



Rwanda Case Study

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CASE STUDY

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Synopsis

This case study aims to consider two key questions:

1. What progress has Rwanda achieved since 2000? What have been the key drivers of that progress and what have been the obstacles and bottlenecks? What has been the role of external actors? What has been the impact of the MDG framework?
2. What are the main constraints and opportunities facing Rwanda? What could external actors do to support national development strategies? In particular, what types of interventions, for example, finance and trade and investment, could be improved and how?

In reflecting on these questions it considers the future of the global partnerships for development. The MDGs, which have shaped development cooperation since their adoption in 2000, expire in 2015. New challenges have emerged or become more acute, such as the financial crisis, the food crisis and climate change. New partnerships for development have arisen, most notably South–South cooperation. For Rwanda this raises two main questions: what kind of global framework, if any, would help the country to take forward its development agenda and specifically the pro-poor elements; and how can development partners, including Europe, help?



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Abbreviations

12YBE	Twelve Year Basic Education
9YBE	Nine Year Basic Education
ACP	African, Caribbean and Pacific Group of States
AfDB	African Development Bank
BS	Budget Support
CADDP	Comprehensive Africa Agricultural Development Programme
CAPF	Country Assessment Performance Framework
CEPEX	Central Public Investments and External Finance Bureau
CEPGL	Economic Community of the Great Lakes Countries
COMESA	Common Market of East and Southern Africa
DA	Development Assistance
DAC	Development Assistance Committee Development Partners
DFID	Department for International Development
DoL	Division of Labour
DPAF	Donor Performance Assessment Framework
DPCG	Development Partners Coordination Group
DPs	Development Partners
DRC	Democratic Republic of Congo
EAC	East African Community
EC	European Commission
EDPRS	Economic Development and Poverty Reduction Strategy
EICV	Integrated Household Survey
EPA	Economic Partnership Agreement with the European Union
EU	European Union
FDI	Foreign Direct Investment
GBS	General Budget Support
GDP	Gross Domestic Product
GIZ	German International Cooperation
HE	Household Enterprise
ICT	Information and Communication Technology
IMF	International Monetary Fund
IMR	Infant Mortality Rate
LCD	Least Developed Country
MDGs	Millennium Development Goals
MMR	Maternal Mortality Rate
MVA	Market Value Added
NEPAD	New Partnership for Africa's Development
NISR	National institute of Statistics of Rwanda
ODA	Official Development Assistance
ODP	Official Development Partner
OECD	Organisation for Economic Co-operation and Development
PBA	Programme-Based Approach
PEPFAR	United States President's Emergency Plan for AIDS Relief
RDHS	Rwanda Demographic Health Survey
REMA	Rwanda Environmental Management Agency
RRA	Rwanda Revenue Authority
RSSB	Rwanda Social Security Board

SBS	Sector Budget Support
SME	Small and Medium Enterprise
SWAp	Sector-Wide Approach
TA	Technical Assistance
TVET	Technical and Vocational Education and Training
UNCATAD	United Nations Conference on Trade and Development
UNIDO	United Nations Industrial Development Organization
VUP	Vision 2020 Umurenge Programme
WB	World Bank
WTO	World Trade Organization

1. Economic and political context

1.1 Introduction

As Rwanda nears completion of its mid-term development strategy, the *Economic and Poverty Reduction Strategy-1 (EDPRS-1)*, and is developing the *EDPRS-2*, it is an appropriate time to review the achievements of the last decade and consider where Rwanda is going.

To this end, this case study considers two sets of questions:

1. What progress has Rwanda achieved since 2000? What have been the key factors behind that progress and what have been the obstacles and bottlenecks? What has been the role of external actors? What has been the impact of the MDG framework?
2. What main constraints and opportunities does Rwanda face? What could external actors do to support national development strategies? In particular, what types of intervention, for example, finance and trade and investment, could be improved and how?

In reflecting on these questions it is important to consider the future of global partnerships for development. The MDGs, which have shaped development cooperation since their adoption in 2000, expire in 2015. New challenges have emerged or become more acute, such as the financial crisis, the food crisis and climate change. New partnerships for development have arisen, most notably South–South Cooperation (SSC). For Rwanda this raises two main questions: what kind of global framework, if any, would help the country to pursue its own development agenda and specifically the pro-poor elements; and how can development partners (DPs), including Europe, help?

1.2 Economic and political context

Eighteen years after the 1994 genocide, the Government of Rwanda (GoR) continues to strive for economic reconstruction and development in order to address the country's biggest challenges – its landlocked nature, demographic pressure, decreasing productivity of the soil and arable land, the exorbitant cost of production factors, a narrow economic base and inadequate infrastructure. There has been strong economic growth and social development and there are clear signs of the beginnings of economic transformation. There have been relatively peaceful parliamentary (2003, 2008), local (2005, 2010) and presidential elections (2003, 2010).

Rwanda's development has been driven by a number of factors. These include a strong and determined government that has increased domestic revenues, fought corruption, established mechanisms to ensure accountability to Rwanda's citizens and improved aid coordination as it strives to create a service-oriented economy. Rwanda appears likely to achieve most of its MDG targets. Over the last ten years Rwanda has moved from an emphasis on state building, reconstruction and providing basic services to promoting economic growth and transformation. Rwanda has developed a liberalised economy, along with sound governance, which it regards as a precondition for sustained economic growth. Responding to its lack of physical resources and geographical location, it has developed a good 'soft' business environment. It has an open trade policy and a favourable investment climate, has cheap and abundant labour, offers tax incentives to businesses and enjoys stable internal security and low crime rates. There has been growth in foreign and local investment and foreign investors now own a controlling share in most of Rwanda's largest firms. Pro-poor policies have significantly reduced poverty and begun to narrow the income gap. There has been increased productivity and commercialisation of the agricultural sector, although the rural population fell from 85% of the population in 2003 to an estimated 75% in 2012.¹

¹ Authors' calculation based on FinScope 2012 survey data.

As a result of Rwanda's improved business environment and other developments designed to increase competitiveness and maintain strong economic growth, Fitch upgraded the long-term foreign and local currency default rating from B- to B, with a stable outlook in 2011. Strong political and economic leadership that has favoured pro-growth structural reforms and achieved strong macroeconomic performance weighed heavily in Rwanda's favour (see article at: <http://af.reuters.com/article/commoditiesNews/idAFWLA405620110823/>, accessed 23 July 2012).

At the same time, Rwanda's B rating also reflects its low GDP per capita, poorly diversified economy and high reliance on ODA, being the world's fifth most aid-dependent country (Thomas et al., 2011). The IMF has warned that any significant drop in aid flows would have a large and immediate impact on growth and public finances (IMF, 2012). Rwanda remains a predominantly rural economy, mainly dependent on rain-fed agricultural production based on small, semi-subsistence and fragmented farms. It is potentially vulnerable to the global economic crisis and the food crisis and the impact of climate change (Stockholm Environmental Institute, 2009).

There is low unemployment but high underemployment since 57% of jobs are seasonal and 17 hours is the median in productive work, ranging from 40 hours for those in non-farm waged jobs to 18 hours for those running a small business and to 15 hours for those in agricultural work, both independent and waged. Around 73% of the working population is employed mainly in agriculture, 62.5% have more than one job and 85% cultivate their own farm (NISR, 2012). Only 17% of workers are in non-farm employment. Most enterprises are in the informal economy (Strode et al., 2012), and only around 10% of businesses (i.e. with employees) are in the formal economy and about 6% of microenterprises. High fertility rates are driving population growth of 2.8% a year (NISR et al., 2012). This is exerting pressure on the land since 70% of the land surface is already being farmed, and most households dependent upon subsistence farming own less than 0.5 hectares (Ministry of Agriculture and Animal Resources, 2009b). Infant and under-five mortality rates are high and there is low life expectancy at birth (NISR et al., 2011).

To achieve sustainable development Rwanda needs support to create a 'virtuous cycle' in which the expansion of human capital fuels equitable economic growth and builds political stability and trust. The domestic tax base needs to expand and the growth of non-farm employment needs to be accelerated in order to provide enough work for the number of new entrants in the labour market predicted over the next ten years (Malunda, 2012).

1.3 Regional and international collaboration

Rwanda is a member of the East African Community (EAC), the Common Market of East and Southern Africa (COMESA), the New Economic Partnership for Africa's Development (NEPAD), the Economic Community of the Great Lakes Countries (CEPGL) and the British Commonwealth of Nations. It has recently increased partnerships with many countries, organisations and institutions and established strategic diplomatic relations. In Asia, for example, Rwanda has embassies in Korea and Singapore and is opening more in West Africa. It has also improved relations with the Democratic Republic of Congo (DRC), and CEPGL (among Burundi, the DRC and Rwanda) is now fully operational. Strengthening its position within these partnerships will enable Rwanda to increase trade through access to a wider market and benefit from membership of an influential regional bloc.

The EAC as a unified economic and political bloc with a gross domestic product of \$44 billion² has the potential to participate effectively in the world economy and thereby to support the region's social and economic development. It had an estimated combined population of 139 million in 2010, which grew by around 20% (24 million people) between 2005 and 2010. The EAC has a mainly rural population although

² Throughout this paper \$ refers to US\$ unless otherwise stated.

some 26% of Tanzanians, 22% of Kenyans, 13% of Ugandans and 11% of Burundians were living in urban areas in 2010 (Eyakuze et al., 2012) and 25% of Rwandans in 2012.³ Although this is well below the sub-Saharan average of 50%, the capital cities of Kenya, Uganda, Tanzania and Rwanda are predicted to be among the fastest growing in the world between 2010 and 2025 (United Nations Population Fund, 2011).

The EAC is seen as dynamic and providing good commercial opportunities, with an average annual growth rate of 5.8% over the last 12 years compared with the sub-Saharan Africa (SSA) average of 2.6%. Since 2000 each member country has more than doubled its GDP. There is rising foreign direct investment (FDI) in the region, attracted by growing economies and integrating markets, from which Uganda has benefited the most to date (Eyakuze et al., 2012). Rapid growth in service exports also offers EAC countries an opportunity to improve deteriorating trade balances. Kenya is the most developed in this respect with Kenyan-based banks leading regional integration in the EAC and exporting ever more services (World Bank, 2012).

Deepening EAC integration should lead to lower prices for goods and services among its members, but Kenya is imposing more regulations on imports from EAC countries than on those from other countries. East Africa could be self-sufficient in food if free trade was permitted. Kenya, a food-deficit country, maintains barriers to trade in maize, wheat and sugar, which keeps food prices exceptionally high. Open agricultural trade would benefit all EAC countries as Kenyan consumers would pay less while farmers in Tanzania and Uganda would benefit from higher prices (World Bank, 2012). Several key reforms to facilitate trade have been adopted, including automated custom clearance, electronic cargo tracking, One Stop Border Posts and international standards in customs administration, documentation and procedures. Despite significant efforts to remove non-tariff barriers (East African Secretariat, 2012) such as weighbridges, road-blocks, bribery, border posts that close early and delays at ports, exporters in Rwanda continue to view these as major hindrances. In Tanzania, for example, a lorry driver loses on average 16 hours on being stopped, and the bribes paid to officials can amount to as much as \$35 (Centre for Economic Prosperity, 2011).

Rwanda has adopted the EAC Common External Tariff and has amended legislation to facilitate labour mobility in the EAC Common Market. A monetary union and political federation are planned. Rwanda's accession to the EAC is expected to bring considerable economic benefits in the medium to long term, but membership also imposes fiscal constraints. Investors from other EAC countries have started up enterprises in Rwanda in order to exploit the potential of the markets in Burundi and the DRC, but the country is also experiencing a reduction in customs revenue (RRA, 2011). Rwanda's intra-common market trade has increased but this has largely been driven by rising imports of consumer goods and intermediate products, with exports to the EAC increasing only marginally (see: www.afrianeconomicoutlook.org).

The EAC has a special trading relationship with the European Union (EU) under the Everything but Arms Initiative (EBA), which permits duty-free and quota-free access to the European market. The partnership between the EU and its Member States that are Official Development Partners (ODPs)⁴ is based on the Cotonou Agreement (Europe Aid, 2000 amended 2010) and is based on three complementary pillars: development cooperation; economic and trade cooperation; and a political dimension that takes account of new challenges including climate change, food security, regional integration and aid effectiveness. It supports the development of the private sector, employment creation, trade, private investment, human rights and inclusive growth. Building the capacity for democratic governance and social cohesion, a functioning market economy and a vibrant civil society are seen as integral to the partnership. Gender and environmental protection and sustainability are crosscutting issues. Rwanda has benefited from EU support in promoting its trade with the EU especially in the form of funding studies to determine what goods and services Rwanda can produce for which there is a potential EU market. As we discuss below, the EU and its Member States are among those that have done most to honour the commitments made in the Paris Declaration on Aid

³ Authors' calculation for Rwanda based on FinScope 2012 data.

⁴ Belgium, Germany, France, Netherlands, Sweden and the UK.

Effectiveness, and a number of EU countries are among Rwanda's major trading partners and the country of registration of a significant proportion of investors.

The African Growth and Opportunity Act (AGOA) allows duty-free and quota-free access to the US market for nearly all textile goods and handcrafts produced in Rwanda. In 2010 Rwanda exported goods valued at \$30,858, 000 to the USA, of which \$597,000 (1.9%) benefited from the AGOA, \$580,000 under Generalised System of Preferences and \$17,000 imported duty free (www.AGOA.info/, retrieved 11 August 2012).

Rwanda also benefits from investment-insurance programmes against political risk, enabling investors to obtain credit. The Overseas Private Investment Corporation (OPIC), the development finance institution of the US government, provides investment guarantees. The Multilateral Investment Guarantee Agency (MIGA) part of the World Bank Group supports investments that are developmentally sound by providing insurance against political risk for investors in member countries. Rwanda signed the convention in 1989. The African Trade Insurance Agency also provides insurance in Rwanda including risks of restrictions on import/export activities, inconvertibility, expropriation, war and civil disturbances.

1.4 Relationship with development partners (DPs)

The GoR has taken strong ownership of development support, skilfully taking up DAC DPs' rhetoric to exert leverage and bring its negotiating capital into play. Such partnership is rooted in the global agenda for poverty eradication and Rwanda has incorporated the MDGs into its broader development agenda, which is focused on inclusive economic transformation and sustainable development, and ensuring that aid is invested in supporting the latter. Its strong lead in shaping its development policy with the support of DPs has to an extent mitigated the negative impact of aid dependency on good governance (Brautigam, 2000). The combination of leadership and good governance is undoubtedly a major factor behind strong recent development achievements, despite the challenges of implementing partnership agreements for aid effectiveness made in the Paris Declaration (Abbott and Rwirahira, 2012b).

The main bilateral ODPs in Rwanda are Belgium, Canada, Germany, the Netherlands, the USA, the UK, Switzerland, Luxembourg, Japan and Korea. The main multilateral agencies are the World Bank, the African Development Bank (AfDB), the EU, the Global Fund, and United Nations specialised agencies, operating as 'UN as One'. There are several Arab Funds including BADEA, Kuwait Fund, Saudi Fund, and Organization of Petroleum Exporting Countries (OPEC), as well as China, India, South Africa and Egypt. Cuba and Nigeria send medical staff but not funds. The non-DAC DPs have not previously engaged with the GoR's aid-coordination mechanisms, but China attended the last DP retreat and China's and India's development assistance for 2012/13 was included in the budget submitted to parliament.

The aid-effectiveness agenda is intended to ensure that aid is spent as effectively and efficiently as possible in supporting the recipient country's development agenda, and donors and recipients are mutually accountable for implementation. Recipient countries are expected to lead their own development agendas and to have systems in place for the effective management of public spending, including financial systems. DPs are expected to align their aid with the country's priorities, use its systems and institutions for delivery and to work together to reduce fragmentation, duplication and transaction costs. They are expected to provide clear indication of what aid they will give, ensure that it is delivered on time and be transparent about any conditions attached.

Rwanda has set out its expectations for the management of aid in support of development goals incorporating elements of the Paris Declaration on Aid Effectiveness (Ministry of Finance and Economic Planning, 2006). The GoR recognises the need to improve its management and execution of development programmes and projects, while donors must also review their policies, practices and behaviour. The GoR prefers ODA to be provided as Direct Budget Support (BS) followed by Sector Budget Support (SBS). DPs are expected to align their aid with GoR priorities, provide technical assistance (TA) through national systems,

use the Development Assistance Database (DAD), and work with the GoR to develop dispute-settlement rules.

Together with the private sector and civil society, the DPs work with the government in developing and monitoring and evaluating the country's development strategy (*EDPRS-1*). In 2008, the *Country Performance Assessment Framework (CPAF)* and the *Donor Performance Assessment Framework (DPAF)* were agreed by the GoR and DPs to form part of a mutual annual review designed to strengthen mutual accountability. The GoR has undertaken a number of reforms and other initiatives, including bringing the public financial system into line with international practice, which helps DPs to be confident in using its systems. It was one of the two top performers in the 2011 pre-Busan review of progress towards its Paris Declaration targets (OECD, 2011b). Sector Wide Approach (SWAp) agreements have been signed with DPs in seven sectors and a division of labour (DoL) agreed to ensure that ODA meets the needs of all sectors and to reduce transaction costs and fragmentation. The SWAps have had a positive impact on DPs' coordination, harmonisation and alignment as well as strengthening strategic dialogue (Ministry of Finance and Economic Planning, 2012b). The establishment of a Single Project Implementation Unit (SPIU) in each ministry should further reduce transaction costs and give the GoR greater ownership. The Project Treasury Single Account (PTSA) will facilitate the provision of timely information on ODA flows. It is expected that an Access to Information Law will be placed on the statute book in 2012.

There are still some challenges to overcome since not all DPs fully engage with the aid-effectiveness agenda, which raises questions about how far ODA is being used in the most effective and efficient way to fund the GoR's development agenda. There has been little change in the extent to which DPs are meeting their DPAF targets and of those that participated in an evaluation most had failed to meet their performance targets either in 2009/10 or in 2010/11 (Abbott and Rwirahira, 2012a). Only two targets were met in aggregate (percentage of TA provided through coordinated programmes and percentage of total joint missions), and only four DPs and the AfDB, EU and WB met 75% or more of their targets in the most recent assessment (Ministry of Finance and Economic Planning, 2011).

Little over 40% of aid was reported in the 2010/11 Budget and only 25% of ODA is given as BS or SBS: the AfDB, Germany, the UK, the EC and the World Bank give some aid as BS and SBS and the Netherlands and Belgium give some as SBS.⁵ A number of DPs continue to use parallel implementation units, including the USA, which is the largest single donor, thereby increasing costs and reducing GoR ownership. Predictability remains a problem, with four DPs making no advance indications of and/or commitments to the future volume of ODA, including two of the largest donors, the USA and the Global Fund, as well as Japan and Switzerland. Only three DPs met their 2010/11 target to deliver ODA in the year for which it was intended – Belgium, the EC and the World Bank. Canada disbursed none and Japan only 10% of the committed funds. Some DPs are reluctant to use national systems and institutions, with only DFID and the World Bank meeting all their targets for using national systems and reporting mechanisms. Canada, Luxembourg and the USA met none and the UN and Japan each met only one. Only the AfDB, Belgium, Sweden, Germany, the EC and the UK have begun to use the DoL, with Canada and the Netherlands making efforts to do so (Ministry of Finance and Economic Planning, 2012c). The UN has also indicated that it will respect the DoL from the start of its 2013/14 programme (Abbott et al., 2012a), but there are concerns that donors leaving a sector may leave a funding gap, as happened in education with the withdrawal of the World Bank (Ministry of Finance and Economic Planning, 2012c). Although the target for coordinated technical assistance was met, the GoR considers that there is insufficient involvement in the recruitment of appropriately qualified consultants to provide it (Abbott et al., 2012a).

The fragility of the relationship with DPs and the issues surrounding aid conditionality are evidenced in Rwanda by the reaction of some DPs to the publication of UN Expert Group report in June 2012 on

⁵ The UK usually gives SBS for health and education but this was not disbursed in 2010/11.

Rwanda's supposed support for rebels in the DRC, which Rwanda denies. The publication led to a number of DPs, including the USA, the UK, Sweden and the Netherlands, to delay or suspend disbursements, thus reducing the GoR's ability to pursue its development strategy.

The GoR acknowledges its aid dependency and is seeking alternative forms of development finance. For instance, it has launched the Agaciro Development Fund (Dignity Fund), to mobilise voluntary resources to invest in the country's development. This is seen as part of a strategy for Rwandans to own the country's development and to be more autonomous financially. A board of citizen trustees will manage the Dignity Fund and invest the funds in agreed national priorities. The idea came from the 2011 Umushyikirano (National Dialogue), an annual forum where the President meets with popular representatives to discuss issues of national importance and devise appropriate solutions. There are also plans to launch a Diaspora Bond in 2012. The Environment and Climate Change Fund (FONERWA) facilitates direct access to international environment and climate finance and is expected to reduce the funding gap for meeting objectives on the environment and climate change by up to 30%. Rwanda will also tap into international funds such as the Green Climate Fund as well as from private sources and existing DPs. Domestic sources will include environmental fines, Environmental Impact Assessment (EIA) fees, proceeds from Forestry and Water Funds, other environmental revenue and seed funding from line ministries. The mobilisation of domestic resources will make the Dignity Fund less vulnerable to the vagaries of ODA.

2. Progress since 2000

2.1 Vision 2020 and EDPRS-1

Rwanda's ambitious development programme is encapsulated in *Vision 2020* (Ministry of Finance and Economic Planning, 2000). Rwanda takes a 'developmental state' approach, whose key objective is to achieve sustainable economic growth and social development with good governance. This is articulated through a form of developmental patrimonialism, which is arguably a more likely scenario for achieving the stated goals than orthodox forms of 'good governance' (Booth and Golooba-Mutebi, 2012). *The Economic Development and Poverty Reduction Strategy 2008–12 (EDPRS-1)* (Ministry of Finance and Economic Planning, 2007) explicitly recognised that economic growth alone will not reduce poverty and improve the lives of the poor. It was based on three pillars designed to accelerate economic growth and promote human development:

1. Sustainable growth for jobs and exports – investing in improving the climate for business investment and agricultural transformation.
2. Vision 2020 Umurenge, a pro-poor rural development and social-protection programme which aims to eliminate extreme poverty by 2020.
3. Good economic governance creating a comparative advantage in 'soft infrastructure', establishing the rule of law and consolidating democracy.

Gender, HIV and AIDS, environment, youth and social inclusion are viewed as crosscutting issues. The *EDPRS* incorporated a commitment to achieving the MDGs. There is a single *EDPRS Common Performance Assessment Framework* at the national level, which stresses accountability both domestically and to DPs. Local authorities are accountable to the government for reaching agreed *EDPRS* performance targets via annual performance contracts.

The main aim of *EDPRS-1* was to overcome the principal constraints to economic growth by systematically reducing the operating costs of business, thus promoting the creation of new jobs to absorb surplus labour, facilitate technology transfer, transfer skills to Rwandans, increase the production of goods and services for export and accelerate the modernisation of agriculture. This was to be achieved through investing in the innovative capacity of the private sector, promoting private investment through good governance and a legal framework, promoting savings and the banking sector, strengthening the public sector and investing in infrastructure, health, education, and skills development. Establishing export processing zones (EPZs) and industrial parks, as well as diversifying and increasing exports, were seen as an important element of the strategy. The main areas for export growth – beyond the strategic exports of tea, coffee, horticulture, hides and skins and minerals – were identified as tourism, mining services, business process outsourcing, silk textiles and fruit and vegetable and dairy processing (Ministry of Trade and Industry, 2009a). In manufacturing, low-technology products (e.g. footwear, textiles) and high-technology products (e.g. chemicals, IT, pharmaceuticals) were identified as potential areas for growth.

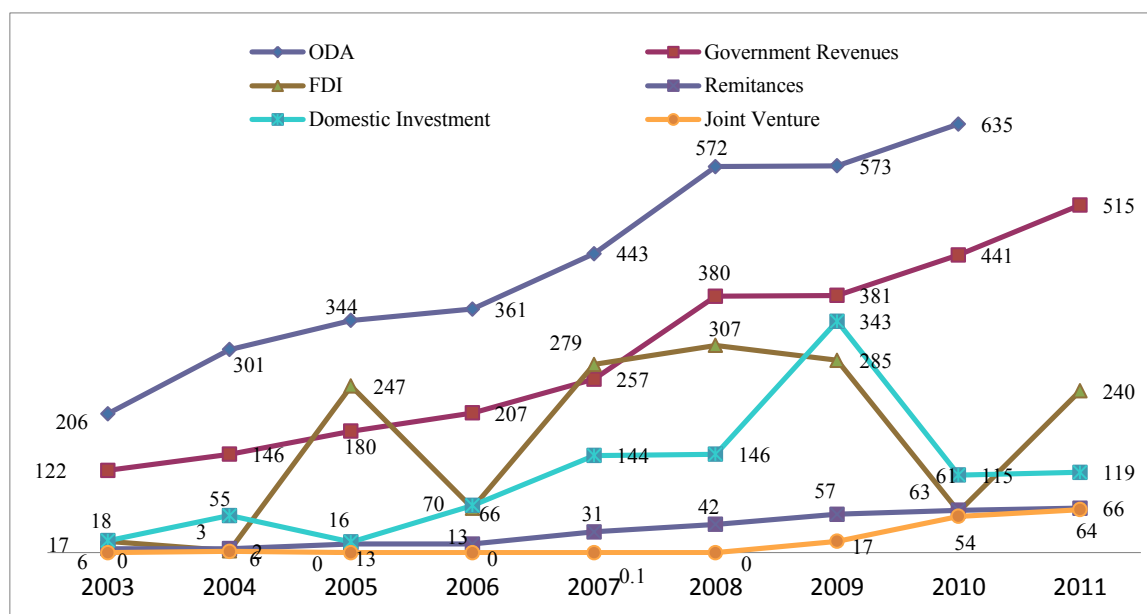
2.2 Funding the development strategy

There are four main ways to fund a country's development strategy: government revenues, ODA, remittances and private investment. Although ODA still makes up the largest share of GoR spending, it fell from 21.3% of Gross National Income (GNI) in 2007 to 18.5% in 2010 (OECD, n.d.).⁶

⁶ www.oecd.org/dataoecd/63/19/1878421.gif, accessed 20 May 2012.

There has been an increase in all sources of financing since 2003 but ODA remains the single largest, with the gap between domestic revenues and ODA remaining fairly constant (Figure 2.1). Remittances have increased ten-fold but are still a very small proportion of total revenues. FDI has fluctuated but the overall trend has been upwards, with 2011 showing a recovery after the impact of the world economic crisis was felt in 2010. There has also been an increase in domestic investment and joint ventures. Taking 2009 as the last year for which there are full data, excluding 2010 when FDI was adversely affected by the world economic crisis, of total revenue (RWF 1,651 billion) 34.7% was from ODA, 23.1% from domestic revenues, 20.8% from FDI, 17.3% from domestic investment, 3.5% from joint venture investment and 1.0% from remittances. Uganda and Tanzania are attracting significantly more FDI than Rwanda. In 2010, for example, Uganda received \$25 per capita and Tanzania \$16 with Rwanda, Kenya and Burundi all receiving between \$2 and \$4 (UNCTAD World Investment Report, cited in Eyakuze et al., 2012). We consider domestic revenues in the next section and external sources of funding in more detail in Section 4 below, and also compare domestic investment with FDI.

Figure 2.1 Major modes of financing 2003–2011 in billion RWF



Sources: Data Supplied by RDB, Rwanda Macroeconomic Variables Public Data Set 6 August 2012, available at: <http://www.minecofin.gov.rw/node/523>, World Bank Data, OECD data.

Note: RDB records only investment commitments, not actual receipts.

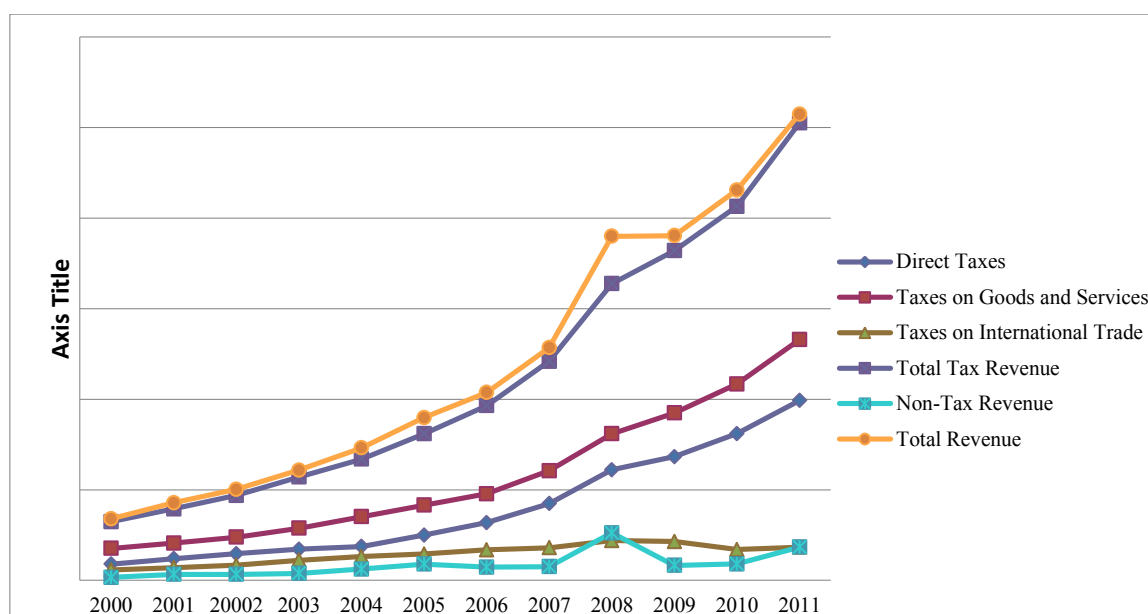
2.3 Domestic finance

The main way to reduce aid dependence is to increase domestic revenues. The policy in Rwanda is to widen the tax base and increase fiscal revenues by registering the informal economy, simplifying procedures and providing tax incentives to encourage both FDI and domestic investment. Rwanda received DFID funding to increase its capacity to collect domestic revenues. Commenting on this, the AfDB (2010) review of domestic resource mobilisation concluded that ‘there is no doubt that the long term orientation, predictability and flexibility of this (DFID) support has enabled RRA to rapidly and sustainably improve its capacity’ (p. X).

Tax revenues are the main source of domestic income with taxes on goods and services accounting for the greatest share. In 2011 such taxes accounted for 52.6% of total tax revenue, income tax for 39.4% and international trade for 8.1%. Taxes on international trade rose steadily from 11.6 billion RFW in 2000 to 52.3 billion FRW in 2008 but fell in 2009 and 2010 to 34 billion FRW after Rwanda joined the EAC.

Fiscal revenue has increased every year since 2000, increasing by 62.5% between 1998 and 2010 (Figure 2.2). While the amount collected in taxes has risen, the proportion of tax revenue to GDP has increased only marginally. It stood at 11.1% of GDP in 1999 and 12.7% in 2011 (www.africaneconomicoutlook.org/ accessed 16 August 2012). For comparison, the tax revenue as a percentage of GDP was 18.8% in Kenya in 2009 and 12.9% in Uganda in 2008 (www.tradingeconomics.com/ accessed 16 August 2012).

Figure 2.2 Domestic revenues 2000–2011 in billion FRW



Source: Rwanda Macroeconomic Variables Public Data Set 6 August 2012, available at: <http://www.minecofin.gov.rw/node/523>

Tax revenues have risen thanks to the RRA's concerted efforts to widen the tax base, mainly by reducing tax avoidance by microenterprises. The number of taxpayers registered to pay profit tax increased from around 4,000 in 2006 to just over 40,000 in 2010 and the number of employees registered for Pay As You Earn (PAYE) almost quadrupled. There was only a marginal increase in the number of registered large taxpayers, although the greatest share of revenue continues to come through the Large Tax Office (Abbott, 2011b). Strategies are in place to further expand the tax base and encourage compliance, including a simplified tax regime for SMEs, VAT invoice-monitoring campaigns, collecting tax arrears, tackling fraud and smuggling, carrying out systematic comparisons of PAYE and RSSB contribution records, training for taxpayers and keeping track of taxpayers' addresses. Other measures include e-filing, an Electric Single Window System at main customs offices and border stations, extended working hours at customs offices and a 'gold card' scheme for importers that comply with taxation regulations (key informant interview). It is also expected that tax revenues will rise because of the new gaming tax, an increase in the rate on imported construction materials and streamlining exemptions in the investment code. These anticipated increases will, however, be offset by permanent losses of non-tax revenue, leaving the revenue-to-GDP ratio at 14% in 2012/13 (IMF, 2012). Substantially increasing tax revenues will depend on attracting more domestic and foreign investment, creating more non-farm jobs and increasing incomes to create more demand for goods and services.

The tax base is comparable to the other EAC countries, with the exception of Kenya. In 2009, the tax revenue in Rwanda was 12.1% of GDP compared to 18.1% in Burundi, 14.8% in Tanzania, 12.1% in Uganda and 23.4% in Kenya (EAC Secretariat, 2011).

2.4 Trends in development

2.4.1 Political and institutional situation

Rwanda has made impressive progress in fostering national reconciliation and undertaking institutional reform. Good governance is seen as fundamental for a stable, inclusive society in which leaders and citizens are mutually accountable. *Governance for Production and Development* was adopted in 2010 as a policy framework for using resources to promote economic growth, stimulate private-sector growth and reduce poverty for sustainable development (Figure 2.3). Central to this are creating an inclusive society and a responsive government, fighting corruption and creating a legal and regulatory framework to support private-sector development.

Figure 2.3 Features of governance for production and development



Source: Anatase, 2010

The 2003 Constitution incorporates a Bill of Rights and provides for a tripartite system of government with legal separation between the executive, a bicameral parliament and the judiciary. Rwanda received the Millennium Challenge Account Compact in 2008 to support the government’s efforts to strengthen substantive democracy and in 2011 the Rwanda Governance Board, the first institution of its type in Africa, was established to promote decentralisation and principles and practices of good governance in public institutions as well as to conduct research to promote accountability, transparency and integrity in public affairs (Law N° 41/2011 of 30 September 2011).

Central to good governance are the National Dialogue, the decentralisation policy and mechanisms for social inclusion, dialogue and consensus, with many of the latter involving the adaptation of traditional instruments of governance (see Box 1). The principle of subsidiarity underpins the decentralisation policy, which is designed to ensure transparency and accountability for the provision of local services through citizen participation in planning. Local government is held accountable through the Imihigo performance contracts, which are agreed between the districts and the President, with the districts held accountable for their performance at an annual public event chaired by the President.

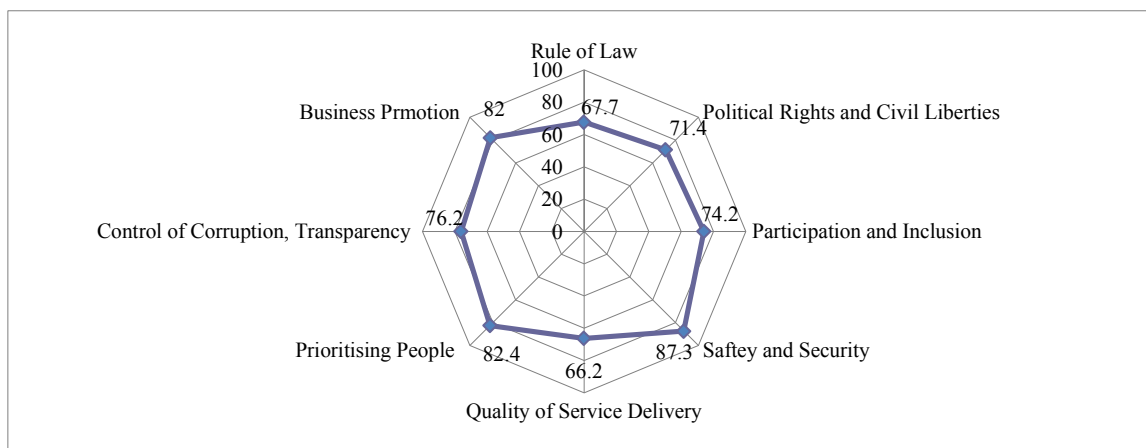
Box 2.1 Examples of policies for social integration and cohesion

Policy	Brief Description
National Dialogue	The annual National Dialogue is chaired by the President of the Republic, bringing together elected representatives from district councils, members of the cabinet and parliament, Provincial Governors, the Mayor of the City of Kigali and other leaders. It provides an opportunity for leaders to discuss government priorities and programmes and review progress towards achieving strategic goals. It increases transparency, horizontal accountability (between government bodies) and vertical accountability (between government representatives and citizens).
Ubuguhwe	This has three elements. First it is a method of participatory poverty analysis whereby the community agrees on which category of poverty each household is in, facilitated by two trained local volunteers. Those in the lowest two categories are eligible for a range of social support. Second it is a process for communities to discuss and prioritise their local problems. Third it is a means for communities to build local enterprises by receiving a grant to invest in resolving their chosen problem.
Kuremera Abacu	A programme to reduce inequality as community members identify those who are most vulnerable and pool resources to help them.
Imihigo	Performance contracts signed from village to national level in the administrative system. It involves participatory planning that involves all members of the community.
Itorero	Civic education to promote positive cultural values and shared norms and values more generally.
Umuganda	Monthly community service undertaken by all able-bodied adults, after which people gather to discuss community problems and related policy proposals.
Abunzi	A system for elected mediators at cell and sector levels to resolve local disputes.
Gacaca Courts	Based on the traditional Rwandan legal system these courts were set up to try certain categories of those accused of genocide crimes. They are presided over by trained elected local judges with the participation of all adults in the community. The process involved confession, the expression of remorse, forgiveness and reconciliation.
Other Mutual Assistance Mechanisms	Ingobyi y'Abarwayi – community members help with transport for those who fall sick and are unable to get to the health facility. Kuragizanya – a programme whereby livestock owners let others borrow their animals. Kugabirana – gift of an animal to a friend. Igikumba Rusange – communal grazing.

Challenges to the implementation of the governance policy include the capacity of districts to deliver, lack of civil society participation, corruption (especially in local government) and gender inequality (Anastase, 2011). The mapping of civil society organisations (CSOs) in 2011 highlighted the need for enhanced dialogue between CSOs, the government and other stakeholders. The districts are more accountable to central government than they are to their electorate (Abbott and Rwirahira, 2012). Some commentators have suggested that decentralisation in fact makes central power more effective (Purdekova, 2011) although others argue that local participation played an important role in reconciliation (Clarke, 2010).

The locally developed Rwanda Governance Score Card (Figure 2.4) shows very high scores for Safety and Security, Investing in People, Business Promotion and Private Sector Advocacy and Control of Corruption Transparency and Accountability. Participation and Inclusiveness and Political Rights and Civil Liberties scored above 70% and Rule of Law and Quality of Service Delivery scored about 66% but had some poor performing sub-sectors. There are also concerns about lack of equality before the law, the poor not having access to justice, poor participation and ignorance of citizens' rights, poor service delivery and people sticking to the 'official' line.

Figure 2.4 Rwanda governance scorecard 2010

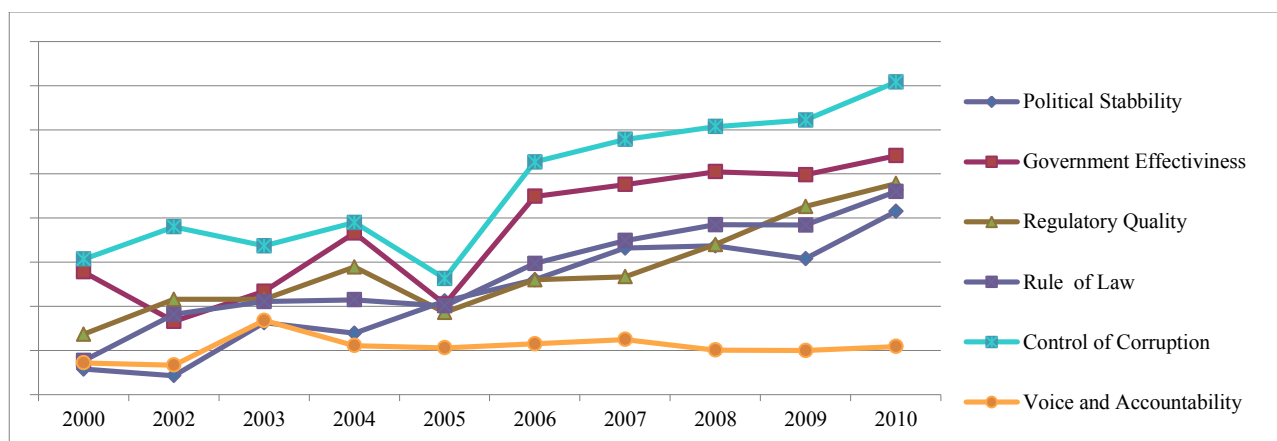


Source: Anastase, 2010

Rwanda’s progress in achieving good governance is generally confirmed by international indicators, where it scores well apart from on democracy and civil liberties. On the World Bank Governance Indicators, for example, Rwanda’s scores have increased, with the notable exception of Voice and Accountability, where there has been little progress (Figure 2.5). Similarly on the Millennium Challenge Corporation⁷ scorecard for YR12 Rwanda scored green for control of corruption, government effectiveness and rule of law, but red for political rights, civil liberties and voice and accountability. On the Mo Ibrahim Foundation Index Rwanda scored 62 on human development but only 39 on Political Participation and Human Rights.

Rwanda scores well on the World Bank Governance Indicators compared to the other EAC countries, with the highest score on Control of Corruption, Government Effectiveness and Rule of Law. There is little difference in the scores for Regulatory Control between Rwanda, Kenya and Uganda. Tanzania has a slightly higher score than Rwanda on Political Stability. The only indicator on which Rwanda scores poorly is Voice and Accountability, where it has the lowest score (Figure 2.6).

Figure 2.5 Percentile rank⁸ on World Bank Governance Indicators 2000–2010

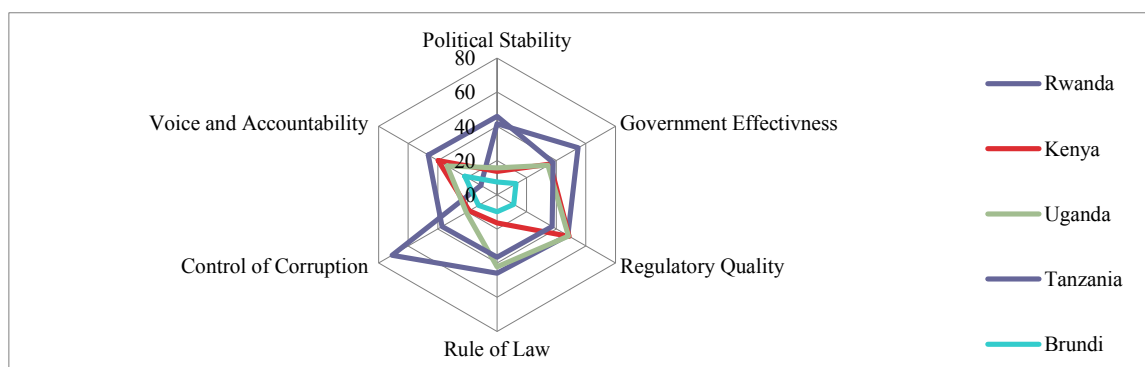


Source: http://info.worldbank.org/governance/wgi/sc_chart.asp

⁷ www.mcc.gov/documents/scorecard/score-fy12-new-rwanda.pdf, accessed 31 August 2012.

⁸ Data in percentile rank ranging from 0 lowest to 10 highest.

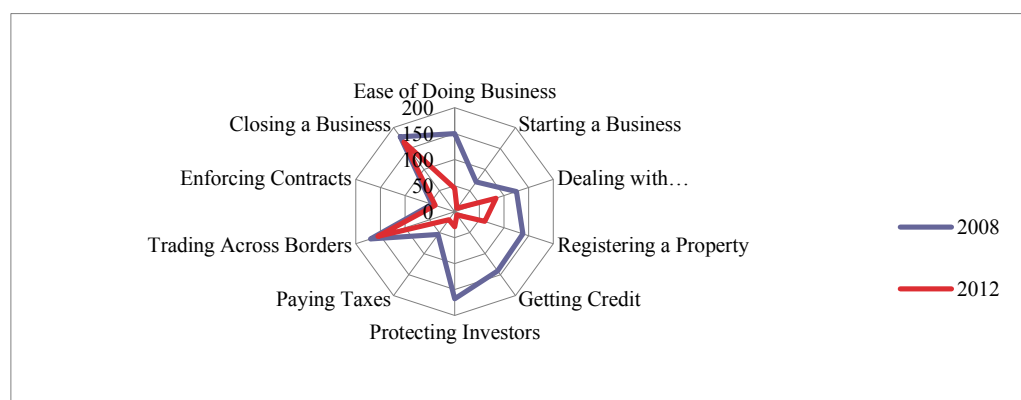
Figure 2.6 EAC scores on World Bank Governance Indicators 2010



Source: <http://info.worldbank.org/governance/wgi/index.asp/> accessed 13 August 2012

One of the government's top priorities has been to provide an excellent 'soft' business environment in an attempt to attract more FDI, partly to compensate for the poor infrastructure and lack of a skilled workforce. Between 2009 and 2011 Rwanda rose from being ranked 150th in the world to 45th: performance improved on every sub-indicator, with the exception of cross-border trade and closing a business (Figure 2.7). Rwanda has the best overall rank of the EAC countries on the Doing Better Business Score and also performs comparatively well on the Global Competitive Index, and for the three sub-indexes it is outperformed only by Kenya on Efficiency Enhancers and Innovation (Schwab, 2011).

Figure 2.7 Doing Business 2008 and 2012



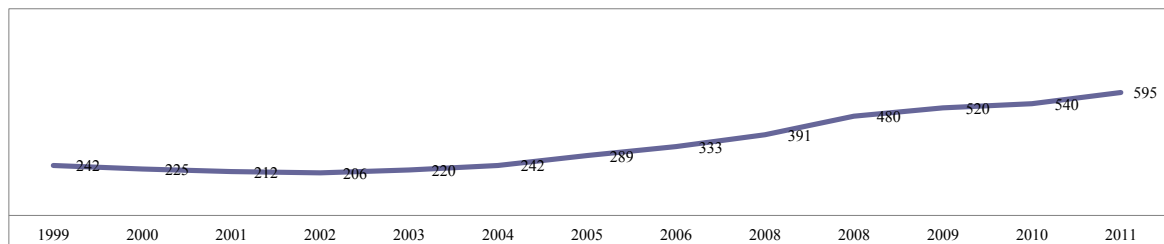
Source: World Bank, 2011

The *Doing Better Business Index* is representative of firms in Kigali and a study by Senate (Finance and Economic Development Commission of Senate, 2011, cited in Abbott and Rwirahira, 2012b) found that although informants felt there had been some improvements in the nine key areas of *Doing Business*, the general perception was negative. A study of disinvestment and investor aftercare (Kanyangoga, 2010) found significant weaknesses in the legal framework and that businesses had concerns about tax administration, poor infrastructure, difficulties in land acquisition, a lack of incentives for rural investors and the high cost of credit.

2.4.2 Economic situation, structure and performance

Rwanda has achieved sustained economic growth since 2000 with GDP per capita increasing from \$225 in 2000 to \$595 in 2011 (Figure 2.8). There has been an increase in non-farm employment, exports, revenues from domestic taxation, FDI and domestic investment and domestic savings (NISR 2012a).

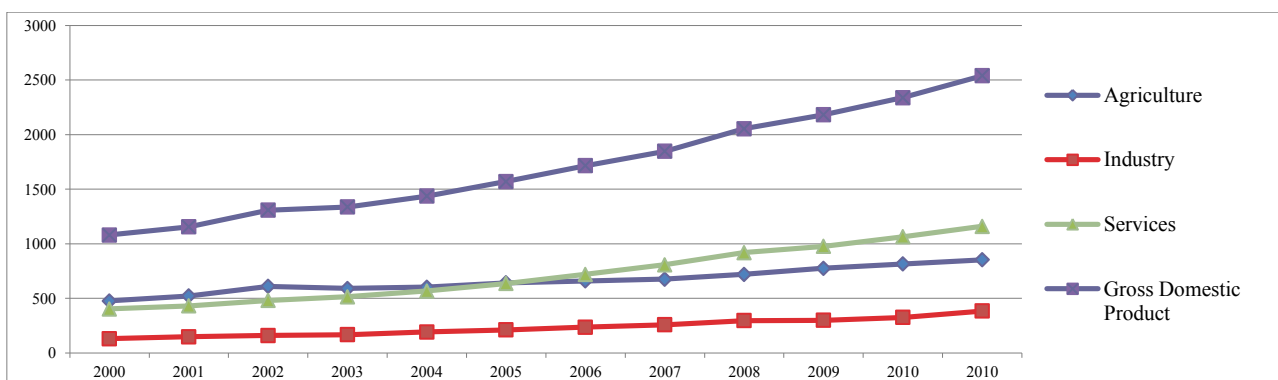
Figure 2.8 GDP Per Capita 1999–2011 in US\$



Source: GDP National Account 2009;⁹ NISR, 2012b

Although agricultural employment still dominates there has been strong growth in the service sector, which now contributes the largest share to GDP. There has been little growth in manufacturing (Figure 2.9).

Figure 2.9 Gross Domestic Product by activity at constant 2006 prices



Source: NISR, 2011

The informal economy remains dominant, accounting for 65% of GDP in 2011, a decline of four percentage points since 2006. Over the same period there was an increase in the contribution of the formal economy of three percentage points and in the government and NGO sector of one percentage point. The contribution of informal agriculture declined from 39% in 2006 to 32% in 2011, which appears to be a trend (NISR, 2012b). The decline in the contribution of agriculture to the economy is mainly accounted for by the growth of the service sector.

The Establishment Survey recorded 127, 662 establishments, 93% of which are microenterprises employing no more than three persons and 25% are in Kigali. Only 11.2% were registered with the RRA although 79% were registered with the District and paid local taxes; 2.6% employed capital exceeding €21,000 and 73% of €700 or less (Ministry of Trade and Industry et al., 2011). However, EICV3 recorded 479,000 individuals who said they ran a business as their sole or main work, 97% of which were household businesses. Only 6% were registered with the RRA and 26% with the local authority (Strode et al., 2012). In total, taking account of enterprises run to supplement main occupations, EICV3 recorded 1.3 million small businesses operating in 2010/11, an increase of 430,000 over EICV2 (Strode et al., 2007). This indicates that there is a large and growing informal economy comprising mainly household enterprises, most of which are not registered.

Creating non-farm employment is essential for increasing labour productivity and absorbing new entrants to the labour market. The proportion of workers whose main employment is non-farm work has increased, with a corresponding decrease in those reliant on agriculture. By 2010/11, 16.7% of workers aged 16 years and over were in waged employment and 9.7% in non-farm self-employment, an increase of 6.9 and 1.7 percentage points compared with 2005/6 (Figure 2.10).

⁹ <http://statistics.gov.rw>, accessed 4 April 2010.

Figure 2.10 Changes in main employment status 2000/1, 2005/6 and 2010/11

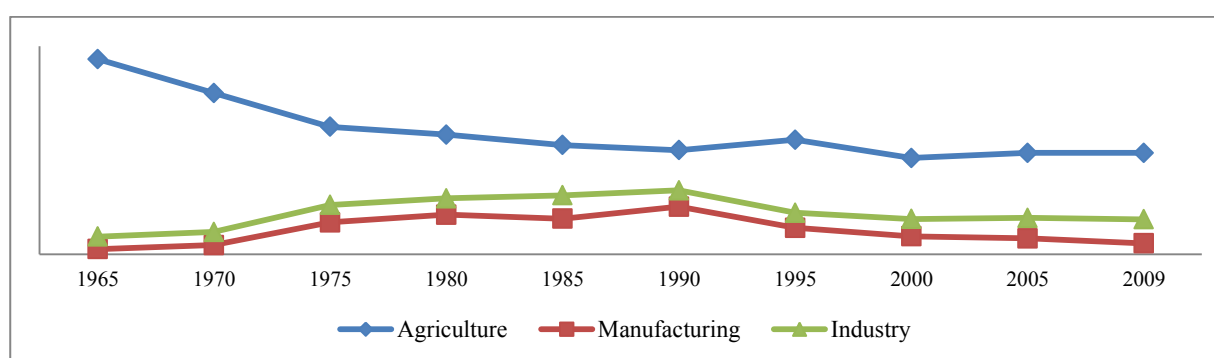


Source: National Institute of Statistics, 2012

Providing productive employment for young adults is a growing problem in view of a 40% skills deficit and limited job growth, and 42% of young people are underemployed or unemployed. There is also a mismatch between the skills needed and the skills that young adults can offer, and the number of jobs created each year between 2005/6 and 2010/11 is only one-third of those needed to absorb new entrants to the labour market. Skills-development programmes have yet to achieve tangible impacts, there are no systematic linkages between the various initiatives and coverage is not comprehensive (www.africaneconomicotlook.org).

Rwanda's limited economic transformation results mainly from low manufacturing value-added per capita and low-technology manufactured exports. The manufacturing share of GDP has declined, although the industrial sector has expanded, largely because growth in construction. Although this is positive in terms of creating jobs it lacks the dynamism and the positive spillovers found in the manufacturing sector (Figure 2.11) and much of the building work is thought to be residential rather than productive investment (DFID, 2008). The share of medium- and high-technology production in market value-added is one of the lowest in East Africa.

Figure 2.11 Rwanda's value addition as a percentage of GDP (1966–2009)



Source: World Bank Data, available at: <http://data.worldbank.org/> accessed 23 August 2012

Despite growth in investment, the rates of inward investment are still comparatively low, and the trade deficit grew by 40% between 2000 and 2011 (Rwangombwa, 2012). The trade gap has widened in the EAC region as a whole. In 2010, for example the EAC exported \$11.1 billion and imported \$27 billion. Apart from Burundi, Rwanda remains far more dependent on a narrow range of exports than the other EAC countries. Just four

products account more than 75% of exports, compared with 48% for Kenya, 24% for Tanzania and 13% for Uganda.¹⁰

2.4.3 Infrastructure

Transport is hampered by the poor road network, which particularly affects agricultural products from rural areas and reaching the nearest ports, Mombasa and Dar-es-Salaam. Only 60% of national roads and 15% of district roads are in good condition, although there is constant upgrading and maintenance. A railway to connect Tanzania, Rwanda and Burundi is planned, which the AfDB has agreed to fund, and a new international airport will open in 2015 at Bugesera to the east of Kigali.

The cost of electricity is one of the world's highest, which is a major issue for businesses, especially manufacturing (Gathani and Stoelings, 2012). Only about 11% of households nationally have electricity and access is heavily concentrated in Kigali, where it reaches 56% of households. The main source of energy remains biomass, with 86% of households using wood for cooking (NISR, 2012a). The draft *Energy Policy* (Isumbingabo, 2012) aims to increase access, maximise the use of indigenous resources, enhance regional cooperation, promote the use of renewable energy and engage with the private sector to reduce costs.

Information and Communication Technology (ICT) is seen as key for accelerating socioeconomic development and transforming Rwanda into a knowledge-based economy. The e-Government programme aims to integrate all government processes and enhance service delivery and to reduce costs. A high-speed Fibre Optic Network will connect all government sites and border posts as well as banks and tele-centres. The internet will be used for commercial and government transactions including the registration of businesses and the payment of taxes as well as a range of other e-applications. Initiatives to foster the private sector include internet-based business and career-support services, online trade information portals, business 'incubators', a credit reference bureau, e-banking and mobile money. In the agricultural sector there is the Agricultural Management Information System, online exchange platforms and 'e-Soko', a mobile system to provide market information for farmers and consumers (key informant interview). The proposed ICT law provides for a licensing framework that will create new business opportunities by allowing all types of service to be provided through a unified licensing system.

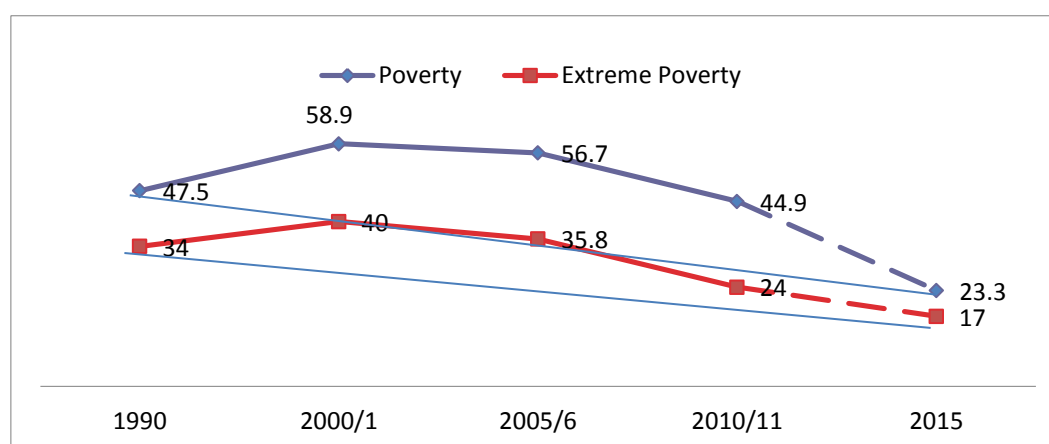
There has been significant growth in access to ICT: 45% of households own at least one mobile phone and 1.7% own a computer, up from 6.2% and 0.3% in 2005/6, in addition to which 3.4% of households have internet access (NISR, 2012). The proportion of individual mobile phone subscriptions in Rwanda at 33% compares to 62% in Kenya, 47% in Tanzania and 41% in Uganda and 10% in Burundi. Rwanda compares favourably in terms of access to the internet with 3.6% Kenyans having access at home, 2.2% of Tanzanians and 1.2% of Ugandans (Eyakuze et al., 2012, based on data collected from regulatory authorities).

2.4.4 Poverty reduction and social progress

Since 2005/6 the proportion of the population living in poverty has declined by 12 percentage points and the absolute number of people living in poverty has dropped, despite high population growth (Figure 2.12). Comparable data are available only for Burundi and Uganda. Burundi has seen no change in the proportion of the population living in poverty and an increase in incidence. In Uganda, poverty reduced from 56% in 1992 to 25% in 2010 but the decline between 2005 and 2010 was six percentage points. Current data are not available for Kenya and Tanzania, but in Kenya there was an increase in poverty of six percentage points between 1994 and 2006, and in Tanzania between 1990 and 2007 there was a decline of three percentage points (Eyakuze et al., 2012).

¹⁰ www.africaneconomicoutlook.org/en/data-statistics/table-7-exports-2010/, last accessed 11 August 2012.

Figure 2.12 Poverty 1990–2010/11 and linear progression to 2015



Source: NISR, 2012

One of the flagship programmes under EDPRS-1 was the Vision 2020 Umurenge programme, designed to enable those living in extreme poverty to improve their situation. Households that have nobody able to engage in public works receive direct support, while those who are fit to work are employed on public works, and individuals or groups can obtain credit for investment in farm or non-farm enterprises. Vision 2020 Umurenge Programme (VUP) recipients are expected to invest the additional resources in income-generation activities as a means to reduce poverty. It is likely that a large proportion of those receiving direct support will continue to need it, and it is too early to judge how far those who participated in public works are no longer living in poverty. Loans have generally been invested in improved farming methods to improve beneficiaries' standard of living, but there are concerns about non-repayment (Devereux, 2012).

Global indicators for education and health show dramatic progress in recent years even if not all MDG targets are likely to be met by 2015. Virtually all children now attend school, mortality rates among infants, under-fives and mothers are declining rapidly and there is greater access to healthcare. Resources are being invested in improving access to water and sanitation. Gender equality and the empowerment of women are central to GoR policies. Girls are more likely than boys to attend primary school and are on average performing better than boys at this level, but boys outperform girls in science and technology and are more likely to pursue technical and vocational education and training (TVET) and to gain places in public higher education institutions (NISR, 2012).

The gap between people living in households in the lowest two wealth quintiles and the highest two generally narrowed between 2005 and 2010 against MDGs and other social indicators, suggesting that those from the poorest households are disproportionately benefiting from public economic, health and welfare policies. In a number of important areas, however, the gap between the poorest and the more affluent households has widened. This was especially noticeable for stunting of infants and young children, participation in secondary and tertiary education, vaccinations and being assisted by a skilled health attendant during childbirth. As yet, there is little evidence of a decline in inequality in adult literacy (NISR, 2012a). Stunting has a long-term negative impact on a child's learning ability, general health and future earning potential and is a concern across the EAC (Eyakuze et al., 2012).

Table 2.1 Indicators of social progress including MDG 2015 targets

	MDG Goal	2000 ¹¹	2010/11	2015 Target ¹²	
1.	Portion of population living below national poverty line	58	44.9	34.7	
	Proportion of population \$PPP 1.25	72.1	63.2		
	Proportion of population below minimum dietary level	40	24	24	
	Proportion of underweight children 6–59 months	24	11	13.0	
	Proportion of stunted children 6–59 months	42	44	27.2*	
	Proportion of workers in non-farm employment	7.4	10.9	16.9	
2.	Net attendance rate in primary education	72.6	91.7	100	
	Primary school completion rate	22	78.6	74*	
	Primary School Pupil teacher ratio	69:1#	58:1	47:1*	
	Literacy rate for 15–24 year olds	57.4	76.8	83.7	
3.	Ratio of girls to boys at primary level	0	0	0	
	50% non-farm employees women	42	33	50	
	Ratio of literate women to men	87	95.6	1:1	
	50% of MPs women		52	50	
4.	Infant mortality rate	117.4	50	37	
	Under five mortality rate	196.2	76	66	
	Proportion of children 11–23 months immunised against measles	87	95	100	
	Proportion of children 11–23 months fully immunised	76	85.4	85*	
5.	Maternal mortality ratio	1071	487	325	
	Proportion of births attended by skilled health worker	31.3	69	90	
	Proportion of married women using modern contraceptives	4.3	45.1	70*	
	Proportion of women making four + antenatal care visits	10.4	35.4	90 ¹³	
	Total fertility rate		4.6	4.5*	
6.	HIV prevalence amongst population aged 15–49 years	3 ¹⁴	3	<3	
	Malaria among children	29.1	21.4	Reduced	
	Percentage budget spent on health and health related expenditure	12#	16.1	15*	
	Percentage population with health insurance	43.3#	69	95*	
	Percentage population access to safe drinking water	70.1	74.2	85	
	Percentage population improved sanitation	50.4	74.2	76	
7.	Percentage population mobile phone	6.0#	45		

Sources: RDHS, 2010; EICV3

Key:

On track or already achieved
Could be achieved with accelerated progress
Off Track

¹¹ #2005/6 figure.¹² * indicates a 2012 EDPRS target.¹³ WHO target.¹⁴ 2005 figure as previous data are unreliable since they are based on non-probability samples.

2.4.5 Accounting for poverty reduction

Having more productive employment is the main way to translate economic growth into poverty reduction. The sharp decrease in the poverty rate between 2005/6 and 2010/11 is attributed to higher farm productivity and to an increase in non-farm employment (NIRS, 2012a).

According to NISR (2012a), there has been:

1. An increase in people's ability to supplement their main income from other work, with a rise in the proportion of workers with multiple jobs.¹⁵ In 2010/11, 63% of workers had more than one job, and rural dwellers (65%) and those whose main job was farm work (73.3%) were more likely to have more than one job than those in urban areas (65%) or whose main job was waged non-farm work (37%) (Strode et al., 2012). This undoubtedly contributed to the marked reduction in poverty in rural areas.
2. An increase in small non-farm enterprises. Households that include a non-farm enterprise in their income streams are generally better off than those who depend on agricultural incomes alone (Vinck et al., 2009), and as a main job an enterprise is more likely to produce a living wage.
3. An increase in non-farm salaried/waged employment as main employment, since non-farm paid employment is more likely to provide a living wage.
4. Increased agricultural productivity and an increase in farm products sold, and a decline in the proportion of subsistence farmers living in poverty.

2.5 Domestic and external drivers of progress

The main drivers of success under *EDPRS-1* were a strong and determined government supported by DPs, and policies aimed achieving at economic growth, poverty reduction and good governance. The incorporation of the MDGs into the framework has ensured progress towards achieving the 2015 targets. The continuing flows of ODA, the growth in domestic revenues and the increase in private investment have enabled the GoR to fund its development programme.

Governance reforms have been important in ensuring public safety, mobilising the population to participate in the development process and creating a sound legal, regulatory and institutional framework to support private-sector development. At district level, performance contracts (*Imihigo*) have enabled districts to match activities to key priorities and to be publicly accountable for achieving targets. The implementation of 9YBE would have been impossible without the mobilisation of communities to build classrooms. Community health workers have contributed to improving the health of women and children, and the *Gacaca* (traditional courts) and *Abunzi* (mediators) have played important roles in the administration of justice, with community involvement.

Agricultural policy has improved productivity, tackled environmental degradation, reduced hunger and increased the production of a surplus for sale. The private sector has expanded in response to policies aimed at its development, and there has been an increase in non-farm jobs and export growth. ICT has been used to improve services including the on-line filing of tax returns, registration of businesses, applications for driving licences and an on-line immigration service. The inclusion of gender as a crosscutting issue has ensured that it has been addressed by all sectors and that progress has been made in promoting gender equality.

2.6 Obstacles to progress

Effective planning, increasing domestic revenues and attracting private-sector investment, have not been without their problems. The failure of DPs fully to honour their aid-effectiveness commitments have

¹⁵The EICV3 Report (NISR 2012a) indicates that the questions between surveys are not comparable but nevertheless concludes there had been an increase in multiple jobs.

undermined the government's ability to plan the funding of its programme. Increasing domestic revenues is hindered by the economic structure since there is so little economic activity that can be effectively taxed and there remains the challenge of finding a cost-effective strategy to widen the tax net (African Development Bank, 2010). District planning has not been fully integrated with national development plans (Ministry of Finance and Economic Planning, 2012b). The private sector and civil society are insufficiently involved in policy dialogue, especially at the local level. Citizens are often not clear about their role in contributing to planning and holding government accountable for providing services.

The slow growth of the private sector is related to the poor infrastructure, the high cost of electricity and the shortage of qualified and skilled workers – all of which are ranked as higher business obstacles compared to factors that affect profitability such as macroeconomic instability, corruption and anti-competitive practices (Schwab, 2011). There remain concerns about competition from state-owned enterprises (SOEs) and smaller privatised firms owned by investment groups with government shareholders or led by individuals with close ties to the government, such as ministers and their representatives being influential board members. Some private firms assert that those with ties to the government get preferential access to credit and in tax enforcement (<http://Rwanda.usembassy.gov/investment climate .html/> accessed 18 August 2012).

The difficulty in acquiring finance, high interest rates and short repayment terms make it hard for locals to invest in SMEs, a problem compounded by low literacy rates and business know-how. The development of agro-processing has been slow, although this is key to increasing rural employment opportunities. Even with incentives it has proved difficult to encourage investors to move out of Kigali (Abbott, 2011b).

There has often been a lack of high-quality data against which to measure progress, gender-sensitive budgeting has not been evident and there have been delays in the development and implementation of critical policies like the Population Policy, which is intended to reduce the fertility rate and high population growth. Delays in important projects have occurred because of poor planning, the lengthy and protracted procurement procedures and the low capacity of the private sector. There remains a policy implementation gap with good policies not being fully implemented, and the lack of capacity and/or high staff turnover give rise to frequent delays.

3. Future development opportunities and constraints

3.1 Priorities for EDPRS-2

EDPRS-2 will guide policy implementation and public spending from 2013/14 to 2017/18. Two key priorities have been identified: accelerating sustainable economic growth to an annual average of 11.5% to meet the target of becoming a middle-income country (MIC) by 2020 and bringing poverty to below 30% by 2020. EDPRS-2 will be structured around four strategic thematic areas: Economic Transformation; Rural Development; Productivity and Youth Employment; and Accountable Governance. Its development is guided by five principles: innovation; continued investment in foundation areas such as health and education; inclusion of all stakeholders and interest groups, government and non-government; differentiated development plans at District level with strong linkages between District Plans and Sector Strategic Plans; and sustainability. Six crosscutting issues are: capacity building; regional integration; gender and the family; environment, climate change and disaster management; disability and social inclusion; and HIV and AIDS and non-communicable diseases. The existing MDG targets will be incorporated.

In the process of developing EDPRS-2 the GoR has reviewed the *Vision 2020* targets. New targets include external trade as proportion of GDP to increase from 41.5% to 60%, average export growth from 24% to 28% and changes to existing targets include reducing poverty to 20% and inequalities as measured by the Gini coefficient to 0.350. While some of the new targets, where there are trend data, look achievable, others will require rapid progress if they are to be attained. The revised target for GDP growth to achieve MIC status by 2020 may not be achievable, for example (IMF, 2011).

3.2 The main constraints to be overcome

The main constraints echo those that have hindered progress to date. These include the ability to secure reliable funding for the development strategy given high aid dependency and a narrow tax base and the difficulty of attracting private-sector investment. Continuing efforts to encourage higher rates of domestic savings are required for domestic investment, the growth of which will be essential for the labour market to absorb new entrants over the next ten years, along with more investment outside Kigali. The unsustainable trade deficit will have to be reduced by increasing exports and reducing imports, mainly through increasing the production of goods and services in Rwanda.

It will be necessary to address weak supply-side capacity and attract more private investment in medium- and high-technology manufacturing to enable Rwanda to enter the global value-added chain. Lack of competitiveness will need to be addressed including poor infrastructure (ranked 101st on the Global Competitiveness Index), the weak microeconomic environment (ranked 106th) and quality of health and primary education (ranked 110th), as well as the small domestic market with little demand for goods and services, low innovation and a shortage of workers with higher education and technical and vocational education (Schwab, 2011). The benefits of reforms to the 'soft' business environment need to be extended to ensure that businesses outside Kigali, large and small, benefit equally with the medium-sized ones that seem to be the main beneficiaries to date.

Agricultural policy needs to be reviewed to ensure that it does not result in more peasant farmers becoming landless and pushed into low-income agricultural wage labour, which may hamper economic transformation and increase income inequality. Environmental challenges still need to be addressed and action taken to ensure food security in the face of high population growth, rising food prices and the threat posed by climate change.

There is a need for capacity building and training in the use of ICT; the provision of adequate financial resources for ICT projects; the strengthening of the ICT industry; increased access to ICT, especially in rural

areas; the development and implementation of cyber-security projects; and general awareness and promotion of ICT services, facilities and benefits. Nairobi is already becoming the service hub for East Africa (Eyakuze et al., 2012) and Rwanda will need to consider how Kigali and the services it can offer can be differentiated from and/or have a competitive comparative advantage.

Many challenges in implementing the decentralisation policy still need to be addressed. These include a national legal and policy framework that is not in tune with decentralisation; poor coordination between central and local levels and limited involvement of CSOs; lack of local capacity to develop affordable district plans and to provide services to meet citizens' needs; local authorities' lack of financial management capacity; a lack of disaggregated data on which to develop evidenced-based policy; a lack of gender-based budgeting; and poor local resource mobilisation.

3.3 The main opportunities to be seized

Rwanda needs to seize the opportunities afforded by discussions on a post-MDG agenda to ensure that any post-2015 global partnership agreement meets its development needs and preferences. It needs to exploit opportunities to draw on alternative sources of financing including funds for climate change, SSC, mobilising domestic and diaspora resources and attracting private-sector investment.

The GoR can build on the foundations it has built for achieving inclusive economic transformation based on its strong leadership role and use this to leverage DP support and greater commitment to the aid-effectiveness agenda. Engagement with the private sector to elicit its active support could, for example, be focused on TVET to ensure that the system produces graduates with the skills needed in the labour market.

The strategic investment programme aims to address infrastructural bottlenecks through six projects: the energy access programme; the ICT infrastructure programme; the Burundi–Tanzania railway; the Kigali convention centre; the capitalisation of Rwanda Air; and the international airport at Bugesera (www.africaneconomicoutlook.org). Although the railway project may yield little benefit before 2020, it is crucial to Rwanda's longer-term development. Opportunities to support trade and productive-sector investment more generally include Aid for Trade (AfT) from ODPs, the DoL agreed with DPs to ensure adequate investment in the productive sectors and SCC with China and India.

Rwanda's location in East Africa, with easy access to a market of between 50 and 60 million people, depends upon the full exploitation of good communications. The Industrial Park in Kigali is designed to become a trade, logistics and service hub to serve this population. The four Provincial Industrial Parks for rural industrialisation, the creation and promotion of viable and dynamic SMEs and market access for sustainable business development provide the opportunity to create regional urban centres (www.minicom.gov.rw/spip.php?article37/ accessed 15 August 2012).

Rwanda can continue to revitalise agriculture and increase productivity by fulfilling its commitments as a signatory to the African Union's Comprehensive Africa Agricultural Development Programme (CAADP) and building on the funds from the Global Agriculture and Food Security Fund for reducing erosion and bolstering productivity and the commercialisation of agriculture in an environmentally sustainable way (NEPAD Agency, 2010). Agricultural productivity can be increased and agro-processing developed.

Rwanda can take advantage of the opportunities afforded by regional integration and membership of the EAC as well as trading partnerships such as those with COMESA, the EU and the USA. It can also take advantage of the trading potential offered by the rise of the Global South. These developments could enable Rwanda to exploit new and larger export markets and attract tourists and other visitors.

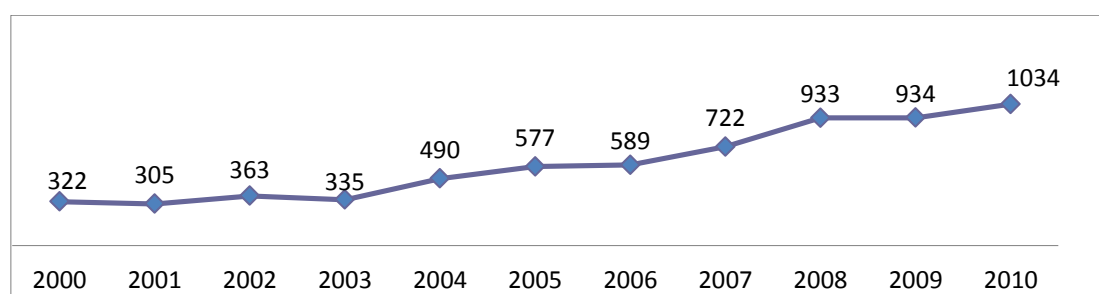
Rwanda can build on its existing work to identify niche areas for export growth, including tourism. It can also build on its reputation as a conference venue with the opening of the new Convention Centre in Kigali.

4. Role of external actors in supporting national development

4.1 Official Development Assistance (ODA)

As discussed, Rwanda relies heavily on ODA and has a much larger proportion of aid per capita than the other EAC countries. In 2010, disbursed ODA amounted to \$100 per person in Rwanda compared to \$74 in Burundi, \$66 in Tanzania, \$51 in Uganda and \$40 in Kenya (OECD data, cited in Eyakuze, 2012). In 2010/11, ODA was the equivalent of 17.6% of nominal GDP. This was lower than in previous years and suggests that Rwanda may be becoming less aid-dependent even if the real value of ODA is increasing.

Figure 4.1 Net ODA receipts at 2008 prices in US\$ million



(Source: OECD Stat Extracts <http://stats.oecd.org/Index/> accessed 2 October 2011; OECD <http://www.oecd.org/dataoecd/63/19/1878421.gif> accessed 20 May 2012)

The total ODA for 2010/11 was \$1,034 million, and has risen steadily in real terms from 2000, when it was \$322 million (Figure 4.1).¹⁶ Bilateral donors and multilateral agencies each provide about half. In 2010/11 the portion of ODA that qualified for and was reported in the national budget was 41.5% of total revenues and grants in the revised budget, down from around 50% in previous years. However, not all ODA is 'on budget' or even recorded in the DAD and it is difficult to estimate receipts of 'off budget' aid, although the OECD database shows that just over half of ODA disbursements were to the government sector in 2010, representing \$555.4 million.

The OECD lists 21 bilateral, ten multilateral and two non-DAC countries pledging to provide development aid to Rwanda in 2010. However, the DAD¹⁷ records only 18 donors. The ten top donors, six bilateral and four multilateral (Table 4.1), provided just over 80% of all ODA, and the top five provided 55%. The main sources have not changed since 2005, with just over half from multilateral agencies (53% in 2009/10), mostly in the form of grants (95% in 2009/10).

¹⁶ These figures are taken from the OECD database; however, the Government of Rwanda reports total aid of \$962.7 million in 2009/10 and of \$974.9 million in 2010/11 (Ministry of Finance and Economic Planning, 2012c).

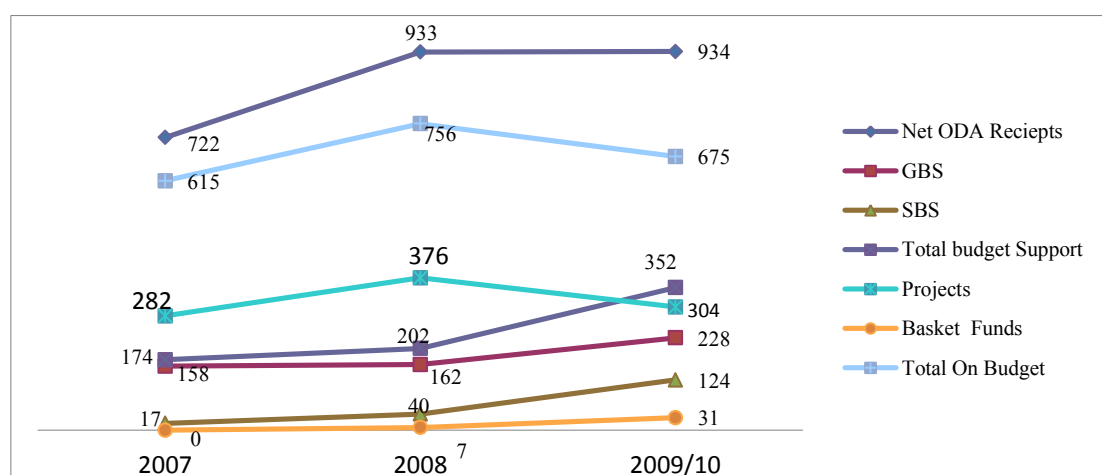
¹⁷ Grimm et al. (2010) report 29 DPs in Rwanda in 2010 of which six were non-DAC, but it is not clear if the UN agencies were counted as one or separately.

Table 4.1 Rwandan's top ten ODPs (based on 2010 OECD figures)

Donors of Gross ODA (2009/10) Average	US\$ millions
World Bank	130
USA	123
Global Fund	112
EU Institutions	104
UK	98
Belgium	76
AfDB	56
Netherlands	47
Germany	46
Canada	38
Total	830

Source: OECD <http://www.oecd.org/dataoecd/63/19/1878421.gif> (accessed 20 May 2012)

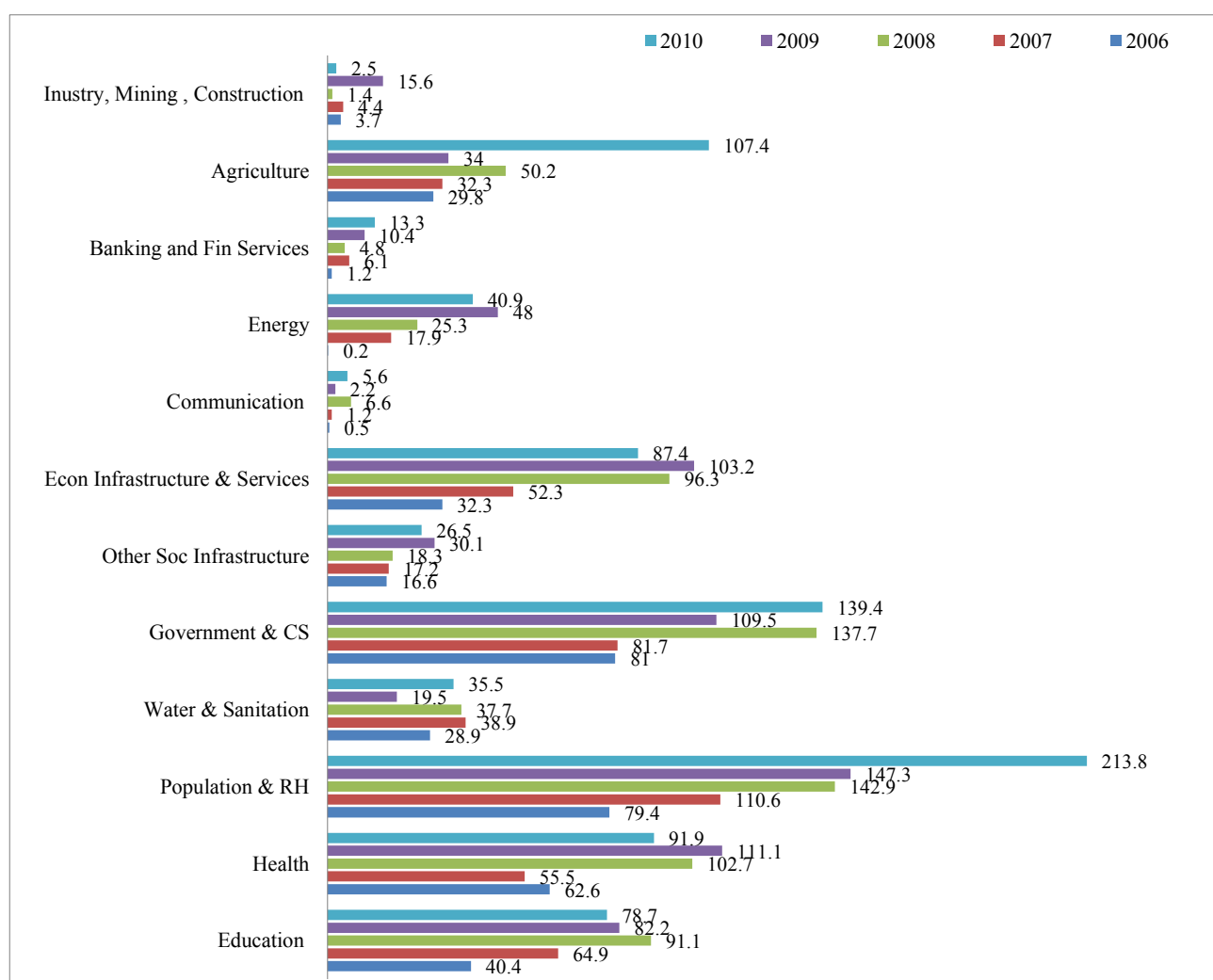
Three criteria are used to measure the quality as opposed to the volume of ODA: use of the recipient country's systems, alignment with the country's policies and no or limited conditionality. Although most ODA still goes to support projects, BS has increased in volume and as a proportion of total ODA (Figure 14). The EC, for example, increased its budget support from 23% in 2008 to 70% in 2009/10 and Germany resumed and gave 57% of its aid in budget support, along with the UK gave (79%), the Netherlands (27%) and Belgium (19%). Sweden gave none, and no other donors have changed their donation patterns. Project support covers both financial support and technical assistance. Most donors give financial support but about half of the UN's support is in kind, and Germany and the Netherlands also provide in-kind support. The GoR managed nearly half of ODA in 2009/10 destined for project support.

Figure 4.2 ODA on budget by modality compared to total ODA 2007–2009/10 in US\$ million

Source: Ministry of Finance and Economic Planning, 2011

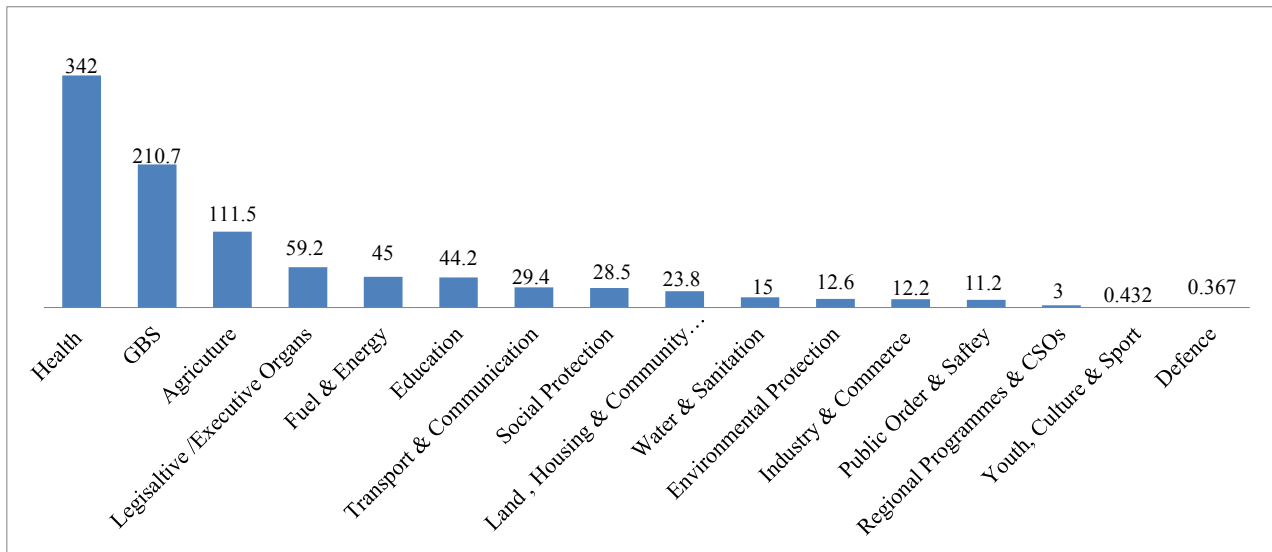
Analysis of ODA between 2006 and 2010 shows that its volume for different sectors varies by large amounts and that health (including 'health' and 'population and reproductive health') gets by far the most. There have been very noticeable increases in ODA for population and public health and agriculture, and an increase in all sectors – comparing 2006 and 2007, before the introduction of *EDPRS-1*, and the period following its introduction – indicating that additional ODA was pledged to support the implementation of *EDPRS-1*. The proportion of ODA allocated to the social sectors has risen most sharply but aid for economic infrastructure has also shown a marked increase. Fluctuation in ODA flows can make planning difficult, and most sectors remain underfunded.

Figure 4.3 Disbursements of ODA by selected sectors against commitments 2006–2010



Source: Development Database on Aid Activities: CRS online http://www.oecd.org/document/0/0,2340,en_2649_34447_37679488_1_1_1_1,00.html/ accessed 21 May 2012

About 70% of ODA in 2010/11 went to the so-called non-productive sectors (Figure 4.4), and the remainder to the productive sectors (Agriculture, Industry and Commerce, Fuel and Energy, Transportation and Communications). Non-traditional DPs like China and the Arab Funds contribute mainly to the productive sectors. In terms of the four EDPRS/MDG themes (Growth, Rural Development, Human Development and Governance), over half of ODA went to human development (56%). Rural development received 22%, Agriculture 12.5% and Governance 9.5%. Between 2005 and 2008 the proportion of ODA spent on Human Development (health, education, water and sanitation and social protection) varied from just over 44% in 2008 to 56% in 2007 (authors' calculations from data in NISR, 2009).

Figure 4.4 ODA to Rwanda in 2010/11 by EDPRS sector¹⁸

Source: Ministry of Finance and Economic Planning, 2012c

As stated earlier, the non-DAC DPs active in Rwanda include China, India, BADEA, the Kuwait Fund, the Saudi Fund, Egypt, Cuba, South Africa and Nigeria. Cuba and Nigeria send technical personnel but no reported funding. It is difficult to capture the engagement of these development partners with Rwanda, as they do not all report transfers to the DAD, the information on CEPEX is incomplete and they do not participate in the donor assessment exercises.

The non-traditional DPs provide financial assistance mainly in the form of concessional loans and technical assistance (TA). The aid is often tied to the sourcing of goods and services in the DP's country. Technical assistance and South-South experience sharing is far less likely to be overpriced than is TA from ODPs but it is not necessarily better suited to the receiving country or better managed. Similarly, tied aid via SSC is less likely to be overpriced than that from ODPs, but it can cause problems for local procurement. There tends to be less of a partnership approach with the GoR, with the new donors offering specific assistance rather than agreeing with the GoR's priorities. There is little opportunity for the GoR to influence the choice of Technical Assistants, who are usually appointed by the donor. This does not mean that the support is not in line with Rwanda's development programme; simply that Rwanda has little opportunity to influence what is provided. Nor do the Southern partners have the same relationship of mutual accountability with the GoR.

China is Rwanda's main non-DAC DP. It began providing development assistance in 1971, but the rate of growth in trade and cooperation with a greater volume of funding has developed over the last decade. Since 1971, China's aid to Rwanda has totalled \$147 million, comprising 49% grants, 32% zero-interest loans and 21% preferential loans (Grimm et al., 2010). China's assistance is focused mainly on Kigali Urban Roads and infrastructure, with a small number of projects in agriculture, education and health (Grimm et al., 2010). The main sectors supported are education, health, agriculture, transport and ICT. Rwanda also has preferential entry to Chinese markets with an 80% reduction on taxes on commodity exports.

Egypt is involved in agriculture, education, health and population and public administration. South Africa is involved in education, employment and capacity building and health and population, and Nigeria and Cuba in health and population. The four Arab funds mainly support infrastructure, including roads and energy.

¹⁸ ODA to the education sector was only half of that of the previous year because several programmes had been completed. New programmes were in preparation, and the SBS that had previously supported them was not disbursed.

India is supporting the construction of the Nyabarongo Hydro-Electric Project as well as education and transport and ICT.

A number of SSC grants and loans are recorded in the budgets for 2011/12 and 2012/13, the 2011/12 budget being the first to do so (Table 4.2).

Table 4.2 SSC grants and loans recorded in 2011/12 and 2012/13 budgets in US\$ million

Country	2011/12	2012/13
Grants		
Arab Development Bank	2.57	
Saudi Arabian Fund	3.21	5.84
Abu Dhabi Fund		0.16
OPEC Fund		15.80
Loans		
China	5.31	47.24
Arab Development Bank	13.54	16.97
Saudi Arabian Fund	4.87	9.61
Kuwait Fund	11.22	11.57
India		20.83

Source: Government Budgets, available at: <http://www.minecofin.gov.rw/search#library>

4.2 Trade

4.2.1 Policies for developing trade and investment

Central to Rwanda's strategy that the economy be led by the private sector is increasing trade and investment. Both the Trade Policy (Ministry of Trade and Industry, 2010) and the Export Strategy (Ministry of Trade and Industry, 2011) emphasise the importance of increasing the quantity and quality of trade and reaching new export markets. The strategy is twofold: first, investing in increasing the volume and value-added of traditional exports, especially coffee, tea and minerals, and further developing the tourism industry; and second, identifying areas for investment for growth. Six clusters for immediate action are mining services; niche tourism services and business process outsourcing in the service sector; and silk textiles, fruits and vegetable processing and dairy in the manufacturing sector. Horticulture, hides and skins, handcrafts and pyrethrum are government investment priorities for promoting export. Attracting medium- and high-technology manufacturing is also seen as a priority. A number of potential markets include EAC and COMESA at the regional level, Europe, the USA and Asia at the international level, and specifically with Southern markets in China, Malaysia, Thailand and South Africa.

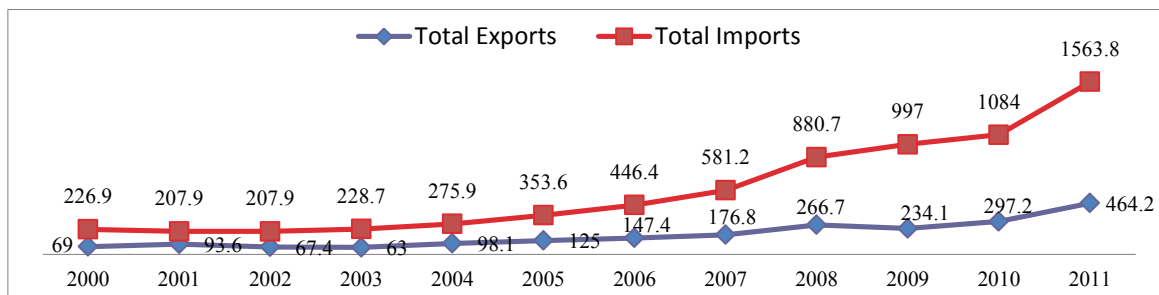
Two strategies are seen as essential to increasing goods and services for export: increased investment in new businesses or the expansion of existing ones by local and foreign investors in the identified priority areas; and the establishment of value chains to bring goods to market. Producer cooperatives are viewed as enabling small producers to integrate into export chains. Facilitating and promoting trade by ensuring compliance with standards, negotiating trade agreements for market access, removing non-tariff barriers, investing in overcoming supply constraints and improving the business environment are all seen as critical. The importance of increasing productivity and competitiveness, promoting trade, attracting FDI, skills development, and strengthening science and technology in support of industrial development and a knowledge-based economy is also recognised.

As we discuss later in this section, there are as yet few signs of progress on these ambitious plans apart from the value-added of tea and coffee.

4.2.2 Trends in imports and exports

Rwanda’s exports have increased significantly over the past decade, reaching \$464 million in 2011, led by the tourism, tea, coffee and mining sectors. As stated earlier, imports have grown more rapidly, from \$69 million in 2000 to \$1,563.8 million in 2011. This unsustainable deficit needs to be addressed by increasing exports and reducing or substituting specific imports through competitive measures, not least because ODA and international transfers, which currently subsidise this deficit, are themselves being reduced (Figure 4.5).

Figure 4.5 Total imports and exports 2000–2011 in US\$ million

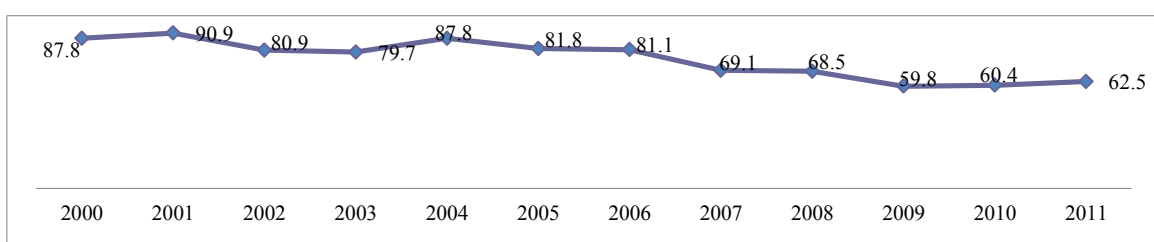


Source: Macroeconomic Variables Public Data Set 18 June 2012, available at: <http://www.minecofin.gov.rw/node/523>

Exports represent less than 10% of Rwanda’s total GDP compared to an average of 32% for SSA and 47% for the EAC, with Kenya accounting for 47% of exports and Tanzania for 36% (Eyakuze, 2012). Exports are rising but growth is still less than 5% and only just above the average for SSA. Measured on a per capita basis, Rwandan export performance is even weaker – annual exports are just \$18, while the SSA average is \$145. Closing this gap will depend on expanding production, based on niche products and services for the specific needs of target markets (Malunda, 2012).

Rwanda has a high degree of export concentration with the top five products accounting for over 60% of all exports over the last 15 years (Figure 4.6), indicating a risky heavy reliance on a very limited number of goods.

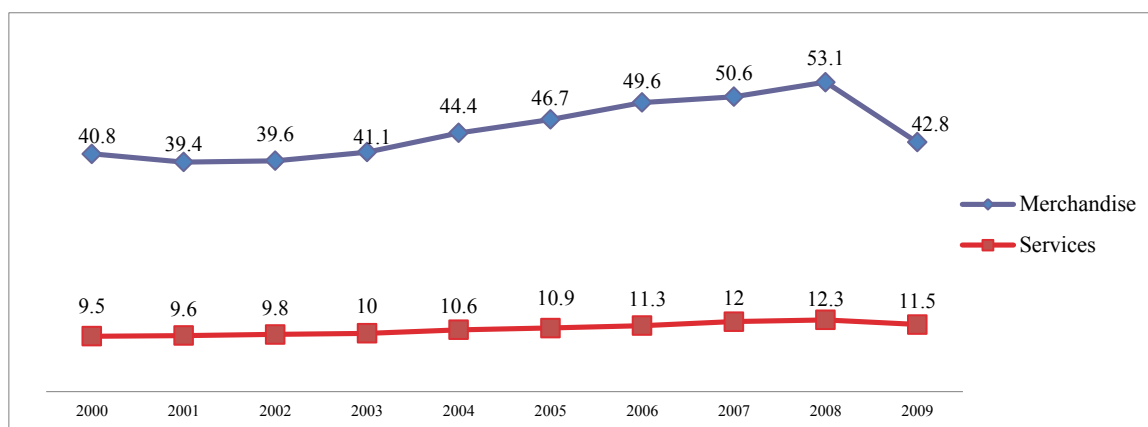
Figure 4.6 Share of top five exports



Source: Macroeconomic Variables Public Data Set 18 June 2012, available at: <http://www.minecofin.gov.rw/node/523>

Rwanda’s merchandised exports as a proportion of all exports increased from 40.8% in 2000 to 53.1% in 2008 but fell back to 42.8% in 2009 (Figure 18). Over the same period the trade in services increased from 5.5% of GDP to 12.3%, dropping to 11.5% in 2009. Rwanda’s exports are dominated by tea, coffee and base metal – between them accounting for 71.9% of commodity exports by value in 2008, down from 94.4% in 2001 (Table 4.7).

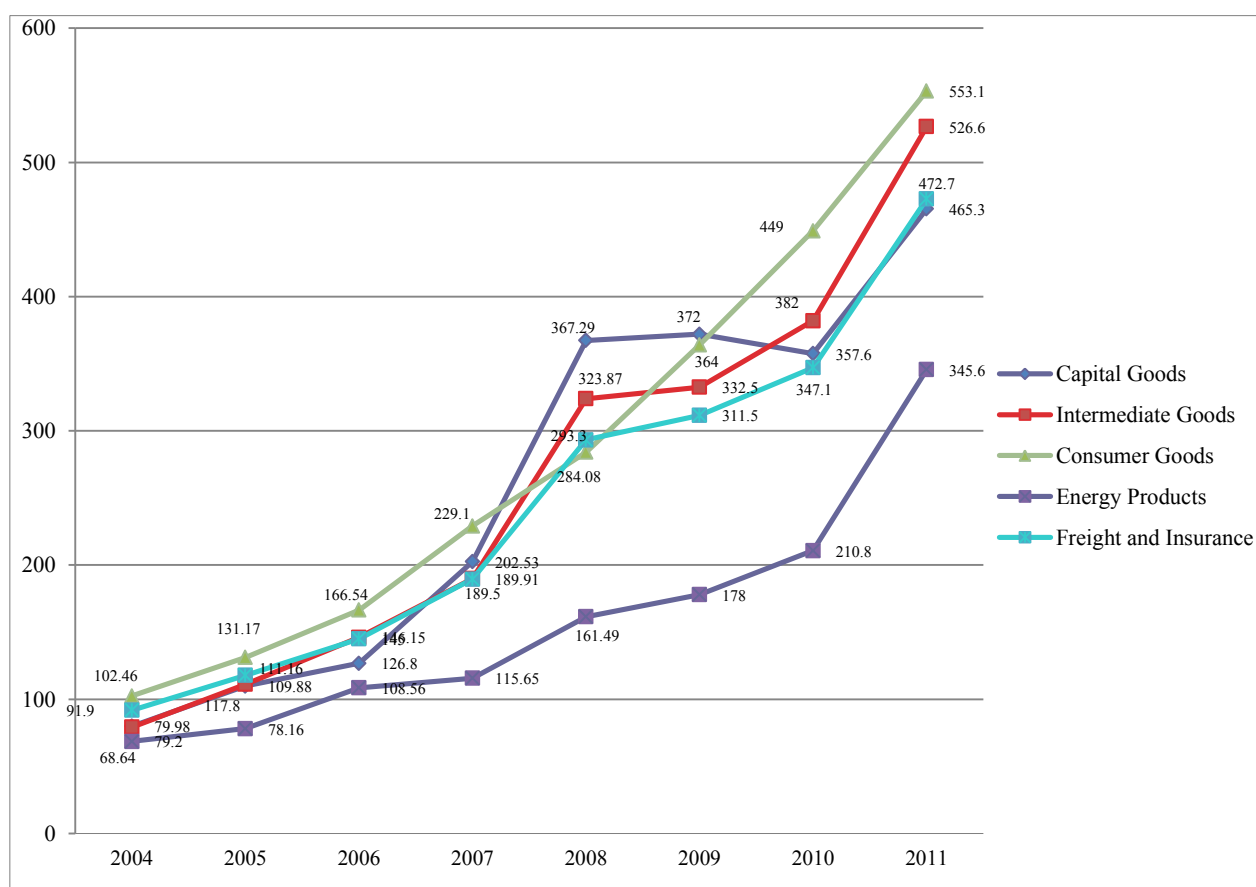
Figure 4.7 Merchandised trade and trade in services as a percentage of GDP 2000–2009



Source: World Bank Data <http://data.worldbank.org/topic/private-sector> (accessed 3 May 2011)

It is worth noting that rate of increase in imports of capital goods and intermediary goods (measured by value) has risen marginally faster than has that of consumer goods, although there was a decline in the growth in 2009 due to the global recession, with a subsequent resumption of growth in 2010 and 2011. The imports of consumer goods (including food) and fuel continued to increase (Figure 4.8). The growth in capital and intermediary goods could be seen as the initial requirements for investing in the manufacturing and service sectors, but the continuing growth in consumer imports indicates that this is in response to growing demand that domestic production cannot meet, and that exports are unable to match.

Figure 4.8 Growth in imports in US\$ million



Source: Macroeconomic Variables Public Data Set 18 June 2012, available at: <http://www.minecofin.gov.rw/node/523>

There is some evidence of export diversification, although of the 19 top exports by value in 2008 seven were primary, eight were resource-based, three were low technology and there was one other transaction (Table 4.3). Tea (36.2%), coffee (15.6%) and metals (27.3%) continue to dominate. The highest growth rate between 2001 and 2008 for other products was 126% for alcoholic beverages, 235% for vegetables and 138% for non-alcoholic beverages, but these respectively accounted for only 5.4%, 3.7% and 3.7% of exports in 2008. Of areas the GoR has prioritised for growth the export value of vegetables and hides and skins, both in the top 20 exports by value, grew by 138% and 17% respectively, but the latter represented only 0.7% of total exports in 2008 (Table 4.3). Rwanda is not a large exporter of manufactured products, including misclassified re-exports. On average in the period 1996–2010 less than 10% of Rwanda’s manufacturing sector’s output was exported. Excluding tea, coffee and minerals, manufacturing exports averaged only 0.5% of GDP or \$1.50 per capita in real terms (constant \$2,000) (World Development indicators).

Table 4.3 Rwanda’s manufactured exports (2001–2008)

	Annual Growth			Share of Exports		Tech. Classification
	2001	2008				
Tea	16.57	125.45	29%	29.8%	36.2%	Primary
Base metal ore	20.89	94.32	21%	37.6%	27.3%	Resource-based
Coffee/coffee substitute	15.01	53.87	17%	27.0%	15.6%	Primary
Alcoholic beverages	0.03	18.82	126%	0.1%	5.4%	Resource-based
Vegetables	0.00	12.83	235%	0.0%	3.7%	Primary
Beverage non-alcohol	0.01	12.73	138%	0.0%	3.7%	Resource-based
Live animals except fish	0.00	3.62		0.0%	1.0%	Primary
Hide/skin (ex-fur) raw	0.72	2.50	17%	1.3%	0.7%	Primary
Art/collections/antiques	0.07	1.67	48%	0.1%	0.5%	Other transactions
Ferrous waste/scrap	0.00	1.49		0.0%	0.4%	Resource-based
Lime/cement/constr mat ¹	0.00	1.35	148%	0.0%	0.4%	Resource-based
Used clothing etc	0.01	1.35	98%	0.0%	0.4%	Primary
Precious metal ore/conc.	0.00	1.26	20%	0.0%	0.4%	Resource-based
Articles made of plastics	0.00	1.23		0.0%	0.4%	Low-tech.
Rolled plated m-steel	0.07	1.19	42%	0.1%	0.3%	Low-tech.
Footwear	0.01	1.02	87%	0.0%	0.3%	Low-tech.
Perfume/toilet/cosmetics	0.09	1.01	35%	0.2%	0.3%	Resource-based
Pearls/precious stones	0.00	0.96	238%	0.0%	0.3%	Resource-based
Flour/meal wheat/meslin	0.00	0.95		0.0%	0.3%	Primary

Source: UN Comtrade <http://comtrade.un.org/>

Rwanda’s exports are not sophisticated. Primary products have averaged over 60% of exports while resource-based, low-, medium- and high-technology products have averaged below 20% over the last decade. The dependence on primary products threatens Rwanda’s long-term transformation because of the associated price volatility in international markets. The shares of low- and medium-technology products have increased steadily between 2000 and 2010, although the increase in the share of low-technology products comes in a decade when most of the benchmark countries have been increasing medium technology and have seen a decline in low technology (Malunda, 2012).

4.2.3 Exporting firms

There were about 400 exporting firms in 2010, up from about 160 in 2006, an increase of 150% (Gathani and Stoelinga, 2012), although annual growth declined over the period. The growth in the number of exporting firms has occurred at the same time as non-commodity exports increased from 6% to 12% of merchandise exports. Eighty per cent of the growth in exporting firms has come from three sectors – vegetables sector,

including tea and coffee, construction materials/metal and animal/animal products. In 2006 only two firms were exporting construction materials or metals, and by 2010 there were 64. Two-thirds of the growth in exporting firms comes from retailers and wholesalers. In 2006 an estimated 70% of exporters were manufacturers, and by 2010 this had declined to 40%.

Firm-level concentration has also declined. In 2005 the 14 largest exporters accounted for 80% of exports but by 2010 the 27 largest accounted for 80%. Over the period 2005–2010 the Herfindahl-Hirschman index of concentration of the export sector dropped from 0.08 to 0.04 (Gathani and Stoelinga, 2012). The main reasons for this are the growth in the number of exporting firms, the privatisation of the tea sector bringing in new entrants and an increase in the number of processors in the coffee sector.

Many of these new firms are exporting to the EAC and DRC. In 2006 there were about 66 firms exporting to the EAC countries, which had risen to 204 by 2010. Over the same period the number of firms exporting to the DRC rose from seven to 100, while the number exporting to other regions stagnated or increased only marginally.

4.2.4 Trading partners

Rwanda is a net importer from the EAC with imports from the region representing almost 33% of overall imports, principally from Uganda and Kenya. The only country with which Rwanda has a largely positive trade balance is Burundi, although this represents less than 1% of Rwanda's trade. Rwandan exports are underdeveloped in the rest of Africa. China replaced Kenya as the main import partner in 2010 and Kenya slipped to third place behind Uganda. Other countries from which Rwanda makes significant imports include Belgium, Germany, the UK and France. In 2010 17% of imports to Rwanda were from the EU, 27% from COMESA and 29% from the EAC (NISR, 2011).

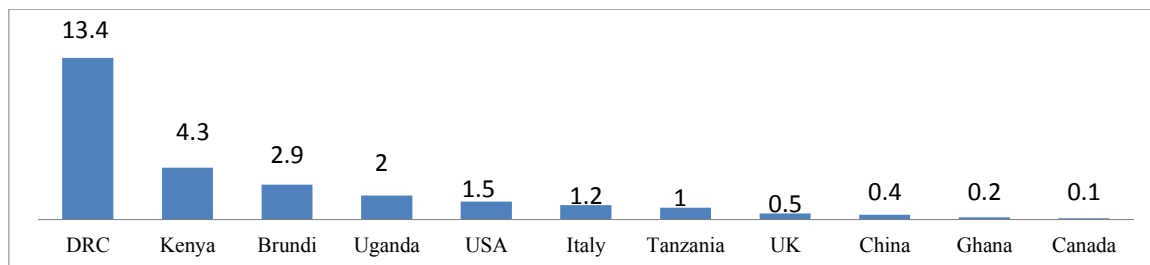
Rwanda's exports go to longstanding markets and the establishment of new destinations is very slow. The same is true of exports to a given destination. The highest demand for Rwandan goods comes from the DRC and Burundi, and the former is the most diverse export destination with about 150 different products exported in 2010, compared to 76 products to the second most diverse destination, Uganda. The firm-to-product ratio for the DRC was 1.7 in 2010, 0.76 on average for the EAC and 0.6 for China, the UK, Belgium, the USA and Switzerland.

Commodity exporters tend to be specialised and foreign-owned and non-commodity exporters tend to be more diversified and either locally owned or regional firms. Any discovery of a new destination tends to come from foreign-owned companies identifying Rwanda as a potential supplier. Although manufacturing firms are more likely to be locally owned and export to regional markets, product discovery is likely to come from knowledge of the market and regional intelligence about products that neighbouring countries are successfully exporting to the same market.

About 76% of export growth has come from products Rwanda already exported to the same markets. New products accounted for about 22% of growth and new destinations for between 1% and 2%. New export destinations include Luxemburg, Japan, Austria, Ghana, Ukraine, Canada, Zambia and Norway. In the merchandised sector traditional export destinations accounted for 97.5% of exports in 2010 and traditional products for 85%. But new exporters were driving growth (2007 and later entrants) and accounted for 50% of exports in 2010. In the same period 65% of new product discovery came from new exporters. Of merchandised exports 99% go to Europe, Asia and the USA, while the vast majority of commodity exports go the EAC and DRC. Excluding tea, which transits through the Mombasa auction, Rwanda's top three destinations for merchandised exports are Switzerland (22%), China (including Hong Kong) (19%) and Belgium (14.5%). In 2010 72% of Switzerland's imports from Rwanda were coffee, 99% of China's were minerals and 60% of Belgium's were coffee and 40% minerals. The export of merchandised products to the EAC is comparatively low; when tea is excluded only 1.4% of exports to Kenya are merchandised products and the EAC total is 6.4% (Gathani and Stoelinga, 2012).

Markets are another dimension of export diversification. Rwanda has consistently exported commodities to 13 destinations including Germany, the UK, the Netherlands, the USA, the EAC and DRC. In 2010 Rwanda exported commodities to 23 destinations. Over the same period export growth in the non-commodity sector was mainly to DRC (50%) and EAC (38%). Rwanda had consistent non-commodity exports to 20 destinations and exported to 17 destinations in 2010 (Figures 4.9 and 4.10).

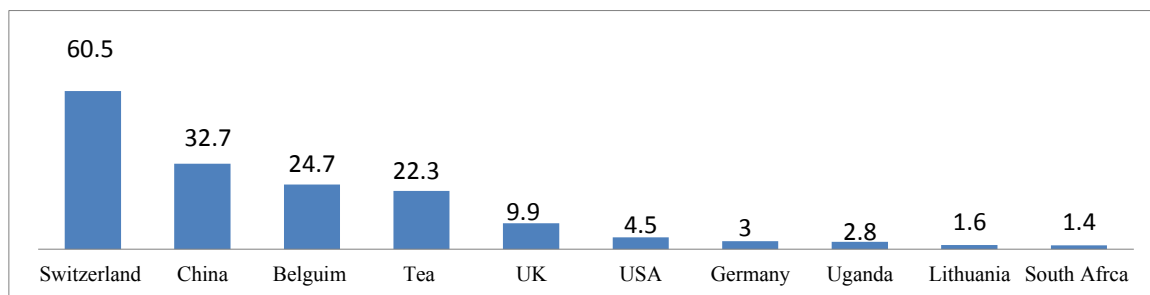
Figure 4.9 Contribution to non-commodity export growth 2002–10, in US\$ million



Source: Gathani and Stoelinga, 2012

Although a greater range of clients helps protect against fluctuations in demand, Switzerland, China and Belgium combined accounted for 75% of commodity exports growth between 2002 and 2010 (Figure 4.10).

Figure 4.10 Contribution to commodity export growth 2002–10 (US\$ million)



Source: Gathani and Stoelinga, 2012

Rwanda has become slightly less reliant on a very small number of markets since 2001, when Kenya accounted for 43%, South Africa for 11%, Switzerland for 8%, Uganda and the USA for 5% each and Germany for 4% (UN Comtrade, 2007). By 2009 and 2010 Kenya’s share had declined to just over one-sixth and a number of other trading partners had increased their share (NISR, 2011). But the number of trading partners remains small. In 2010 Belgium was the third largest partner, absorbing 11.2% of Rwanda’s exports, the UK the eighth absorbing 4.6%, Germany thirteenth with 1.5% and Luxembourg seventeenth with 0.7%. In addition, there were Switzerland (22.7%), Hong Kong (8.1%), China (7.4%), and the DRC (6%). Rwanda is ranked 151 among EU trading partners (151 for imports and 142 for exports) (EUROSTAT Comext Statistical regime 4), although a number of EU countries are among Rwanda’s top trading partners.

4.2.5 Export challenges

In general, Rwanda’s efforts to prioritise export diversification seem to be paying off, albeit slowly. In terms of commodities, Rwanda is a recognised supplier of coffee, tea, tin and other minerals and there is strong demand for the products exported by mainly foreign-owned firms. The low destination discovery for non-commodity products remains a constraint. The concentration of destination markets for non-commodity products increased from 45% in 2005 to the DRC and EAC to 90% in 2010, reflecting Rwanda’s integration into the EAC and the gradually stabilising situation in Eastern DRC. It also was accounted for by the collapse in manufactured leather exports from 70% in 2005 to 3.3% in 2010 following the closure of Rwanda’s largest tanneries. The main reason for the concentration of non-commodity exports is competitiveness.

Being a landlocked country, with very high transport and other trade-related costs, including non-tariff barriers, hampers Rwanda's possibilities for export-led growth and diversification. Despite significant improvements in reducing the time and cost of handling imports and exports, non-tariff barriers in the form of trade-related procedures and formalities remain cumbersome. To become more competitive Rwanda will have to make significant long-term investment in reducing factor costs (e.g. transport, electricity), improving labour productivity and the quality of products for export. However, the most constraining factor remains low access to raw materials, including those available in Rwanda (Gathani and Stoelinga, 2012).

The prognosis is more optimistic in terms of regional markets, especially Burundi and the DRC, where there is a proven unmet demand for Rwanda's manufacturing products (Gathani and Stoelinga, 2012). As a first step, regional trade provides good short- and medium-term opportunities. Rwanda's landlocked location is less of a hindrance to regional trade, and Rwanda has made a number of reforms in line with the East African Integration process, such as extending the opening hours of the customs border offices, implementing an electronic data-interchange system and introducing risk-based inspections. Together with growth in the transport sector, this has reduced the time to export by five days and to import by 27 days, constituting a total 40% reduction (Malunda, 2012). Efforts to facilitate regional trade need to be linked to investment in Rwanda's infrastructure, both for main roads connecting to the routes in neighbouring countries and feeder roads in the rural areas. Expanding the size of the domestic market and access to the regional market could provide a solid basis for economic diversification and increased competitiveness.

New product discovery is important for increasing exports, and although 89% of Rwanda's exports are at the periphery of the product space this does not seem to be a binding constraint to growth. In 1996 Rwanda exported 32 products, which had risen to 360 by 2010, with the share of non-commodity exports having doubled to 12%. The problem is more one of scale than of product discovery, with Rwanda's non-commodity export sector being very small and firms hesitant to enter export markets (Gathani and Stoelinga, 2012). Defining a new product discovery as one that was consistently exported between 2006 and 2010 and had exports worth at least \$10,000 in 2010, Gathani and Stoelinga (2012) identify 40 new products that contributed 19.6% of the growth in exports, although 67% of this growth was accounted for by fully washed coffee beans and minerals. An export strategy focused on further expansion of these products would expose Rwanda to larger 'boom and bust' cycles and would impede product discovery and diversification. Diversification needs to happen in agribusiness and light manufacturing and a number of new firms have started up in these sectors and are already exporting to the DRC and Burundi.

An analysis of product space and density suggests products in 11 sectors for quick wins and seven higher-value products for expanding exports (Gathani and Stoelinga, 2012). These are sugar and confectionary, cut flowers, fruits and nuts, spices, vegetables and certain roots and tubers, raw hides and skins, vegetable textile fibre, apparel, footwear (waterproof and plastic shoes) and vegetable fats. In addition to the 'easy wins', Gathani and Stoelinga (2012) suggest a second group of 'high-value targets' which are relatively close to Rwanda's product space: staple crops (e.g. rice, maize), processed food and beverages (cereals, confectionary, honey, milk, juices), packaging products (glass containers), rubber products (natural rubber and inner tubes for tyres), wood products (wood, sawn wood, charcoal), construction materials, and the extraction of essences of coffee and tea.

4.2.6 Potential challenges to growth in trade

Although Rwanda has been relatively immune from the global economic crisis there is the potential risk that weaker global demand will adversely affect the export of goods and services; higher than anticipated food and fuel prices, which could raise the import bill and add to inflationary pressure; and a shortfall in foreign financing, including ODA, and difficulty in securing financing for key public investments jeopardising growth prospects.

Rwanda has the lowest FDI in the region according to the IMF (2012) and a number of disadvantages to overcome include lack of natural resources, distance from ports, the size of the local market and the shortage and high cost of skilled labour. The GoR has strategies to address the infrastructure bottlenecks but these have yet to be put into practice.

4.2.7 Trends in investment

Economic growth and transformation calls for reducing the reliance on primary products and investing in the development of industries and business led by a strong private sector. Rwanda has a high growth economy and diversification is essential to avoid a slow-down. Investment policy is strongly integrated with the trade policy. Domestic and foreign investment is encouraged in the areas where Rwanda could have a competitive advantage, and places no restrictions on domestic or foreign investors. Legal and other reforms have created an excellent soft business environment and the RDB offers a one-stop-shop to support investors. There are fiscal incentives and free-trade zones and industrial parks have been established. There is also investment to improve the infrastructure and build labour capacity. In the interim Rwanda has introduced a liberal regime making it relatively easy for foreign workers to get work permits in areas where there are skills shortages and automatically issuing work permits to citizens of other EAC countries.

Between 2006 and 2009 Rwanda moved from being ranked 123rd to 68th on the UNCTAD Performance Index (Table 4.4), although its rank for potential has remained virtually unchanged. This suggests that Rwanda is doing better in attracting inward investment than the economic structural variables that are used to measure investment potential would predict. We might speculate that this is related to post-conflict recovery and a stable government that has gained a reputation for fighting corruption and creating a favourable ‘soft’ business infrastructure.

Table 4.4 Rwanda ranking in UNCTAD FDI Performance Index and Potential Index 2000–2009¹⁹

Rank out of 141 countries	2000	2005	2006	2007	2008	2009
Performance Rank ²⁰	121	128	123	105	97	68
Potential Rank ²¹	138	130	136	140	139	

Source: UNCTAD www.unctad.org/sections/dite_dir/docs (accessed 1 May 2011)

Figure 4.11 shows trends in investment from 2000 to 2011 with a growth in total investment from 2006 to 2009, a significant decline in 2010 and somewhat of a recovery in 2011. It suggests that flows of investment fluctuate and are influenced by the world economy. FDI began to increase significantly in 2005 when the amount promised was \$412.5 million and local investment in 2007 when the amount promised was \$238 million. FDI peaked at \$516 million in 2008, declined to \$476 million in 2009 but fell back to in 2010 to \$101.9 million and recovered somewhat to \$400.8 million in 2011. Local investment has also grown and in 2009 the amount of new investment pledged by local investors exceeded that of FDI, \$572.8 million compared to \$476 million, but in 2011 it fell back to less than half the FDI pledged, \$192.1 million compared to \$400.8 million. The GoR is keen for foreign firms to join forces with local investors and there has been a growing trend in joint ventures since 2009 with 64 billion FRW having been pledged, just over half the amount pledged by local investors.

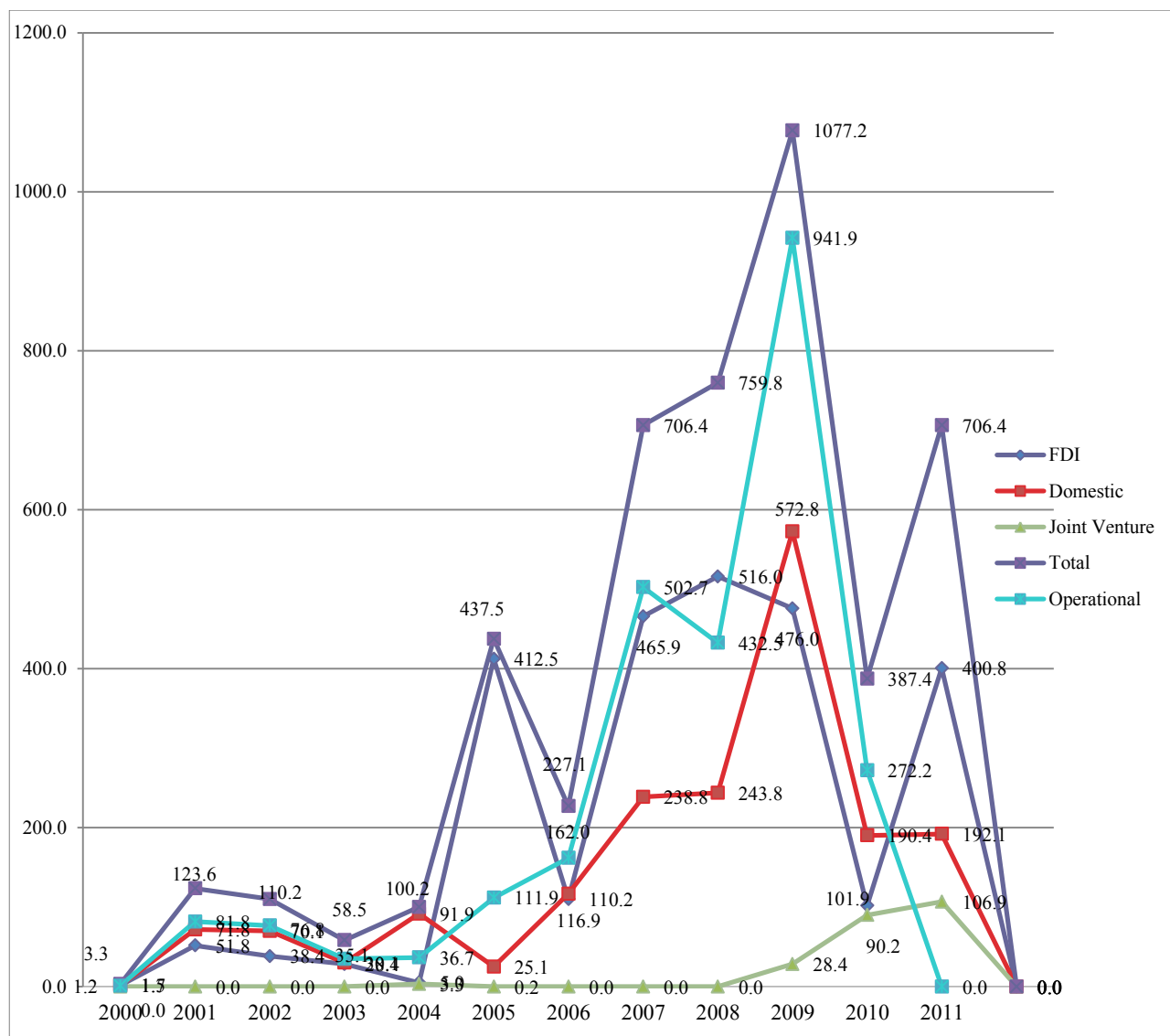
¹⁹ The FDI Potential Index is a composite measure of a country’s attractiveness to FDIs and is made up of 12 economic and structural variables including measures of the size of the market, openness, ICT, energy use, education, country risks and investment in research and development.

²⁰ The ratio of the country’s share in Global FDI inflows and its share in global GDP.

²¹ A composite index of 12 economic and structural variables that have been shown to influence FDI.

The figures reported by the RDB are for pledged investment, and data on operational firms are not systematically collected. Analysis of the RDB data shows, however, that all not all firms begin operations immediately or invest the full amount pledged in the initial stages.

Figure 4.11 Pledged investment 2000–2011 in US\$ million



Source: Authors' calculations from data supplied by RDB

In 2011, the leading examples of foreign investment in Rwanda were mainly in hotels and tourism, energy and telecommunications (Table 4.5). In 2009 Contoor Global LLC pledged a substantial investment in methane gas. Foreign investors included both regional and international investors. Kenyan investors such as banks and hypermarkets are increasing their regional presence and some may be attracted by the more generous incentives for investors in Rwanda compared to other EAC members.

Table 4.5 Leading foreign-registered direct investors in Rwanda 2006–11, in US\$ million

Company	Country	Sector	Amount
Kivu Watt Ltd	USA & Netherlands	Energy	285.57
Kenya Commercial Bank	Kenya	Finance	214.428
Dubai World	UAE	Hotel & Real Estate	211.255
Convention Centre	Libya	Hotel & Tourism	137.775
Tigo	Luxembourg	Telecommunications	113.56
Airtel	India	Telecommunications	102.204
DSI Energy Ltd	Denmark	Electricity, Gas	72.979
New Century/Marriott Hotel	25% Rwanda/75% China	Hotel	65.631
New Forrest Rwanda Ltd	UK	Forestry	58.116
Opulent Ltd	Tanzania	Hotel	29.392
Falcon Oil Storage Ltd	Mauritius	Petroleum	27.555
Stevalife Ltd	Canada	Agri Manufacturing	20.04
CCDTHA	Canada	Hotel	18.871
Paradise Hills Ltd	Mauritius	Real Estate	18.871
Star Communications Network	China	Telecommunications	18.203

Source: Data supplied by RDB

Kenya is the leading country of domicile of foreign investors followed by India, the USA, China and Belgium (the former colonial power). The EAC members account for 49 investors and the EU for 43. Of the countries from which the GoR aims to attract FDI India led with 33, then the USA (26), China (23), Belgium (17), and the UK (9) in the six-year period (Table 4.6).

Table 4.6 Countries of domicile of registered FDI 2006–11²²

Sub-Saharan Africa	North Africa	Asia	North America	Europe	Middle East	Australasia
Kenya (36)	Libya (2)	India (33)	USA (26)	Belgium (17)	Israel (5)	Australia
South Africa (19)	Egypt (1)	China (23)	Canada (10)	Netherlands (9)	Lebanon (3)	(1)
Tanzania (9)		Pakistan (3)		UK (9)	Saudi Arabia	
Mauritius (6)		Japan (3)		Germany (5)	(1)	
Uganda (3)		South Korea (4)		Italy (4)	UAE (1)	
Nigeria (3)		Kazakhstan (1)		Switzerland (6)	Iran (1)	
Somalia (2)				France (3)		
Burundi (1)				Russia (2)		
Togo (1)				Cyprus (1)		
DRC (1)				Ireland (1)		
Burundi (1)				Spain (1)		
Zambia (1)				Bulgaria (1)		
				Slovakia (1)		
83 (49 EAC)	2	38	36	60 (EU52)	11	1

Source: data supplied by RDB

The sectors of investment of the leading local investors are in a range of the priority areas, half of them in construction, property and real estate (Table 4.7).

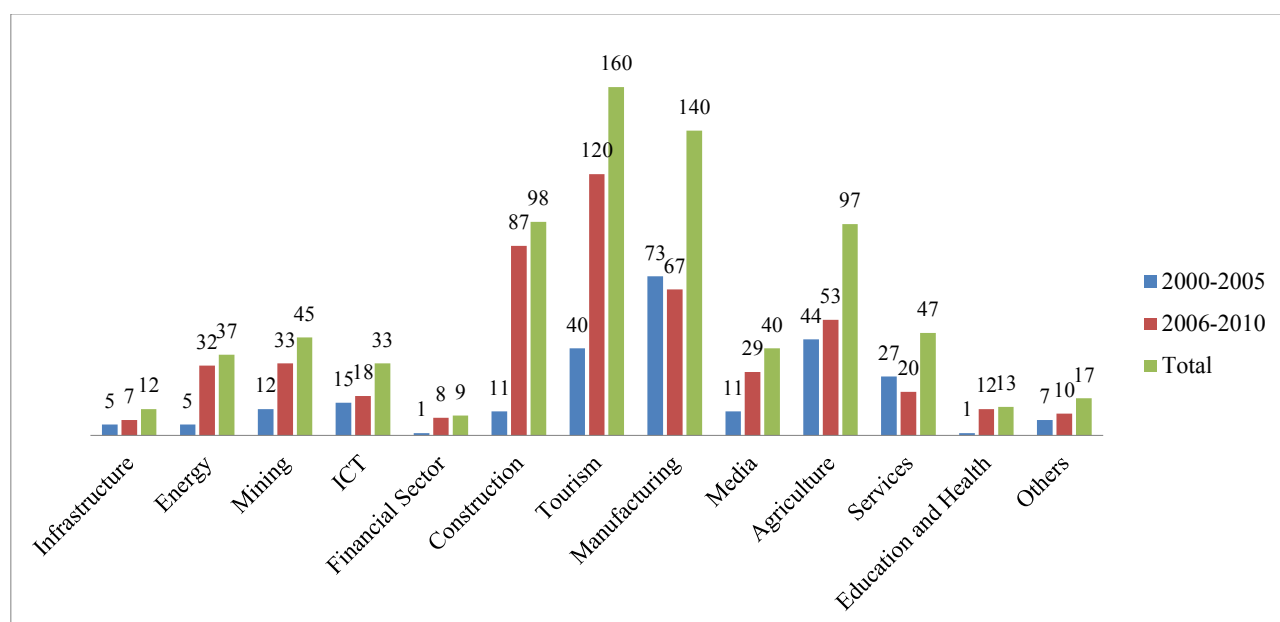
²² Includes joint ventures.

Table 4.7 Leading registered domestic investors in Rwanda 2006–11 in US\$ million

Company	Sector	Amount
Real Contract	Property	379.6
Kigali Limousine VIP Tours Tavel	Transport	2373.5
Rwanda Energy Company	Energy	97.4
Rwanda Free Zone Company Ltd	Construction	61.8
CIMERWA	Construction Manufacturing	51.4
Rwanda Investment Group/KIP	Finance	46.4
Caisse Sociale/Kagugu Project	Real Estate	29.1
EPCHER	Agribusiness	24.7
Market Shopping Centre	Property	20.1
Ultimate concepts LTD	Real Estate	19.5
4G Networks	ICT	19.4

Source: data supplied by RDB

Figure 4.12 shows the investment projects by sector from 2000 to 2010 for businesses with investors' certificates, and separately from 2000 to 2005 and 2006 to 2010. Investment was highest in tourism, manufacturing and construction over the ten-year period. The increase since 2006 has been high compared with the previous five years in tourism, construction, energy and mining – all priority areas for private-sector growth. However, manufacturing and agriculture, two other priority areas, saw little change. We should note that the RDB record only registered and not operational projects and that there is a large gap between the two. In 2010 of 105 registered investment projects only 61 were operational, and in the first half of 2011 of 62 registered projects only 14 were operational (*New Times* 7 October 2011).

Figure 4.12 Investment projects by sector, registered foreign and domestic Investors 2000–2010

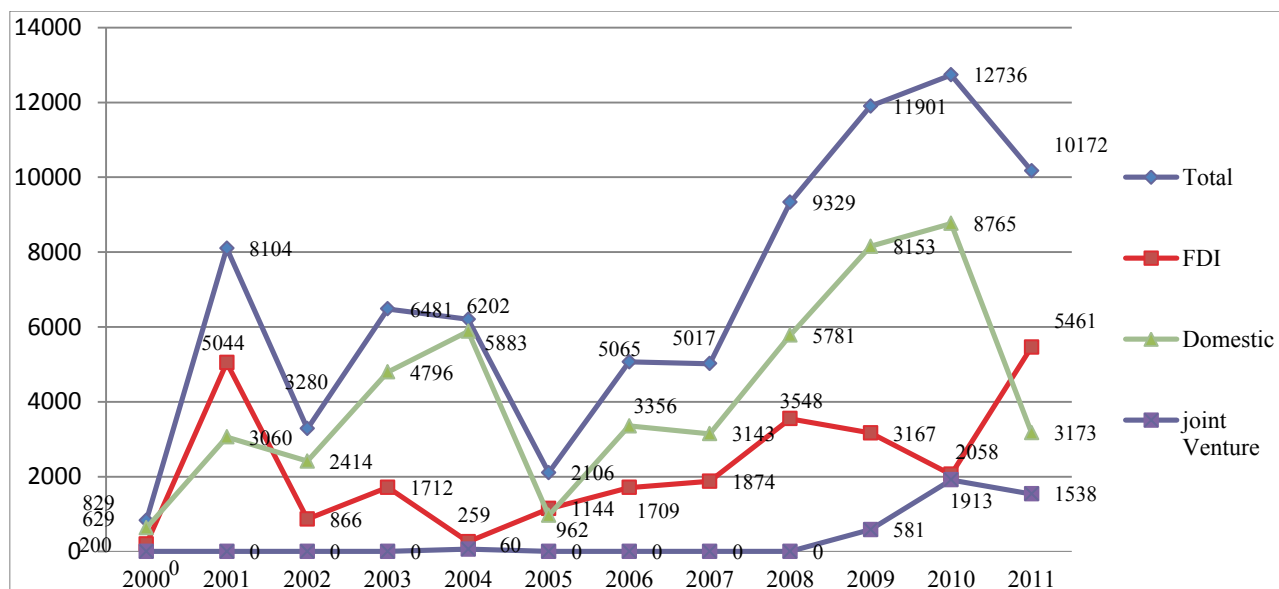
Source: Authors' calculations from data supplied by RDB

The number of jobs planned by investment projects²³ since 2000 shows a dramatic increase, and domestic projects created more than all FDI. In total 44,048 new jobs were created by investors between 2006 and

²³ RDB records the number of jobs investors plan to create not the number they actually provide.

2010, an average of 8,970 a year. This is an impressive figure, but has to be seen in the context of Rwanda needing to create around 143,000 jobs each year simply to absorb those entering the labour market (UNCTAD, 2006). On average, investment projects have created only about 6% of the jobs needed each year.

Figure 4.13 Number of jobs planned by registered investors 2000–2011



Source: data supplied by RDB

4.2.8 Challenges in investment

The economic structure is dominated by services, whose share continues to grow. In order to achieve the *Vision 2020* target of the industrial sector contributing 20% of GDP, manufacturing must increase, in particular medium- and high-technology manufacturing, and there must be more agro-processing to add value to agricultural products.

There is a marked gap between registered and operational investment projects. In 2011, the DPs called for a study to find out why, but there has been no report to date of any findings.

Domestic credit to the private sector remains low (12.8% of GDP) and well short of the *Vision 2020* target of 30%. Savings also remain low (10.5% of GDP) and only just over half the *Vision 2020* target of 20% of GDP.

4.3 Migration

Rates of internal and international migration have been quite high and Rwanda has liberal laws for labour migrants. There are active efforts to implement the Common Market Labour Protocol across the EAC but Tanzania has been slow to respond to the free movement of labour (key informant interview).

The *National Migration Policy and Strategies* (National Security Service and Directorate General Immigration and Emigration, 2011) aims to support economic growth and transformation and has four main provisions: facilitating and encouraging tourism; allowing the entry of skilled foreign workers to fill skills gaps in the labour market; facilitating the entry of investors in business in Rwanda; and enabling the Rwandan diaspora to contribute towards nation building, especially through investment. Rwanda has pursued a policy to maximise the benefits of skilled migration while at the same time preventing illegal migration by means of vigilant border checks and deporting undocumented migrants (key informant interview). Work permits are issued to non-EAC migrant workers only if they have essential skills that are in short supply. Rwanda benefits from taxes paid by migrant workers and skills transfer, which benefits both parties while

indirectly promoting the objective of deeper regional and international integration and economic transformation.

Other policies related to migration include the 2005 Land Law (Organic Law No 8/2005 of 14 July) which includes provision for the government to allocate land to the old refugee caseload, the National Human Settlement Policy in Rwanda (updated 2009, Ministry of Infrastructure), which among other things aims to resettle people into planned villages, and the *Vision 2020* target to have 35% of Rwandans living in urban areas by 2020 compared to 15% in 2010/11.

In 2007 the Africa–EU Migration, Mobility and Employment Partnership was concluded between African Heads of State and the EU to manage migration flows and improve the prospects for employment in Africa. An action plan for 2011–13 was agreed in 2010. Initiatives include: facilitating cheaper, faster and more secure remittance flows from Europe to Africa; diaspora outreach initiatives for skills transfer; supporting human-resource development in Africa and intra-African academic mobility; and ensuring the collection of reliable and harmonised data on migration.

There are three main issues relating to migration in Rwanda:

1. *Internal migration.* GoR policy is for 35% of the population to live in urban areas by 2020 in order to create demand for agricultural products and create urban areas specialising in key economic sectors to attract investment for manufacturing and services.
2. *Old and new refugee caseload.* Following the 1994 genocide there have been waves of returnees, both old caseload (people and their children who fled in the late 1950s and early 1960s) and new caseload refugees (those who fled in 1994). This has resulted in the need to provide for resettlement and reintegration, and has also created conflicts over land ownership.
3. Labour migration, including inward and outward migration, with Rwanda having a policy of encouraging skilled foreign workers especially from the EAC.

Rwanda also hosts refugees, mainly from the DRC. In 2010, according to the United Nations High Commissioner for Refugees (UNHCR), there were 55,370 refugees, up from 50,221 in 2004 (UNHCR Global Report 2005, 2011).

The upheaval surrounding the 1994 genocide created a massive refugee crisis and considerable internal and external displacement. Since then, the country has been relatively stable for the last decade, and during the period on which this case study is focused (2005–2009) anecdotal evidence suggests that patterns of migration appear to be comparable to those of neighbouring countries (Nkamleu and Fox, 2006). Findings from the household surveys (Strode et al. 2012) indicate that about 10% of the population migrates over a five-year period and that in the course of their lifetime about one in three people migrate, just over 66% of this being internal.

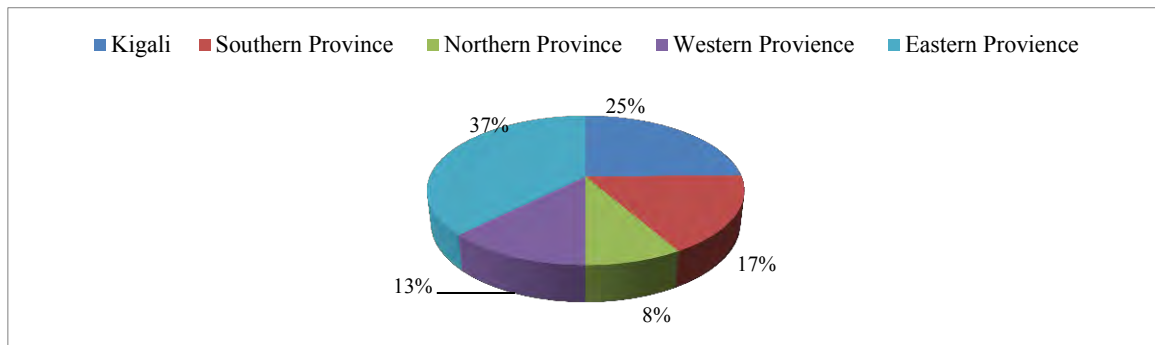
4.3.1 Internal migration

Rural–urban labour migration is limited by the inadequate basic urban services like housing and sanitation, but there is significant internal migration, including within rural areas, and labour migration is rising (Strode et al. 2012). Internal migration has been at a fairly consistent rate since 2000 with just below 20% of the population aged 15 years and over moving, including 10% since 2005/6 (NISR, 2012; Strode et al., 2012). Nearly 40% of internal migrants are from the wealthiest quintile, about 75% are under 30 years, and most migration takes place within rural areas (64%), although this has declined in recent years with a corresponding increase in migration to Kigali.²⁴ Twenty-five per cent of those who have migrated gave the

²⁴ This analysis is based on EICV3, which classified Urban/Rural using the old categories, and the rate of rural–urban migration is likely to be underestimated.

main reason as employment, 58.6% family reasons,²⁵ 7.9% lack of land and 4% returning home; other respondents gave a variety of other reasons. Labour migrants tend to move to Kigali (Figure 4.14).

Figure 4.14 Destination of internal migrants 2005/6–2010/11



Source: Strode et al., 2012

Labour migration is highest among those aged 15–34 years (38%) and 35–44 years (32%). Men are three times more likely to migrate for work than women. Many young internal migrants (under 25 years) end up living a marginal existence in Kigali or other urban areas, especially those with little or no education (Education Development Centre, 2009). Migration is likely to be related to pressure on land and young people, and especially men, are forced to seek off-farm employment. The better educated seek non-farm work in urban areas rather than agricultural wage labour. This upward trend in internal labour migration is likely to continue as people born in the post-genocide baby boom enter the labour market.

4.3.2 Returnees: old and new caseload refugees

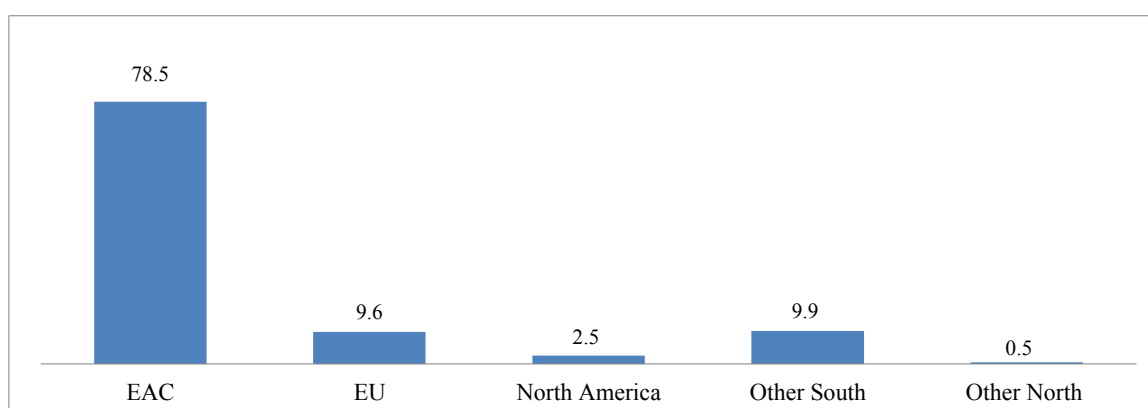
The main distinction between returning refugees is new and old caseload. The former are those who left during the 1990–94 war and immediately after the genocide. It is estimated that 2 million people fled during this time, mostly to Tanzania and Zaïre (now the DRC). Old case migrants went into exile following independence in 1962 when the Tutsi monarchs were overthrown and the Hutu majority came into power. Initially some 300,000 Tutsi fled, mainly to Uganda and Burundi. The country was in a continual state of unrest and there was another large outflow of refugees in the wake of the 1973 violence. Following the RPF victory and the establishment of peace and the rule of law, a significant number of old caseload refugees returned and the GoR policy is to encourage the return of all Rwandans. Initially, despite the massive destruction of homes, housing was not a problem. Old caseload returnees occupied the houses and worked the fields of new caseload refugees. Gradually, however, the return of most of the new caseload refugees created a strain on housing and conflicts over property rights. The government decided to respect the entitlements to property abandoned by new caseload refugees, rendering many old caseload refugees homeless. The latter could not re-occupy their original properties whether because they had been destroyed during the war or because they could not reclaim them from their new occupants (Hilhorst and van Leeuwen, 1999). The resulting tensions have in some cases been solved by the property being divided among claimants. The 2005 Land Law gives old caseload refugees the right to be given land.

4.3.3 Migration flows and remittances

In 2010 there were 263,700 Rwandan emigrants, mainly in Uganda (123,860), Tanzania (49,536), Burundi (33,540), Belgium (11,498), Canada (4,005), the UK (3,143), France (2,898), the USA (2,614), Italy (1,770) and Germany (1,279) (World Bank, <http://data.worldbank.org>). Nearly 80% of Rwandan emigrants are living in other EAC countries and just under 10% in the EU (Figure 4.15).

²⁵ Family members who move with a migrant worker will have cited family reasons.

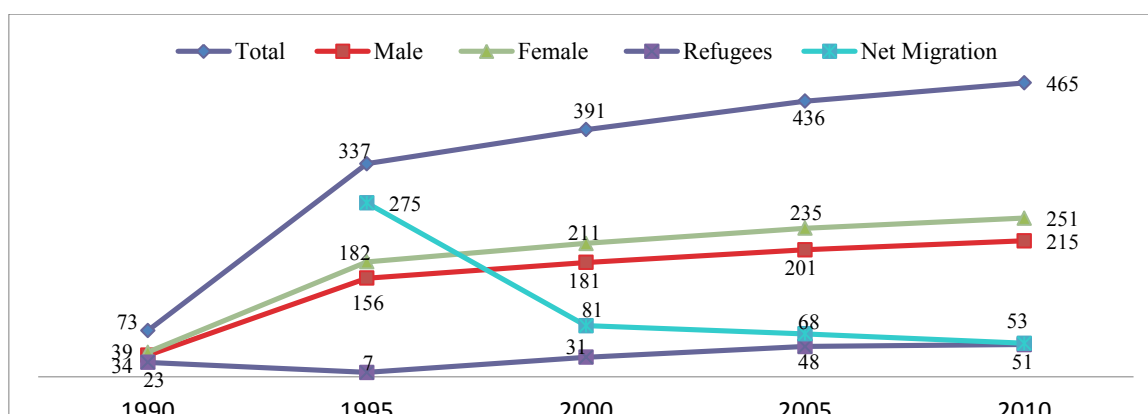
Figure 4.15 Rwandan emigrants in main regions as % of all emigrants



Source: World Bank Data <http://data.worldbank.org>

In the same year there were 465,500 immigrants living in Rwanda, 4.5% of the population, of whom 11% were refugees. They were mainly from the DRC (374,964), Burundi (44,785), Uganda (20,737), Tanzania (6,037), India (2,606) and Belgium (2,450) (World Bank Data <http://data.worldbank.org>). The number has risen since 1990, particularly in 1995 following the end of the genocide in July 1994. Women outnumber men, with the gap remaining much the same since 1995. The rate of net migration has declined since 1996 although the total rate of international migration has continued to increase (Figure 4.16).

Figure 4.16 International migrants in Rwanda 1990–2010



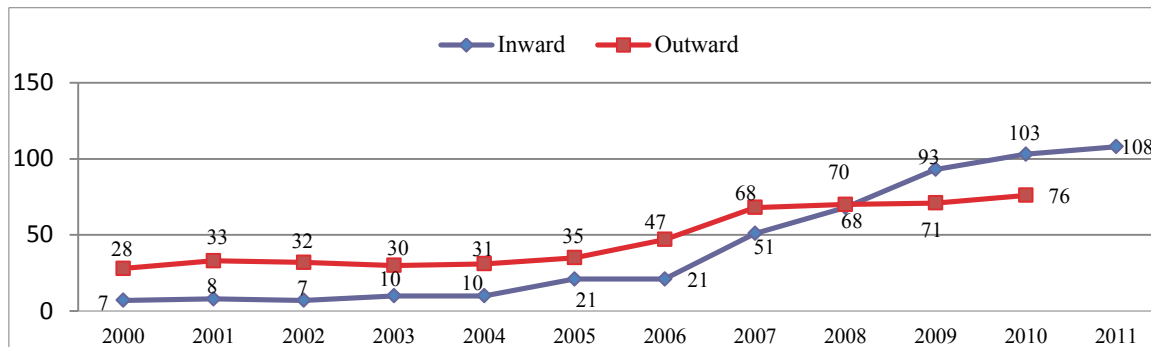
Source: United Nations Department of Economic Affairs Population Division, 2011

The patterns of emigration and immigration differ. The database records no Rwandans living in the DRC or India, two of the main migrant-sending countries. The former is surprising as there are Rwandans living in refugee camps and studying in Eastern Congo. In terms of the other main countries there are more Burundians living in Rwanda than vice versa, but fewer from the other EAC countries and from Belgium. With the available data it is not possible to tell the status of the Rwandans living in the other EAC countries, but a substantial proportion are likely to be people displaced during the genocide and their descendants. Nor is it possible to determine if the migrants to Rwanda from the EAC and other countries are filling skills gaps. Around 10% of academics in higher education are expatriates, mainly from India, Uganda, Tanzania and Kenya. Indians also work as pharmacists and in the IT sector, including retail.

Inward and outward remittances are modest, with the former being \$27 million more than outflows in 2010 (Figure 29). Most remittances from Rwanda go to Belgium (\$56 million in 2010), India (\$21 million) and Uganda (\$21 million). Inward remittances come from Uganda (\$43 million), Burundi (\$12 million), Tanzania (\$17 million) and Belgium (\$4 million). Total remittances from the EU countries to Rwanda are \$7

million and from North America \$2 million. In other words, the EU is a net recipient of \$49 million from remittances (World Bank data – estimates).²⁶

Figure 4.17 Remittances 2003–2010 in US\$ million



Sources: Ratha et al., 2011; www.worldbank.org/prospects/migrationandremittances and World Bank Data

Orozco (2009) points out that given Rwanda’s history of forced migration, official figures for Rwandans living abroad and remittances are likely to be underestimates and that as many as 600,000 Rwandans living abroad. His analysis of remittance flows suggests that about \$148 million was remitted to Rwanda in 2007 and \$193 million²⁷ in 2009, and that the money reached about 244,236 households. Most of these were rural households and their income and savings capacity was correspondingly higher.

4.3.4 Development of diaspora engagement policies

Rwanda has a diaspora spread across the globe with concentrations in neighbouring countries, Europe and North America. Its size is estimated to be anywhere between 250,000 and 600,000 people – potentially the equivalent of 5% of the population of Rwanda. Rwanda has actively sought to engage with the diaspora to support the country’s development. We have mentioned the Diaspora Bond and Rwanda has been encouraging the diaspora to support development since the early 2000s (Black et al., 2004). There is a Diaspora General Directorate in the Ministry of External Relations and Internal Cooperation; a Diaspora Policy that encourages investment in Rwanda, supporting Rwanda with both funds and skills. TOKTEN, funded by UNDP, is a programme for skills transfer, and the Migration for Development in Africa Programme has been set up by the International Organization for Migration (IOM). Rwanda is establishing a World Diaspora Data Base to track the diaspora and collect information on education and professional characteristics as well as country of residence. Beyond engaging the diaspora in socioeconomic development the GoR wants to increase social cohesion among the diaspora around the world and with Rwanda.

Remittances and financial contributions from the diaspora are growing and have provided support for capacity building, but it is too early to tell whether the engagement policy will yield benefits and returns in the long run (Fransen and Siegel, 2010).

²⁶ <http://econ.worldbank.org/WBSITE/EXTERNAL/EXTDEC/EXTDECPROSPECTS/0,,contentMDK:22803131~pagePK:64165401~piPK:64165026~theSitePK:476883.00.html>.

²⁷ Fransen and Siegel (2010) quote a figure of \$172.4 million for 2009 provided by the Diaspora General Directorate.

5. Main conclusions and policy recommendations

5.1 Conclusions

Devastated by the 1994 genocide, since 2000 Rwanda has become one of Africa's best-performing countries. Its vision is to be a socially inclusive, knowledge-based, private-sector-led MIC by 2020. The economy has been deregulated, privatised and liberalised and there is political stability. There has been an increase in revenues from taxes and other sources. The policy of Governance for Production and Development has been integral to socioeconomic development, improving the 'soft' business infrastructure, making Rwanda one of the best countries in the region and in Africa overall for Doing Business. This is undoubtedly one of the factors attracting FDI and local investment. It has also driven political and social policies designed to ensure a cohesive and socially integrated society. Local and international governance indicators show the dramatic achievements and local indicators suggest that Rwandans feel they are consulted and that services are improving. Strong and determined visionary leadership and supportive DPs have been major factors in the impressive progress towards achieving Rwanda's vision.

Over the last ten years Rwanda has witnessed the beginnings of economic transformation with a shift in employment from the agricultural sector to non-farm and services, which now contribute more than agriculture to GDP. The agricultural sector is also being transformed with an increase in the sale of farm products. Poverty declined by 12 percentage points between 2005/6 and 2010/11, most sharply in rural areas, and was accompanied by a reduction in inequalities. The wellbeing of the population has been significantly enhanced, with reduced maternal, infant and child mortality and better access to clean water and improved sanitation. Primary school attendance stands at over 90% and all children are entitled to nine years of free basic education. Most social indicators show that the gap between the poor and the more affluent has narrowed. Policies for financial inclusion have seen a significant increase in the formal inclusion of the adult population, and the land-tenure regularisation process is near completion, giving people legal title to their land.

Despite these achievements, Rwanda remains one of the world's poorest and most aid-dependent countries, with nearly half of the government budget coming from ODA in addition to a significant amount of off-budget aid. Widening the tax base is difficult because over 70% of workers are subsistence farmers and the private sector is small. Bringing the non-farm informal economy into the tax net is costly and time-consuming. There has been a growth in exports but this has been exceeded by the growth in imports, leaving an unsustainable negative balance of trade. Policies to attract investment and to diversify the economy have had a measure of success with evidence of more FDI and some indication of diversification of both export markets and products, but FDI flows are low compared to other countries in the region, and the main exports remain primary goods, such as tea, coffee and metals. Although the proportion of manufacturing is regionally comparable the country has yet to attract medium- and high-technology manufacturing.

Policies to overcome Rwanda's unfavourable geographical location and its lack of natural resources, and to tackle the binding constraints to development, poor infrastructure and a low skills base have yet to bear fruit. There are ambitious plans to build the ICT infrastructure as the basis for becoming a service centre, areas for trade diversification (markets and products) have been identified and policies for attracting investment and entrepreneurial growth are in place, including RDB as a 'one-stop-shop' and the SME Policy and Strategy. Industrial parks are being established in Kigali and four provincial centres in order to attract investment in businesses to produce goods and services for the local, regional and international markets. There are plans to improve road, rail and air transport, and for electrification and to reduce the cost of energy. Rwanda is working with the other EAC countries to reduce non-tariff barriers and improve regional communication networks, including transport. Agricultural policy aims to make agriculture a modern market-oriented sector, to ensure that small farmers are integrated into value chains and add value to their produce through

agro-processing. There are also policies to address climate change. Improve education quality, ensure that students gain the personal and transferable skills sought by employers and developing TVET so that it meets the needs of the labour market. There are strategies to increase revenues from taxation and alternative sources of financing are being developed including SSC, the Diaspora and climate-change funding.

EDPRS-2 will build on the success of *EDPRS-1* and seek to overcome the challenges and bottlenecks encountered during its implementation. It is based on a review of the achievements to date and an analysis of what is required to achieve *Vision 2020*. Like *EDPRS-1* it incorporates a strong commitment to improve the wellbeing of all Rwandans and ensure that everyone benefits from development. Education and health are seen as fundamental, and gender equality, disability and social inclusion, HIV and AIDS and non-communicable diseases, regional integration, environment, climate change and disaster management and capacity building are to be mainstreamed as crosscutting issues. It places a strong emphasis on innovation and recognises the need for new initiatives and strategies in order to achieve the country's development goals.

The four thematic areas of the *EDPRS-2* reflect emerging development priorities: Economic Transformation and Rapid Growth, Rural Development, Productivity and Youth Employment and Accountable Governance clearly address the issues identified in this paper. These include diversifying the economic base, export growth, urbanisation, employment creation, skills for the labour market and increasing labour productivity. The emphasis on governance and social inclusion raises issues of increased accountability and citizen ownership while the rural theme is concerned with inclusive growth and urban–rural synergies.

The strong commitment to the MDGs and a continuing commitment to reduce poverty and improve wellbeing are evidenced by the inclusion of health and education in the *Vision 2020* indicators, with targets that are more challenging than the MDGs. For example, the 2015 target for poverty is 24% and the revised *Vision 2020* Target is 20%, the MDG 2015 target for maternal mortality is 325 per 1,000 live births and the revised *Vision 2020* target is 200, and the 2015 MDG target for underweight children is 14.5% and the revised *Vision 2020* target is 8%. For education one of the targets is to achieve universal primary attendance and completion rates.

It seems unlikely that Rwanda will become a MIC by 2020 (IMF, 2011), since this would require annual growth of 10%–11%, considerably more than the recent average of 7.7%. Rwanda lags behind countries that have achieved export growth and savings mobilisation, but is well placed to take advantage of new trade and financing opportunities in the global economy and to address the structural factors that have impeded growth by improving physical and financial infrastructure and tackling high financing and regulatory costs through investment and reform.

There is a need for investment in the productive sectors and infrastructure development, and DPs need to be encouraged to increase ODA towards sustainable productive capacities including building the infrastructure and providing AfT. Firms entering new export markets need support because of the high risks they face. There is a need to build capacity in the management of trade and trade-related activities and to explore the potential for public–private partnerships (PPPs).

Although Rwanda aims to broaden the base of its development finance, it is assumed that the country will continue to need development assistance for the foreseeable future. DPs have been involved in the review of *EDPRS-1* and have been consulted on *EDPRS-2*.

5.2 Recommendations for EDPRS-2 and a post-2015 agenda

5.2.1 Aid and finance

National level

- Continue to take a strong lead in the implementation of the Aid Policy, ensure that the country meets the full requirements of the Paris Agenda and continue to work with DPs to ensure that ODA funds Rwanda's priorities.
- Conduct an objective analysis of the resource gaps and needs for EDPRS-2.
- Continue efforts to mobilise alternative sources of finance including SSC, climate-change finance and exploiting the potential of the diaspora and others outside Rwanda.
- Continue to widen the tax base and consider the most efficient means to collect property and other local taxes.
- Take a leadership role in the development of a post-2015 agenda to ensure that any new partnership for development will support Rwanda's development goals.

International level

- Developed countries to ensure that 0.7% of GNI is given as ODA and to conform to the requirements of the Paris, Doha and Busan Declarations to ensure that it is used as efficiently and effectively as possible and that aid-recipient countries have ownership of their own development agendas.
- Mobilise additional, earmarked resources for AfT and climate finance.
- Donors to continue to support the GoR's development agenda, adhere to the division of labour and meet their own targets under the Donor Performance Assessment Framework.
- Donors to agree as EDPRS-2 is developed how to work with the GoR to allocate funds to the productive sectors as appropriate.

5.2.2 Trade and investment

National level

- Take advantage of IT-enabled shared services and outsourcing business processes by targeting potential investors.
- Strengthen efforts to promote compliance with relevant standards in order to increase exports to regional and international markets.
- Continue to pursue the long-term objective of positioning and promoting Rwanda as a regional hub and encourage investment in manufacturing for export to established regional markets, greater penetration into Uganda and Tanzania and product diversification in these markets.
- Continue to pursue the long-term objective to make Kigali a regional service hub while also considering its position in relation to Nairobi.
- RDB should promote investment opportunities to, and support, domestic and foreign investors.
- Promote exports to create strong backward and forward linkages, and develop greater linkages between Rwanda's manufacturing export sector and the agricultural sector. RDB should coordinate with relevant ministries to strengthen these linkages by identifying potential sectors that can generate broad-based growth.
- Continue efforts to encourage investment in packaging plants, which can produce packages of high standards to support exporters and reduce imports.

- Review the potential for manufacturing goods in Rwanda that are currently imported and encourage investment for export diversification.
- Continue the development of the regional industrial parks and ensure coordinated investment in urban centres and town planning to facilitate the increase in the urban population to 30% by 2020.
- Make progress on infrastructure projects, including the upgrading of rural and urban roads, the building of the Tanzania–Burundi railway and electrification.
- Continue to promote financial inclusion and support banks and other financial institutions to develop products to meet the needs of Rwandan entrepreneurs.
- To add value to existing exports, focus on moving the coffee, tea and tourism sectors towards the more stable value-added or specialty segments of their respective export markets.

Regional/international level

- AfT should be additional to ODA, predictable and oriented to meeting needs.
- Provide country-specific TA to develop skilled professionals to work in export promotion and marketing.
- Provide country-specific TA to help to strengthen the RBS, higher education institutions and exporters so that they understand and can meet EU quality-control requirements for packaging and exporting processed foods.
- Work with EAC member states to reduce and eliminate non-tariff barriers.
- The EU to conclude the Market Access Agreement with the EAC as soon as possible.
- Adopt targets in a post-2015 development framework for developed countries to offer incentives to investors such as tax breaks to encourage them to invest in LDCs.

5.2.3 Migration and the diaspora

National

- Mainstream migration into development planning as part of a strategy for ensuring the availability of skilled workers to meet labour demands.
- Ensure that skilled migrant workers in the private and public sectors build capacity as part of their contracts.
- Monitor and review the flows of regional and international migrant workers and evaluate the extent to which Rwanda can attract skilled migrants to fill gaps.
- Continue to engage with the diaspora, in particular its potential to provide development assistance.

Regional/international

- Work with the EAC member states to ensure that they ratify and implement mobility of labour provisions under the EAC Treaty.
- DAs to be used to build capacity and skills in areas of shortage to reduce the need for migrant workers, aiming for the training to be provided in Rwanda, as a cheaper and more efficient method and to retain skills.

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