

Rwanda: A New Vision for Economic Development

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Africa Growth Initiative at Brookings, 1775 Massachusetts Ave NW, Washington, DC

Rwanda has emerged from its war-torn past as one of the fastest growing countries in Africa. The country now boasts one of the best business climates in the region, an average growth rate of about 7 percent in the last decade, and by far the most gender balanced government in Africa. While Rwanda has many obstacles to overcome before it can reach 'middle income country' status, it presents a new and intriguing model for reconstituting post-conflict countries.

On October 7, the Africa Growth Initiative (AGI) at Brookings hosted Rwandan Minister of Finance and Economic Planning John Rwigyombwa to discuss his country's progress, challenges and strategies for economic development. Dr. Mwangi Kimenyi, the director of the Africa Growth Initiative moderated the discussion.

In his opening remarks, Minister Rwigyombwa explained that from 1996 to 2000 Rwanda was focused on recovering, resettling and trying to unite after the genocide. It was not until 2000 when the government formulated its Vision 2020 that Rwanda articulated its strategy to become a middle income country by the year 2020.

Not having large endowments of mineral resources, Rwanda is working toward developing a knowledge-based economy. To this end, the government has invested heavily in education at all levels. After the civil war, there was only one university in Rwanda. As a result, the government decided to open Rwanda's labor market to skilled workers from neighboring countries in order to build capacity. There are now 10 universities in Rwanda and the next challenge is to ensure the quality of those institutions.

The recent global economic crisis has slowed growth in Rwanda. However, the government expects the country to return to pre-crisis growth rates by 2011 if not sooner. The service sector, particularly tourism, telecommunications and finance, has been the key driver to growth. The Rwandan government is also working to reform the agricultural sector, which employs a large portion of the labor force, in order to further increase agricultural output and growth. There has been some success and in the last three years the agricultural sector grew at an average annual rate of 7 percent.

Poverty remains a key challenge for the government of Rwanda. In 2006, the country reported that 57 percent of its citizens are living below the poverty line. Considerable effort is required to reach the Millennium Development Goal of halving poverty by 2015. On a more positive note, Rwanda has made significant progress in the area of health insurance. The national health insurance program now covers 90 percent of the population.

Minister Rwigyombwa expressed his concern about the lack of diversity in Rwanda's export base. As the country goes forward, diversifying exports will be a key target for the government.

Rwanda's reliance on aid has been decreasing, however aid still accounts for about 42 percent of the national budget. Weaning the country off of aid is a priority for the Rwandan government. In the meantime, Rwanda is committed to making aid more effective. The country has adopted a zero corruption policy and strives to provide a detailed account of how aid money is spent. One area of concern when it comes to aid effectiveness is that some of Rwanda's development partners (seven in total) channel aid through their own agencies and not through the central government. This is a standard practice in the U.S. aid policy. While the U.S. is the largest donor in nominal terms, the Rwandan government is concerned that the U.S. does not administer its aid in the most efficient manner. By using U.S. agencies for procurement and implementation, it incurs much higher overhead costs than if that aid was administered by the Rwandan government. Furthermore, it is difficult to determine how much of the aid

the U.S. gives to Rwanda is actually spent on the ground in Rwanda as opposed to in the U.S. on administrative and procurement related expenditures.

During the question and answer session, Dr. Kimenyi asked whether Rwanda was still concerned about security issues and Minister Rwangombwa responded that Rwanda is very much concerned about regional security, especially in eastern Congo. However, Rwanda fully supports the recent efforts by Congolese forces to fight armed factions in that region, which have reduced border conflicts. Recognizing the importance of regional integration and regional security, Rwanda re-launched the Economic Community of the Great Lakes Countries with Burundi and the Democratic Republic of the Congo.

Dr. Homi Kharas, a senior fellow at Brookings who researches aid effectiveness, pointed out that Rwanda is not alone in its concerns about aid effectiveness in the United States. Dr. Kharas helped develop a report that examines the [Quality of Official Development Assistance \(QuODA\)](#). The report calls for a distinction between programmable aid and total aid. It is important to differentiate between aid that is spent on overhead or procurement costs in donor countries and the amounts of aid that actually makes its way to developing countries. The current dialogue on aid is centered on total aid, but it is important to know how much aid is actually contributing to programs in recipient countries. On a more encouraging note, Dr. Kharas noted that USAID is now able to apply wide latitude when spending some Congressional earmarks. Narrowly defined earmarks have proved ineffective because they often fail to address the primary needs of the recipient country.

Dr. Ezra Suruma, a distinguished visiting fellow at Brookings and former minister of finance, planning and economic development in Uganda, asked how Rwanda had been able to achieve such high growth in its agricultural sector and inquired about the extent of youth unemployment issues in Rwanda. Minister Rwangombwa acknowledged his first question by stating that it was easier to experience high rates of growth in the agricultural sector because of the previously poor state of Rwandan agriculture. He did, however, mention four key strategies employed by the Rwandan government to boost agriculture: encouraging the use of fertilizer using subsidies and flexible payment plans that allowed farmers to pay for their fertilizer after harvest; encouraging land consolidation, where small holder farmers can maximize their efficiency by pooling land and resources; promoting the use of high yield seeds; and providing extensive technical support for farmers. This combination of policies along with favorable weather conditions helped to increase agricultural growth. The government's strategy going forward will be to increase mechanization and irrigation as well as to improve storage facilities. To address Dr. Suruma's second question on unemployment, Minister Rwangombwa commented on the difficulty of determining the extent of unemployment in the country, a common problem in many African nations. He mentioned that Rwanda is, however, currently undertaking a survey of the labor market with which it will develop an unemployment strategy.

Dr. Germano Mwabu, a professor at the University of Nairobi and a visiting scholar at Brookings, asked how much aid was actually making its way to the intended programs, such as the education sector. According to Minister Rwangombwa, education aid has had a very good track record of making its way to the intended programs. The majority of education aid is administered by the Rwandan government which is able to monitor and account for any irregularities. In addition, Rwanda has decentralized its education spending to the district levels so that districts are responsible for allocating the funds based on their understanding of the local needs.

Health aid is less effective because much of those funds do not go through the government. Some of Rwanda's development partners, most notably the U.S., chose to procure health supplies in their home countries. As such, the Rwandan government cannot account for what was spent on procurement verses actual implementation in Rwanda. Dr. Olumide Taiwo, a post-doctoral fellow at Brookings, asked whether a lack of capacity in Rwanda may drive the U.S. practice of administering its own health aid. Minister Rwangombwa pointed out that if the funds were administered by the Rwandan government this would not only help to reduce the overhead costs but also increase accountability on how exactly those funds were spent. While partner efforts have led to improvements in health, there is much to be gained by streamlining efforts and not just creating systems that run parallel to government efforts.

A high level forum on aid effectiveness will be held in South Korea in 2011. Dr. Homi Kharas remarked that Rwanda could contribute much to the discussion on how to structure aid effectively in post-conflict countries. Minister Rwigyema replied that Rwanda would be happy to share its experience and that there are other countries like Uganda that also present a good example of this. Post-conflict countries must lead the way when it comes to structuring aid programs, in countries where aid is not administered effectively one finds that the governments are being led by donors without a strategic vision of how the aid should be administered. Ultimately, a whole-of-government approach and accountability is critical for aid effectiveness.