on first round FPC survey results for the calendar years 2008 and 2009. This is the first survey in Rwanda aimed at capturing information on Foreign Private Capital for the period of 2008-2009. All companies registered as foreign direct investments by Rwanda Development Board were included in the survey, and this was combined with a purposive sample of large, medium and small taxpayers captured in the RRA database. A total of 152 companies were given questionnaires.

This report contains investor's perceptions on investment climate, employment statistics and data on private sector foreign borrowings and equity. The information captured in the report was provided by senior management of companies surveyed, including Managing Directors, Chief Executive Officers and Finance Managers. In addition to completing the questionnaires, companies provided financial statements which assisted in data validation.

The FPC survey shall be a continuous activity as it is important for the Government of Rwanda in its efforts to attract foreign investments in the country. Furthermore, the findings shall contribute to formulation of appropriate foreign private capital policies and will be used to improve Rwanda's Balance of Payments and International Investment Position statistics.

We take this opportunity to thank all partner institutions involved in conducting this survey and the FPC working group for their commitment to make this survey a success. We also extend our thanks to Macroeconomic and Financial Management Institute for Eastern and Southern Africa (MEFMI) for technical assistance through training on FPC concepts, analysis and the software for data processing.

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Governor, National Bank of Rwanda

LIST OF ACRONYMS

BNR:	National Bank of Rwanda	NISR:	National Institute of Statistics of Rwanda
BOP:	Balance of Payments	PCMS:	Private Capital Monitoring System
BOU:	Bank of Uganda	PSED:	Private Sector External Debt
BV:	Book Value	PSF:	Private Sector Federation
CSR:	Corporate Social Responsibility	PSI:	Private Sector Investment
CSR:	Social Security Fund	PSIS:	Private Sector Investment Survey
FAL:	Foreign Assets and Liabilities	RBS:	Rwanda Bureau of Standards
FALIPS:	Foreign Assets and Liabilities & Investor Perception	RDB:	Rwanda Development Board
FDEI:	Foreign Direct Equity Investment	RECO:	Rwanda Electricity Corporation
FDI:	Foreign Direct Investment	REMA:	Rwanda Environment and Management Authority
FPC:	Foreign Private Capital	RIEPA:	Rwanda Investment and Export Promotion Agency
FPEI:	Foreign Portfolio Equity Investment	RRA:	Rwanda Revenue Authority
GDP:	Gross Domestic Product	RURA:	Rwanda Utilities Regulatory Agency
IIP:	International Investment Position	RWASCO:	Rwanda Water and Sanitation Corporation
IP:	Investor Perceptions	RWF:	Rwandan Franc
ISIC:	International Standards of Industrial Classification	RWG:	Rwanda Working Group (on Private Capital Monitoring)
MEFMI:	Macro Economic and Financial Management Institute		
MOU:	Memorandum Of Understanding		

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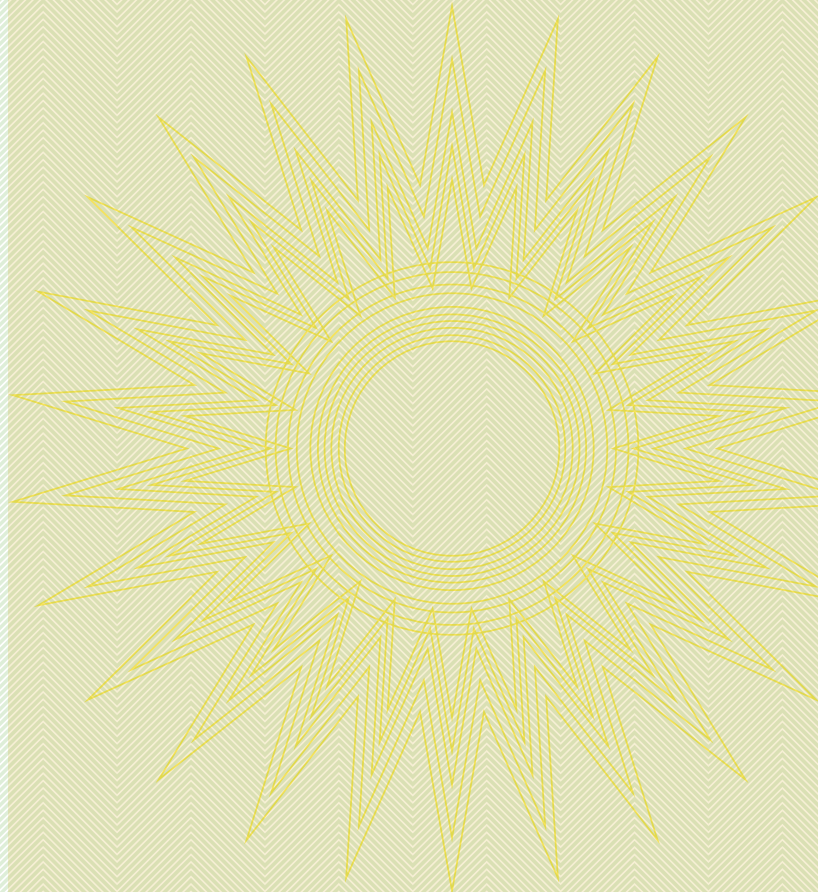
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BNR also wishes to record gratitude to the Government of Rwanda through the FPC leading institutions namely RDB, NISR, PSF and BNR for providing funds for the survey.

Sincere appreciation goes to Macroeconomic and Financial Management Institute of Eastern and Southern Africa (MEFMI) for the technical assistance granted to Government of Rwanda from the launch of the of this project. Their assistance includes demand assessment on FPC monitoring, training of technical team and providing software for data entry and analysis.

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Most importantly, special thanks are extended to the companies who participated by responding to the questionnaires and providing complementary information such financial statements. Without their input, the government would not have been able to make an assessment of the magnitude of FPC and their perceptions regarding the domestic investment climate. Our hope is that, on the basis of the same understanding, we will continue to cooperate in next surveys. We urge the companies which did not respond to our questionnaire to participate during the second round survey which is planned to take place during the second half of 2011.



EXECUTIVE SUMMARY

This report presents the findings from FPC survey conducted during the second half of 2010 on 152 companies with foreign assets and liabilities. In addition, the report proposes policy recommendations to improve FPC performance.

The survey was jointly conducted by National Bank of Rwanda (BNR), National Institute of Statistics of Rwanda (NISR), Rwanda Development Board (RDB) and Private Sector Federation (PSF). The objectives of this survey include setting up the Private Capital Flows (PCF) database in conformity with international codes and standards, and determining the magnitude and trends of FPC for the period 2008-2009.

Response Rates and Survey Findings:

Questionnaires were distributed to 152 entities of which, 128 responded representing a response rate of 84.2 percent.

The survey findings indicated that in 2009 Rwanda attracted total stock of foreign investment to the tune of RWF 223,240.1 million (USD 390.9 million) having increased from RWF165,023.1 million (USD 295.3 million) in 2008. Resilience in Foreign Private Capital Flows despite the Global Financial Crisis was partly attributed to diverse sources of investment. Apart from EU (the most affected region by the crisis), Rwanda received over 60.0 percent of FPC stock from COMESA (18.3

percent), SADC (16.4 percent), EAC (11.0 percent), Asia (13.4 percent) and other less affected non OECD countries (13.0 percent). On country basis, the largest stock of investment came from South Africa (16.1 percent), China (11.4 percent) and Libya (10.5 percent). In EAC region Kenya accounted for the largest share. As at end 2009, the largest proportion of foreign private liabilities/investment was in form of Foreign Direct Investment (FDI) accounting for 61.4 percent. The remaining components were in form of other investment and portfolio investment accounted for 36.2 percent and 2.3 percent, respectively.

Sectors with the highest shares of foreign liabilities were Information and Communication (36.2 percent) and finance and insurance (35.0 percent). Whole sale and retail trade accounted for 6.5 percent while Agriculture accounted 4.0 percent of total liabilities

The gross flows of foreign direct investment during 2009 stood at RWF 79,838.4 million (USD 140, 5 million) compared to RWF 79,828.7 million (USD 146.0 million), mainly driven by equity and non-equity liabilities. Sectors which attracted highest flows were information and communication, Agriculture, forestry and fishing and finance and insurance sectors. The difference between two ends period stocks which is not explained by the flows of the year is due to other changes mainly valuation of equity and non-equity stocks.

The stock of Private Sector External Debt (PSED) as at end 2009 stood at RWF 131,968.9 million (USD 231.0 million), having increased from RWF 58,895.4 million (USD 105.4 million) in 2008, mainly driven by long term concessional loans from related companies.

Return on equity (ROE) for 2009 was 30.5 percent up from 28.0 percent in 2008. Information and communication, and financial and insurance services sectors registered the highest return on equity of 55.3 percent and 44.8 percent, respectively. The survey further revealed that total dividends paid during 2009 amounted to RWF 13,247.0 million (USD 23.2 million) having declined by 16.0 percent from RWF 15,691.0 million (USD 28.1 million) in 2008. Manufacturing, wholesale and retail trade and agriculture accounted for 64.8 percent, 13.3 percent and 10.5 percent of total dividend, respectively.

Rwanda's claims/assets on the rest of the world were low compared to its liabilities, they increased from RWF 12,136.7 million (USD 21.7 million) in 2008, which increased to RWF 13,680.6 million (USD 24.0 million) at end 2009.

Results from investor perceptions revealed that domestic and regional business environment were the key factors that

initially led majority of companies to invest in Rwanda and particular, the stability of the domestic political and economic environment as well as the anti-corruption measures. It was further observed that business operations were negatively affected by informal trade and import competition. Other factors reported to have adverse impact include regulatory framework, state intervention levels of inflation, interest rates and exchange rate, corporate tax, customs and excise duty, small size of the domestic market, inaccessibility to international markets, efficiency and high costs of electricity.

Policy Implications and Recommendations:

Investment monitoring: The survey highlighted the need for continuous monitoring of foreign investments to update policy makers with information on foreign assets and liabilities. This calls for funding regular investment surveys that would help in strengthening data quality and policy formulation to attract and retaining investment.

Debt sustainability: Government is advised to include private sector debt on its debt sustainability analysis as survey results indicated that loans from unrelated companies on average accounted for 75.0 percent of total outstanding private

To convert the RWF Rwandan francs into USD we used the following rates:

USD 1= RWF 546.8509 and 568.2810 (mean year exchange rate) for flows in 2008 and 2009, respectively.

The stocks were converted at USD1= RWF 558.8975 and 571.2375 (31 December exchange rate) for 2008 and 2009, respectively.

sector debt. This among others will enable government to appropriately allocate its foreign reserves in line with the composition of the overall external debt.

Domestic lending rates: the findings of the FPC 2010 revealed that the magnitude of external borrowing to finance investment increased substantially. This may partially be attributed to inadequate long-term financing and high interest rates on domestic credit facilities which are critical for private sector development. National banks in collaboration with financial institutions are advised to lower the cost of borrowing. In addition, private entities can expand the scope of financing by listing their companies to capital markets to raise equity and debt financing. The government is advised to encourage private sector (e.g. through tax incentives) to list their stocks into the Rwanda Capital Market in order to mobilize financing through issuance of equity shares and tradable debt securities.

Inflation was identified as a major constraint to the private sector growth and development. High inflation erodes the values of financial assets and creates uncertainty about future prices which discourages savings and investments. This inflation is mainly attributable to imports (fuel in particular), hence the government is advised to continue investing on alternative sources of energy.

Infrastructure development: The private sector requested the government to do more on development of rural roads and

energy infrastructures to lower the cost of doing business. In addition, it also suggested the need for ICT infrastructure to be enhanced in order to increase efficiency and reduce cost of communications.

Access to international markets: this has been a concern to investors; the government is advised to ease the cost of air transport, development of cross border roads and railways to facilitate access to external markets.

Sectoral diversification: results from the survey showed that investors are not planning to diversify in other sectors. It is therefore critical for government through Rwanda Development Board to market potentialities in other sectors. This needs to go in tandem with infrastructure development.

Regional diversification: EU countries accounted for 31.0 percent of total investment, being the largest share when compared to other regions. The government needs to explore possibilities of increasing investments inflows from EAC, COMESA, SADC and Asian countries in order to balance the distribution of investment.

CHAPTER I. INTRODUCTION

1.1. Background of foreign private capital in Rwanda

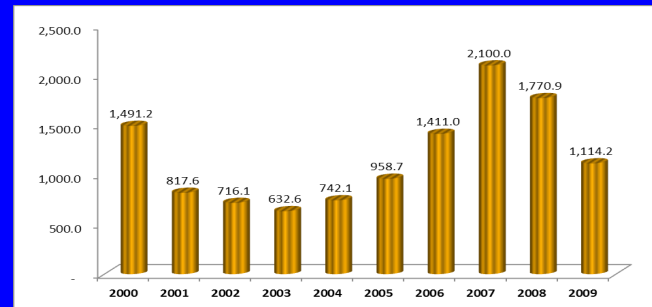
Foreign direct investments have been identified as an important source of financing for developing countries. The International Monetary Fund defines the FDI as investments brought in a country by non-resident unit being individuals or companies. Generally, foreign direct investment is a long-term undertaking. The investor resident in a country foresees a durable interest in investing in another country.

The investor has therefore an opportunity to diversify the risks of his investments and generate more revenues from funds invested abroad. The country of destination of funds benefits a lot from direct investment in terms of reduction in unemployment, increase in financial, equipment and expertise resources.

On international level, according to the World Investment Report 2010, global FDI inflows fell from a historic high of \$1,979 billion in 2007 to \$1,697 billion in 2008, a decline of 14% and fell a further 37 per cent to \$1,114 billion in 2009 due to financial and economic crisis, (see figure 1). It began to bottom out in the latter half of 2009. The first half of 2008 developing countries weathered the global financial crisis better than developed countries, as their financial systems were less closely interlinked with the hard-hit banking systems of the United States and Europe. Their economic growth

remained robust, supported by rising commodity prices. Their FDI inflows continued to grow, but at a much slower pace than in previous years, posting a 17% growth to \$621 billion. By region, FDI inflows increased considerably in Africa (27%) and

Figure 1: Recent global trend in foreign direct investment, 2001-2009



Source: *World Investment Report 2010*

in Latin America and the Caribbean (13%) in 2008, continuing the upward trend of the preceding years for both regions. The slow pace of down trend in Africa was mainly due to policy measures adopted by a number of African countries to make the business environment in the region more conducive to FDI. In Rwanda, attraction of Foreign Direct Investment has been very active due to high conducive investment climate through radical reforms which make it easier for businesses to get started, get credit, pay taxes, etc. The Rwandan Government is

eyeing an increase in investments. It expects local and foreign investments to grow by 25 to 30 percent of GDP by 2012 as Gross Domestic Production is estimated to grow at 7 percent thus reducing poverty levels.

In the past, data on foreign capital flows relied on information provided by banks. However, it was noted that there were a number of challenges experienced in sourcing BOP data using information from banks for FPC purposes, particularly in respect of coverage. This methodology does not capture non-cash forms of investment such as investment in form of equipment and reinvested earnings. In addition, it was also observed that bank reporting was not always accurate and that there was no enforcement mechanism to ensure accuracy in the reporting of all transactions by banks.

As a consequence, there was misclassification of current, capital and financial account transactions in some instances. However, efforts to use a survey based approach of compiling statistics on FPC had been undertaken in 2007 jointly with the Rwanda Investment and Export Promotion Agency (RIEPA), now RDB, with a reasonable response rate of 58 percent from a sample of about 65 companies.

In the mean time since that period, Rwanda continues to work strongly on investment climate to attract foreign investors as internal resources remain low and insufficient. Currently, a whole package for investment promotion in general can be

found within Rwanda Development Board. The package includes among others: regulatory framework, registration facilities and requirements, change of registered business, closing business, disclosure requirements, and other facilities such as working permit, government's protection of investments, settlement of disputes, transfer of funds and etc.

In order to track the FPC impact on our development and economic growth; and maintain our conducive investment climate in pursuit of more investment attractions, there is need for a sound and consistent monitoring system to guide the formulation of national investment policies. To this end an Inter-Institutional Agreement for implementing, monitoring and analysis of foreign assets and liabilities, investor perception, corporate social responsibility, and related data in Rwanda was made. This agreement led to the formation of a working group (RWG) under the memorandum of understanding signed between the leading institutions of: The National Bank of Rwanda (BNR), The National Institute of Statistics of Rwanda (NISR), The Rwanda Development Board (RDB) and The Private Sector Federation (PSF).

This working group priorities includes among others ensuring good quality statistics are produced that can meet the needs of the various policy makers, avoidance of adhoc surveys, effects of investment on employment, constraints to full implementation of pledged investments, investors perceptions, compliance to international data reporting standards, etc...

Beside this inter-institutional commitment, the FPC data capturing activity requires an important contribution of the respondents. An awareness campaign was therefore organized aiming at sensitization of companies to reporting on required information. The managers of companies were given explanations on the relevance of the exercise the country was launching explaining to them that it is mainly related to data capturing so that an analysis of capital flow on economic development can be assessed on one hand. And on the other hand, this activity aims at capturing information on how investors assess the country's investment environment for further improvement. These two main reasons required BNR, RDB, NISR and PSF to join efforts for better results.

1.2. Ease of Doing Business in Rwanda

Rwanda recorded notable improvements with regard to ease of doing business and ranked 58 (out of 183 economies) in 2011, from a rank of 70 the previous year (see Table 2). In 2011, Rwanda was among the 10 most-improved economies and a consistent reformer of business regulation, along with, Cape Verde, Zambia, Peru, Vietnam, Grenada, and Brunei Darussalam. In Sub-Sahara Africa, Rwanda emerged 4th in 2011 after registering remarkable improvements with regard to getting credit, trading across borders, dealing with construction permits, starting a business and paying tax.



Figure 2: Top Ten Countries in Doing Business in Sub-Saharan Africa

Economy	Ease of Doing Business Rank	Starting a Business	Dealing with Construction Permits	Registering Property	Getting Credit	Protecting Investors	Paying Taxes	Trading Across Borders	Enforcing Contracts	Closing a Business
Mauritius	20	12	39	69	89	12	12	22	61	71
South Africa	34	75	52	91	2	10	24	149	85	74
Botswana	52	90	127	44	46	44	21	151	70	27
Rwanda	58	9	82	41	32	28	43	159	39	183
Ghana	67	99	151	36	46	44	78	89	45	109
Namibia	69	124	36	136	15	74	99	153	41	53
Zambia	76	57	158	83	6	74	37	150	86	97
Seychelles	95	109	61	62	152	59	38	36	69	183
Kenya	98	125	35	129	6	93	162	144	125	85
Ethiopia	104	89	53	109	128	120	47	157	57	82

Source: *World Bank Doing Business Report 2011*

In the period under review, Rwanda made dealing with construction permits easier by passing new building regulations and implementing new time limits for the issuance of various permits. Access to credit was enhanced by allowing borrowers the right to inspect their own credit report and mandating that loans of all sizes be reported to the central bank's public credit registry. In addition, Rwanda reduced the number of trade documents required and enhanced its joint border management procedures with Uganda and other neighbors, leading to an improvement in the trade logistics environment. Challenges particularly in the area of trading across borders and closing a business, however, persist (see Figure 3 below).

Figure 3: Rwanda's Doing Business Performance by Category 2010 and 2011

DOING BUSINESS 2011 RANK	DOING BUSINESS 2010 RANK		CHANGE IN RANK
58	70		↑12
Topic Rankings	DB 2011 Rank	DB 2010 Rank	Change in Rank
Starting a Business	9	12	↑ 3
Dealing with Construction Permits	82	88	↑ 6
Registering Property	41	37	↓-4
Getting Credit	32	61	↑29
Protecting Investors	28	27	↓-1
Paying Taxes	43	46	↑ 3
Trading Across Borders	159	169	↑10
Enforcing Contracts	39	40	↑ 1
Closing a Business	183	183	No change

1.3. Objective of the survey

In the long run, the objective is to improve the private capital management in line with the country development. This requires creation, maintenance and reinforcement of national capacity and assessing the country's realizations. Within this context, the program or the working group are required to meet the following specific objectives:

- Establish a strong and performing framework of regular and complete system of collection of data relating to private capital flows to improve the balance of payment compilation in line with international standards following the IMF BOP manual. Information on investment plans has been systematically collected during the last decade but the actual level of investments has not been monitored. Equally most information available to date covers inward investment to Rwanda (foreign liabilities) and not the investment of Rwandan companies abroad (foreign assets)
- Collect information on stock of foreign private capital for a better compilation of International Investment Position;
- Create a friendly working environment between public and private sector that enhances the sharing of information and drives improvements in business conditions in general and investment conditions within Rwanda in particular;
- Be informed on investors' perceptions and concerns regarding the investment environment and hence identify gaps required to be addressed for better services in response to the needs of investors with a proven positive impact;
- Create an exhaustive database on investments for strong policy analysis and recommendations aiming at reconsidering and improving the foreign investment climate. The survey of foreign investment is an important source of information that can be useful for the country of investment and the investor himself. It helps to capture information on how the investors assess the country's investment environment and thus assist the country taking appropriate decisions. On the investors' side, the foreign private capital survey is also a source of information especially for green field options available for new investments. Therefore, the survey results facilitate adequate decision making for both public and private sector. Note also that the foreign private capital data capturing is becoming an important requirement from international organizations that are compiling comparable investment data.
- To enrich and update the national database with vital information on private entities to guide planning and policy making by disseminating high quality data in timely manner for easy access to users.

1.4. Scope of the survey

This first private capital survey in Rwanda aimed at capturing information on FPC for the period of 2008-2009. A list of investors registered with the Rwanda Development Board as well as the list of large, medium and small taxpayers from RRA were used. All companies registered as foreign direct investments by Rwanda Development Board were included in the survey, and this was combined with a purposive sample of large, medium and small taxpayers captured in the RRA database. One hundred and fifty two companies were given questionnaires. Only 86 of 128 respondents to the questionnaire had foreign assets and liabilities data.

The survey was designed to capture mainly information on general company information and shareholding structure, capital flows and stocks for 2008-2009 and investor perceptions.

1.5. Global and Regional Perspective

The global economy expanded successively for four years up to 2007 as Gross Domestic Product (GDP) rose to an average of 5.0 percent, owing to a broad-based surge in the emerging and developing economies (World Economic Reports). However, the global economy slowed down markedly to 0.2 percent in 2008 following shocks in the mature financial markets. During 2009, the global economy entered into a severe recession owing to massive financial crisis and acute loss of confidence. Hence, output contracted by 0.6 percent in 2009. Advanced economies

were the hardest hit, with output growth declining to 1.5 percent in 2008 before contracting by 3.2 percent in 2009. The world's largest economy, the United States of America (USA), failed to register growth in 2008 and contracted by 2.6 percent in 2009 compared to a solid growth of 2.0 percent in 2007. In the Euro area, economic output declined to 0.5 percent in 2008 and shrunk by 4.1 percent in 2009 in contrast to an expansion of 2.6 percent in 2007. Though growth momentum in China and India eased, GDP output remained robust at 9.6 percent and 6.4 percent in 2008 and 9.1 percent and 5.7 percent in 2009, respectively.

Recent developments indicate that economic recovery is underway and broad based though sluggish in most advanced economies and a few emerging economies. As such, global activity was forecasted to expand by 4.8 percent in 2010. Respective output growth for emerging and developing economies was projected at 7.1 percent and 6.4 percent, respectively, in 2010.

Economic growth in the Sub-Saharan region moderated to 5.5 percent in 2008 from 6.9 percent in 2007, as many of these countries were less affected by the first round effects of the financial crisis. Despite a weakening external environment, economic expansion in oil-exporting countries softened moderately with GDP growth declining to about 7.4 percent from nearly 7.9 percent in 2007, owing to a substantial improvement in the terms of trade in 2008. For oil importers,

output growth marginally slowed down to 5.0 percent in 2008 from 5.3 percent in 2007. Notwithstanding this, other oil importers that did not benefit from the higher commodity prices experienced a deteriorating terms of trade, averaging 15–20 percent in 2008. In 2009, however, the second round effects had affected the region such that output grew by 2.6 percent in 2009. Nevertheless, the impact was contained by rapid implementation of countercyclical policies made possible by the policy room that many of these economies had built prior to the downturn. In the Sub-Saharan region, output growth was estimated to accelerate to 5.0 percent in 2010.

1.6. Global Trends in Foreign Direct Investment (FDI)

The global FDI grew for four consecutive years in tandem with global economic performance and reached a record high of US\$1,979 billion in 2007 (World Investment reports). The growth was broad based as the advanced, emerging and the Sub-Saharan Africa economies experienced continued growth in FDI. The sustained rise in FDI in 2007 was driven by relatively high economic growth in many parts of the world coupled with expansion in cross-border mergers and acquisitions (M&A) across countries and sectors. After uninterrupted growths in FDI in the period 2003–2007, global FDI inflows fell by 16.0 percent to US\$1,662 billion in 2008. This decline was, in general, a reflection of the turmoil in the financial markets and the accompanied worldwide economic downturn.

Regionally, FDI inflows into developing countries rose by 21.0

percent in 2007 to reach a new record level of US\$500 billion. Inflows to Least Developed Countries (LDCs) alone reached US\$13 billion, a 4.0 percent increase over the previous year. Meanwhile in Africa, FDI inflows rose to a historic high of US\$53 billion in 2007. The inflows were supported by a boom in global commodity markets as well as by increased cross-border M&As in the extraction industries and related services, and the banking industry. These cases might illustrate a trend towards greater diversification of inflows in some of the LDCs, away from traditional sectors like oil and gas. Nigeria, Egypt, South Africa and Morocco were the largest recipients.

In 2008, however, the regional pattern of FDI flows varied by groups of economies. In developed countries, both FDI inflows and outflows plunged, with inflows declining by 41.8 percent to US\$1,018 billion, and outflows by 17.5 percent to US\$1,572 billion during 2008. The declines were registered in all three components of FDI inflows (equity, reinvested earnings and other capital flows mainly intra-company loans). In contrast, developing economies saw FDI inflows rising by 11.5 percent to record levels of US\$630 billion, with their shares in global FDI inflows growing to 37.0 percent and 7.0 percent in developed and developing economies, respectively in 2008, from 27.0 percent and 5.0 percent in the previous year. It should be noted that the downturn in FDI inflows into developing and transition economies began almost one year after it had started in developed countries, reflecting the time lag associated with the initial economic downturn and consequent slump in

demand in developed-country markets, which are important destinations for goods produced by developing countries.

There were declines in FDI inflows in late 2008 and early 2009, particularly in developed countries. In Africa, inflows rose to a record level of US\$72.2 billion, with the fastest increase of 63.0 percent over 2007 recorded in West Africa. Sectoral analysis had shown that globally, the agriculture and extractive industries weathered the crisis relatively well, compared with business-cycle-sensitive industries such as metal manufacturing. In addition, FDI in industries such as agribusiness, services and pharmaceuticals were somewhat resilient. Overall, policy trends during 2008 were mostly favorable to FDI, both nationally and internationally. However, in some countries a more restrictive FDI approach had emerged as there was growing evidence of undisclosed protectionism.

Recent trends indicate that global FDI inflows drastically fell further by 37.0 percent to US\$1,114 billion in 2009 while outflows fell some 43.0 percent to US\$1,101 billion in 2009. FDI flows contracted in almost all major economies, except for a few FDI recipients such as Denmark, Germany and Luxembourg, and investment sources such as Mexico, Norway and Sweden. Both M&As and Greenfield investments declined due to reduced ability of Transnational Corporations (TNCs) to raise capital either through financial institutions, stock markets or internal resources. Nevertheless, most of the drop in FDI was due to a substantial decrease in M&As deals rather than

Greenfield operations. Whilst some sectors were resilient in 2008, FDI inflows and outflows slumped in the primary, manufacturing and service sectors in 2009. FDI was, however, showing signs of recovery in 2010, sustained by a resumption of equity investment as well as increases in intra-company loans and reinvested earnings.



1.7 Macro-economic development of Rwanda

Rwanda is a small developing country in Eastern Central Africa. It shares borders with the Democratic Republic of Congo in the West, Uganda in the North, Burundi in the South and Tanzania in the East. It is classified among countries with very high population density on the African continent.

Like many other developing countries, Rwanda has also been affected by the global economic recession and the Real Economic Growth stood at 6.1 percent in 2009 against 11.5 percent in 2008. While the primary sector performed well (+7.7 percent) boosted by continuing high growth in agricultural production due to favorable weather conditions and ongoing Government Crop Intensification Program, industry (+1.3 percent) and services (+5.7 percent) performed moderately compared to previous periods. This situation was due mainly on the fall in global demand and tightened banking system credit conditions, following the liquidity crunch experienced by banks at the beginning of 2009. The tertiary sector maintained its first position (44.9 percent) in the structure of GDP, followed by the primary sector (35.5 percent) and industry (13.7%).



Figure 4: Selected macroeconomic performance indicators 2005-2010

Indicator	2005	2006	2007	2008	2009	2010
Real GDP Growth (%)	9.4%	9.2%	7.7%	11.5%	6.1%	7.5%
Nominal GDP per Capita (US\$)	288.6	332.6	391.4	479.6	520.5	540.5
Average Exchange Rates (RWF/US\$)	557.81	548	547.01	546.85	568.27	583.13
Current Account Deficit (% of GDP, Excluding Transfers)	-14.6%	-12.3%	-11.9%	-15.2%	-19.6%	-18.0%
Gross Reserves (in months of imports)	7.6	6.8	7.0	5.1	6.2	6.0
Annual average Inflation (%)	9.10%	8.90%	9.10%	15.40%	10.30%	2.40%
Gross National Savings (% of GDP)	12.1%	8.9%	14.3%	19.6%	15.8%	14.7%
Gross Domestic Investment (% of GDP)	16%	16%	18%	23%	22%	21%

Source: BNR annual reports 2008 and 2009



The underlying inflation, which excludes fresh food and energy, dropped to 3.5% in December 2009 from 22.1% in December 2008, while the annual average inflation dropped to 10.3% from 15.4% during the same period. This trend of inflation was due to decline in import prices, good performance of agricultural production, the stable exchange rate and the lower money supply.

Rwanda's external sector was affected by the global economic and financial crisis which resulted in low international prices of minerals, while imports continued to increase. Rwandan trade balance deficit worsened between 2008 and 2009, from -14.0% to -16.7% of GDP and the current account deficit excluded transfers remain very high under the review period. However, despite the negative effect of the global economic recession on the external sector, Rwanda managed to close the year with a positive balance of payments, representing 1.2% of GDP following 1.3% in 2008, due to excess of capital and financial account.

Significant increase in external budget support together with the increase in private transfers led to an increase in gross official reserves which represented 6.2 months of imports against 5.1 months at end 2008. This development contributed to maintain a relatively stable nominal exchange rate of the Rwandan Franc for the 4th consecutive year.

The Government revenue increased by 10.5% in 2009 as result of sustained economic growth, and government efforts to broaden tax base and grants increase. Tax revenue ratio to GDP was 12.2% against 12.7% the previous year. On the other hand, government expenditures increased by 13%. Capital and current expenditure represented respectively 9.9% and 10.4% of GDP and 41.0% and 59.0% of total expenditure.

The total domestic outstanding debt declined by 15.7% in 2009. Non-banking sector remained the major source of domestic debt; its share slipped from 58.3% in 2008 to 56.4% as the banking system was facing liquidity problems in early 2009. With regard to external public debt, after the debt cancellation in 2006, the total external public debt stock increased by 28% in two years term; of which more than 85% were owed to multilateral creditors. The remaining 15% of the total external public debt is owed to bilateral creditors.

Broad Money grew by 6.9% at end 2009 against 17% planned at the beginning of the year. This increase in money supply was generated exclusively by the increase in net foreign assets resulting from the important external budget support disbursements, as well as private capital inflows via the banking system. Contrary to an increase of 23% planned at the beginning of the year, the outstanding credit to private sector fell by 1.8% as a consequence of the liquidity crunch experienced by the banking system between the last quarter 2008 and the second quarter 2009.

However, following the policy measures aiming to improve liquidity conditions and banks' lending capacity, the credit to private sector has been significantly recovering for the last two months of 2009. Authorized loans to the economy by commercial banks increased by 26.4% and 47.2% during November and December. During the period under review, currency in circulation declined by 5%, mainly explained by the progressive financial deepening with fast-expanding banks' branches and microfinance institutions countrywide, as well as the administrative measures undertaken to restrict the cash withdrawal and encourage the use of banks' accounts in payments.

CHAPTER II: METHODOLOGY

2.1. Sensitization

Before launching this important survey for the first time in the country, a lot of efforts were put in place to construct an attractive foreign private capital climate. It was therefore required that a sensitization campaign be organized. The objective was to maximize the chance of reporting real data as requested. The sensitization was made via an awareness campaign directed to high management of companies such as Managing Directors, Chief Executive Officers, and Finance managers.

2.2. Enterprise register

The enterprise register was mainly based on RDB database and RRA large tax payers list. Initially 212 companies were identified which operate in different sectors such as Agriculture, Construction, Energy, Financial services, Food processing, Fuel, Hotel, ICT and Communication, Insurance, Manufacturing, Mining, Real Estates, Restaurant, Retail and Wholesale, Services, Tourism and Transport. Nevertheless, in some cases a same company had more than one name and registered in different ways and others had closed. This contributed to a reduction of the initial list and only 152 companies were retained for the survey.

As stated earlier, the RDB database gives a list of FDI and local companies registered with them. The list from RRA does not make any distinction between local and foreign companies and the use of their information was only based on the staff knowledge of companies.

2.3 Survey

All 152 companies were visited and given questionnaires. The enumerators met with the managing director or at least the finance manager of each company. It may happen that all the companies having the FAL were not identified as it was intended in the census, especially due to the problem of existing information on this kind of companies.

2.4. Tools

2.4.1 Questionnaires

The data was captured using a questionnaire put in place by the working group, comprising 5 parts:

- Part 1 captured the General Information of the company: Name, shareholding structure, Relationship with fellow enterprises abroad, the company turnover, the company's industrial classification and main activity, the employment structure and compensation of employees, imports from and or exports to abroad, level of investments, gains or losses on exchange or sales operations, profits, losses, dividends, retained earnings and social responsibilities performed.
- Part 2 captured information on foreign equity investments in the company by country of origin. It differentiates the equity of less than 10% to that of more than 10% according to the Balance of Payments manual 6.
- Part 3 captured information on non-equity such as borrowing, long term or short term as well as other liabilities to be specified as indicated in the questionnaire.
- Part 4 captured information on investment abroad such as the company's holding of share abroad, loan to foreign

companies, as well as other assets held abroad.

- Part 5 captured information on investor's perceptions such as the effects of economic and financial factors to the business of the company, cost of services, labors, and environment and health factors to the business regulatory system. This part requires also the company to provide the near future direction of their investments.

Every company's response to questionnaire had to be supported by the company's financial statements and related notes that companies were also strongly requested to provide at the same time of questionnaire collection.

2.5. Training and field work activities

Before the survey commenced, a pre-survey training was organized for a week. It took place in July 2010 at Gisenyi. The training involved representatives from all collaborating institutions and MEFMI. The main objective of the training was to orient the researchers on the questionnaire to help them understand foreign private capital (FPC) concepts, learn fieldwork techniques and strategize on how to attain high response rates.

2.5.1. Technical assistance

The country received technical assistance from MEFMI in the

form of a mission. The mission, conducted at the NBR, involved technical staff from the NBR, NISR, PSF and RDB. During the mission, discussions were held regarding data uprating and robustness.

2.5.2. Questionnaire Administration

The survey targeted 152 private entities of which 128 have responded representing 84 percent (84%). Most of the companies surveyed are located in Kigali city because of concentration of formal businesses.

Other companies are located out of Kigali city but have their head offices or representation offices in Kigali city where generally CEOs, CFOs and Accountants can be accessed. A summary of questionnaire administration is shown in Table 1.

Table 1: Questionnaire Administration

	Responded with FAL	Responded without FAL	Not Responded	Total
External liabilities	80			
External Assets	6			
Total	86	42	24	152

2.6. Data processing

Data entry and processing were performed using a PCMS –software developed by MEFMI for its member countries. Enumerators were trained on the system and entered data themselves in the system. This phase was very important and contributed to the team knowledge of the system as it will be used also for the following rounds of data collection. The system presents many facilities such as exporting data in excel or word, charts for data analysis and reporting. Through technical assistance to which the Rwanda FPC project contributed to funding, MEFMI trained the staff on the use of the system. It is an online system that has security key and no one can access data of another country. The password assists you accessing data of your country unless other country has put the information to be accessed by all users of the system. As the team entered data into the system, they also have the facility of correcting errors to present final results.

2.7. Up-rating Methodology

In order to obtain better FPC estimates representative of the targeted population, the survey data was up-rated using sector specific factors. These sectoral factors were derived using annual turnover for both years 2008 and 2009 obtained from Rwanda revenue authority VAT register and argument with turnovers on selected companies provided by the economics surveys section of the Bank of Rwanda. The Data under various FPC

aspects were then generated; grouped by turnover category and the appropriate sectoral up-rating factors were applied to obtain better estimates of the various aspects of FPC for the population. The table 3 below presents the sectoral uprating factors used:

Table 2: Sectoral Uprating Factors

No	Sector	2008	2009
1	Accommodation and Food Services	1.1062	1.0891
2	Administrative and support services activities	1.0000	1.0000
3	Agriculture Forestry and Fishing	1.0000	1.0000
4	Arts, entertainment and recreation	1.0000	1.0000
5	Construction	1.1313	1.2343
6	Financial and Insurance	1.2529	1.5279
7	Information and Communication	1.2049	1.0997
8	Manufacturing	1.0082	1.0117
9	Mining and Quarrying	1.0000	1.0000
10	Professional, scientific and technical activities	1.0000	1.0000
11	Real Estate Activities	1.0680	1.0504
12	Transport and storage	1.0036	1.0188
13	Wholesale and Retail Trade	1.6236	1.5145
	Overall	1.2230	1.2318



2.8. Challenges

Challenges encountered in conducting the 2010 FPC survey include the following;

2.8.1 Responsiveness

Some companies were reluctant to supply information, mainly because this was the first survey and that most respondents were not conversant with the FPC terms used in the questionnaire. Fear of data confidentiality to some respondents was also a hindrance attributable to non-response. As for the future surveys, the FPC Working Group will enhance the understandings of the respondents through sensitization and simplified questionnaire.

CHAPTER III: QUANTITATIVE FINDINGS

3.1. Analysis of findings on private foreign assets and liabilities

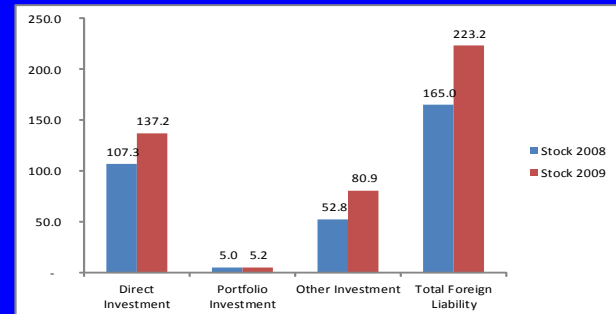
This section presents the Analysis of findings on flows and stocks of Foreign Assets and Liabilities (FAL). The FALs are composed by Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI) and Other Investments (OI).

The flows represent the transactions of FAL during the period under review, while the stocks are the positions at the beginning

and the end for 2008 and 2009. The transactions include the retained earnings/loss, change in equity, loans disbursements and payments. The difference between two ends period stocks which is not explained by the flows of the year is due to other changes mainly valuation of equity and non-equity stocks.

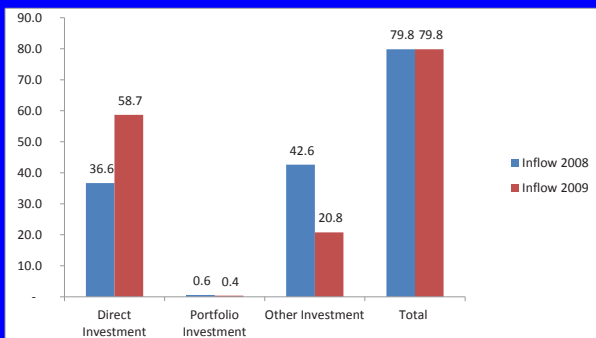
Figures 5 and 6 show that, liabilities gross inflows in 2009 slightly decreased by 0.6 percent to RWF 79,838.4 million. The stock of foreign liabilities recorded a growth of 34.0 percent from RWF 165,023.1 million in 2008 to RWF 223,240.1 million in 2009. Resilience registered in foreign liabilities despite the global financial crisis was attributable to increase in long and short term loans from related companies.

Figure 5: Total stocks end 2008 & 2009



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

Figure 5: Total stocks end 2008 & 2009



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

3.1.1. Foreign Direct Investment

An Investment is considered to be a Foreign Direct Investment (FDI) if non-resident entities or individuals hold 10% or more of the equity share in a resident entity, including Fellows Enterprises and Direct Investments of less than 10 percent. In 2008, the FDI flows were RWF 36,645.6 million, dominated by Equity capital and retained earnings accounting for 50.0 and 38.9 percent respectively.

In 2009, FDI flows rose by 60.1 percent, from RWF 36,645.6 million in 2008 to RWF 58,688.7 million in 2009, the increment was mainly due to increase in long and short term loans from related companies.

Equity capital and retained earnings during the period under review, declined by over 50 percent mainly due to global financial crisis. Equity capital amounted to RWF 18,320.8 million in 2008 compared to RWF 8,219.2 million in 2009 while the retained earnings decreased from RWF 14,268.4 million in 2008 to RWF 6,842.3 million in 2009.

FDI stock which is composed of paid-up share-capital, share-premium, accumulated retained earnings, capital reserves and loans from related companies increased from RWF 72,022.4 million in 2008 to RWF 137,150.1 million recorded in 2009 mainly due to loans. On average, FDI accounted for over 50.0 percent of total liabilities.

3.1.2. Foreign Portfolio Investment

Foreign Portfolio Investment (FPI) comprises ownership of investment of less than 10 percent excluding the fellow companies and direct investment enterprises. FPI stock slightly increased from RWF 3,357.3 million to RWF 5,209.4 million in 2008 and 2009 respectively, equivalent to 5.5 percent growth. On average, FPI accounted for 7.4 percent of the total liabilities.

3.1.3. Other investments

Other investments cover mainly long term and short term loans from unrelated companies.

In 2008, a total of RWF 35,422.0 million of loans were reported,

of which RWF 31,690.1 million (97.3 percent) were long term and RWF 459.2 million (1.3 percent) short term loans in form of are trade credits. In 2009, RWF 80,880.6 million loans were reported of which RWF 62,332.6 million (48.6 percent) were long term and RWF 9,198.3 million (46.3 percent) were trade credits. On average, other investments accounted for 34.8 percent of the overall liabilities.

3.1.4. Foreign liabilities by sectors

This section provides information on the stocks and flows of Foreign Direct Investment (FDI), Foreign Portfolio Investment (FPI), and other investments by sector.

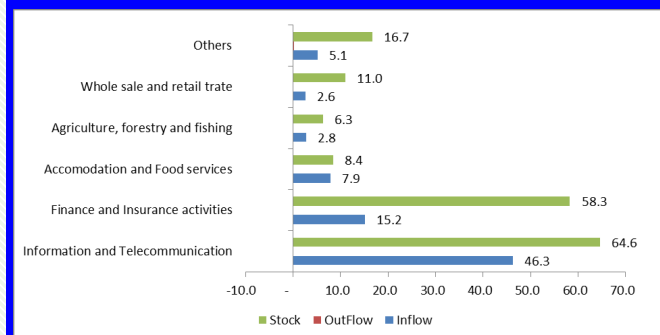
3.1.4.1. Flows and stocks by sectors in 2008

International Standards Industrial Classification (ISIC) is composed by 18 sectors. During the period under review, 13 sectors had FAL. The sectors with no FAL were the human health and social work activities; Water supply; sewerage, waste management and remediation activities; education; arts, entertainment and recreation which are mainly government owned.

The figure 7 below shows that in 2008, the highest inflows were recorded in information and Communication (58.3 percent), followed by finance and insurance (19.0 percent) and accommodation and food service (10.0 percent). In terms of

stock the information and Communication accounted for 39.3 percent. This is in line with expanding market in information and Communication.

Figure 7: Flows and stocks by sectors in 2008 (RWF millions)



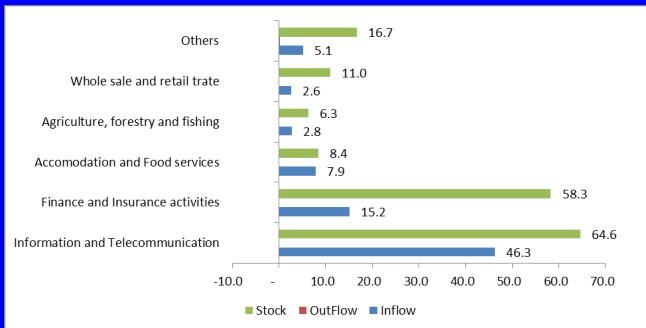
Source: Foreign Private Investment & Investor Perceptions Survey, 2010

3.1.4.2. Flows and stocks by sectors in 2009

In 2009, information and Communication remained the largest sector attracted 31.0 percent of total liabilities compared to 57.8 percent in 2008. Inflows to agriculture, forestry and fishing sector accounted for 22.3 percent up from 19.0 percent in 2008.

Sectoral performance on stocks was dominated by the Financial and insurance with RWF 77,614.5 million mainly due to depreciation of RWF. Stock of foreign liabilities in information and Communication amounted to RWF 76,338.8 million while wholesale & retail trade having RWF 22,774.6 million.

Figure 8: Flows and stocks by sectors in 2009 (RWF million)



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

Total inflows of foreign liabilities were mainly concentrated in ten countries accounting for 94.6 percent. South Africa, China and Libya were the leading source of inflows with 62.0 percent in 2008. In 2009, South Africa, China and Libya were in the lead accounting for 44.0 percent of total inflows.

Table 3: Inflows by origin in 2008 & 2009 in RFW million

No	2008				2009	
	Country	Flows	% Share		Flows	% Share
1	South Africa	20,863.9	26.1	South Africa	12,326.9	15.44
2	China	19,215.7	24.1	China	11,464.4	14.36
3	Libya	9,502.9	11.9	Libya	11,117.7	13.93
4	Netherlands	8,527.7	10.7	Mauritius	10,638.1	13.33
5	Kenya	4,414.4	5.5	Netherlands	7,349.9	9.21
6	Mauritius	3,519.8	4.4	Luxembourg	6,014.8	7.53
7	Others	13,794.1	17.3	Others	20,917.0	26.20
8	Total	79,838.4	100.0	Total	79,828.7	100

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

Table 4: Countries of origin by Stock in 2008 & 2009 in RWF million

No	2008				2009	
	Country	Stocks	%Share		Stocks	%Share
1	South Africa	28,779.3	17.44	South Africa	33,808.5	15.14
2	China	21,019.0	12.74	China	22,624.3	10.13
3	Libya	18,421.7	11.16	Libya	22,251.6	9.97
4	Netherlands	12,707.8	7.70	Mauritius	20,036.9	8.98
5	Kenya	10,692.9	6.48	Netherlands	19,740.6	8.84
6	Mauritius	10,586.1	6.41	Luxembourg	17,244.6	7.72
7	Others	62,816.3	38.07	Others	87,533.7	39.21
8	Total	165,023.1	100.00	Total	223,240.1	100

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

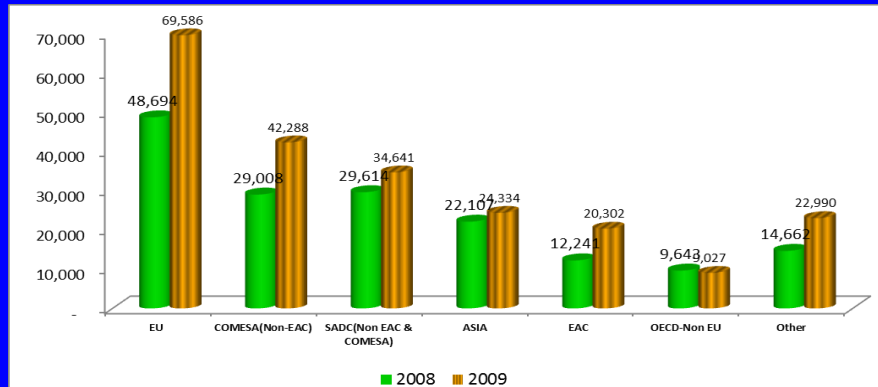
The stock of foreign liabilities mainly came from South Africa, China and Libya accounting for 43.3 percent and 35.2 percent in 2008 and 2009 respectively.

3.1.5. Foreign private investment stock by regional grouping

With regard to foreign private investment stocks by regional economic grouping, the survey findings show that, except for OECD-Non EU countries, the stock of foreign private investment held by all regions recorded increases in 2009 compared with 2008. The European Union (EU) countries held the highest stock amounting to RWF 69,586 million in 2009, accounting for 31.2 percent of overall stock, up from 48,694 million in 2008(see Figure 9). COMESA (Non EAC) emerged second, followed by SADC (Non EAC & COMESA, ASIA, EAC and OECD (Non-EU).

Investment from EAC almost doubled from RWF 12,241 million in 2008 to RWF 20,302 million in 2009. This suggests the positive effect of joining EAC. Overall diverse sources of foreign investments imply that the economy is less dependent on one region and hence less vulnerable.

Figure 9: Foreign Private Investment Stock by Regional Grouping, 2008 and 2009



Source: Foreign Private Investment & Investor Perceptions Survey, 2010



3.1.6. Return on equity by sector 2008 and 2009

In the period under review the overall return on equity attributable to foreign direct and portfolio investors declined to 9.0 percent in 2009 from 28.0 percent in 2008 (See Table 5) . This situation was largely attributed to the decline in overall profit to RWF 7,916 million in 2009 from RWF 29,209 million in 2008 mainly due to lower economic activities as the result of the global financial and economic crisis. In addition increase green field investments in mining and financial sectors which had not yet realized their returns on investment, contributed to the decline in overall profitability.

Table 5: Top profitable sectors

	2008			2009		
Sector	Net Profit	Equity	ROE	Net Profit	Equity	ROE
Manufacturing	3,343	6,769	49%	3,177	8,205	39%
Agriculture, forestry and fishing	1,013	4,103	25%	1,281	4,679	27%
Wholesale and retail trade	155	8,022	2%	1,818	8,800	21%
Information and communication	19,336	26,809	72%	3,184	17,104	19%
Real estate activities	82	486	17%	85	478	18%
Transportation and storage	226	454	50%	76	562	13%
Accommodation and food service	698	8,444	8%	235	2,921	8%
Financial and insurance	2,423	49,858	5%	(2,444)	54,473	-4%
Overall	29,209	105,477	28%	7,916	90,569	9%

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

On a sectoral basis, manufacturing sector had the highest return on equity of 39% in 2009, followed by agriculture sector (27%), wholesale and retail trade (21), information and communication (19) and real estate (18). Compared to 2008, except for wholesale and retail trade, agriculture and real estate which increased other sectors recorded a decline. With regard to finance sector, the decline in return on equity could partly be explained by green field investments in the sector.

3.1.7. Dividends paid

During the period under consideration, dividends paid to foreign shareholders declined by 16.0 percent from RWF 15,691 million to RWF 13,247 million. The higher performances were registered by information and Communication, followed by manufacturing and finance and insurance. Poor performances on other sectors were results of the global financial crisis.

3.1.8 Private Sector External Debt (PSED)

Private Sector External Debt is the gross outstanding amount of those current and not contingent liabilities that require payment(s) of interest and/or principal by the debtor at some point(s) in the future and that are owed to non-residents by private residents of an economy (IMF Debt Guide, 2009). Private sector external debt flows and stocks include borrowing from affiliates and non-affiliates and debt securities.

Disbursements of the PSED in 2008 and 2009 amounted to RWF 46,668.6 and RWF 64,406.2 million, respectively equivalent to an increase of 38.1 percent. Debts from related companies totaled RWF 4,056.3 million in 2008 against RWF 43,627.2 million in 2009 while from unrelated sources were RWF 42,612.3 million in 2008 and RWF 20,779 million in 2009. The 51.1 percent decrease of loans from unrelated companies was associated to credit crunch and this was compensated by the increase of loans from related (see Table 11).

Table 6: Private Sector External Debt flows (Rwf million)

Type	Flows	
	2008	2009
Loans from related companies	4,056.3	43,627.2
LT loans from related	3,726.9	31,742.7
ST loans from related	315.1	10,111.0
Supplier credits from related	14.3	1,773.6
Loans from unrelated companies	42,612.3	20,779.0
LT from unrelated	41,440.7	10,093.2
Trade Credits from unrelated	560.5	9,621.4
Other	611.16	1,064.41
Total Loans	46,668.6	64,406.2

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

Table 7 indicates that the stock of PSED increased from RWF 58,895.4 million in 2008 to RWF 131,968.9 million in 2009, mainly concessional loans from related companies.

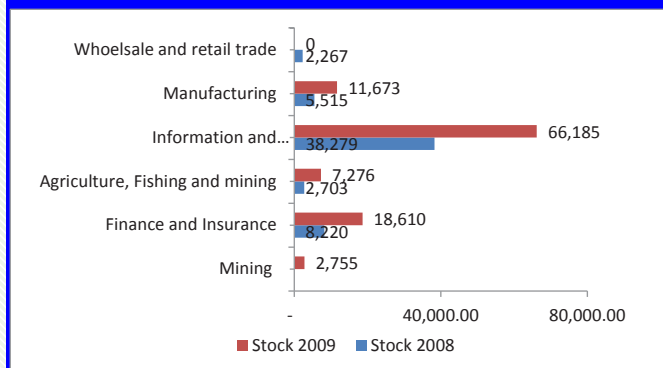
Table 6: Private Sector External Debt flows (Rwf million)

Type	Flows	
	2008	2009
Loans from related companies	6,139.5	51,088.2
LT loans from related	5,175.1	38,119.2
ST loans from related	316.8	10,652.1
Supplier credits from related	647.5	2,316.9
Loans from unrelated companies	52,756.0	80,880.6
LT from unrelated	47,197.7	62,332.6
Trade Credits from unrelated	2,714.3	9,198.3
Other	2,843.89	9,349.69
Total Loans	58,895.4	131,968.9

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

The big share of loans was absorbed by information & Communication and finance and Insurance sectors by the proportion of 64.3 percent and 13.8 percent respectively in 2008. The same sectors were leading in 2009 with 49.9 percent and 14.0 percent.

Figure 10: Stocks of loans by sector in 2008 and 2009



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

3.1.9. Foreign Assets

This section provides analysis of the survey findings on the stock of Private Sector Investments abroad (Foreign Assets). Foreign assets refer to holding of equity shares or lending to non-residents (in form of loans, debt securities and trade credits) or acquired any other assets by a resident entity in /to non-resident entities by an entity resident in Rwanda.

The results showed that foreign assets were in form of foreign direct equity and foreign portfolio equity. FDI amounted to

RWF 7,283 million in 2008 and increased to 8,109 in 2009. FPI recorded amount of RWF 4,843.7 million in 2008 and RWF 5,487.0 million in 2009. Sectors with foreign assets were finance and insurance (51.8 percent) and whole sale and retail trade (48.2 percent).

Table 8: Foreign Assets stock (RWF million)

Components	Stock 2008	Stock 2009
Direct Investment	7,283.0	8,109.0
Portfolio Investment	4,853.7	5,487.9
Other Investment	—	83.6
Total Foreign Asset	12,136.7	13,680.6

3.2. Findings on private non-foreign assets and liabilities

This chapter presents the aggregate findings on companies' turnover, levels of employment, compensation of employees and the analysis on foreign assets and liabilities. It also provides findings on contribution to corporate social responsibility.

3.2.1 Entity turnover

The total turnover for the entities increased from RWF 264,816.4 million in 2008 to RWF 281,878.1 million in 2009. Bulk of registered turnover was wholesale and retail trade which accounted for 29.5 percent in 2008 and 25.9 percent in 2009. Manufacturing sector accounted for 21.1 percent in

both 2008 and 2009. Finance and Insurance sector accounted for 17.1 percent in 2008 and 20.4 percent in 2009.

The findings collaborate to the fact that the wholesale trade is the largest sector in the economy which includes fuel companies, shopping malls and auto companies.

3.2.2. Employment

As shown in the Table 9, the total employment in foreign owned investments grew from 12,909 in 2008 to 14,511 in 2009, equivalent to an increase of 8.2 percent. Rwandans accounted for 95.0 percent of the total employment and the remaining 5.0 percent were foreigners. In terms of gender, male employees accounted for the largest share of 69.3 percent of the total employment.

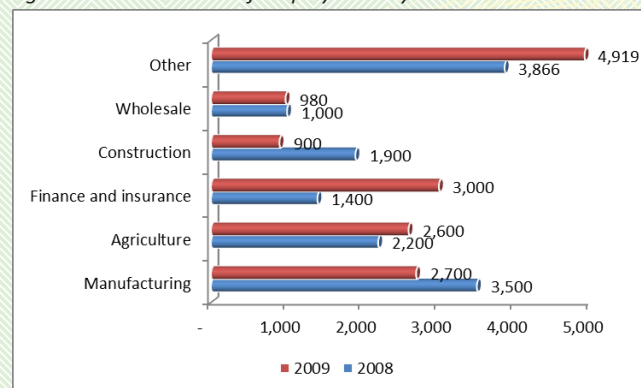
Table 9: Distribution of employment in 2008 and 2009

Type		2008		2009	
Actual employment	Gender	Local	Foreign	Local	Foreign
Administrative/ Accounts	Female	411	12	590	7
Supervisory	Male	510	44	754	45
	Female	167	29	284	25
Skilled	Male	398	128	533	195
	Female	1,002	59	1,697	9
Unskilled	Male	3,208	659	3,063	275
	Female	2,055	2	2,550	9
	Male	5,157	23	5,040	23
Total		12,909	957	14,511	589

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

In terms of sector distribution, manufacturing sector accounted for the largest proportion of 25.9 percent, implying that it is labor intensive. The share of agriculture, forestry and fishing was 20.2 percent and finance and insurance sector 18.7 percent. Employment in finance and Insurance sector doubled in 2008 and 2009, as a result of expansion of the banking sector, existing and new banks.

Figure 11: Distribution of employment by sector 2008-2009



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

3.2.3. Compensations of employees.

Annual value of total compensation of employees rose from RWF 41,926 million in 2008 to RWF 54,755 million in 2009, equivalent to 29.7 percentage increase. In terms of type of compensation, salaries and wages contributed to the highest share of 88.0 percent. Locals had relatively bigger share due to their high proportion in the total employment.

Table 10: Total compensation of employees for 2008-2009 in RWF million

Compensation of Employees	Status	2008	2009
Salaries and Wages	Local	32,423	43,168
	Foreign	3,263	3,181
Fringe Benefits	Local	2,392	3,291
	Foreign	62	104
NSSF/Pension	Local	1,547	1,841
	Foreign	261	271
Directors Fees	Local	132	150
	Foreign	67	63
Other - Local	Local	33	67
Total		41,926	54,755

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

In 2009, financial and insurance activities accounted for 47.6 percent, followed by Manufacturing 16.6 percent and information and communication 9.3 percent. The higher compensations of employees from the finance and insurance sector is in line with its high number of employment.

3.2.4. Actual investment

Actual investment constitutes land, buildings, machinery,

vehicles, equipment and capital. During survey period, actual investment rose from RWF 208,656 million in 2008 to 339,371 million in 2009 which is an increase of 61.5 percent. Plant and machinery accounted for 26.0 percent, followed by building and civil works 22.0 percent of the actual investment. This pattern is due to growing construction activities in different sectors and new Greenfield investment in mining and manufacturing.

Table 11: Type of investment in FAL private enterprises 2008-2009 in RWF million

Type of investment	2008	2009
Land	20,892	34,367
Building and Civil Works	31,959	73,878
Plant and Machinery	44,965	87,261
Vehicles	5,530	6,036
Computer and accessories	2,657	4,368
Furniture and Fittings	11,054	9,770
Pre-Startup Expenses	53	510
Working Capital	14,987	18,566
Work in Progress	60,733	74,977
Other	15,827	29,638
Total	208,656	339,371

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

Corporate social responsibility include donations, financing of environmental, infrastructure, educational programs, health and other social, cultural or community services that benefit the country. The contributions of corporate social responsibility stood at RWF 904.4 million in 2008 against RWF 849.4 million in 2009. On average, most of the corporate social responsibility expenditures were on health and welfare (30.3 percent) followed by donation to vulnerable groups (14.0 percent) and education (12.8 percent).

3.2.5. Corporate social responsibility

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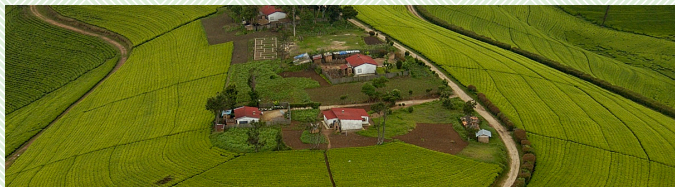


Table 12: Private corporate social responsibility for 2008-2009 in RWF million

Corporate Social Responsibility	2008	2009
Education	171.9	52.4
Health and welfare	212.8	318.5
Safety and Security	70.3	66.2
Arts and Culture	1.6	82.7
Sports Development	66.1	57.3
Environment	102.9	32.1
Water	0.3	17.6
Road	10.5	3.6
Religious	2.8	0.6
Donation to vulnerable groups	145.6	97.4
Donation to other charity organization	76.3	95.3
Other	43.1	25.8
Total	904.4	849.4

Source: Foreign Private Investment & Investor Perceptions Survey, 2010

CHAPTER IV. FINDINGS ON INVESTORS' PERCEPTIONS

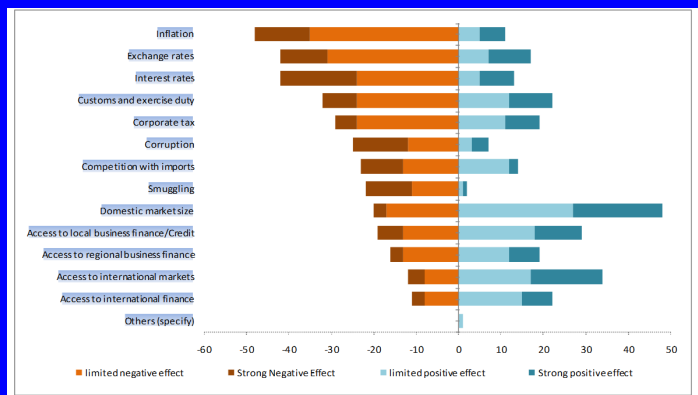
This section reports on findings from the perception side of the questionnaire. The Foreign Assets and Liabilities and Investor Perceptions (FALIPS) 2010 considered different variables affecting the private sector growth and how they impact on the business climate in Rwanda. The perception part was intended to identify areas where the government needs to put strength to improve the business environment. The respondents were required to rate the following factors which in one way or the other affect their business: effects of economic and financial factors, efficiency and cost of support services, effect of Labor, environment and health factors, efficiency of regulatory and or government agencies, direction of investments and sources of useful information.

4.1. Effect of Economic and Financial factors to business

Respondents considered domestic market size, access to international markets, and access to local and international business finance as having a strong positive effect to their businesses as shown in the table below. These factors are considered to be crucial for business establishment. On the other hand, inflation, exchange rate, interest rates, customs duties and corporate taxes are recorded as having a strong negative effect on the reported companies.

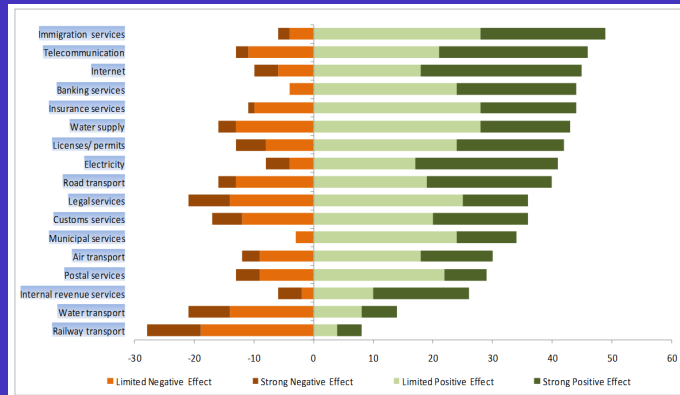


Figure 12: Effect of Economic and Financial factors to business



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

Figure 13: Efficiency of support services



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

In light of the above, it would be appropriate for the government through the central bank to continue maintain macro-economic stability by maintaining low levels of inflation and interest rates and ensure exchange rate stability. In addition, with regard to corporate tax, customs and excise duty the government through the revenue authority could consider making tax payment more flexible. On the other hand, to enhance investments, there is a need to accelerate the growth of the domestic economy which will in turn contribute to the growth of the domestic market. Further still, the government could enhance access

to international markets by making cross border trade more efficient by streamlining clearing procedures.

4.2. Efficiency of support services

The efficiency of support services was globally well rated. Immigration, telecommunication and internet services were indicated to be the most efficient support services with a strong positive effect to business operations. This can be attributed to government's efforts to facilitate the private sector and attract

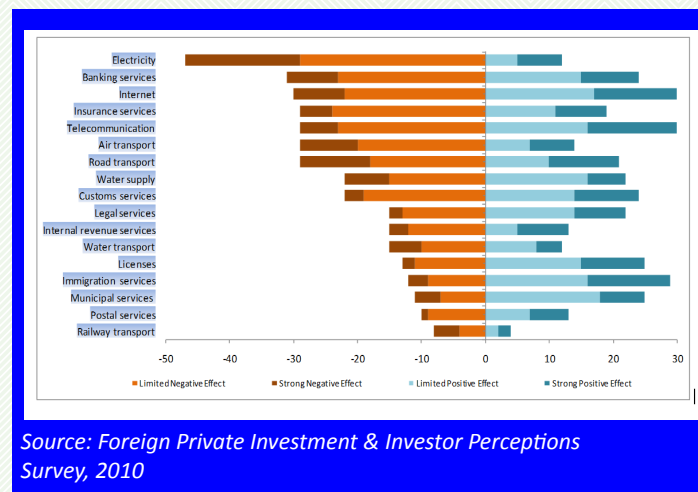
foreign investments in sectors like communications. There is need, however, for the government to enhance efficiency of other support services like electricity and banking services.

4.3. Cost of support services

Immigration, municipal and licensing services were shown as having a positive impact on business operations and improves business environment in Rwanda. Immigration services were ranked highly following improvement in the issuing of work permits and visas to foreign investors.

Respondents identified the costly support services which have a direct impact on their business entities. Electricity service was ranked the most costly services that increase the operational costs of business entities which were surveyed (see fig.8). The second costly service is road transport which negatively affects businesses since it increases production cost. To reduce the high costs of electricity services, there is need to construct more micro hydro-electric power dams to generate electricity to boost the existing national hydro-electric power output. And similarly domestic road transport networks could be increased and existing roads be well maintained.

Figure 14: Cost of support services



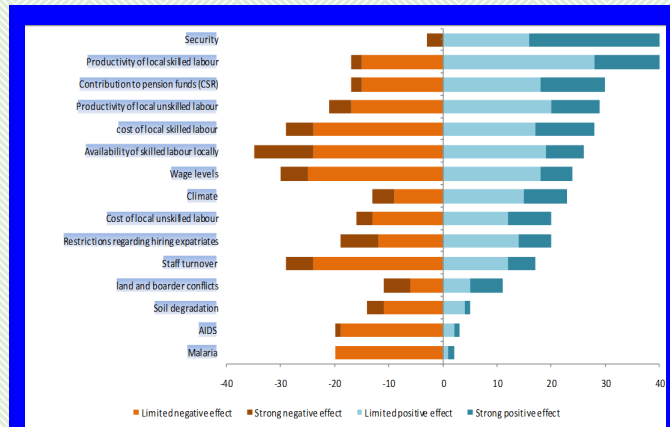
4.4. Effect of labor, environment and health factors on business operations

Among the labor factors, security was ranked highly positive compared to other factors. This was followed by the productivity of local skilled and unskilled labor and contribution to Social Security.. However, the availability of local skilled labour was rated as having the strongest negative effect on businesses.

Concerning health related factors, Malaria and AIDS were considered to have negative effect on the health status of employees, which impact the productivity of businesses in a negative way.

In the environmental factors category both soil degradation and climate were rated as having a negative impact on businesses (see fig. 9).

Figure 15: Effect of labor, environment and health factors on business operations

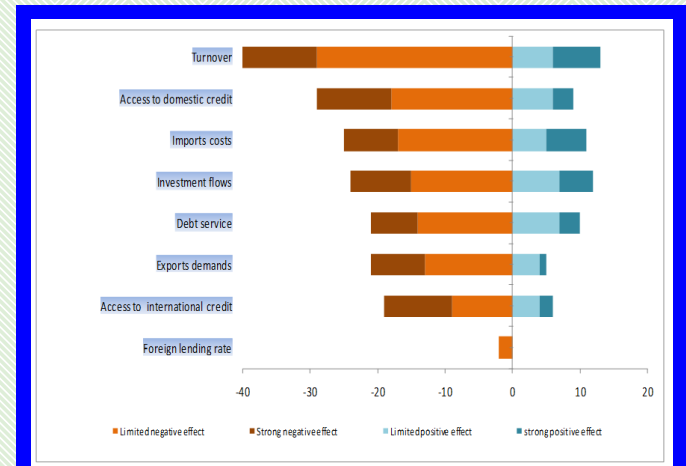


Source: Foreign Private Investment & Investor Perceptions Survey, 2010

4.5 Effects of financial crisis on business operations

The financial crisis affected the business community negatively in various components of their operations. The most affected component was turnover and the less affected one was foreign lending rates. Other components which were affected negatively include access to domestic and international credit; import costs, investment inflows and export demand (see fig. 16).

Figure 16: Effects of financial crisis on business operations.

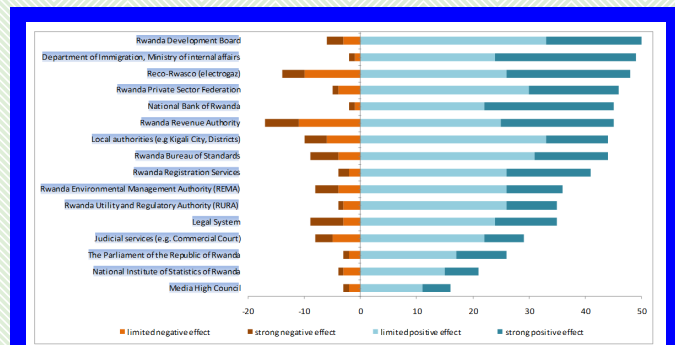


Source: Foreign Private Investment & Investor Perceptions Survey, 2010

4.6 Efficiency of regulatory and other government agencies on business entities

As reflected in figure 17, all regulatory and other government agencies were rated highly efficient by respondents. Services provided by institutions such as Rwanda Development Board, Local authorities (Kigali city, districts) and the Directorate General of Immigration were ranked higher compared to others. However services provided by Rwanda Revenue Authority and EWSA should be improved in order to effectively support business operations in Rwanda.

Figure 17: Efficiency of regulatory and other government agencies on business entities



Source: Foreign Private Investment & Investor Perceptions Survey, 2010

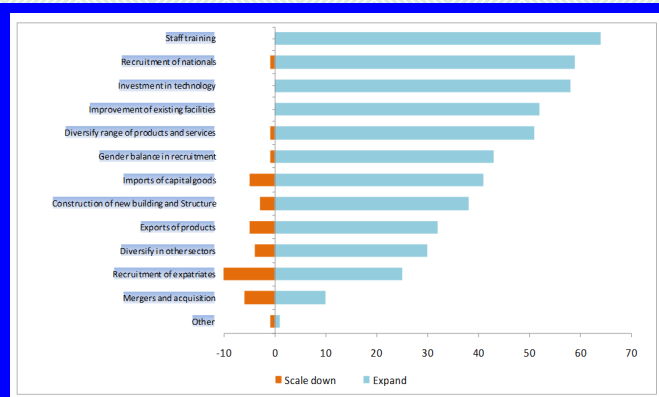
4.7 The future direction of investments

Respondents were requested to give an outlook of the future direction of their investments plans over a period of three 3 years. Most of them planned to expand their investments in areas of staff training, recruitment of nationals, investment in technology and improvement of existing facilities. These investments plans are a demonstration of investor confidence in the Rwanda's investment climate. On the other hand, some investors planned to scale down on the recruitment of expatriates and instead hire local skilled labour with competence to handle jobs that were previously done by expatriates.

Results from the survey show that investors are not planning to diversify in other sectors. It is therefore critical for Government through Rwanda Development Board to make sure that potentialities in other sectors are marketed and presented to new investors through different investment promotion strategies.



Figure 18: Future direction of investments

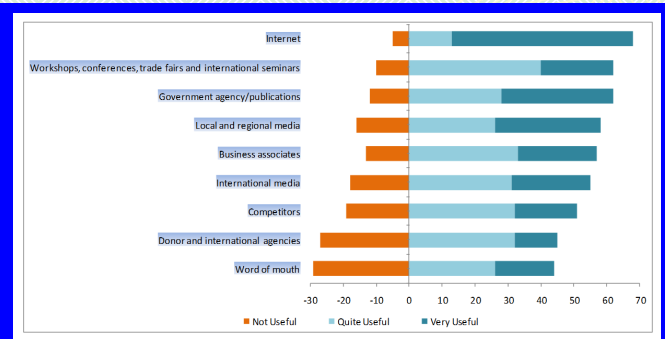


Source: Foreign Private Investment & Investor Perceptions Survey, 2010

4.8 Useful Sources of information

Respondents were asked to rank different sources of information for their business. In this regards, internet, government agencies and publications, local and regional media were highly ranked. Other sources of information which were considered as quite useful were; workshops, conferences, trade fairs and international seminars.

Figure 19: Useful Sources of information



Source: Foreign Private Investment & Investor Perceptions Survey, 2010



CHAPTER V: CONCLUSION AND RECOMMENDATIONS

5.1. Conclusion

- The foreign private investment and investor's perceptions results revealed that, private sector investments in Rwanda have continued to grow and provide drive for sustained economic growth. Increase in stock of foreign liabilities by 34.0 percent between 2008 and 2009 present both positive developments and challenges to policymakers on its management. On the positive side, it indicates increased attraction of foreign investment and assets abroad. On the other hand, the increase in private sector external debt, specifically from unrelated companies could create pressure on foreign reserves. Appropriate monetary policy intervention is therefore needed to contain the situation.
- During the period under review, findings of the survey indicated that, actual investments increased by 24.2 percent, entity turnover by 22.8 percent, employment by 29.7 percent, and compensation of employees by 30.7 percent, implying positive trends. This is an indication that Rwanda is a competitive investment destination and the private sector continues to contribute to economic growth. There is need to sustain the achievements registered in the attraction and retention of private investments.

- The investors' perceptions highlighted critical issues of concerns from private investors on business environment and institutional agencies affecting the key activities of private sector which require to be addressed. Among the others, the levels of inflation, interest rates and exchange rate, negative effect of corporate tax, customs and excise duty, small size of the domestic market, inaccessibility to international markets, efficiency and high costs of electricity, banking services.
- The survey observed that, foreign private liabilities remain solid despite the global finance crisis. This was partially attributable to diversity of investments sources; Over 56.0 percent of total investment came from countries less affected by the crisis, namely COMESA, SADC, EAC and ASIA.

5.2. Policy recommendation

From the above observations, it is evident that FPC is an important source of development. However, if it is not properly monitored and managed, FPC can be a source of economic instability. This justify the need for the government to strengthen efforts aimed at monitoring and managing FPC inflows.

Further, the following policy interventions are recommended to enhance FPC flows

- **Investment monitoring:** The survey highlighted the need for continuous effort to monitor investments. This would call for a regular joint investment monitoring system that would help in strengthening data quality and formulating policies aimed at attracting and retaining investments.
- **Debt sustainability:** Government is advised to include private sector debt on its debt sustainability analysis as survey results indicated that loans from unrelated companies on average accounted for 75.0 percent of total outstanding private sector debt. This among others will enable government to appropriately allocate its foreign reserves in line with the composition of the overall external debt.
- **Interest rates:** the findings of the FPC 2010 revealed that the magnitude of external borrowing to finance investment increased substantially. This may partially be attributed to inadequate long-term financing and high interest rates on domestic credit facilities which are critical for private sector development. National banks in collaboration with financial institutions are advised to lower the cost of borrowing.
- **Inflation** was identified as a major constraint to the private sector growth and development. According to investment perceptions high inflation erodes the values of financial assets and creates uncertainty about future prices which

discourages savings and investments. This inflation which is mainly imported (fuel in particular), could be addressed through investing on alternative source of energy.

- **Investment financing:** to expand the scope of financing, private entities need to be sensitized on the importance of joining the capital markets to raise equity and debt finance. Private entities should be encouraged (e.g. through tax incentives) to list their stocks into the Rwanda capital market in order to mobilize financing through issuance of equity shares and tradable debt securities.
- **Infrastructure development:** this will address the demands of the private sector which requested improved development of rural roads and energy infrastructures. There is need to ensure adequate supply of electricity in the long-term to commensurate with the growth in demand of energy. In addition, ICT infrastructure needs to be enhanced in order to increase efficiency and reduce cost of communications.
- **Access to international markets:** this has been a concern to investors; the government is advised to ease the cost of air transport, development of cross border roads and railways to facilitate access to external markets.
- **Sectoral diversification:** results from the survey showed that investors are not planning to diversify in other

sectors. It is therefore critical for Government through Rwanda Development Board to market potentialities in other sectors to investors through different investment promotion strategies.

- **Regional diversification:** The investment is concentrated in EU countries, the government needs to explore possibilities of increasing investments inflows from other regions such as EAC, COMESA, SADC and ASIA in order to balance the distribution of investment.

5.3. Government policy response

There are a number of ongoing interventions by the authorities to address some of the challenges to conducting business in Rwanda. The Table13 below highlights some of the measures being taken to address different investment constraints.



Table 13: Government policy response

	Challenge	Measures being taken by Government of Rwanda
1	Interest rates	<p>The National bank of Rwanda is having dialogue with the financial institutions in an attempt to persuade them to lower the lending rates.</p> <ul style="list-style-type: none"> • To achieve this, it has lowered the repo rate from 9 % in 2009 to 6% in 2010. This is especially to help private sector obtain loans at a lower interest rate. • It has introduced special loans for critical and risky sectors like agriculture. • The government has licensed and launched the Credit Reference Bureau Services (CRBS) to bridge the credit market information asymmetry between lenders and borrowers. The CRBS will provide timely and accurate information on borrowers' debt profile and repayment history thus, enabling financial institutions to identify and track their customers' credit history.
2	Exchange rate and inflation	<ul style="list-style-type: none"> • The Government through the National bank pursues prudent monetary and fiscal policies to ensure overall macroeconomic stability focusing on exchange rates as well as inflation stability. • Bank of Rwanda reviews daily developments in the foreign exchange market and periodically intervenes to smoothen movements in the market. • Inflation is anticipated to fall further as the global prices of imported commodities continue to decline and improved production in agriculture.
3	Investment financing	<ul style="list-style-type: none"> • The Rwanda Capital Market Advisory Council (CMAC) is working to develop and manage the most efficient, transparent securities market that matches international standards, and promotes a partnership among investors. • The Rwanda development bank (BRD), continues to issue long term financing to different sectors.

5	Energy infrastructure (Cost and efficiency of electricity)	<ul style="list-style-type: none"> • At the moment government is currently addressing the power through additional supply from the thermal generation plant in order to mitigate the power shortfall. • Rural electrification is being implemented in several districts within the country to increase coverage.
6	Roads infrastructure, inaccessibility to international markets.	<ul style="list-style-type: none"> • Government has allocated sufficient funds on development and maintenance of the transport infrastructure. • In the long-term, Government is investing in the railways infrastructure to ease access to the sea-port and supplement the existing road network.
7	Banking services	<ul style="list-style-type: none"> • The government has eased licensing procedures to attract more international banks to increase market competition and hence quick and customer care oriented services.
8	Internet and communication	<ul style="list-style-type: none"> • Government is about to complete fibre optic project to improve internet connectivity throughout the country. The fibre optic will also provide connectivity to Uganda and Kenya, linking to the East African sub-marine cables.
9	Customs services and exercise duty	<ul style="list-style-type: none"> • Government is implementing reforms in Rwanda Revenue Authority with emphasis on strengthening management, developing better internal control and introducing more integrated information systems. • RRA has installed Automated Systems for Customs Data (ASYCUDA) in all customs stations and linked traders in order to facilitate clearance of import and exports. • RRA has introduced e-tax to ease payments of taxes.

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ANNEXES

Annex I: Investment by country in 2008

	2008		
No	Country	Flows	Stock
1	South Africa	20,863.9	28,779.3
2	China	19,215.7	21,019.0
3	Libya	9,502.9	18,421.7
4	Netherlands	8,527.7	12,707.8
5	Kenya	4,414.4	10,692.9
6	Mauritius	3,519.8	10,586.1
7	Germany	2,900.9	9,833.7
8	Belgium	2,719.5	9,371.0
9	US	2,568.6	8,208.9
10	Nigeria	1,270.3	7,983.6
11	United Kingdom	1,095.6	5,857.9
12	France	933.4	4,552.6
13	Luxembourg	631.0	4,158.7
14	European Investment Bank (EIB)	527.0	2,568.6
15	Panama	488.3	2,043.6
16	Tunisia	407.0	1,442.8

17	Uganda	295.7	1,264.4
18	Australia	281.9	945.4
19	United Arab Emirates	140.8	939.0
20	Italy and Vatican City	99.7	835.5
21	Other	-	2,810.5
22	Grand Total	79,838.4	165,023.1

Annex II: Investment by country in 2009

2008			
No	Country	Flows	Stocks
1	South Africa	12,326.9	3,808.5
2	China (mainland only) People's Republic of	1,464.4	22,624.3
3	Libya	11,117.7	22,251.6
4	Mauritius	10,638.1	20,036.9
5	Netherlands	7,349.9	19,740.6
6	Luxembourg	6,014.8	17,244.6
7	Belgium	4,625.3	14,486.3
8	Kenya	4,474.4	11,557.5
9	United Kingdom	2,719.2	11,148.4
10	Nigeria	2,471.7	8,319.5
11	US	2,352.9	7,742.0
12	Tanzania	2,126.5	7,010.7
13	European Investment Bank (EIB)	702.9	6,182.4
14	African Development Bank	677.8	4,413.8
15	Germany	470.3	3,593.5
16	Panama	406.9	2,039.0
17	Italy and Vatican City	380.6	1,770.6

18	France	333.8	1,642.6
19	Tunisia	119.3	1,413.9
20	Canada	116.0	1,259.4
21	Other	-	4,954.1
22	Grand Total	79,828.7	223,240.1

Annex III: investment by sector in 2008

Sector	2008		
	Inflow	Outflow	Stock
Information and Telecommunication	46,337.1	100.3	64,602.9
Finance and Insurance activities	15,195.8	1.8	58,296.9
Accommodation and Food services	7,883.0	0.0	8,444.4
Agriculture, forestry and fishing	2,812.2	0.0	6,317.6
Whole sale and retail trade	2,638.9	0.0	11,036.9
Mining and Quarrying	2,118.9	0.0	971.0
Professional and Scientific activities	673.6	0.0	655.3
Real estate activities	246.7	0.0	486.0
Transportation and Storage	226.5	0.0	454.3
Other	1,705.8	1.5	13,757.6
Total	79,838.4	103.5	165,023.1

Annex IV: investment by sector in 2009

Sectors	2008		
	Inflow	Outflow	Stock
Information and Telecommunication	24,539.11	1,265.62	76,338.82
Whole sale and retail trade	17,877.06	4,144.57	22,774.58
Finance and Insurance activities	8,359.66	10,246.23	77,614.51
Agriculture, forestry and fishing	6,587.45	177.31	11,301.81
Construction	5,438.42	1,297.08	3,947.38
Manufacturing	4,349.98	673.76	17,816.80
Mining and Quarrying	2,200.77	-	2,023.66
Accommodation and Food services	1,134.95	0.00	2,920.66
Real estate activities	285.34	-	478.01
Professional and Scientific activities	221.70	59.75	836.51
Other	8,834.27	-	7,743.52
Total	79,828.7	7,864.31	23,796.26

