Institute of Policy Analysis
and Research - Rwanda

CENTRAL POLICY BRIEF

Strengthening the Urbanisation and Development of Secondary Cities in Rwanda

Kigali, March 2020

EXECUTIVE SUMMARY

Secondary cities are key to achieving the targets of National Strategy for Transformation

Currently, Rwanda has one of the lowest urbanisation rate in Africa which stands at 18%. Further urbanisation is seen as a driving force for Rwanda's transformative economic agenda and is expected to contribute to the national goals of creating 1.5 million productive jobs by 2024, promoting industrialisation and growing exports. A key aspect of urbanisation is the place where it is happening. Urbanisation will drive economic transformation if it is not concentrated in Kigali but spreads more widely. That is why the Government has rightly put emphasis on developing the six secondary cities: Rubavu, Huye, Rusizi, Muhanga, Musanze and Nyagatare. Assuming that Kigali continues to grow at the same rate, secondary cities will need to grow even faster if the government's target of having 35% of Rwandans living in urban areas by 2024 is to be achieved.

The platform for future growth has been put in place

Rwanda Housing Authority (RHA), with the support from IPAR-Rwanda, is currently working on the development of Master Plans for all six secondary cities. These Master Plans set out how each city can make the most of its own opportunities to create more and decent jobs, both in the city itself and in the surrounding areas for regional growth.

As blueprints for economic development, the new Master Plans are an important achievement. Rwanda is now entering a new phase on secondary cities policy: one of delivery. Drawing on an in-depth analysis and research on secondary cities – including household surveys, business surveys and assessments of the opportunities for each city – this policy brief focuses on what central government can do to drive job-rich urbanisation in this next phase of delivery. If we are to unlock the potential of secondary cities to achieve economic transformation, IPAR-Rwanda argues, business as usual is not enough.

Ensuring delivery of secondary cities will mean addressing a governance challenge

The key argument in this policy brief is that there is a "governance challenge" within central government which, unless addressed, will limit secondary cities' growth and their capacity to address socioeconomic challenges. More effective prioritisation and coordination are needed to unlock the potential of secondary cities.

Existing governance arrangements were appropriate for the previous phase during which the Government developed master plans and increased investment into each city. But as secondary cities enter the next development phase, The Government needs to develop existing arrangements and increase coordination to drive job-rich urbanisation. The specific aspects of the "governance challenge" include:

- The responsibility for overall delivery for secondary cities is scattered across different ministries/institutions, which creates coordination challenges.
- The secondary city district councils are not sufficiently empowered when compared to other urban district councils; this means that they are not prioritised in terms of resources and powers.
- Secondary cities have limited financial powers, which inhibits their capacity to tailor spending to local circumstances.

Key IPAR's Recommendations: delivering on Secondary Cities potential

This policy brief includes key policy recommendations for addressing socioeconomic challenges as well as the "governance challenge". Some of these recommendations are:

- **Creating a new Secondary Cities Delivery Committee:** The current National Technical Advisory Committee (NTAC) has been put in place mainly to review and approve Master Plans. This form of technical advice for secondary cities will remain valuable but a high-level Secondary Cities Delivery Committee is needed to ensure adequate senior leadership and co-ordination. It could be co-chaired by Ministers of MININFRA and MINALOC and could include key officials from central and

local government. Its responsibilities could include developing a secondary city strategy and delivery plan, monitor progress and unblock policy challenges.

- **Publishing a Secondary Cities Delivery Strategy:** The Government has developed a wide urbanisation policy and individual Master Plans for Kigali and each secondary city. To ensure progress, there is need for a Secondary Cities Delivery Strategy as the first output from the Secondary Cities Delivery Committee. This document would set out a roadmap for the next phase of delivery which could include a timeline for the operationalisation of city management offices, a framework for managed devolution of powers, cross-government investment plans and targets for monitoring delivery of Master Plans.
- **Developing effective coordination and capacity at the Secondary City Level:** The Government has done right by introducing City Management Offices (CMOs), which are the building blocks for more effective local governance through an increased focus on driving urbanisation. Effective co-ordination at the local level should also mean close partnership with the private sector; IPAR recommends that CMOs have a specialised team to manage this and MINICOM and RDB should locate staff within each city to ease coordination and better support the private sector. Furthermore, lessons from the City of Kigali demonstrate that secondary city municipal councils need to be established as units in legislation; this would make their governance arrangements clearer and prioritise secondary city investment. RHA currently acts as the lead institution for developing master plans; now that this process has been completed a stronger lead within government is needed to coordinate delivery.
- **Over time, increasing revenue raising powers for secondary cities in line with the decentralisation agenda:** Devolving spending decisions to secondary cities management will help tailor spending to local needs, while also improving administrative performance. It then follows that, over time, the Government needs to support local government to have more discretion on spending and raising own-source revenues. Implementing the stalled property tax will enable CMOs to access revenue through land values, while the Government could consider allowing CMOs to hold onto the VAT revenue rather than rebating it equally to districts. The Government could develop a performance framework for devolution of financing powers which can be used by the Secondary City Delivery Committee.

The government of Rwanda has been far-sighted in its focus on secondary cities and considerable progress has been made. However, it is clear that business as usual is not enough. This brief sets out ways of building on these foundations to ensure the benefits of urbanisation and growth are widely spread across the country. As Rwanda enters the next phase of secondary cities reform – one of delivery – it is important that governance arrangements are appropriate to unlock job-rich growth. Without consistent high-level leadership and strong co-ordination of cross-government efforts, the substantial potential of secondary cities to contribute to Rwanda's future development will be hampered.

A. Setting the scene: the vision for secondary cities in Rwanda

In its vision to become an upper middle-income country by 2050, Rwanda has identified urbanisation as a key driver for economic growth and national development. Its target is to reach an urbanisation rate of 35% by 2024, from 18% in 2016/17. Proper urbanisation[1] enables the government to provide infrastructure and services more efficiently and promotes development through a virtuous cycle of job creation and income raising with a focus on productive off-farm economic clusters. However, if not properly managed, rapid urbanisation risks to creating an urban sprawl with an underemployed and unproductive workforce, as has been the case in other sub-Saharan African countries with higher urbanisation rates than those in Rwanda.

Rwanda's National Strategy for Transformation (NST1) indicates that growth in secondary cities is essential to meet the target for inclusive urban growth; it sets out that Rusizi, Rubavu, Musanze, Muhanga, Nyagatare and Huye should act as poles of growth and relieve the pressure on Kigali. [2] Secondary cities are, therefore, a fundamental pillar of Rwanda's economic transformational agenda.

Urban population growth across the secondary cities' districts has now reached 3.2 percentage points per annum. [3] Nonetheless, economic performance has remained mixed across secondary cities, with high levels of agriculture and informal labour (The World Bank, 2017), limiting the agglomeration effects of urbanisation, and the creation of the virtuous cycle of job creation, income generation and raising and tax revenues provision.

The Government has recognised this challenge and has implemented strategies to accelerate the growth of secondary cities, including an increased focus on developing the urban centres and managing development through master plans. This has been a success, but the Government needs to strengthen its approach to secondary city development if their potential is to be unlocked. Business as usual will not be enough.

This policy brief seeks to address key socioeconomic and governance challenges of driving secondary city development across funding and planning ministries, line ministries, and local government. With the scarcity of resources, various stakeholders and challenging objectives, the Government can only unlock the potential of secondary cities by better aligning its priorities and deepening coordination. The brief is structured as follows: Section A sets the scene of the research, Section B presents the research methodology while Section C highlights the main findings of the research and their associated challenges. The latter section focuses on (i) the socioeconomic status and (ii) the governance challenge of secondary cities. Before presenting concluding remarks, Section D presents a set of recommendations to address these socioeconomic and governance challenges.

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[1] The general concept of 'urbanisation' can be disaggregated into three related but distinct processes: urbanisation, urban growth, and urban expansion. Urbanisation refers to change from rural to urban ways of living characterized by a predominance of economic activities other than agriculture. Urbanisation rate is calculated as the share of the national population living in urban areas. Urban growth refers to an increase in the absolute number of people living in urban areas. Urban expansion concerns the physical enlargement of built-up urban areas. With these conceptual distinctions, the way in which urban areas are defined will then determine what aspect of urbanisation is to be measured.

[2] A Secondary city is a sub-national urban centre comprised of an urban area within a Secondary City district, whose functions, services and facilities impact or influence the district and areas beyond its borders.

[3] Over the 2013/14 – 2016/17 period. Authors' calculation based on EICV4 and EICV5 data.

B. Methodology

The research which gave rise to this central policy brief on **"Strengthening the Urbanisation of Secondary Cites in Rwanda"** builds on documents and secondary data review. It also builds on the analysis of qualitative and quantitative data collected by IPAR-Rwanda across secondary cities in March and April 2019, which was conducted as part of the master plans design process. The research analysed the following aspects: (i) the current socio-economic status and the preferences of a set of representative households from the different sectors in the districts; (ii) the current characteristics and the expectations of a set of businesses from all over the districts and; (iii) the views of key informants, citizens and business people on the future drivers of development of the districts. In total 3,503 households and 606 businesses were surveyed across the six secondary cities districts and key informants interviewed (among others, district leaders, private sector Federation-PSF, technical directors, civil society representatives and high-profile business owners). In addition, different documents were reviewed including the national urbanisation policy, District Development Strategies (DDS) for 2018-2024, datasets from national surveys (EICV4, EICV5, the fourth national population and housing census of 2012), and several other research works on urbanisation. The findings presented in this brief are based on lessons learned from 3 of the 6 secondary cities: Muhanga, Nyagatare and Rubavu.

C. Policy findings

I. Socio-economic Performance and Challenges of secondary cities

In order for urbanisation to create economic opportunities that can accelerate growth, the urban centres need to be densely populated so that businesses can prosper through access to labour and market. High population density also enables the government to provide services and infrastructure in a more effective manner. When these factors are in place, urban growth is driven by the 'pull' factors of economic opportunity rather than the 'push' factors of rural deprivation. Therefore, in addition to the urbanisation rate and growth, it is important to understand the economic profile of each city, particularly its current market size, labour force potential and opportunity sectors.

As part of the socio-economic study conducted in the three secondary cities (Muhanga, Nyagatare and Rubavu), IPAR-Rwanda has identified key indicators to assess how well secondary cities have performed in creating opportunities for inclusive growth:

- **GDP:** In terms of actual past growth rates, Muhanga, Nyagatare and Rubavu recorded GDP growth rates of 4%, 8% and 11% respectively in the past seven years. Based on past growth trends, the GDPs of Rubavu, Nyagatare and Muhanga are projected to reach about 8000bn Rwf, 4000billion Rwf and 5526billion Rwf respectively by 2050 (IPAR, 2020b).

Among the three secondary cities, only Rubavu has an actual GDP growth which is in line with Rwanda's ambitious GDP target (Republic of Rwanda, 2017). Muhanga and Nyagatatre have an annual growth gap of 7 and 3 percentage points. Thus, finding new sources of growth remains a challenge in secondary cities.

- **Urban population:** In 2017, the urban population in Muhanga district was about 55,000 people. It was about the same size in Nyagatare, while Rubavu counted about 190,000 people (EICV5). In 2038, this urban population is expected to reach 250,000 people in Muhanga and Nyagatare, and more than 350,000 in Rubavu. It will eventually reach 400,000; 410,000 and 420,000 people in Nyagatare, Muhanga and Rubavu respectively by 2050 (IPAR, 2020b). Ensuring inclusive development of the cities is one of the biggest expected challenges.
- **Poverty levels:** Rwanda's national poverty reduction success has been supported by the national policy and strategic agenda for the last 20 years. Poverty reduced from 57% in 2005 to 38% in 2017. Among the six secondary cities districts, Nyagatare has the highest poverty rate (45%), while Muhanga has the lowest poverty rate (33%) (NISR, 2018a). However, the latest data from the 2013/14-16/17 period shows that poverty reduction has stalled in Nyagatare and Rubavu and has even increased (plus 2 percentage points) in Muhanga. Thus, poverty is still a challenge for these districts.
- **Job creation and Employment:** Between 2014 and 2017, the labour market absorbed around 58,000 additional workers in the three secondary cities districts. Jobs were mainly created in agriculture, transportation, construction, trade, arts and household enterprises (NISR, 2018b). Employment is projected to reach about 1,000,000 for Nyagatare, 670,000 for Rubavu and 480,000 for Muhanga by 2050 (IPAR, 2020b). One of the most important labour market challenge for the cities will be to absorb the labour force and reach these levels of employment.
- **Informal businesses:** In all the three secondary cities districts, informal jobs are dominant. Similarly, over 93%, 94% and 97% of the businesses are informal in Muhanga, Rubavu and Nyagatare respectively (NISR, 2018c). The high level of informality in all the secondary cities constrains business growth and job creation for their inhabitants.
- **Productivity:** Secondary cities districts still have high shares of agricultural jobs: 75%, 70% and 52% respectively for Nyagatare, Muhanga and Rubavu (NISR 2018b), and very few jobs in manufacturing. The cities are (to a greater or lesser extent) characterised by unproductive, low-level service industries. As such, the cities are not realising the economic agglomeration effects of productive urbanisation that could accelerate job creation and income and tax revenues rises.

II. Current governance structure and...

The socioeconomic challenges are directly linked to governance. The Government is fully responsible for investing in secondary cities, providing services and promoting growth. This range of responsibilities falls across different institutions: ministries at the heart of government are responsible for planning, financing and monitoring development; line ministries and their agencies are responsible for policy, investment and service provision while local government is responsible for administration on the ground.

Promoting secondary city development cuts across a range of government bodies at central and local levels. In Rwanda, the coordination of secondary city agenda is currently overseen by the Rwanda Housing Authority in terms of urbanisation and by the National Technical Advisory Committee (NTAC). The latter's role is to oversee, monitor and evaluate the implementation of the secondary cities' master plans and address the main challenges of urban development.

The association of local governments (RALGA) has the responsibility of representing local government entities, carrying out their advocacy and capacity building in different sectors. These sectors include decentralization policy, increasing finances of local Government entities, local economic development and increasing social welfare. RALGA is responsible for strengthening collaboration between Rwanda local government entities themselves and foreign local Government entities.

Generally, the following bodies/entities have national level responsibilities that interlink with secondary city development:

- Rwanda Housing Authority (RHA), an agency of MININFRA, leads on the development of secondary cities in terms of urbanisation and master plans development;
- The Ministry of Local Government (MINALOC) oversees the governance of districts and the decentralisation plan;
- The Ministry of Finance and Economic Planning (MINECOFIN) is in charge of the national budget, planning and funding;
- Prime Minister's Office (PMO) coordinates the development of performance frameworks across central and local government which include imihigo targets for secondary city development;
- Line Ministries have key responsibilities for service delivery and investment development. These responsibilities overlap across the ministries of education (MINEDUC), agriculture and animal resources (MINAGRI), health (MINISANTE), trade and industry (MINICOM), infrastructure (MININFRA) and other institutions including the Rwanda Transport Development Agency (RTDA), the Water and Sanitation Corporation (WASAC) and Rwanda Energy Group (REG).

The Districts have powers for budget execution and development project oversight across rural and urban areas. Service delivery has been decentralised to districts, which are responsible for monitoring the delivery of public services such as education and health, paying staff salaries and facilitating public engagement by mobilising community workers and managing advisory and oversight committees. Districts also have some discretion over infrastructure development. This discretion is extended to the delivery of services through managing construction of school and health centres and to local economic development (markets, handicraft centres, and abattoirs) through a small capital block grant.

The District council and the Mayor are responsible for the local authority and the executive secretary (Chief budget manager) is responsible for the development of the district as a whole, which covers both urban and rural sectors. The District's One Stop Centre (OSC) is in charge of infrastructure development and construction/ occupation permits issuance. To ensure the district's daily management, the local authorities work with other stakeholders including the private sector federation (PSF) and the Joint Action Development Forum (JADF), among others. Decisions are jointly made by the sectors, city/district government and the central government through Imihigo (performance contracts) and joint planning.

...the Governance challenge

Prioritisation and coordination is needed to bring together the entire government machinery, as well as external stakeholders, to address the socio-economic challenges which each secondary city faces. IPAR-Rwanda has identified five core problems that are hindering the optimal allocation of resources to ensure each city attains its potential. This is what we refer to as the Governance challenge.

First, urbanisation is already a priority for the Rwandan government due to the benefits it may bring. However, the development and management of the city need to be handled separately as the needs and demands of the rural and urban population are different. For this, we noted that the planned City Management Offices (CMOs) are not yet operational to drive development and growth within urban boundary of secondary cities in Rwanda.

Second, the policy agenda for secondary cities is fragmented across disparate ministries at the central level. This is inevitable as the central government is planned around core functions. On the one hand, line ministries are responsible for individual policy areas and service delivery such as health, education and agriculture. On the other hand, strategic functions such as planning, funding, governance and monitoring and evaluation are coordinated from the Office of the President, the Prime Minister's Office, MINECOFIN and MINALOC. The RHA has been a formal lead in the coordination of these departments/stakeholders for the previous phase of policy implementation. In the future, increased institutional authority will be key in the promotion of the secondary cities agenda across government. However, RHA is not a full-fledged ministry itself and may not have the required high level political authority to drive the secondary city agenda.

Third, secondary cities have been prioritised in policy documents but this status has not been enshrined in legislation. Overall, secondary city districts work in the same way as any other district; as a result, there is a disproportionate focus on rural affairs and a lack of resources to drive urban growth.

Fourth, at the heart of the governance challenge is secondary cities' limited financial powers which inhibits their ability to tailor spending to the local challenges and opportunities. Districts are largely reliant on central government for funding and have limited discretion over spending decision. In 2016, close to 80% of transfers were non-discretionary and a high proportion of discretionary spending are taken up by wages. Districts also have limited powers to generate revenues.

Fifth, RHA and local level entities are not fully capacitated. The RHA has expertise, but it will have to boost its capacity in order to ensure the delivery of the ambitious goals in the next phase of secondary cities' policy making. At the local level, high quality staff with the necessary expertise to drive development (for example urban planners, as well as accountants, statisticians and procurement officers) are not always available.

D. Policy recommendations

Urbanisation needs to be strengthened because it is a driver of economic development, job creation, and poverty reduction in secondary cities. This brief makes two types of recommendations to address the socioeconomic and governance challenges: **(i) A socio-economic approach to stimulate productive urbanisation and (ii) A Governance approach for efficient cities management.**

I. A socio-economic approach to stimulating productive urbanisation

The research conducted by IPAR-Rwanda has identified three factors that could promote inclusive growth in secondary cities:

1. Develop human capital with a key focus on developing labour force skills to improve productivity: Low levels of human capital reduce the ability of domestic and external businesses to compete, invest and grow, particularly in skilled industries in extractives and manufacturing sectors. With most of the workforce lacking secondary education, government needs to prioritise investment in skills training to increase entrepreneurship and productivity in order stimulate business growth and FDI. Government should scale up the number of TVETs as well as vocational programmes offered through increased funding focused on growth sectors in industry and services, which could include private investment.
2. Improve access to markets to build bottom-up growth: Poverty levels of a 38% average in the six secondary city districts, as well as reliance on agricultural and informal labour demonstrate that secondary cities struggle with low purchasing power. This holds back the potential for investment as there is not enough demand for businesses to grow. The Government needs to promote agglomeration effects ensuring that urbanisation is dense rather than sprawling; this can be done through setting an appropriate planning regime, easing access to land and facilitating access to affordable housing. As secondary cities are still heavily reliant on agriculture, the Government needs to prioritise rural-urban linkages through investment in roads and public transport, as well as market facilities. Finally, the Government should prioritise linkages with neighbouring cities and towns that can create regional economic hubs as well as the most accessible larger market in Kigali and/or in neighbouring countries.
3. Improve the business environment to facilitate domestic and external investment: Limited access to capital is a key a challenge to business growth within the secondary cities. Our business survey identified access to finance as the greatest obstacle to growth: it is a challenge for 35.5% of the businesses surveyed (IPAR-Rwanda, 2020a). In addition, firms identified land acquisition to be the second greatest challenge, because land acquisition, either through government expropriation or through direct transactions between landowners and investors is lengthy and expensive (IPAR-Rwanda, 2020a). Thirdly, the high cost of utilities (water and electricity) negatively affects investors such as hotel owners in secondary cities.

While the above three factors were identified as cross-cutting issues in all the secondary cities, investment must be targeted to fit the economic environment of each city, which means recognising limitations and targeting viable opportunity sectors of each of them. Understanding this profile can inform the Government's strategies to prioritise investment in educational and vocational training, support businesses and develop special economic zones (SEZs). However, the success of these urbanisation policies will depend on effective coordination and prioritization, as well as a long-term devolution plan. These ingredients have been identified to address the "governance challenge".

II. Governance approach for efficient cities management

To address the varied socio-economic factors and coordinate a range of stakeholders, there is a need to address the 'governance challenge' by strengthening central government coordination and laying the groundwork for devolution. In so doing, the Government can make incremental and cost-effective steps to unlocking the potential of secondary cities.

Central government has an important role in secondary cities' development by coordinating government agencies' and local authorities' efforts to promote growth at the local level. The proposed reforms outline how this role can be strengthened in the short to medium term as incremental and cost-effective steps to unlocking secondary cities' potential by 2024. Below we make ten recommendations related to governance under four headings: (i) Prioritising secondary cities across government, (ii) Improving co-ordination at the central level, (iii) Strengthening local governance for more effective implementation and (iv) Fiscal measures.

Prioritise secondary cities across government

1. **Establish secondary cities as units in legislation:** This should be done in conformity with lessons learnt from the City of Kigali and its legal status (its governance and management structures as well as funding mechanisms). For the city of Kigali, the new legislation made it a decentralized entity with a specialized administration, a legal personality, an administration and financial autonomy. This is expected to improve service delivery within a decentralized system.
2. **Prioritise investment and spending decisions across government:** All line ministries should be mandated to prioritise spending decisions in secondary cities to support their growth and sustainable development. This seems to already be happening in some institutions such as RDB and MININFRA, especially when it comes to infrastructure spending. However, it probably needs to be formalised and applied across all relevant ministries.

Improving coordination at the central level

3. **Strengthen the capacity of the lead delivery institutions:** RHA is currently responsible for secondary city master plans under its urban planning and development mandate. However, this role needs to be broadened so that it can develop comprehensive secondary city plans which examine current progress and detail the necessary policy changes that are required to further stimulate growth and progress milestones. This approach should also aim at strengthening institutional focus on secondary cities. At the central level, the RHA should work with individual ministries on how to prioritise resources across secondary cities and, where appropriate, for individual cities. For example, the Ministry of Sports and Culture and Huye district could co-create a development strategy for Cultural History while MINAGRI and Nyagatare could work on developing the milk and dairy sector, etc. At the local level, RHA should support the development of City Management Offices (CMOs), establish the capacity gap within districts and develop a framework for incremental decentralisation of powers and financial resources between individual districts, MINECOFIN and MINALOC. In order to play this expanded role in the next phase of delivery, RHA will need to be sufficiently resourced.
4. **Create a new Secondary Cities Delivery Committee:** The current National Technical Advisory Committee (NTAC) was created mainly to review and approve the Master Plans. This form of technical advice for secondary cities will remain valuable but a high-level Secondary Cities Delivery Committee is needed to ensure sufficient senior leadership and co-ordination. It could be co-chaired by Ministers of MININFRA and MINALOC and include key officials from central and local government. The committee could take responsibility for i) monitoring the progress of secondary cities across core indicators for infrastructure development, human capital and business growth to be agreed with the Prime Minister's Office as part of a Secondary City Delivery Strategy; ii) overseeing the mainstreaming of the secondary city agenda across central government; iii) managing the implementation of city management offices and incremental decentralisation of powers to secondary cities in line with performance; and

iv) addressing cross-cutting policy challenges and driving innovative approaches to stimulating development, including development, monitoring and upscaling of pilot projects. Furthermore, in order to ensure high level support and alignment with the urbanisation and national economic transformation agendas, the committee should be reinforced by a National Steering Committee comprised of ministers and heads of institutions.

5. **Establish a task force in partnership with the PMO:** As these governance changes are not business as usual and entails the implementation of a challenging delivery programme, the PMO should convene a task force to work with the RHA, MININFRA and MINALOC. The role of Task Force could include: (i) establishing the new oversight committees, ii) developing the secondary city plan, iii) determining the roles of central and local government institutions in promoting secondary cities, and iv) developing a monitoring framework for secondary city development, organisational performance and decentralisation of secondary city powers.

Strengthening local governance for a more effective implementation

6. **Operationalize city management offices (CMOs):** The Government needs to accelerate the operationalization of city management offices, which constitute the building blocks for more effective local governance as they will allow for an increased focus on urban affairs. CMOs should coordinate city-specific plans between urban sectors and RHA, implement master plans and take responsibility for urban service delivery and infrastructure development, including administration of the One Stop Centres. CMOs should report to the Mayor and to the Secondary City Delivery Committee.

7. **Improving local capacity:** CMOs should be appropriately staffed to ensure that they are able to deliver on their mandate. This means adapting the district organisational structure to attract and develop talents. Possible measures include: (i) elevated pay scales for skilled employees particularly, the city manager, who, while reporting to the Mayor, should be on the same pay scale; CMOs should offer competitive salaries to meet current human resource gaps in financial management, procurement, urban planning, architecture and transport management; (ii) specific training should be offered to develop a cadre of highly talented local officials specialising in aspects of urban management, both for existing and new employees in local government; and (iii) personnel transfers from central government to secondary cities and CMOs.

8. **Improving coordination to support private sector growth:** CMOs need to be well coordinated with external and central government stakeholders at the local level to support private sector development. Firstly, CMOs need to strengthen the capacity of the Private Sector Forum to better understand the demands of local businesses and ensure improved coordination to meet their demands. Secondly, CMOs need to work closely with representatives of RDB and MINICOM to attract and direct investment, as well as oversee the development of Special Economic Zones (SEZs) so that they are tailored to the needs of opportunity sectors and are affordable in their provision of infrastructure. CMOs need to have a specialised team of economists to manage this process, while MINICOM and RDB should appoint staff within each city to ease coordination and better support the private sector.

Develop current fiscal arrangements

9. In the short-term, central government should further prioritise investment in secondary cities: This means providing additional resources directly to secondary cities through transfers and/or prioritising spending by line ministries, particularly for infrastructure development in line with the secondary city plans developed by the RHA. To incentivise optimal allocation of scarce resources and support local capacity building, RHA could hold a secondary city development fund for local economic and infrastructure development initiatives. Secondary cities would then apply for access to funding through a competitive tender system.

10. **Over time, increase revenue mobilising powers for secondary cities:** Devolving spending decisions will enable spending to be tailored to local needs, while incentivising higher administrative performance at the

same time. The Government needs to support local government to have more discretion on spending and raise own-source revenues. Implementing a delayed property tax will enable CMOs to access revenue through land values, while the Government could consider allowing CMOs to hold onto VAT revenues rather than rebating them equally to districts. Central government should take an incremental approach to fiscal decentralisation that responds to growing improved government capacity. Decentralisation of fiscal powers could be aligned to performance targets which, once met, would allow CMOs more discretion over transfers from local government and/or hold onto revenues that are raised at the local level. In the long-term, the Government could potentially support secondary cities so as to raise their own finances through municipal bonds; but this is only likely to be an option after some more pressing challenges are addressed in the shorter-term.

CONCLUDING REMARKS

There are few more important agendas for Rwanda's future than ensuring high-growth and widely spread urbanisation. The government has rightly focused not only on the City of Kigali, but also on the secondary cities and this has already started paying dividends. IPAR's work shows that the potential for further growth in the secondary cities is substantial but business as usual is not enough to meet the current governance challenge. In order to unlock this potential, central government needs to improve the overall policy framework, with a particular focus on the governance of secondary cities. This Policy Brief has suggested a number of policy options for policy makers to consider.

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