

RWANDA CASE STUDY ON ECONOMIC TRANSFORMATION

INSTITUTE OF POLICY ANALYSIS AND RESEARCH – RWANDA (IPAR)

**REPORT FOR THE AFRICAN CENTRE FOR ECONOMIC
TRANSFORMATION (ACET)**

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Year: 2012

Place of Publication: Kigali, Rwanda

ACKNOWLEDGEMENT

We would like to thank government institutions and agencies from which we have obtained data and information we have used in writing this report. We would also thank the IPAR team members, especially Professor Pamela Abbott, for valuable comments and inputs given in shaping this report. Lastly we would like to thank Francesca for proof-reading the report.

This study was financed by the Africa Center for Economic Transformation (ACET).

We remain responsible for the content of the report. No omissions or areas should be attributed to anyone who provided information for the project. The opinions expressed in the report are ours and should not be attributed to the funding agencies who may not necessarily share them.

ACRONYMS

ADB	African Development Bank
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy
EPZ	Export Commodity Processing Zone
European Union	European Union
FEZ	Free Economic Zone
FTZ	Free Trade Zone
GOR	Government of Rwanda
GTZ	German Technical Cooperation
IMF	International Monetary Fund
NBR	National Bank of Rwanda
RDB	Rwanda Development Board
RRA	Rwanda Revenue Authority
UNCTD	United Nations Conference on Trade and Development
VAT	Value Added Tax

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EXECUTIVE SUMMARY

Rwanda's economic growth over the last decade has been remarkable. With a government that is committed to achieving sustainable economic growth coupled with growth in employment opportunities for its people, Rwanda has made impressive progress in rehabilitating and stabilizing its economy to exceed pre-1994 levels. The overall economy is growing at a significant rate. The average annual growth rated in GDP was 8.8 per cent between 2005 and 2009. Rwanda's GDP per capita has increased from less than 200 USD in 1994 to 540 USD in 2010. Although still at an early stage, the GoR has set a set path towards economic transformation in Rwanda

There is evidence of a significant increase in private sector investment following the introduction of a revised tax code and implementation of the doing business reforms since 2005 although there was a downturn due to the World economic crisis in 2009. Both foreign and domestic investment have increased with FDI exceeding local investment and new jobs have been created. Exports have increased and there is some evidence of a beginning of export diversification into areas prioritised by government as well as an increase in revenues from tourism. However, imports have also increased and so the balance of trade has worsened. Although GDP per capita and government revenues as a proportion of GDP have increased, Rwanda remains dependent on Overseas Development Assistance for about 50% of its annual budget.

Another evidence of Rwanda's emerging economic transformation is a significant shift with respect to productivity in agriculture. There is an incipient structural shift in the mode of production away from low-productivity subsistence farming to a higher degree of market-orientation and more use of soil-enriching and yield-enhancing cash inputs. Such a transformation is fundamental for a dynamic and sustainable development and economic transformation. However, it needs to be complemented with specific measures to reverse the trend of environmental degradation and depletion of the natural resources base. The pace of agricultural transformation is important, as there will need to be measures to ensure that not only the large and medium sized farms, but also small-holders are able to take part in and benefit from this structural change. Substantial increases in production and yields in recent years are evidence of the high dividends of this structural change.

Another sign of Rwanda's economic transformation is that development of the non-agricultural sectors of the economy has clearly begun. So far, this has been dominated by a proliferation of small-scale business and activities operating on an informal or semi-informal basis. The magnitude of this phenomenon over the past few years has been large enough to make non-agricultural entrepreneurship and wage employment a major source of new employment and income opportunities and to have quite a significant impact on the structural pattern and pace of economic growth. According to the 2011 *Household Survey* results, increases in non-farm wages have been one of the major drivers of the reduced poverty rates from 57% in 2006 to 44.9% in 2010/2011. It is important that this development continues, and that the business climate evolves so that the many new small-scale businesses are able to grow and increase demand for non-farm labour. This will enhance long-term economic transformation in Rwanda

INTRODUCTION

In this research project, we conduct a study on economic transformation in Rwanda. The aim of the study is to assess how Rwanda has fared with respect to economic transformation over the past 30 years and suggest recommendations for accelerating its progress. In this study, we not only analyse the trends in Rwanda's economic indicators over time, but also review the policies that underlie the observed trends, with the aim of giving policy explanations and policy recommendations to accelerate economic transformation in Rwanda. Economic transformation refers to a process involving increases in productivity, technological capability, economic diversification, and international competitiveness that support rapid, sustained and shared growth in employment and incomes of the population over time (ACET, 2011). The study is part of the on-going country case studies that are being conducted in different Sub-Saharan countries by the African Centre for Economic Transformation (ACET) in order to serve as an input in the Africa Transformation Report (ATR).

These studies are motivated by the slow pace of the observed high economic growth in translating into meaningful economic transformation that comes with more jobs and improved incomes of people in Sub-Saharan Africa, relative to other regions of the World. The studies aim at bringing the subject of structural economic transformation back onto the policy agenda in Africa through (a) promoting the focus of policy in Africa on economic transformation, (b) bringing data and analysis to inform discussion and policy action on the topic, and (c) comparing countries along various dimensions of economic transformation in order to generate competitive action by policy makers.

In the first section of the report, we give an overview of the context in Rwanda in order to give the reader a sense of the background to Rwanda as a nation, how it has progressed in terms of economic growth, what the remaining challenges are with respect to economic transformation and what it aspires to in terms of government policy. Section two presents a diagnostic review of the performance with respect to economic transformation in Rwanda over the past thirty years. Here, we describe the trends of the different indicators of economic transformation over time in absolute figures, their rates of change and their sustainability over time. We also identify the underlying factors or explanations behind the observed trends and rates of change over time. In section 3, we review the institutional environment for economic transformation in Rwanda in order to assess the extent to which the institutional environment is conducive to proactive government engagement with the private sector in pursuing economic transformation. In section 4, we identify the different export activities in which Rwanda can increase international competitiveness or diversify into. Finally, section 5 gives recommendations to help Rwanda to seize opportunities in order to speed up economic transformation.

COUNTRY CONTEXT AND ECONOMIC TRANSFORMATION

AGENDA

Rwanda is one of the best performing countries in Africa and an example of success in post-conflict reconstruction (Bigsten and Isaksson 2008). Following the devastating effects of the genocide against the Tutsis on the Rwandan economy in 1994, the government embarked on an extensive reconstruction program based on sound economic policies, peace and stability. Rwanda has been widely acknowledged for the progress it has made in fighting corruption and promoting gender equality. It has made dramatic progress in creating a favourable business environment in recent years, becoming one of the most improved countries in the world in the annual *Doing Business Index*. The combination of these factors restored confidence in Rwanda as a nation, thus attracting private sector investment and overseas development assistance, both of which have been crucial in both the post-war reconstruction and setting a path for sustained economic transformation. However, challenges still remain. There has been little change in the contribution of manufacturing to GDP, which was 15 per cent in 2010 (NISR 2011a). The formal sector's share of the GDP was only 22 per cent in 2010, with the monetary informal sector's being 47 percent, the informal non-monetary sector's 20 per cent and the Government's 11 percent (NISR 2011b). Rwanda's economy is largely informal and dominated by owner-operated SMEs in trade and agriculture. In addition, FDI remains low despite Rwanda having established a sound investment climate and the private sector is still nascent. The binding constraints to sustained growth and economic transformation include inadequate economic infrastructure, a limited skills base, limited access and high cost of finance and low productivity. (World Bank CEM, 2007).

A review of the Policy Framework for Economic Transformation in Rwanda

Rwanda has implemented a number of policies to shape its economic transformation agenda and these policies continue to evolve depending on changing needs of the economy. Rwanda's vision is to build a knowledge-based economy and to become a private sector led middle income country by 2020. Rwanda's ambitious programme for development is encapsulated in *Vision 2020*. The *Economic Development and Poverty Reduction Strategy (EDPRS)* is the mid-term framework to implement the Government's long-term development agenda (Ministry of Finance and Economic Planning 2007).

The *EDPRS* is 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, thereby achieving private-sector growth. In the shorter term the priority is reinforcing the productive and export potential of the agricultural sector, but in the longer term the goal is to diversify the economy by promoting the non-farm sector.
2. *Vision 2020 Umurenge* is a pro-poor rural development and social protection programme. It aims to eliminate extreme poverty by 2020 through releasing the productive capacity of the very poor. It includes public works, credit packages and direct support and is implemented at village level using participatory methods; Good economic governance is seen as a precondition for poverty reduction and development by creating a comparative advantage in 'soft infrastructure' (good governance and institutional arrangements important for private investors) thus compensating for Rwanda's relatively poorly developed hard infrastructure and disadvantaged geographical location (Ministry of Finance and Economic Planning 2007).

Rwanda takes a developmental state approach with the key objective being sustainable economic growth and social development. The main aim of *EDPRS* was to overcome the key constraints to economic



growth identified through a growth diagnostic and investment climate analysis by: systematically reducing the operating costs of business; investing in the private sector's capacity to innovate; and widening and strengthening the public sector. Government policy is to promote private sector investment through good governance, a legal framework, promoting savings and the banking sector and investment in infrastructure, health and education including vocational training. The aim is to: create new jobs to absorb new entrants to the labour market and surplus labour created by the modernisation of farming; facilitate technology and skills transfer to Rwandans; increase the production of goods and services for export; and, generally promote economic growth. Public investment is targeted to induce substantial private sector investment and foster growth in agriculture, manufacturing and the service sector. Investment is targeted at developing skill and capacity for productive employment, improving the infrastructure, promoting science technology and innovation and strengthening the Financial Sector. Reforms to the 'soft' infrastructure for business and reducing business costs were seen as the first priority. Incentives for FDI including export processing zones and industrial parks were seen as an important element of the strategy. Partnership of FDIs with Rwandan companies was to be encouraged and stimulating domestic investment was also seen as integral element of the policy. Diversifying and increasing exports was also seen as central to the strategy, and the Government has identified the main areas for export growth, beyond the strategic exports of tea, coffee, horticulture, hides and skins and minerals. These are tourism, mining services, business process outsourcing, silk textiles, fruit and vegetable processing and dairy processing (Ministry of Trade and Industry 2009).

FDI was seen as bringing a number of benefits beyond job creation, including the investment of foreign capital, know-how and managerial skills and export promotion. FDI as well as local investment was to be encouraged in resource based manufacturing (e.g. tea and coffee), low technology products (e.g. footwear, textiles), high technology manufacturing (e.g. chemicals, ICT, pharmaceuticals) and services including tourism where there is seen to be a high potential for growth.

The 2010 *Development Driven Trade Policy Framework* prepared by the United Nations Conference on Trade and Development and the Ministry of Trade and Industry (UNCTD 2010a) argues that the trade policy should be development-driven and not demand led. It suggests that investment, including FDI,

should enable the diversification of exports and markets, build local processing industries that add value to exports especially in agriculture but also in manufacturing and services. Also, investment should provide opportunities for employment in rural areas. It argues that tax reductions/exemptions in terms of tariffs should promote the inflow of industrial inputs and that consideration should be given to more strategically located export processing zones with more effective incentives provided. Generally it advocates making the financial regime effective and well administered. It recommends making financial incentives outcome based, targeted to development goals and designed to minimise the impact of taxation on companies 'cash-flow' (UNCTD 2006).

Rwanda's agricultural policy is embodied in Rwanda's Strategic Plan to Transform (PSTA) the agricultural sector and is now in its second phase. The policy is mainly concerned with the modernisation of the agricultural sector and commercialisation. The overall objective is to increase agricultural outputs and incomes under sustainable production systems for all groups of farmers and food security for all. The emphasis in increased output is on crops for export. There are four interrelated programs: intensification and development of sustainable production systems; support for the professionalization of producers; promotion of commodity chains and agribusiness development; and institutional development. This government policy seeks to modernise the agricultural sector and promote the production of cash crops for export as part of the broader drive for economic growth and transformation. This may well bring benefits to the population in the medium and long term as all benefit from economic growth and increased prosperity. However, there seems to be no indication that this policy is pro-poor in the short term since small holder farmers may end up as working poor agricultural wage labourers.

Box 1: Costs of Economic Transformation: Improving the Pro-Poor Character of Rwanda's Agricultural Policy.

Rwanda is a small country in central east Africa. It is one of the most densely populated countries in Africa and over 80 per cent of the population are dependent on subsistence agriculture. The size of land-holdings is small with many being inadequate to support a household. Agricultural production is mainly rain fed and is vulnerable to shocks, which in different parts of the country include drought and flooding. Soil fertility has deteriorated with over production and soil erosion is also a problem with land shortages forcing people to farm on steep hillsides. There is low use of fertiliser and improved seeds but the use of improved farming methods is increasing as a result of government policy.

Rwanda's agricultural policy seeks to modernise the agricultural sector and promote the production of cash crops for export as part of the broader drive for economic growth and transformation. This may well bring benefits to the population in the medium term as all benefit from economic growth and increased prosperity. There seems, however, in the short term an indication that this policy is not pro-poor and that a pro-poor policy would place more emphasis on increasing the production of staple crops for local consumption. Despite the fact that it increases land use efficiency, the policy also reduces the opportunity for subsistence farmers to grow food for their own consumption and leaves them vulnerable to crop failure and fluctuations in prices. A 2008 IFPRI scenario modelling exercise on Rwanda agricultural policy suggested that a pro-poor agricultural policy would concentrate on increasing the production of staples for consumption with a more modest growth of export crops. Increased production would come from the increased use of agricultural inputs and bringing into cultivation marshland. In addition, while the government is commended for commercialising farming and increasing productivity, it needs to have clear and realistic policies to absorb the estimated 35 per cent of the rural population who will become surplus to agricultural production in a bid to commercialise.

HISTORICAL CONTEXT

Pre-genocide period

After independence, Rwanda received a significant amount of foreign aid. Foreign aid rose from 5% of GNP in 1973 to 22% in 1991 and accounted for more than three-quarters of capital expenditures. Aid-financed health care improved and infant mortality was reduced. Aid also financed reforestation and land reclamation, and agricultural productivity increased. High world prices for coffee, tea, and tin, the three core Rwandan export products, created rising wealth. Rwanda rose to 19th from the bottom among countries in terms of per capita income.

However, real PPP-adjusted GDP per capita in Rwanda stagnated after 1980. The country still ranked below the sub-Saharan average in life expectancy, child survival, adult literacy, years in school, and nutrition. Access to safe drinking water declined. Primary-school enrolment had fallen to 51% in 1992, and secondary schools only had capacity for 10% of primary-school graduates. In 1985, there was a collapse in the tin market, Rwanda's second-largest foreign-exchange earner. There were famines in 1987, 1989–1990, 1991, and 1993. Coffee prices fell by 50% in 1989, with coffee exports declining from \$144 million in 1985 to \$30 million in 1993. Falling coffee prices weakened the government's financial position. The budget deficit ballooned and remained at 7% or more of GDP through 1993. Real GDP fell by 10% between 1989 and 1993, and the percentage of income held by the top 10% rose from 10% in 1982 to 41% in 1992. Development aid continued to increase.

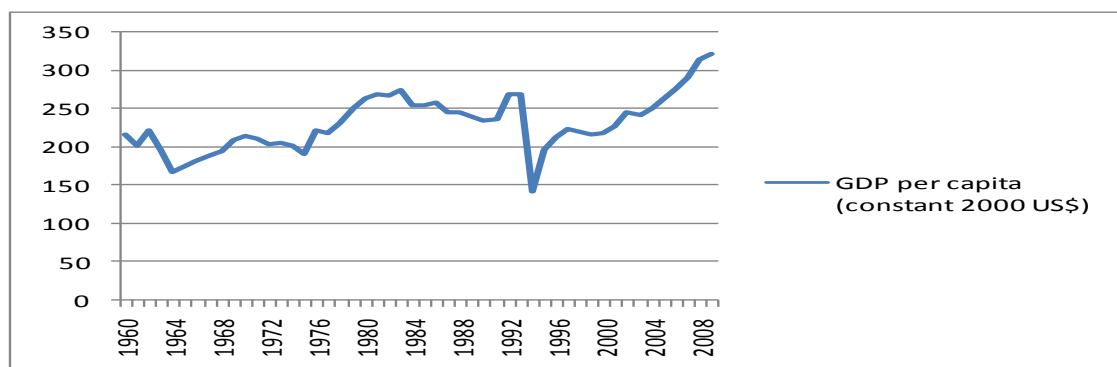
In 1990, the government undertook a structural adjustment program with the assistance of the International Monetary Fund (IMF) and the World Bank that brought \$216 million in pledges of new aid. Despite strong domestic opposition, the currency was devalued, leading to sharp price increases. Social expenditures were slashed, and civil service wages were frozen. The promised aid was cancelled, with donors citing the government's failure to meet conditions including the elimination of coffee price guarantees and reduction of the budget deficit to 5%.

A modest per capita growth during the first two decades after independence came to an end around 1980. The early post-independence gains in development did not last as the economy deteriorated after 1980. Economic stagnation combined with high rates of population growth resulted in declining per capita GDP throughout the 1980s and 1990s (See figure 1). The rapid and prolonged economic decline contributed to, and finally culminated in the civil war in 1994. The conflict accentuated the decline and despite the sharp fall in the population due to the genocide, per capita production in 1994–1996 averaged only half of the level in 1980–82. Dramatic as the loss of population during the Genocide was, it had little long term impact on population growth. As a result of return migration of refugees and a sharp increase in birth rates, the population increased by 2.5 million or 45 per cent over a period of five years (See Figure 2).

Post-genocide period

Rwanda has achieved remarkable economic growth since the genocide against the Tusti was brought to an end in 1994. Its GDP per capita has increased from less than 200US\$ in 1994 to 540 US\$ in 2010 (ADB 2010a). The average annual growth rate of GDP was 8.8 per cent between 2005 and 2009. The sectoral composition of GDP growth was as follows; 5.2 per cent for the primary sector, 9.3 per cent for the secondary sector and 11.6 per cent for the tertiary sector (National Bank of Rwanda, 2010). Rwanda had a steady rise in both GDP and GDP per capita growth after the post conflict reconstruction in 2000 and this growth was steady until 2008 when GDP growth declined as a result of the global economic crisis, which had its origins in Europe and the United States of America (See Figure 3).

Figure 1: Evolution of Rwanda's GDP per capita (1960-2008)



Source: (Graphs computed from World Development Indicators, 2011)

Figure 2: Rwanda's GDP per capita growth, GDP growth and population growth (1960-2008)

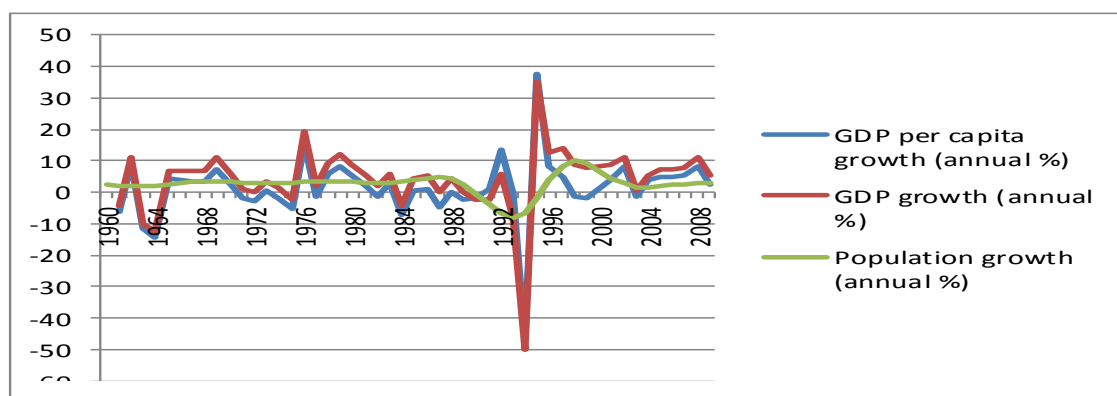
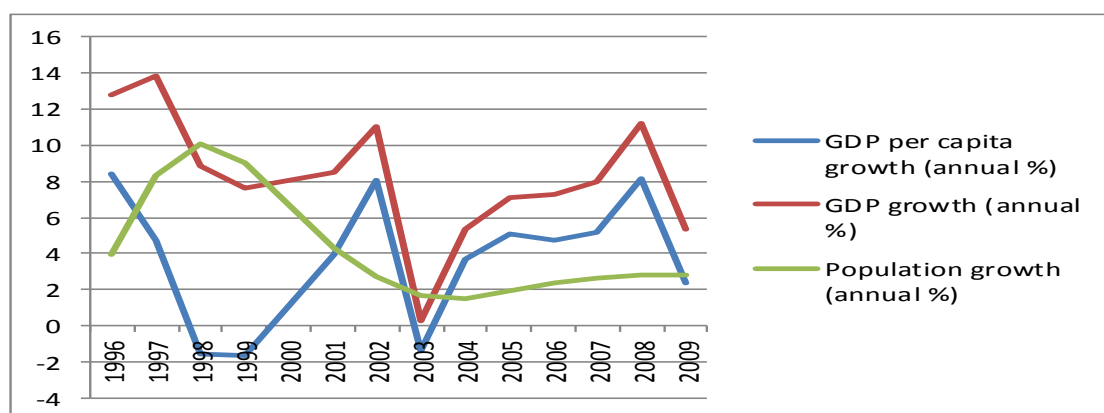


Figure 3: Rwanda's GDP per capita growth, GDP growth and population growth (1996-2008)



Source: (Graphs computed from World Development Indicators, 2011)

Review of Performance on Economic Transformation

Rwanda's Economic Policy Reforms, 1960-2008

From 1961 to 1990, Rwanda had an administered economy, which imposed severe restrictions on trade and foreign exchange transactions, as well as a fixed exchange rate regime (IMF, 2005). By the early 1990s the average tariff rate was 34.8 per cent, with five different tariffs ranging from 0-60 per cent. Every import and every importer was subject to a quota, and all import operations were subject to a license authorizing external currency disbursement (WTO, 2004). Exporters had to repatriate currency generated by the sale of exports as a legal requirement, and export licenses were authorized only by the Banque Nationale du Rwanda (BNR). More importantly, all export earnings were transferred to and managed by BNR. Likewise, BNR had to give prior approval for certain invisible transactions including medical care, tourist trips and study abroad, with purchases of currencies from the BNR to finance these invisible transactions subject to ceilings.

The period from 1991 until 1994 corresponds to the beginning of the removal of restrictions on trade and foreign exchange transactions, and the gradual revival of a market economy. (See Box 2 below)

Box 2: The Success of Rwanda's Post-genocide Policy Reforms on Economic Transformation

In 1995, a number of economic reforms were implemented in Rwanda. Rwanda embraced a market economy characterized by both a continuation of trade reforms and a liberalization of the monetary and financial regimes. Tariffs were reduced considerably with the average rate decreasing to 18 percent, and there remained four tariff bands with a maximum of up to 30 percent by 2003, which is a significant reform when compared with an average tariff rate of 34.8 percent, with 5 different tariffs ranging from 0-60 percent prior to 1994. Liberalization of the monetary and financial sector led to the adoption of new currency exchange regulations, the creation of new private commercial banks, and the privatization of banks that had been state-owned (Coulibaly, 2005). Current account operations (imports, exports, services) were liberalized, and some of the previous restrictions on capital flows were either reduced or eliminated. The latter included the transfer of capital and revenues related to foreign direct investment (FDI), and the allowance of free withdrawal from foreign exchange accounts in commercial banks (Kanimba, 2004). Flexible exchange rates were also introduced. During the period 1995 to 2003, the commitment of the government to trade, financial, and exchange reform was much more credible and stable. Prices began to reflect real cost and value, rather than the arbitrary levels established by the government. Economic resources could thus be allocated much more effectively as firms adjusted their productive capacities and subsequently improved the overall competitiveness of the Rwandese economy. At the same time Rwanda was the recipient of substantial aid from the World Bank and other entities. Although diminishing returns to aid may exist over the long run, in the case of Rwanda the post-1994 aid has had a much greater, and long-lasting impact (Collier 2004).

While this period covers the first phase of trade reforms, it was also characterized by macroeconomic and political crises, which finally culminated in the genocide against the Tutsi in Rwanda. The genocide led to the destruction of manpower, capital stock, and resources such as livestock, as well as a total absence of the state. In the process, much of the social capital was destroyed and a climate of uncertainty became prevalent. Due to business destruction and uncertainty, the few businesses that did survive were reluctant to incur the sunk cost of capital expenditures to take advantage of the liberalized policy environment made possible by the previous wave of trade reforms. Many established businesses failed to adjust their productive capacities and suffered from the resulting inefficiencies.

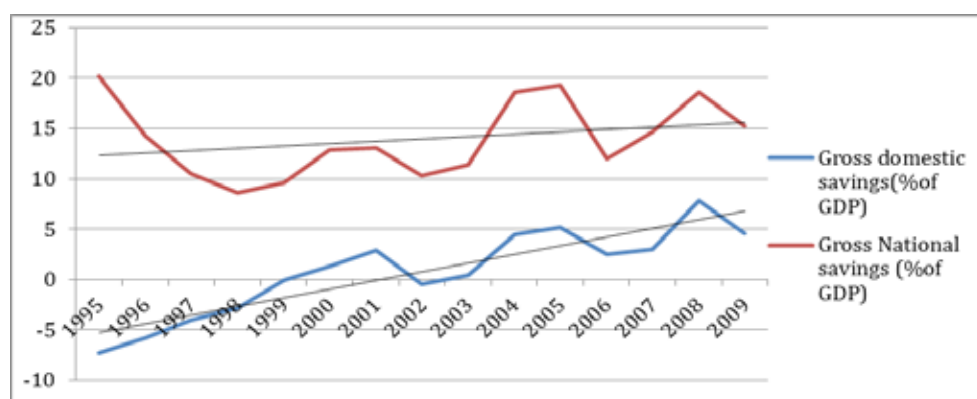
MACRO-ECONOMIC INDICATORS

Savings

Rwanda's gross domestic savings as a proportion of GDP have shown a positive growth trend from negative levels prior to 1998 to a positive level of about 5% of GDP in 2009 (See Figure 3.1). Although

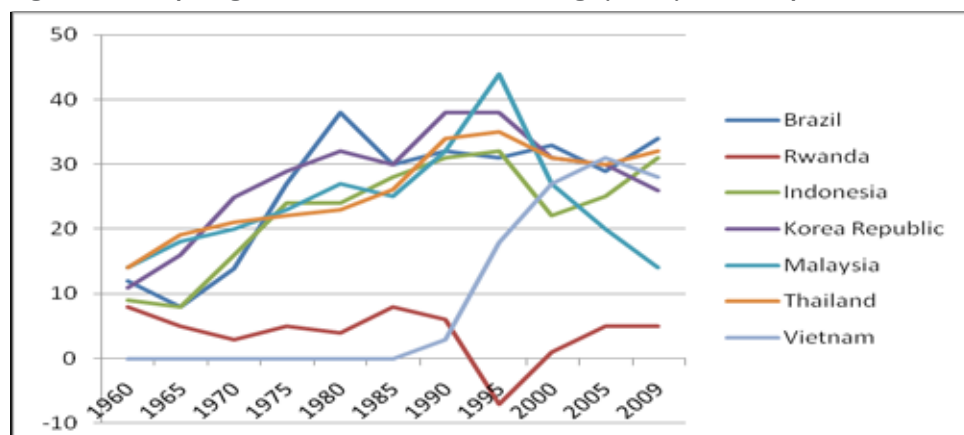
domestic savings have grown steadily over time, they are still less than 10%, which is low when compared to the benchmark countries like Vietnam and Malaysia whose current savings rates are above 10%. (See Figure 3.2). The low rates of domestic resource mobilisation constitute a major bottleneck to sustaining productivity-driven economic transformation in the largely informal private sector.

Figure 3.1: Rwanda Gross Domestic Savings and Gross National Savings(%of GDP (1995-2010)



(Source: Computed from Bank Development Indicators, 2011)

Figure 3.2: Comparing Rwanda's Gross Domestic Savings (%GDP) with Comparator Countries



(World Bank ,2010)

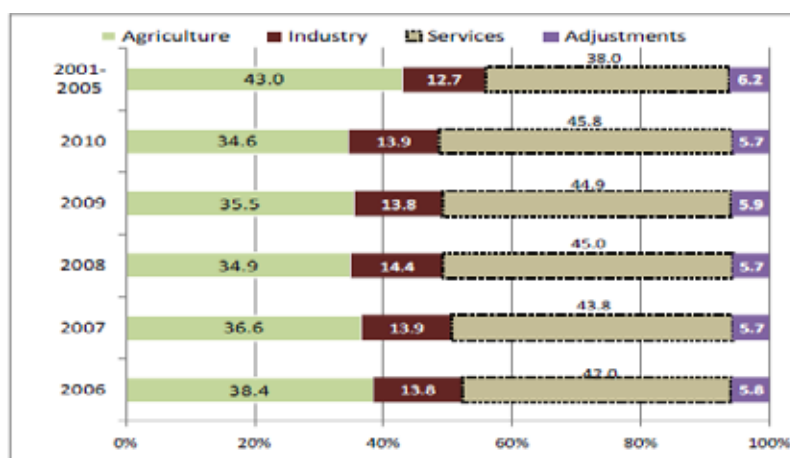
The low domestic saving rates in Rwanda have been partly due to a low saving culture, limited access to banking facilities especially in the rural areas and low incomes which translates into low savings for a significant portion of the unbanked population. In order to increase domestic savings and access to finance for the unbanked population the government has rolled out the SACCO Umerenge program, which is a savings cooperative at grass roots level. Here, local people put their savings in a cooperative with government supplementing the funds once they reach a certain threshold. Other members of the community can then borrow from the SACCOs and pay back in order to sustain the revolving funds under the SACCO Umurenge program.

Gross Domestic Product (GDP)

Sectoral contributions to Gross Domestic Product (GDP) show that there have been structural shifts in the structure of the economy over time. There has been a substantial increase in the service sector contribution to GDP from an average of 38% in the period 2001 to 2005, to a contribution of about 46% in 2010 (see Figure 4.1). In addition, there has been a slight increase in the industry sector share of GDP from an average of 12.7% in the period 2001 -2005 to 13.9% in 2010. Coupled with the increased

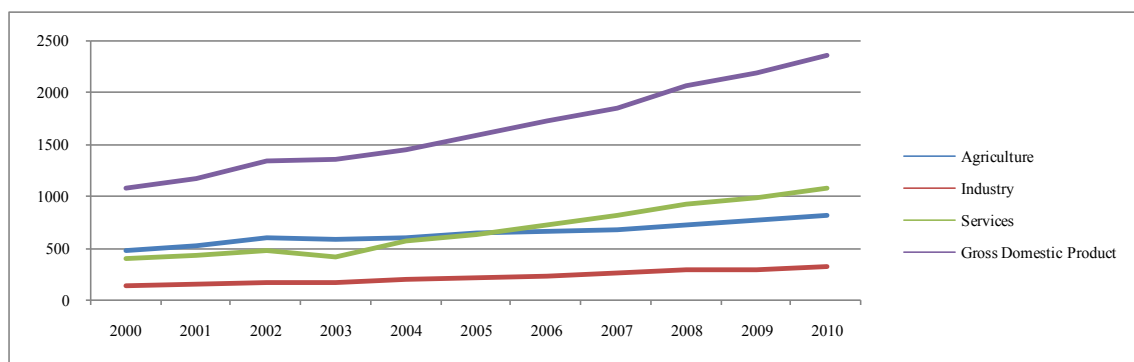
contribution of the service and industry sectors, the contribution of agriculture to GDP has decreased from an average of 43% in the 2001-2005 period to about 35% in 2010 (See Figures 4.1 and 4.2). In terms of economic transformation, these trends show that Rwanda is gradually making progress on developing the service industry to reduce the over-heavy dependence on primary production. They also show structural movements to more productive sectors in the economy, which may translate into higher quality jobs and higher income opportunities for the population over time. This is a positive trend towards long term economic transformation objectives of increasing productivity and quality employment and incomes for sizeable parts population over time.

Figure 4.1: GDP Composition By Sector Over Time (%)



Source: NISR

Figure 4.2: Gross Domestic Product By Activity At Constant 2006 Prices

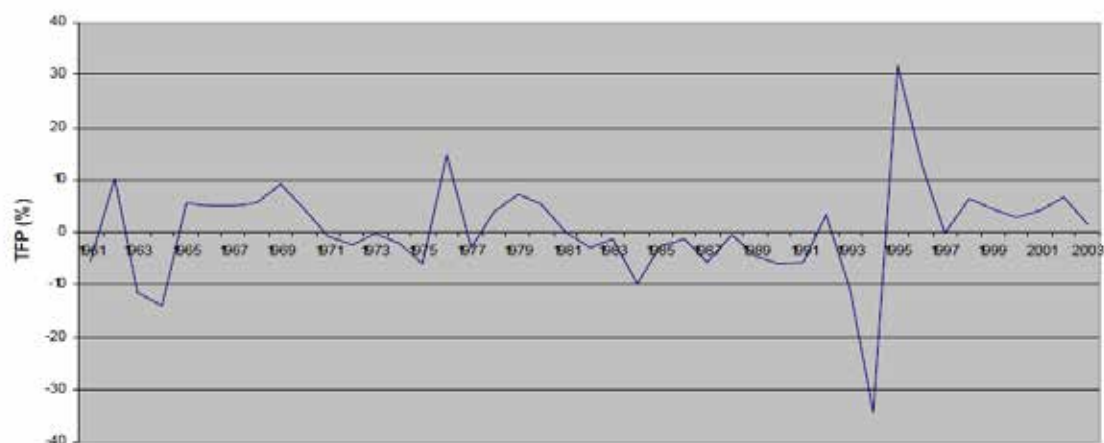


Source: NISR 2011

Aggregate Productivity/Efficiency of Investments in Rwanda

Figure 6 shows Rwanda's trend in total factor growth rate for the period 1961 –2003. Although there were periods of positive change prior to the early 1990s, there were also some periods of significant decline, particularly in the 1980s. Since 1994 the growth in productivity has appeared to stabilize at a positive level. The observed trends in Rwanda's productivity after 1995 are explained in terms of the increased openness to trade (proxied by the ratio of exports and imports to GDP) that resulted from the 1995 trade and economic reforms (See Table I below).

Figure 6: Annual Total Factor Productivity Growth Rate in Rwanda , 1961-2003



(Source: World Bank development indicators)

Table 1a: Rwanda Trade Indices 1980-2003

Period	TFP	Imports to GDP Ratio	Capital imports to GDP ratio	Overall trade Ratio	Trade-tax Ratio	Export to GDP ratio
1980-1989	-2.37	14.7	3.9	26.7	46.6	12
1995-2003	7.78	27	6.5	35.2	23.2	8.2

Table 1 shows that with the exception of export of goods and non-factor services all the indicators of trade reform improved significantly between the two periods in Rwanda. The exports of goods and non-factor services over GDP, which was expected to increase as trade liberalization progressed declined over the 2 periods 1980-89 and 1995-03. This was due to the fact that coffee production, which constituted the main export of Rwanda, decreased significantly in value and volume for three main reasons: lack of maintenance of coffee trees, ageing of coffee trees, and rejection of farmers to grow and harvest coffee which was being substituted with food crop production between 1990 and 1994.

Imports of goods and non-factor services as a percent of GDP increased from almost 15% to 27% , while capital imports increased from 3.9% to 6.5%. In terms of economic transformation, the increase in capital imports reflects a drive to acquire the investment goods needed to transform the economy rather than being dominated by consumption goods. In addition, the overall trade to GDP ratio increased from 26.7% during the 1980-89 period to 35.2% during the 1995-2003 period with the biggest part of the increase attributed to increased imports. Increased imports were possible due to Rwanda having a large stock of foreign reserves necessary for importation and the reduction in tariff rates and tariff bands (Coulibaly et al, 2008).

With respect to increased productivity, it is highly likely that greater imports forced domestic businesses to increase their efficiency of production in order to become more competitive since they lost the price protection afforded by tariffs. More advanced technology was perhaps also introduced as reflected in the increased amount of capital importation, thus contributing to further reductions in the cost of production. After 2003, increases in Total Factor Productivity (TFP) in Rwanda could be attributed to significant

efficiency gains derived from improvements in the quality of human capital and from the effects of other economic reforms, notably government policies that put a stronger emphasis on education, and high technology initiatives such as the Information and Communications Technologies (ICT) program.

Table 1b: Financial reforms and productivity in Rwanda

Period	Total factor Productivity	Money supply to GDP ratio	Private credit to GDP ratio	Real interest rate
1980-1989	-2.37	14.36	7.2	9.13
1995-2003	7.78	16.32	9.2	8.5

Considering the currency regime, it is important to note that in 1995 Rwanda established a fully liberalized and market-determined exchange rate system. The shift from a fixed exchange rate to a flexible exchange rate coincides with the period when productivity became positive, yet the real exchange rate depreciated between the two periods from an average (index value) of 102.3 during 1980-1989 to 93.9 during 1995- 2003. Policy was aimed at stabilizing and reducing the exchange rate through forex auctions so as to maintain the external competitiveness of the country's exports. The stability was supported by a continuous flow of foreign financial assistance. Official Development Assistance (ODA) as a share of GDP rose sharply from 10.8 per cent during the 1989-89 period to 23.7 per cent during the 1995-2003 period.

An analysis of the relationship between trade liberalization and aggregate productivity growth by Coulibaly and others in 2008 finds that trade, financial and exchange rate reforms have positively affected aggregate productivity in the Rwandan economy over the period 1995-2003. Evidence of this productivity growth is shown by increases in export activity over recent years, with new exports including hides, skins, fruits, vegetables, flowers, dried paper, cement, mineral water and some re-exports, and represents a positive outcome which should be built upon. Although the share of manufactured exports in total exports is growing, manufacturing as a share of GDP has been declining over time and has been very low compared to benchmark countries like Vietnam, Malaysia and Thailand (see Figure 9.3). This has been due to the high growth in non-manufactured exports, particularly minerals, tea and coffee. Growth in manufactured exports has nonetheless been high, suggesting that trade policies have been effective in boosting exports from a very low base, although again based mostly on resource-based manufacturing.

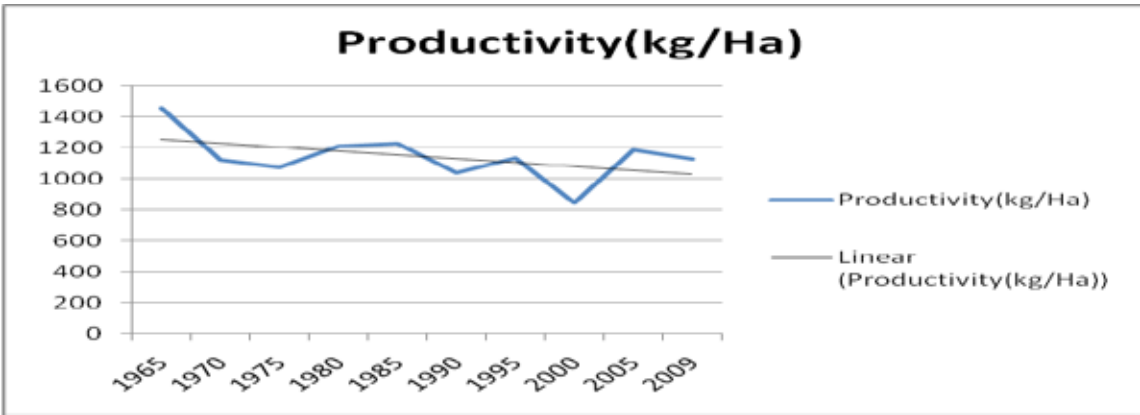
STRUCTURE

PRODUCTION

Agricultural productivity

Figures 5a shows the evolution of Rwanda agricultural productivity in terms of cereal yield in kg per hectare while figure 5b compares Rwanda’s agricultural productivity with benchmark countries over time. Long term trends show a slight decline in Rwanda’s agricultural productivity in terms of cereal yield per hectare between the period 1965 to 2009. Prior to 2000, there was a declining trend in cereal yield per hectare, reaching the lowest yield of about 800kg/hectare in 2000. As part of the Rwanda’s Strategic Plan to Transform (PSTA) the agricultural sector, Rwanda implemented the land consolidation and crop intensification programs. Following the implementation of these programs, land productivity in terms of cereal production has had a steady recovery since 2000 peaking at 1200 kg/ha in 2005. Despite this recovery, cereal yields have not yet surpassed their pre-genocide levels. (See Figure 5a).

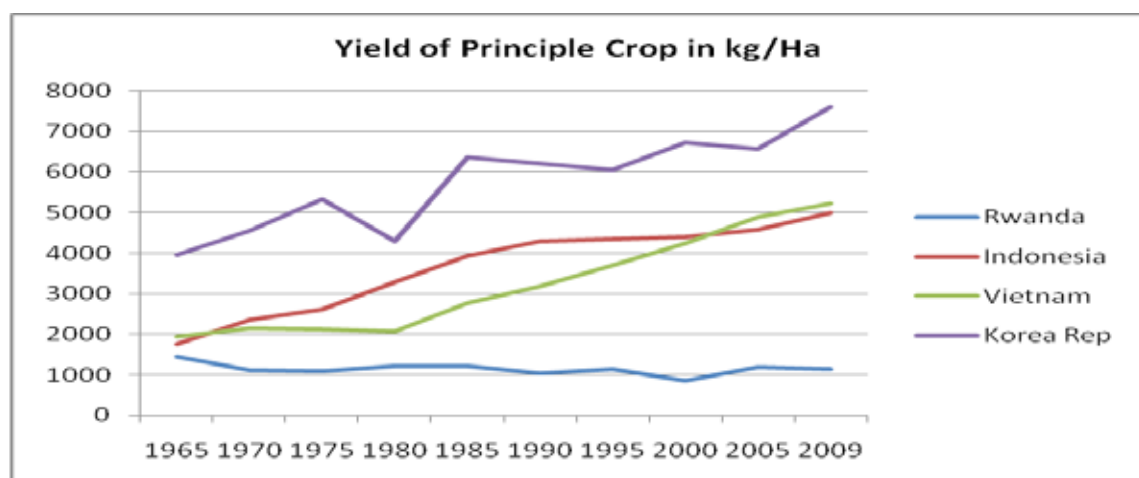
Figure 5a: Rwanda’s Cereal Yield in Kg per Hectare



(Source: Graphs Computed from World Bank Development Indicators, 2011)

Compared to benchmark countries like Indonesia, Vietnam and Malaysia, long term trends show a growing gap in agricultural productivity within Rwanda. On average the agricultural productivity of all the benchmark countries is above 2000kg/ha over the last 30 years. This implies that Rwanda’s agricultural productivity is still low at an average productivity of about 1000kg/ ha over the last 30 years. (See Figure 5b)

Figure 5b: Comparing Rwanda's Agricultural Productivity (in terms of Yield in Kg per ha of principle) with Benchmark Countries



(Source: Graphs Computed from Bank Development Indicators, 2011)

With respect to Rwanda's agricultural policy, a number of interventions and agricultural reforms have been implemented by the government in order to improve land use patterns and increase agricultural productivity in Rwanda. This included land reforms that regulate land ownership and enable registration of land, and a strategic agricultural transformation plan that has enabled efficient use of agricultural land and labour on larger production units. In addition, crop intensification and land consolidation programs have been implemented in order to counter land fragmentation; these have resulted in improved agricultural productivity in Rwanda over the last 10 years. However, the evidence in Figure 5b above shows that more efforts are needed in order to improve agricultural productivity in Rwanda.

FOREIGN TRADE

EXPORTS:

Traditional exports

Table 2 below presents Rwanda's principal manufactured export products by value, share of exports and annual growth in 2001 and 2008. Rwandan exports are dominated by three products: tea, minerals and coffee. However, the domination of the three top commodities in exports declined from 2001 to 2008, from 94.4 per cent to 79.12 per cent. This came at the back of very high rates of growth in value of the top three Rwanda exports with growth rates ranging from 17 per cent for coffee to 29 per cent for tea products.

Table 2: Rwanda's Manufactured Exports (2001-2008) principal manufactured export products by value, share of exports and annual growth in 2001 and 2008

	Value(million USD)		Annual	Share of exports		Tech. classification
	2001	2008	Growth	2001	2008	
Tea and mate	16.57	125.45	29%	29.8%	36.2%	Primary
Base metal ore/concnes	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, frsh/chld/frz	0.00	12.83	235%	0.0%	3.7%	Primary
Beverage non-alcohol nes	0.01	12.73	138%	0.0%	3.7%	Resource-based
Live animals except fish	0.00	3.62		0.0%	1.0%	Primary
Passenger cars etc	0.00	2.99		0.0%	0.9%	Medium-tech.
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"l	0.00	1.35	148%	0.0%	0.4%	Resource-based
Worn clothing etc	0.01	1.35	98%	0.0%	0.4%	Primary
Precious metal ore/conc.	0.00	1.26		0.0%	0.4%	Resource-based
Articles nes 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

Non Traditional Exports

Rwanda's non-traditional exports include alcoholic beverages, vegetables and non-alcoholic beverages, and these constitute the next three largest exports. Alcoholic beverages, vegetables and non-alcoholic beverages respectively represent 5.4, 3.7 and 3.7 per cent of exports in 2008, from near zero in 2001. Although alcoholic beverages, vegetables and non-alcoholic beverages are at a considerably lower export value scale compare to coffee, tea and minerals, they have shown growth rates of over one hundred percent. The high growth in vegetable exports is due to the fact that vegetables are prioritised by government through the promotion of the horticulture sector. On the other hand, another prioritised sector, such as hides and skins, is very small, representing only 0.7 per cent of total exports in 2008. The hides and skins sector similarly shows a strong annual growth of 17 per cent from 2001 as is the case with vegetable exports.



Export Diversification in Rwanda

Table 3 below shows the different measures of export diversification in Rwanda over the period 1970 to 2004 but represented as 5-years averages. The number of exported products worth over 10,000US dollars increased four fold between 1970 and 2004. Despite the increase in the number of exported products, shares of the top 5, 10 and 20 products remained closer to 100 per cent over the period pre-genocide period (1970-1994) and only started decreasing due to reforms taken after the 1994. In addition, the Herfindahl index, which is a measure of concentration of the different industrial sectors in Rwanda's exports, showed a dramatic decline from 0.6 in 1990 to 0.35 in 2004. Although still high, the drastic reduction of the Herfindahl index shows a tendency towards greater export diversification in Rwanda during the post-genocide period.

Table 3: Different measures of export diversification in Rwanda (1980 to 2004)

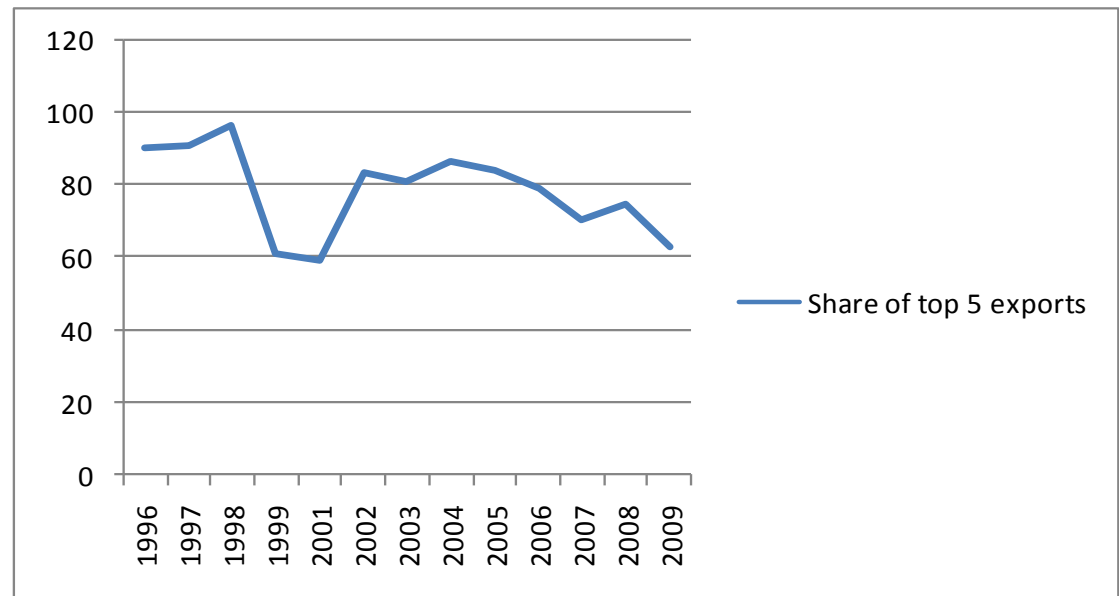
Year	No. of products exported (>10,000USD)	Avg Herfindhal index-5years	Share of top 5 products	Share of top 10 products	Share of top 20 products
1970	11	0.5	0.97	0.99	1
1975	21	0.43	0.97	0.99	1
1980	27	0.57	0.98	1	1
1985	41	0.59	0.96	0.99	1
1990	37	0.6	0.95	0.99	1
1995	42	0.49	0.9	0.96	0.98
2000	51	0.45	0.91	0.95	0.97
2004	46	0.35	0.94	0.96	0.99

Source: Staff estimates, COMTRADE SITCI

Figure 7(a) shows evidence of this move towards export diversification during the post genocide period i.e. 1996 to 2009. Although still relatively high, the share of the top five exports has steadily declined from 90 to 60 percent between 1996 and 2009. The decline in both the share

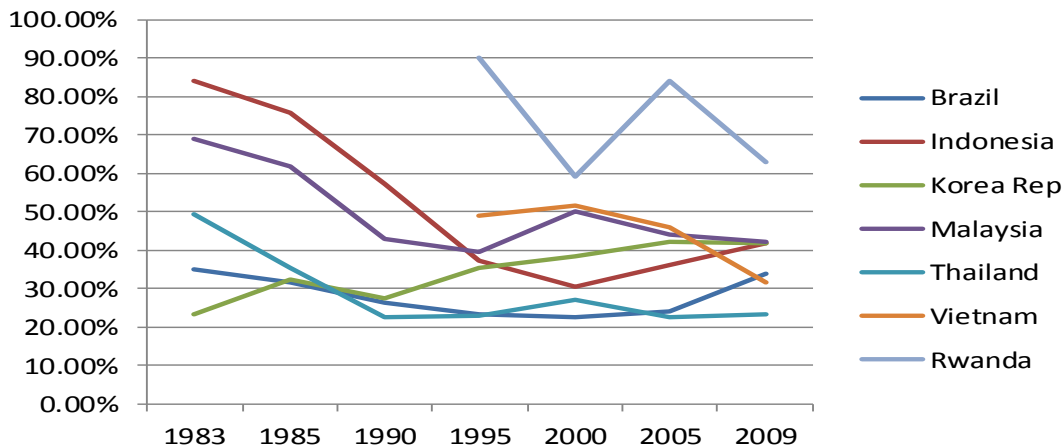
of the top five products and in the Herfindal index over time shows a steady trend towards export diversification in Rwanda.

Figure 7(a): Share of top five exports(1996-2009)



(Source: World Bank Indicators, 2011)

Figure (7b): Rwanda’s share of top 5 exports compared with benchmark countries



Evolution of export diversification in Rwanda

Rwanda has made significant progress in diversifying its exports over time. In the 1980s, Rwanda had one of the most concentrated export baskets in the Sub-Saharan Africa. Between 1980 and 1989, the share of coffee, the primary export product in the Rwandan economy, ranged between 70 and 95 per cent, leading to an extremely high Herfindahl index, in the range of 0.6. In comparison, the Herfindahl index for Sub-Saharan Africa was just under 0.4 and the average export growth rate was about 3.4 to

4 per cent per year. Between 1995 and 2004, as the share of coffee fell to about 50 per cent, Rwanda closed the gap with Sub-Saharan Africa (See Figure 8a). Its Herfindahl index of export concentration and average export growth rates reached the averages for Sub-Saharan African averages for the period 1980 to 1989. Notable successes include the revamping and gradual privatisation of the tea sector and the current diversification into horticultural products. However relative to the benchmark countries for this study, Rwanda's export concentration measured by the Herfindahl index has been high (ranging between 0.45 and 0.35) over the last 10 years. Benchmark countries like Vietnam, Korea Republic, Malaysia and Thailand have all had their Herfindahl indices below 0.2 in the last decade, an indication that Rwanda needs to do more to diversify its exports if it is to achieve sustained economic transformation (see Figure 8b)

Figure 8a: Rwanda's export concentration (shown by Herfindal Index) over time

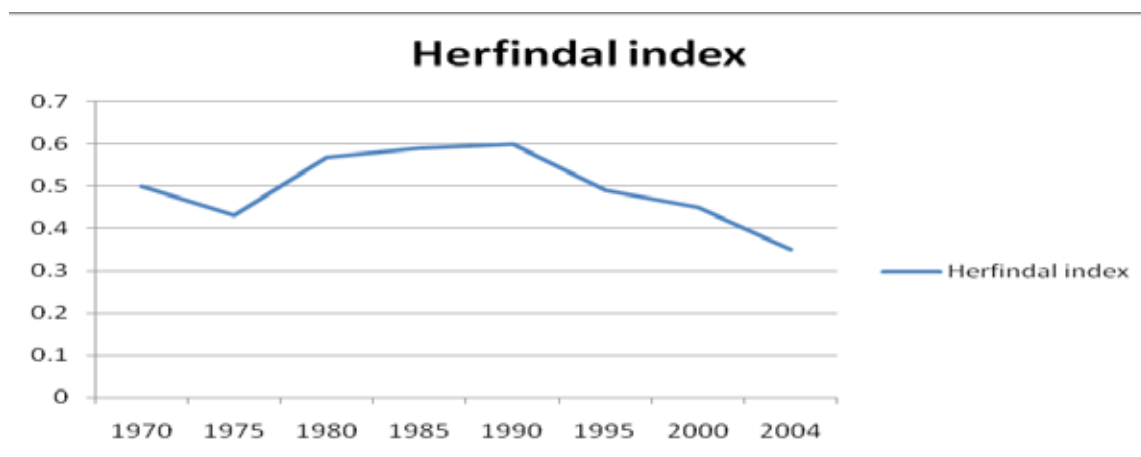
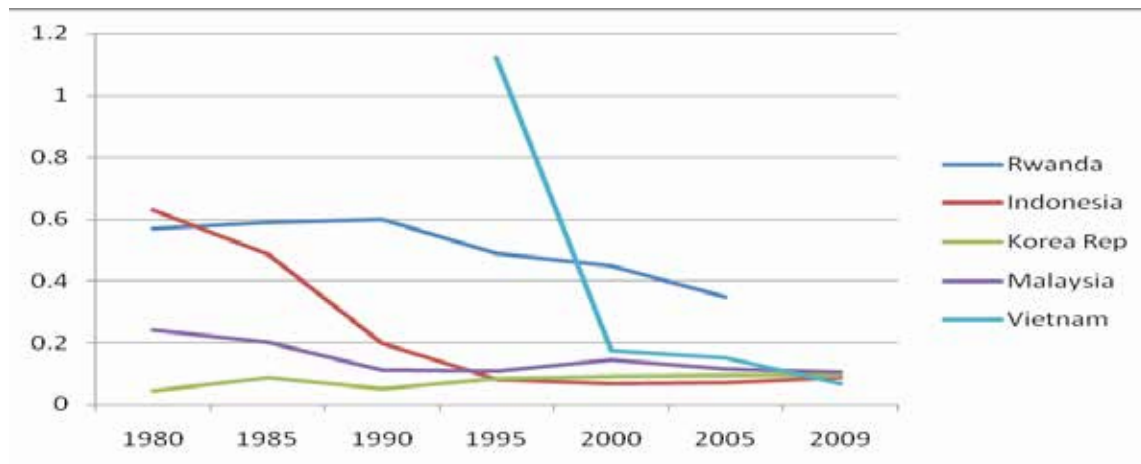


Figure 8b: Comparing Rwanda Herfindal index of export concentration with benchmark countries



(Source: Graph computed from World Bank indicators, 2010)

Outlook and Prospects for increased export diversification and competitiveness in Rwanda

In general, Rwanda's efforts to prioritise export diversification seem to be paying off, although at a slow pace. Being a landlocked country with very high transportation and other trade-related costs hampers

Rwanda's possibilities for export-led growth and diversification. In addition, non-tariff barriers are another factor that slows down export diversification. Despite Rwanda making significant improvements in lowering the time and cost of import and export handling, non-tariff barriers in the form of trade related procedures and formalities remain cumbersome. However, the prognosis for the future is optimistic. As a first step in the expansion of the international trade, regional trade provides opportunities that can be exploited in the short and medium term. The landlocked location is less of a hindrance to regional trade and many types of interactions between the neighbouring countries tie them ever closer together. Anecdotal evidence suggests that Rwanda's regional trade and cross-border trade with the Democratic Republic of Congo and Uganda is growing in value. To enhance regional trade, Rwanda joined the East African Community and has implemented a number of reforms in line with East African Integration process. Rwanda facilitated trade by extending the opening hours of the customs boarder 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 time to import by 27 days constituting a 40 percent reduction (World Bank, 2008).

Efforts to facilitate regional trade should be linked to the infrastructure investment in Rwanda both when it comes to main roads connecting to the transport routes in neighbouring countries as well as feeder roads in the rural areas of Rwanda. Expanding the size of the national market and access to the regional market might well provide a solid basis for economic diversification and increased competitiveness

EXPORT MARKETS FOR RWANDA

Export markets are another dimension of export diversification. A greater range of clients helps protect against fluctuations in demand for export products. Disaggregating Rwandan export destinations by country, Kenya accounted for 36.6 per cent of exports in 2008, due to tea and coffee exports through Kenya, down from 43.3 per cent in 2001. New or high growth markets include the DR Congo, which accounted for 14.2 per cent, up from 0.5 per cent in 2001, while Belgium accounted for 10.4 per cent in 2008, up from 3.7 per cent. Other export destinations with low shares but annual growth above 50 per cent include the UK, China, Burundi, India and the United Arab Emirates. This increase in diversity of markets is a positive development for the Rwandan export sector (See Tables 3a and 3b).

Table 3a: Rwanda Export Destinations

Value (Million USD)				Share	
Destination	2001	2008	Growth	2001	2008
Kenya	24.04	126.51	23.1%	43.3%	36.6%
Congo, Dem. Rep.	0.28	49.31	91.2%	0.5%	14.2%
Belgium	2.06	36.03	43.0%	3.7%	10.4%
HongKong, China	1.30	25.78	45.3%	2.3%	7.4%
Swaziland	0.00	18.88		0.0%	5.5%
Switzerland	4.19	18.25	20.2%	7.5%	5.3%
United Kingdom	0.26	13.52	64.0%	0.5%	3.9%
South Africa	6.20	12.05	8.7%	11.2%	3.5%
Germany	2.39	7.85	16.0%	4.3%	2.3%
Uganda	2.52	5.84	11.1%	4.5%	1.7%
China	0.20	5.63	51.5%	0.4%	1.6%

Burundi	0.12	5.47	60.7%	0.2%	1.6%
India	0.06	4.02	69.7%	0.1%	1.2%
United States	2.99	3.93	3.5%	5.4%	1.1%
Italy	0.19	3.69	45.1%	0.3%	1.1%
Singapore	0.00	2.39		0.0%	0.7%
United Arab Emirates	0.01	1.51	101.1%	0.0%	0.4%
Netherlands	1.20	0.93	-3.1%	2.2%	0.3%

(Source: UN Comtrade, 2007)

Table 3b: Rwanda's main exported products by destination and market access, 2007

Product	Product share in Rwanda's total exports (per cent)	Exports value (thousands of dollars)	Main destination	Market share (per cent)
Tin ores	22	39 458	World	100
			EU	80
			China	10
			South Africa	7
			Thailand	1
			Malaysia	1
			United States	1
			Other	0
Coffee	18	32 405	World	100
			Switzerland	40
			EU	32
			Swaziland	18
			United States	7
			Kenya	2
			Other	1

	17	30 305	World	100
Tea		30 246	Kenya	100
Niobium and tantalum	11	19 854	World	100
		8 167	China	42
		5 568	EU	29
		4 645	United States	24
		868	Uganda	5
		606	Other	0
Tungsten ores	10	18 117	World	100
		10 231	China	57
		7 839	EU	43
		47	Other	0

(Source: UN COMTRADE, 2010.)

Technological Sophistication of Production and Exports

Figure 9a shows that the level of sophistication of Rwanda's exports has been low over time since it has been mainly dominated by primary products over the last 10 years. Primary products have averaged over 60% of Rwanda's exports, while resource based, low technology, medium technology and high technology products have averaged below 20% of Rwanda's trade share. This is partly due to the fact that the most significant export discoveries have been in bananas and other unprocessed agricultural goods. The over dependence on primary products is a risk to Rwanda's long term transformation due to the price volatility that is associated with primary products in international markets

Despite their dominance, primary products have had a declining share in exports while the shares of low and medium technology products has shown a steady increase over the 10 years. This is a good sign of the increasing sophistication and subsequent economic transformation that is beginning to take shape in Rwanda's export trade in the last decade (see Figures 9b and 9c). However, the increase in the share of low technology products in Rwanda comes in a decade when most of the benchmark countries show a decline in low technology products while increasing medium technology.

Resource based mineral products were high prior to 2001, but have reduced thereafter averaging to less than 20% of Rwanda's trade share.(See Figure 9a)

Figure 9a: Technological Sophistication of Rwandan Production and Exports

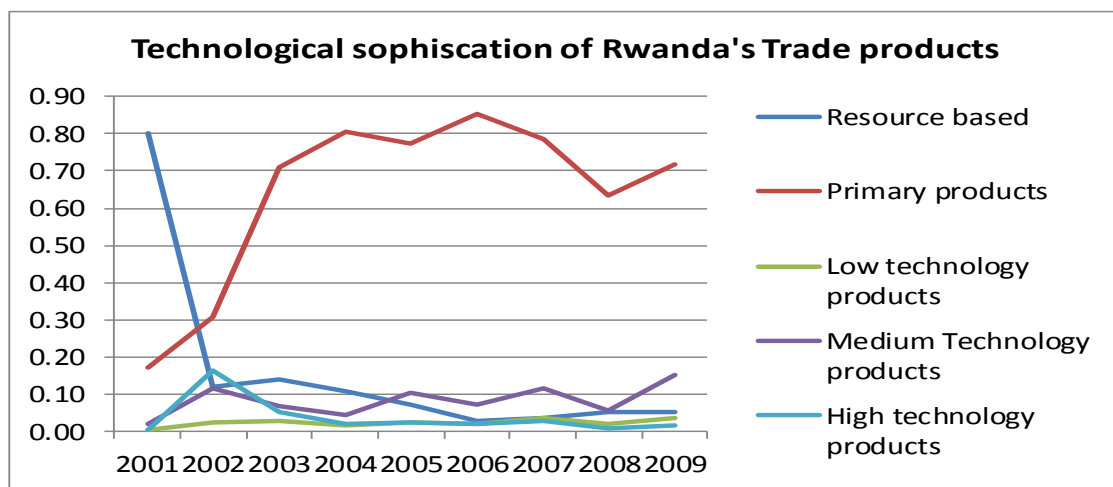


Figure 9(b): Comparing Rwanda's Share of Primary Products in Exports with Benchmark Countries

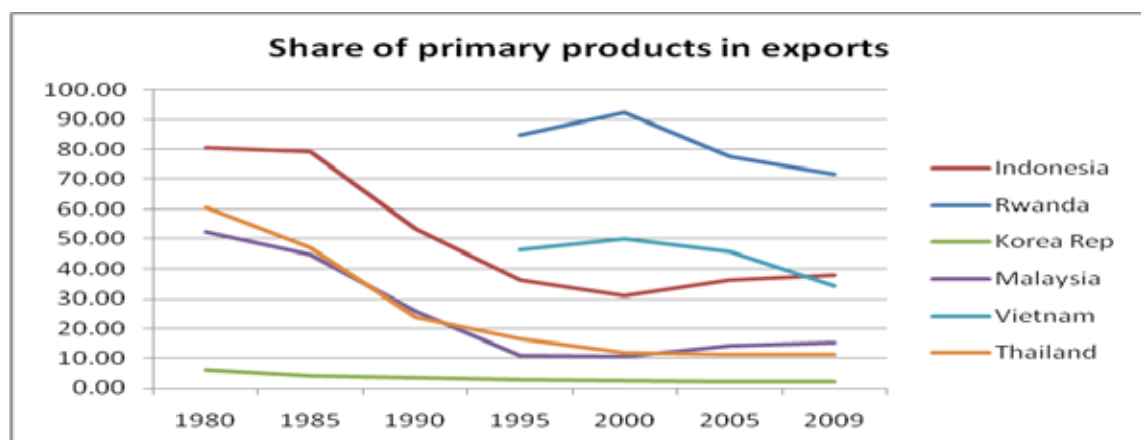


Figure 9(c): Comparing Rwanda’s Share Of Low Technology Products in Exports With Benchmark Countries

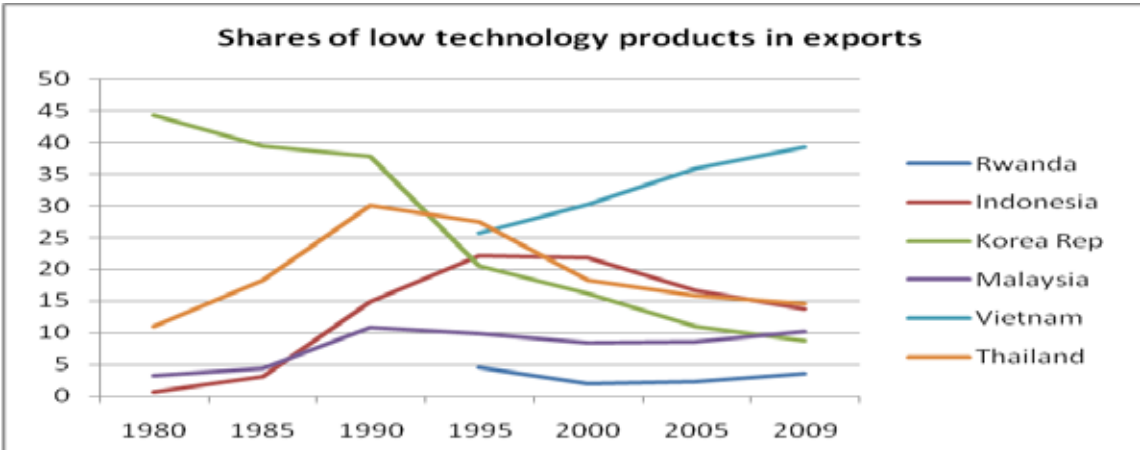
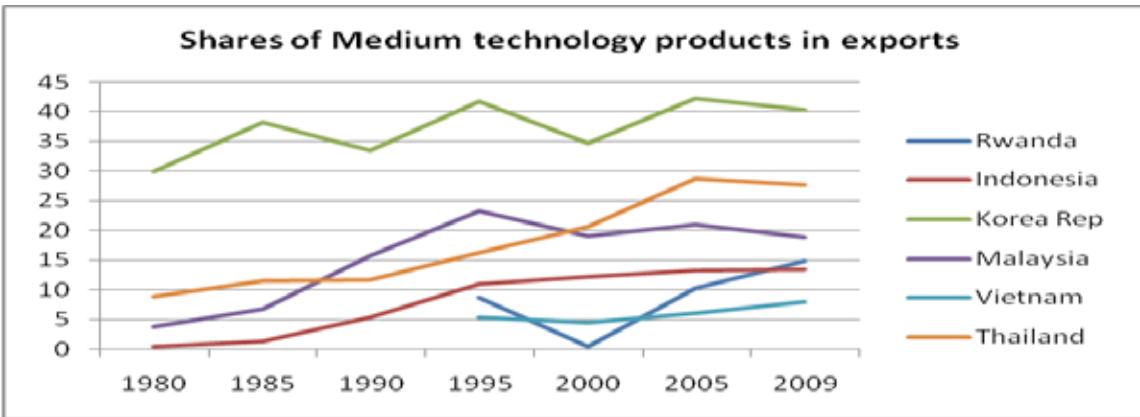


Figure 9(C): Comparing Rwanda’s Share Of Medium Term Products In Exports With Benchmark Countries



(Source: Graphs drawn UN Comtrade data, 2009)

VALUE ADDITION OF RWANDA’S EXPORTS OVER TIME

According to Figure 10[10-something?] below, the manufacturing share of GDP has declined from 20 percent in 1980 to 12 percent in 2001.While the broader industrial sector has expanded at a higher rate than manufacturing, much of this is due to the construction sector which though positive in terms of employment creation, lacks dynamism and the positive spill overs found in the manufacturing sector. Further, much of construction is thought to be residential rather than productive investment (DfID, 2008). This underlines the importance of further promoting the manufacturing sector.



Figure 10a: Rwanda's Value Addition As A Percentage Of GDP (1960-2009)

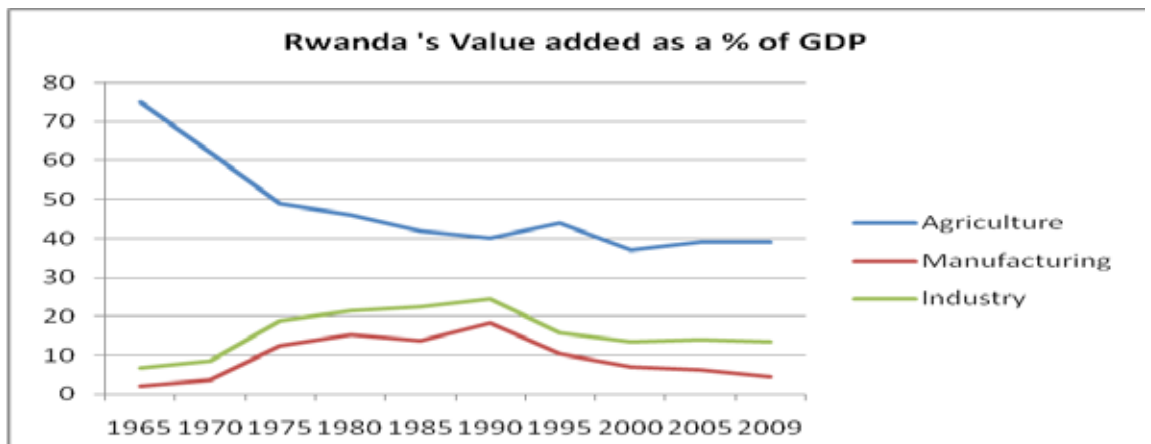


Figure 10b: Comparing Rwanda's Agriculture Value-Added To GDP With Benchmark Countries

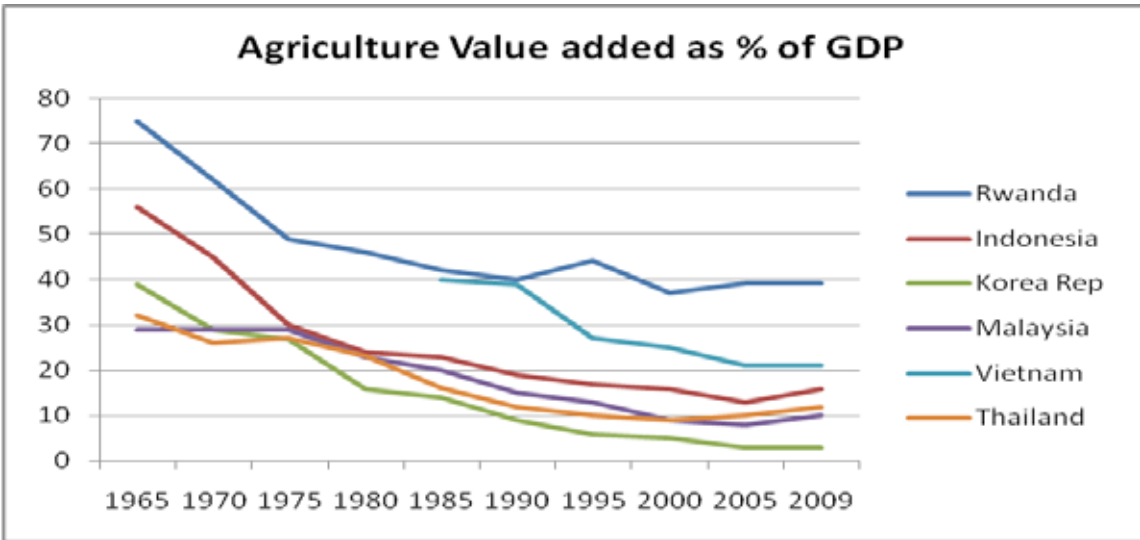
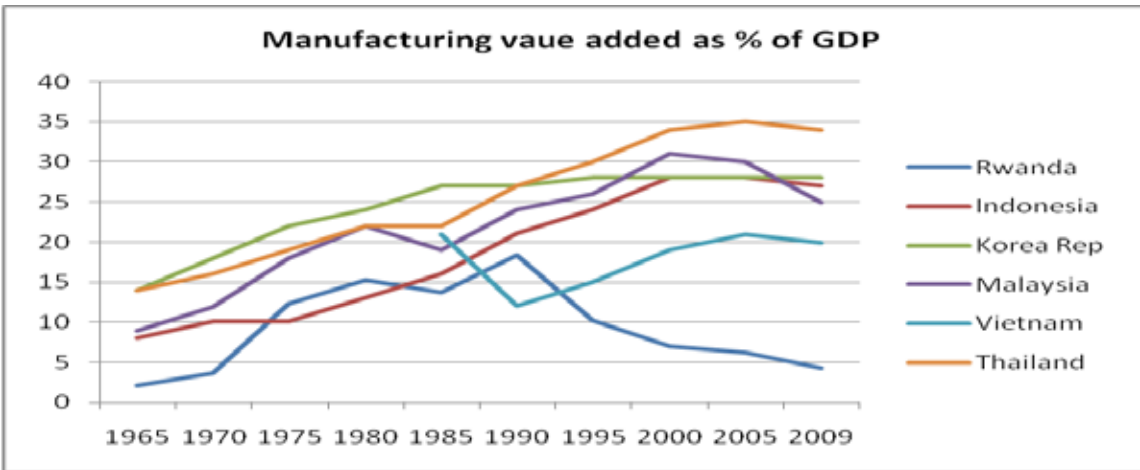
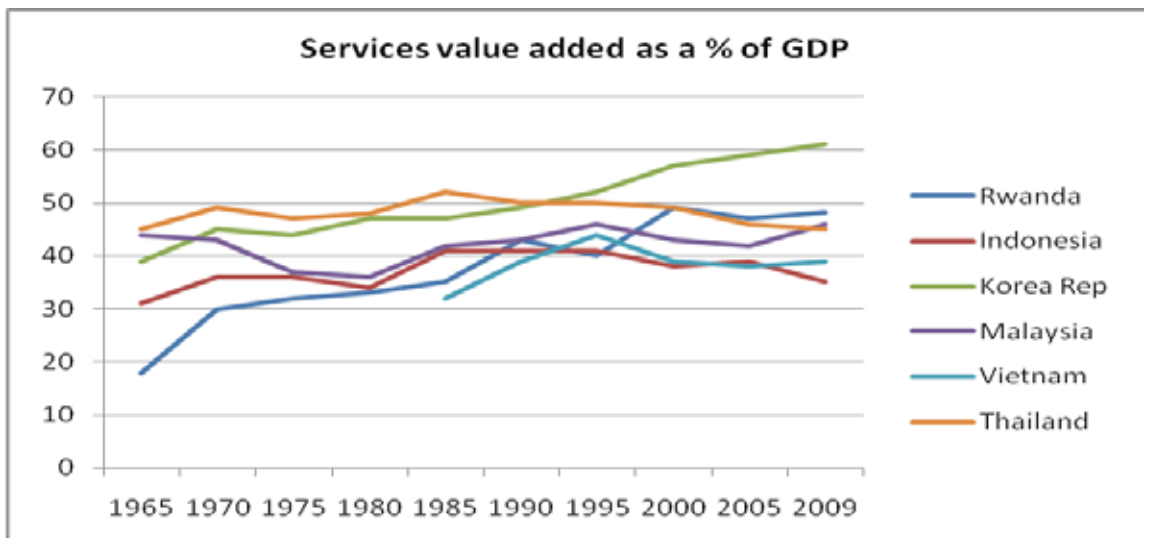


Figure 10c: Comparing Rwanda's Manufacturing Value Added (MVA) to GDP With Benchmark Countries



The share of Manufacturing Value Added (MVA) in GDP declined from 11.3 per cent in 2000 to 10.8 per cent in 2007 due to expansions in the agriculture sector in particular. While positive in the sense that manufacturing is relatively important in the economy, this is also a reflection of the small size of Rwanda's economy. Further, the share of medium and high technology production in MVA is one of the lowest in East Africa. The low economic transformation of Rwanda is primarily a result of low manufacturing value added per capita and the low level of technology involved in manufactures and exports than the share of manufacturing in GDP, which is relatively high for the region, while the manufactured export share is also relatively high. This implies a need for policy-makers to concentrate further on the types of manufacturing investment which are encouraged to produce and export within Rwanda, suggesting that the technology embedded in manufactures should also be a part of the focus.

Figure 10d Comparing Rwanda's Services Value Added to GDP with Benchmark Countries



Recent Export Performance in Rwanda

Exports represent less than 10% of total GDP compared to an average of 32% of GDP for Sub-Saharan Africa. The level of exports has been growing over the past ten years, but growth is still less than 5% and only just above the average for all of sub-Saharan Africa. Measured on a per capita basis, Rwandan export performance is even weaker – annual exports per capita are just 18 USD, while the average for sub-Saharan Africa is 145 USD. Weak export performance in the late 1990s and early part of this decade

can be attributed to low international prices for tea and coffee, which have now levelled off.

Table 4a: Key Performance Exports Indicators for Rwanda

	Base	Target	Actual	Target	Actual	Moving Forward
	2007	2008	2008	2009	2009	2012
The value of existing (traditional) exports						
Export per capita (\$/person)	18		26	17	8.5	46
Export revenue from coffee (\$millions)	30	51	47	38	10	115
Export revenue from tea (\$millions)	35	40	45	28	25	80
Export revenue from tourism (\$millions)	138	56	208		120	278.5
Export revenue from minerals (\$millions)	71	63	93	45	26	106 (2011)
Diversification into new exports						
Concentration of exports in coffee, tea and minerals (%)	78	65	68	64	71	60
Ratio of export versus import growth	0.91	1.2	0.88	1.2	-1.2	1.2
Export revenue from horticulture (USD millions)	0.297	0.738	0.167	0.630	0.040	2.153
Export revenue from leather (\$millions)	3.6	4.4	2.9	3.2	0.5	9.6
Export revenue from handicraft (\$'000s)	0.422	0.391	1.945	0.540	0.155	3.000

(Source, Ministry of Trade and Industry, 2009)

Rwanda depends heavily on agriculture as the main source of export revenue. The traditional exports — coffee, tea, pyrethrum, hides and skins — represent 71 per cent of the country's export

Revenue (Rwandan Government, 2007). In the past five years, the government has taken significant measures to promote exports by increasing productivity and adding value to traditional exports. It is also promoting diversification into new areas such as horticulture and niche crops.

Export Issues And Challenges In Rwanda

Rwanda's 2009 export revenue decreased by 85 million USD in comparison with 2008 figures, due to the impact of global downturn of key sectors. However, exports rebounded in 2010, increasing by 23.8 per cent to 454 million USD. Minerals suffered a 40% decline in export revenues in 2009. This rebounded to 68 million USD in 2010. Both coffee and tea production declined (18% and 6%, respectively) and coffee prices fell 4%; however, coffee and tea exports in 2010 reached US\$56.1 million and US\$55.7 million respectively; tourism declined by 6%, translating into total receipts of US\$175 million. Revenue from tourism in 2010 totalled US\$200 million.

Rwanda's exports show robust growth – and so do imports. Rwanda's exports, including tourism, have increased significantly over the past decade, rising to US\$454 million in 2010. Export growth was led by tourism, tea, coffee and mining sectors, as well as strong growth of re-exports. At the same time as this impressive growth in exports, imports to Rwanda have grown more rapidly, from US\$282 million in 2003 to US\$1.3 billion in 2010. Efforts to both expand exports and reduce or substitute targeted imports through competitive measures can reduce the trade deficit, as donor aid and international transfers, which currently subsidize this deficit, are being reduced.

Rwanda is a net importer from the EAC with imports from the region representing a third of Rwanda's overall imports. Rwanda's main trading partners in the EAC region are Uganda and Kenya, with 2009 trade at US\$249 million and US\$172 million respectively. However, this mostly constitutes imports into Rwanda from EAC nations. The only country with which Rwanda has a largely positive trade balance is Burundi, although this only represents less than 1% of Rwanda's trade. Rwandan exports are underdeveloped compared with the rest of Africa. Although the export sector is growing, Rwanda lags behind other African nations in terms of exports as a percentage of GDP. Closing this gap will require expansion of production as well as the creation of niche products and services that respond to the specific needs of target markets.

AN ANALYSIS OF RWANDA'S ECONOMIC SECTORS

The economy of Rwanda is categorized into three main sectors: agriculture, service, and industry. These currently make up respectively 37.4%, 42.7% and 14.1% of the economy (MINECOFIN, 2008). Since the year 2001, the service sector got expanded and became the largest contributor to GDP, accounting for an average of 42.4 % in 2001-2007, and the industrial sector accounts for 14% of GDP (MINECOFIN, 2007, World Bank, 2007). The importance of agriculture's contribution to growth in Rwanda remains considerable, despite the emergence of other significant growth drivers, such as services. In recent years, services marginally surpassed agriculture as the main contributor to GDP. The service and agriculture sectors recorded respectively 43% of GDP in 2001 and 45% of GDP in 2007, 37% in 2001 and 36% in 2007 (World Bank 2007, and MINECOFIN 2007). The service sector is taking a lead role contrary to the Vision 2020 target. Since 2002, Rwanda has implemented a comprehensive reform program to reduce poverty and support growth. The reform program initiated under Rwanda's first Poverty Reduction Strategy Program (PRSP) focused on social sector development to lay the foundation for improved service delivery for human development and growth. These reforms resulted in substantial achievements in the economic sector. For example, since 2002, the GDP growth rate has ranged from 3-9% per annum, and many areas of the Rwandan business environment have improved (e.g., communication and IT). The construction sector has been responsible for the continued growth in GDP over the past 10 years. Between the years 2003 and 2008, the construction sector grew by 351% (RDB, 2009). Although the country's economic performance is improving, much remains to be done if Rwanda is to meet its 2020 goals.

Box 3: Government strategies for Improving Rwanda's Investment climate

The Government has set out an ambitious programme to improve the investment climate for domestic and foreign investors to accelerate progress towards achieving its development goals. It recognizes that in order for investment (domestic and foreign) to be attracted it is necessary to address the fundamental weaknesses in the investment climate it inherited. As part of the strategy for doing this the Government requested the United Nations Conference on Trade and Development to carry out an Investment Policy Review in 2006 (UNCTAD 2006). This review found that by 2006 the Government had done much to address the fundamental weaknesses in the investment climate. Peace, stability and personal safety had been restored, microeconomic conditions were sound and stable, consistent improvements had been made in the investment framework, regulatory institutions had been strengthened, corruption was low and infrastructure impediments were being addressed. It also recognised that the Government's development strategy, with its emphasis on fostering private sector growth, created an opportunity to develop a foreign direct investment strategy

CURRENT STATUS OF THE SECTORS

Agriculture

The agriculture sector tries to meet the demand of the market both internally and externally. In the internal market, the commodities comprise mainly, food crops and industrial fruits like avocados, passion pineapple together with other products like harvesting honey, basket materials, meat, eggs, milk and derivatives. The external component of the market comprises flowers, fruit, coffee and tea. Coffee and tea are the two largest commercial exports with about of USD 47 million and USD 45 million in export revenues in 2008 respectively (Minicom, 2009).

Table 5a Coffee And Tea Exports Performance 2006-2007

Items	2007	2006	Variance in %	Target for 2007	% of target achieved	Share in total export
Coffee	34,202,003	540,040,795	-36.7	72,000,000	45.51	15.49
Tea	34,777,102	31,863,723	91	47,000,000	73.99	15.75

Source: RIEPA, 2007 annual report



Coffee revenues have been volatile. This has been mainly due to the volatility of coffee prices in international trade and also due to weather risk. The recent coffee strategy notes that off years tend to coincide with unfavourable weather conditions and the prevalence of diseases (Coffee new strategy, 2009-20012). Regarding tea, the performance is attributable to the privatization of some tea factories which led to improvement of their production and trade of their product (NBR, 2008). Investment in upgrading and expanding tea factories relieved the major constraint on tea production. However, there is still scope for investments in factories and the expansion of tea production.

The horticulture and floriculture sector has become also important in Rwanda and plays an increasingly important role in exports. The existing demand of passionfruit and its processed products represents significant potential for Rwanda, an opportunity for investors if the quality standards necessary for the international market can be met.

Table 5a: Rwandan Horticulture Exports (Thousand of USD)

Items	2007 (actual)	2007 (target)	2008 (actual)	2008 (target)	2009 (target)
Horticulture	448	511	167	738	945
1. Bananas	40	41	24	45	50
2. Other fresh fruits	111	85	72	232	320
3. Flowers	297	385	71	461	575

Source: MINICOM, 2009

The existing horticulture exports compared to targets show that for almost all products Rwanda's exports are below target. One of the reasons relates to the cost of transport for fresh fruits and vegetables or fresh cut flowers, as these have to be transported by air. As far as export diversification of agricultural products is concerned, development of the smaller sectors of handcrafts, hides and skins is promising.

Crafts are an important source of full-time and part-time employment and income in Rwanda. The Ministry of commerce estimated that currently there are 420 crafts associations or enterprises with over 7,000 organized craftsmen-members (MINICOM, 2009). **Table 5b: Handcrafts Exports (Thousands of USD)**

Item	2007 actual	2007 target	2008 actual	2008 target
Handcrafts	422	340	1,945	447

Source: MINICOM 2009

The growth in the handcraft exports is explained by the development of private sector companies working with thousands of people to export Rwandan handcrafts to the USA and other interested markets. The challenges in this sector are scattered production, often dispersed all over the country, which reduces capacity to deal with large orders. There is need to improve the management and governance aspects of the handcraft value chain in order to increase productivity and also increase the returns for the smallest actors in the chain.

THE MANUFACTURING SECTOR

The manufacturing sector in Rwanda, while not very developed, achieved progress in various areas during the last years in terms of contribution to the GDP, employment, share of total exports and investment. The sector expanded on average by 6.2% and its share of the sector in GDP increased from 6.8% in 2003 to 7.3% in 2007 as indicated in the table below.

Table 5c. Manufacturing Growth and Contribution to the GDP

	2003	2004	2005	2006	2007	
Manufacturing						
Value added (Rwf Bns)	56.40	60.01	62.10	70.26	75.84	Annual Growth: 6.2%
Contribution to the GDP (in %)	6.8	6.9	6.7	7.2	7.3	Average Share 7.0%

Source: 2003-2006, NISR; 2007, MINECOFIN



During the last 7 years (2000-2007), approved investment in the manufacturing sector reached RWF 160 billion. The investments were concentrated in five industry categories namely Agro-processing, food processing, beverages, leather product and other manufacturing category.

Table 6. Investments Approvals for the Manufacturing Sector (2000-2007)

	Total Capital Investments	Share
	RwF ('000)	%
Total	160,478,304	100
Agro Processing	6,975,742	4
Beverages	27,250,673	17
Food Processing	47,476,482	30
Leather and Leather products	3,662,916	2
Other Manufacturing	75,112,491	47

Source: RIEPA, 2008

However, from the total of the above approved investments over the period, only 47% of these investments were operational by the end of the last 2007 year.

In terms of job creation, food processing, beverages and tobacco activities are leading. Their share to the total job creation in the manufacturing is 59%. A study conducted by the Ministry of Public Service and Labour in 2007 indicates that the share of the Manufacturing Sector to total employment in the formal sector was 13%. Within the manufacturing sector the employment was distributed as follows:

Table 7a: Employment In The Manufacturing Sector

	Employment (Count)			Share
	Large Entities	SMEs	Total	%
Total	8,579	37,328	45,907	100%
Basic metals and metal products	101	523	624	1%
Textiles and textile products	658	2,660	3,318	7%
Wood products, including furniture	20	6,848	6,868	15%

Chemicals, fertilisers, plastics and Petroleum Products	69	849	918	2%
Food processing, beverages & tobacco	6,396	20,474	26,870	59%
Rubber processing and products	138	466	604	1%
Paper and paper products & publishing	46	183	229	0%
Non-metallic mineral products	1,151	976	2,127	5%
Handicraft		2,546	2,546	6%
Others	-	1,803	1,803	4%

Source: 2008 IMP Survey

Rwanda's *Vision 2020* set an ambitious target for the manufacturing sector to represent 25.6 per cent of GDP in 2020. However the most recent available statistics put the manufacturing share of GDP at 6.8 per cent in 2007 and 8 per cent in 2008 (MINICOM, 2009), if the goal of a manufacturing share of 25.6 per cent of GDP is to be achieved, this will require extremely rapid manufacturing growth.

THE SERVICE SECTOR

The service sector is divided into government and non-government sub-sectors. The government sub-sector consists of institutional units which, in addition to fulfilling their role in economic regulation, produce principally non-market services. Main activities of the non-government sub-sector consist of: finance, insurance, real estate and business services; wholesale and retail trade, hotels and restaurants; and transport, storage and communication.

In the period 2003-2007, average annual growth of the service sector was 8%. In 2003, the sector contributed by 43.7% to GDP. In 2007, the contribution of the sector increased to 48.2%. At the service sub-sector level, the non-government services recorded an average annual growth of 8.7%, accounting for 30.4% of GDP in 2003 and 34.9% of GDP in 2007.

Table 7b Services Growth and Contribution to the GDP

Services	2003	2004	2005	2006	2007	Annual growth
Value added (RWF Bns)						
Service (total)	360.91	389.30	424.61	459.00	501.19	8%
Non government	251.18	271.03	297.73	321.94	363.48	9%
Government	109.73	118.26	126.89	137.05	137.71	6%
Contribution to the GDP (in %)						Average share
	43.7	44.8	45.6	46.8	48.2	45.8

Source: 2003-2006, NISR; 2007, MINECOFIN

Box 4: Rwanda's Manufacturing Sector Priorities The Government of Rwanda, in its Vision 2020 plan, highlighted the strategic focus on manufacturing export growth in the medium term to accelerate economic growth in Rwanda. Although investments have been increasing steadily since 2000, most recent investments however, have been in the hotels and tourism sectors – very few firms have entered or made significant investments in non-traditional exports of manufactures, while imports within manufacturing have been growing rapidly.

The government has developed an industrial master plan (RIMP) which focuses on how to re-vamp, develop and sustain the country's manufacturing sector in the medium and long term. Despite an average growth of 7% over the past five years, the manufacturing sector still has a long way to go in terms of developing as well as contributing significantly to the gross domestic product (GDP). For the manufacturing sector to achieve significant progress, the sector has to address various challenges. For instance, to accelerate export growth and increase the share of manufacturing in GDP, there is a need to increase investment especially in medium and high technology manufacturing and substantially increase foreign direct investment. To do this, the Government needs to improve the infrastructure, reduce non-trade barriers, access technical assistance on achieving international standards and gain access to more international markets.

To realize its Vision 2020 targeted growth, the Government of Rwanda is committed to facilitating the emergence of a strong and modern private sector which will drive growth, competitiveness, economic diversification, and export promotion. Manufacturing is envisaged as a major engine of sustainable growth in the medium term, producing high value goods for local, regional and international markets (EDPRS, 2008-2012).

Rwanda is hopeful of taking advantage of the growing information technology-enabled shared services and business process outsourcing. The particular long term objective is to position and promote Rwanda as a regional hub provider of high value shared services. The intention is to attract international companies in sectors such as banking to establish themselves in Rwanda together with their service centres.

The key aspects to establishing Rwanda as a regional hub are embodied in Rwanda's strategic which includes establishment of a convention centre whose construction is underway, the construction of an airport in Bugesera and a new railway line, among others. Rwanda has expanded the capacity of Rwanda Air to improve air transport. In addition, Rwanda has established partnerships with international centres of excellence in the United States and Europe in order to enhance knowledge transfer and exchanges.

Within the private sector, Rwanda has also identified tourism, financial service, engineering, construction, ICT, agribusiness, mining and transport as priority sub-sectors because of their strategic nature as well as their role as drivers and facilitators of economic growth.

EMPLOYMENT IN RWANDA

In this section we look at the quality and quantity of available workers, the quality and quantity of available jobs and the matching process linking workers and jobs. From our analysis we conclude that there is an excess supply of labour that is low-skilled and poorly educated and a deficit of decent jobs, with some evidence that the process matching workers and jobs is not optimal. There is also evidence of a decline in the proportion of adults in employment, accounted for by increased participation in education, and a sectoral shift out of subsistence agriculture into non-farm work and farm labouring.



Currently, overall employment in Rwanda remains high at over 84% of the population aged 16 years and above.¹ The growth in people in work has kept pace with rapid population growth over the past decade. The biggest change in the employment rates over the last 10 years has been for young people between the ages of 16 and 24. Their employment rate has dropped from 77% to 64%, which reflects a positive trend of increasing education enrolment. Employment rates are generally higher in rural areas than urban areas, and are lowest of all in Kigali City. The lower rates reflect the higher unemployment rates in Kigali and the higher levels of economic inactivity (Strode et al 2012).

Both the number of unemployed people and the unemployment rate have fallen between 2006 and 2011, despite the growth in the population. Unemployment in the week prior to the current national survey was 2.4% nationally, and 0.9% over the year.

The proportion of men and women who are unemployed is roughly similar. Unemployment is highest

amongst the young, and was twice as high for the 16-24 age group as for the 35-44 age group in the week prior to the current national survey. It should be noted that the survey took place over a 12 month period to minimise seasonal effects. Unemployment is also overwhelmingly an urban phenomenon. The current unemployment rate in urban Kigali was 13% and 8.8% in all urban areas, compared to just 1.2% in rural Rwanda.

According to the survey findings, there does not appear to be a large number of discouraged workers i.e. people who are not seeking work (and therefore not unemployed according to the ILO definition) because they have given up hope of finding a job and dropped out of the labour market, but might consider looking for work, if work was available. Just 2% of the inactive population said that they were not looking for work because they had been discouraged by a failure to secure employment, and this fell to 0.4% in the week prior to the survey.

Farm and Non-Farm Employment

The majority of Rwandese (62%) work in their main job on their own farm, but this is rapidly changing. In the 10 years waged employment on farms grew by 14% per year, waged employment in non-farm establishments grew by 12% per year, and non-farm self-employment grew by 14% per year. Farm self-employment by contrast stagnated and remained at a similar level of around 3 million people despite rapid population growth. During the period from 2005/06 to 2010/11 the growth rates for non-farm waged jobs remained constant, but the growth rates for waged farm work slowed to 7% while the growth rate for those working in their own independent businesses also slowed to 7%. Women (72%) are much more likely than men (50%) to have their main job on their own farm (self-employed). Men by contrast are more than three times more likely than women to have their main job in the waged non-farm sector.

Employment by Industry

Of the 1.4 million (net) new people working between 2000 and 2010, the largest absolute increase in net new jobs has come from agriculture (430,000), followed by trade (337,000), and government (127,000). The largest percentage increase has come in mining (22% per year); construction (22% per year), and tourism (21% per year), all of which show an increase from a low base.

There has been growth in all industrial sectors, and growth accelerated between 2006 and 2010/11. In all, there are now around 660,000 more people working in Rwanda than 5 years ago and 80% of these have been absorbed into the non-agricultural sector. It is important to note that growth in agriculture has come not from the independent farming sector, but from paid agricultural work. Those working in paid agriculture are amongst the poorest in the country.

Occupation

Over the 10 year period from 2000/01 to 2010/11 the fastest growth in occupations has come from drivers and machine operators; semi-skilled operatives, office clerks and commercial sales workers. The occupational categories, as with industry, are dominated by agricultural workers (73%).

Casual Employment

Half of all employees in Rwanda are paid on a daily basis, which sets a lower bound estimate for the number of casual workers. Far fewer than half of all workers receive employee benefits such as health benefits (14.5%), paid vacation (14.5%) or pensions (18.5%), indicating that the number of casual employees

The formal ILO definition of unemployment is those people who work less than 1 hour per week but are actively seeking work and able to start immediately. In many low-income countries that do not have social safety nets, formal unemployment is quite low because it is rare to be able to afford to do no work at all.

may actually be much higher than is indicated by daily pay. Female workers and those engaged in farming are the most likely to be daily paid casual workers.² Professionals and office workers are the least likely to be paid on a daily rate.

Underemployment

The Rwandan labour market, however, continues to be characterised by a deficit of decent work, with the numbers of working poor remaining high. Forty per cent of working adults have more than one source of 'income' with those in rural areas being more likely to have more than one job and men more so than women (NISR 2006, P28). In order to understand the labour market in Rwanda it is important to take account of time-related underemployment as well as unemployment. The former can provide information on the extent to which the economy can provide full employment for all those who want it and thus a better understanding of the true employment situation (International Labour Organisation 2004).

There is low unemployment (people available for and seeking work), but high under-employment, especially amongst men in rural areas³. The average number of hours worked a week in all jobs is 31 (men 35, women 28) but this falls to 27 (30 men, 25 women) for those whose main occupation is agriculture (NIRS 2006, P28). However, women, in addition, spend well over 20 hours a week on domestic duties while men spend only around five⁴ (NISR 2006, P30). Assuming a normal working week of 40 hours in productive labour this suggests that up to a quarter of the adult workforce is in reality surplus to requirements, with the vast majority residing in rural areas⁵. However, we must exercise some caution because, as Fox and Gaal (2008) point out, measuring labour force participation in countries like Rwanda is problematic give the variety of activities in which people engage across the day, especially in rural areas, and the pattern of work across the seasons.

Whilst most men and women engage in productive labour there is a concern that underemployment may be turning into unemployment for a growing number of young people, especially in rural areas. If this is not addressed there may be even greater migration to urban areas, and a large number of marginalised young people could present problems for the authorities. A 2009 report (Education Development Centre 2009) found that there is a growing pool of unemployed/marginally employed young people, especially men, who have, migrated from rural areas to urban areas, including Kigali. The Centre for Support to Small and Medium Enterprises in Rwanda (CAPMER) estimate that 85 per cent of Rwandan young people are in reality 'unemployed' with most young people in rural areas being surplus labour

There is a low level of human capital and the workforce is poorly educated, with a majority of the population having primary school education or none and only just over two-thirds of the population declare themselves as literate (71.5% of men and 60.1% of women). Literacy rates are much lower in rural areas than in Kigali or other urban areas (Ministry of Health et al 2009; NISR 2006). Education attainment

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³ When we talk about workers we are generally referring to those above 15 years of age, unless we explicitly state otherwise. In 2006 about 10 percent of children aged 11 to 15 years were in 'employment', 51.2 percent of young adults aged 16 to 20 years and 80.6 percent of adults 21 years and over (NISR 2006, P29). It is of course likely that that many children, especially in rural areas contribute to the livelihood work of the household, and boys as well as girls contribute to domestic labour, including fetching wood and water (NISR 2006 Ps 29 -30)..

⁴ According to the latest version of the United Nations Guidelines on Calculating GDP many of these activities count as economic activities but statistical agencies rarely consider them as such and households do not consider them as economic activities either (Fox and Gaal 2008).

⁵ The International Labour Organisation (2004) point out that the questions asked in surveys in Rwanda does not make it possible to calculate underemployment within the norms set by the ILO, but it is possible to calculate a pseudo underemployment rate. Using a 35 hour week they calculate that at the time of the 1988/89 Labour Force Survey that 47 per cent of the adult population was underemployed, 42 per cent men and 53 per cent women, with 93 per cent residing in rural areas (P 20).

is poor even amongst younger age groups, with many of those who have only attended primary school being barely literate (Education Development Centre 2009).

POVERTY STATUS AND ECONOMIC ACTIVITY

According to the 2010/11 survey findings, workers whose main job is on a farm are much more likely to be poor than those with their main job not on a farm. Poverty is 61% for those working for a wage on a farm, and 46% for those working on their own farm, compared to just 22% working for a wage in another sector or 23% working on their own business. The poorest people in the workforce are paid farm workers – and this is a category of worker that has grown by almost 360,000 since 2000/01 and is still growing although the rate has slowed in the previous 5 years. Those who are own account or waged non-farm workers are the most prosperous (Strode et al, 2012).

Rwanda's Labour Market Features and Participation Constraints

Cichello et al (World Bank, 2010) characterize Rwanda's labour market as one of high labour force participation and low unemployment, the resulting recommendation being improving the quality rather than overall quantity of jobs. However, this contradicts projections from the 2006 National Labour Market Study which show that young workers will become an increasing feature of the labor market. Between 2006 and 2011, another one million children will become 15 years old. In 2006 only 100,000 of them were economically active. These numbers will increase dramatically as the birth rates rise and death rates fall, and as a result both the quality and quantity of jobs will have to be increased so as to catch up with this growing labour force (NISR, 2006). According to the National Labor Market Survey in 2006, 3.7 million workers live in rural areas, where 86% work in agriculture, forestry or fishing as their main jobs. Nationally the number of employed people grew by almost a quarter. While the majority of new work opportunities are still on farms, almost a quarter of jobs taken since the 2001 are non-farm waged work, while 19% of jobs are in small enterprises.

Barriers to Participation in Rwanda's Labour Markets

Segmentation: The labor market in Rwanda is segmented by gender in that more young women stay at home on the family farm in greater numbers than young men. They also enter wage employment at a lower rate than their male counterparts. According to the National Labor Survey of 2006, 58% of young men between 15 and 20 years worked on the family farm as compared to 73% of young women.

Barriers to internal labor migration: In Rwanda, rural-urban migration in search for employment is limited by the inadequate availability of basic services like housing and sanitation in the cities where immigrants move. Of the 550,000 adults who migrated in early 2006, 500,000 were internal migrants (NISR, 2006).

Skills shortage and skill mismatches; Rwanda generally suffers from a shortage of skilled workers. According to the USAID's Rwanda youth employment assessment report (2009), the fastest growing sectors identified to absorb unemployed youths (subject to skills training) in Rwanda include agro-processing, construction, the service industry (tourism and commerce) and the ICT sector. Unemployed youth in Rwanda fall into three categories of educational levels i.e. - those with no education, those with some primary education, and those with some secondary or vocational training. Each of the categories has their own strengths, skills needs, and challenges for participation in youth development programs and subsequent labor markets. There is also a mismatch between the skills of those seeking employment and the skills employers are looking for, with a shortage of skilled labour at all levels from technical and vocational to higher education (HIDA 2009; Abbott and Rwirahira 2010). It is estimated that there is a 60 per cent skills gap in the private sector and a 30 per cent skills gap in the public sector.

POVERTY AND INEQUALITY

According to the 2010 Household Survey results, poverty has reduced from 57% in 2006 to 44.9% in 2010. The results show a reduction in poverty at the national level by 12 percentage points between 2005/06 and 2010/11. This contrasts with the limited poverty reduction experienced over the period 2000/01 to 2005/06, which had been partly due to an increase in inequality over that period, among other factors. According to the NISR 2007 report, an increase in inequality as measured by the Gini coefficient was the important part of limitation of growth in reducing poverty. The level of inequality was already high in 2000/01, with a Gini coefficient of 0.47, and this rose to 0.51 in 2005/06. The high initial level of inequality, and the fact that inequality worsened over this period, were important factors making the consumption growth less effective in terms of poverty reduction, lowering the growth elasticity of poverty reduction (NISR, 2007 Poverty Assessment for EDPRS). This trend has been reversed in 2010/11 with a slight reduction in inequality.

Poverty is estimated to be 44.9% nationally, with 22.1% poor in urban areas and 48.7% poor in rural areas. Since 2005/06, the poverty headcount has fallen by some 4% in Kigali City and by 10% or more in all other provinces, with the fall highest by far in Northern Province. Poverty is highest in all three surveys in the Southern Province and lowest in Kigali City. The Eastern Province is the second least poor province. Extreme poverty fell from 40% in 2000/01 to 36% in 2005/06, and to 24% in 2010/11, again a substantial reduction over the recent five-year period following a modest fall in the first five-year period. Again, the greatest reduction is in the Northern Province. The Southern Province remains the area of the country with the highest levels of extreme poverty. Over the 2000/01 to 2005/06 period, growth rates were higher among the richer groups in the population and especially at the top of the distribution, whereas in the second five-year period growth took place throughout the distribution and was faster at the bottom.

One of the most important aspects to Rwanda's poverty alleviation programs is the innovation whereby poverty reduction projects and programs are heavily embedded into Rwanda's norms and traditions. This is usually called the Rwandan way. This promotes a sense of ownership of the projects, ensures not only effective implementation of the projects and programs but also their long term sustainability. The ability to localise solutions to development problems in order to fit Rwanda's local context, coupled with a strong and committed leadership, have been some of the major drivers to the early signs of the economic transformation that is taking shape in Rwanda. (See Box 6 below)

Box 6: Innovative Poverty Reduction Programs in Rwanda

Vision 2020 Umurenge: This is a pro-poor rural development and social protection programme. It aims to eliminate extreme poverty by 2020 through releasing the productive capacity of the very poor. It includes public works, credit packages and direct support and is implemented at village level using participatory methods;

One cow per family (Giringa project): This is presidential initiative aimed at fighting poverty through the distribution of cows to poor families. It is mainly rooted in Rwanda's cattle culture. Here a poor family receives a cow and once that cow gives birth, the calf is given to neighbour who is poor. Owning cattle improves nutrition through the milk, increases incomes from milk sales and manure from cow dung also improves soil fertility and subsequent food security.

Umurenge SACCO: This is a nationwide savings scheme used to mobilise finances at the small administrative unit called umurenge (Sector). Locals in a given sector make frequent contributions to this savings scheme and once their savings reach a given threshold, the government contributes to the scheme at sector level. Locals can then use these savings to invest in productive activities. It is one of the programs aimed at improving access to finance at the local village level in Rwanda.

Umuganda Evaluations: One of the recently introduced procedures for evaluation of progress towards achieving the MDGs by communities themselves provides useful information for monitoring and evaluation. Once a month after community work (Umuganda) information for indicative monitoring of progress towards achieving the MDGs will be collected, including: under-five mortality; maternal mortality; antenatal visits; children attending school; nutritional status of children; take-up of family planning; area of cultivated land and livestock holdings; and membership of enterprise cooperatives. This enables communities themselves to evaluate progress towards achieving MDGs and EDPRS targets in their community. It also raises awareness of the MDGs and, even more importantly, of these key issues. It also builds understanding of and capacity for using services and adopting a healthy lifestyle. It builds collective ownership for improving the health and well-being of all members of the community and enable communities to put forward proposals proactively for the more user-friendly delivery of services as well as the development of self-help strategies.

Performance contracts (Imihigo):

It's through performance contracts that local authorities are accountable to Government and the local population for reaching agreed EDPRS performance targets. Citizen empowerment is a central element in the implementation of the Rwanda's Poverty reduction Strategy. Imihigo seeks to promote self government and greater citizen engagement in matters of governance as well as building social capital and encouraging entrepreneurship. Citizens actively participate in defining their preferences and priorities and are empowered to hold national government and the ministries accountable against commitments made. Local communities are also encouraged to come up with their own solutions to problems.

Poverty elasticity of growth in Rwanda

Ansom (2005) evaluated the economic performance of the Rwanda economy with respect to projected targets from both the PRSP-I (2002-2005). Her findings show that the impact of economic growth on poverty reduction in Rwanda has been relatively weak. With a growth elasticity of poverty of -0.40 for the 2001-2006 period, the pro-poor character of Rwandan economic growth remained exceptionally low, despite the implementation of PRSP policies. The strength of the growth-poverty connection can be roughly determined by comparing the Rwandan growth elasticity of poverty with cross-country averages. The average growth elasticity of poverty is estimated to be within the interval -2 and -3. This means that a positive economic growth rate of 1% leads to a 2% to 3% decrease of poverty, measured as the percentage of poor living below the poverty line of 1\$ PPP per head (Ravallion and Chen, 1997; World Bank, 2000; Ravallion, 2001; Adams, 2004).

Other dimensions of Poverty

Data from the 2009 VUP targeting and Poverty surveys conducted among the 90 VUP sectors show an improved picture in the different dimensions of poverty among the poorest segments of the Rwandan population. The 2009 VUP surveys show that extreme income poverty among the poor decreased from 39% in 2006 to 34.5% in 2009, indicating a 4.5% fall in poverty among the poorest segments in Rwanda. The fall in extreme income poverty was concentrated among male-headed households (from 37.4% to 31.4%), while female headed poor household reported no significant fall (from 42.6% to 42.2%) (Asselin, 2009).

In addition, the VUP surveys show significant changes in social poverty proxied by the net graduation within the Ubudehe⁶ system used for poverty targeting under the VUP. The bottom two Ubudehe categories decreased globally from 34.2% in 2007 to 28.2% in 2009 indicating a 6% fall in social poverty. However these preliminary results must be treated with caution since the VUP program targets only the poorest segments of the population and not the poor in the whole of the Rwandan population.

Bottlenecks to Economic Transformation in Rwanda

Infrastructure:

According to the Diagnostic Trade Integration Survey, the poor state of infrastructure and low production are the major binding constraints to pro-poor growth and economic transformation in Rwanda. These not only undermine private returns but also increase the cost of finance. According to firm survey subjective measures, the state of infrastructure, access and cost of finance, tax rates and skills of workers are ranked as higher business obstacles when compared to factors such as macroeconomic instability, corruption and anti-competitive practices.

Inequality in incomes and assets

Another impediment to the translation of growth into sustainable economic transformation in Rwanda is inequality. According to the 2010 ILO report, one of the most important challenges facing Rwanda today is to make development inclusive through reversing the trend of high and increasing income and asset inequality (ILO, 2010). This is because 40 per cent of the rural households have less than 0.3 hectares of land, and for these rural households non-farm sources of income are a must if they are to achieve sustainable economic transformation. The unequal land distribution and the existence of a large number of near-landless agricultural households imply that a dynamic development of agriculture will only be pro-poor if there are strong links to the non-agriculture sector, with strong growth in this sector (World Bank, 2007). Given that the transforming traditional agriculture is critical for growth, economic

⁶ Ubudehe” is a subjective community based system which identifies poor households using some kinds of consensus within communities. Changes in social poverty are measured by net Obudehe graduation which computed as the percentage of Households that moved into higher poverty classes minus the percentage that moved down to lower poverty classes.

transformation and poverty reduction, farmers need to acquire education, skills and knowledge in order to improve traditional practices and to access productive non-farm employment.

a) The impact of Land /Agricultural policies on economic transformation in Rwanda

Rwanda's land and agricultural reform is one of the key policies that have impacted economic transformation and the livelihoods of poor people. This land reform policy is aimed at increasing agricultural

Expenditure quintile	Households buying (%)		Mean expenditure (Frw) ¹	
	EICV1	EICV2	EICV1	EICV2
1 (Lowest)	67	83	17	22
2	67	89	22	42
3	72	91	35	61
4	73	92	56	88
5 (Highest)	55	70	121	145
All	66	85	53	74

Source EICV1 and EICV2

One of the undesired effects of Rwanda agricultural policy is that it may create conditions in which professional farmers will acquire large plots of land and dominate the rural sector, with peasants shifting from subsistence production on their own land to employment on professional farmers' land. The potential threat with such a policy would be pushing poor landless households into low income agricultural wages jobs which may hamper economic transformation and increase income inequality. Indeed, income disparities within the countryside worsened with an increase of the Gini coefficient from 0.37 to 0.44 between 2001 and 2006.

INSTITUTIONAL ENVIRONMENT FOR TRANSFORMATION

Review of the institutional context for economic transformation.

STATE CAPACITY

1) Political Stability: Rwanda is one the success stories of a post-conflict state in Africa. After the 1994 genocide, the Rwandan government has restored peace, stability and security. Elections are held at presidential, parliamentary and grassroots level in a democratic way, and leaders are accountable to the electorate via a system in which they sign performance contracts with the masses and report back on progress every year. Although Rwanda has come a long way towards reforming its civil service, the low skills capacity result in high turnover rates for civil servants, a problem which affects continuity of government programs, more so at middle level government positions. Turnover rates at higher positions within the civil service are generally lower.

Institutional capacity for planning and budgeting in the civil service in Rwanda is generally low due to capacity constraints resulting from the low skills base, the high turnover in the civil service, limited harmony in incentive pay structures in the civil service and competition for the skilled staff from the private sectors and NGOs.

Governments economic transformation plan: The government of Rwanda has rightly identified the limitations of a solely growth-driven development strategy and is currently implementing a Strategic Investments Plan. This plan aims at boosting Rwanda's export growth through selected investments including the electricity roll-out programme, the restructuring of Rwandair, the Isaka-Kigali railway and Bugesera airport, the construction of the Kigali Convention Complex and the ICT infrastructure network. The Strategic Investment Plan represents the longer-term plan for diversifying into high value added exports and transforming Rwanda into a service based economy.

A key component of the forward looking priorities of the Rwandan government, the Strategic Investments Plan aims at boosting Rwanda's export growth through the selected investments noted above, and this going to be partly financed through non-concessional borrowing, which will have an impact on debt sustainability. The joint GoR/IMF analysis shows that Rwanda will remain at moderate risk of debt distress. This strategic plan, when fully implemented, will go a long way in not only increasing Rwanda's economic growth, but also Rwanda's economic transformation in terms of generating jobs, increasing exports and increasing incomes for a large section of the population.

In order to coordinate and plan national priorities and strategies, the Rwandan Government usually organises an annual Leadership Retreat in which the priorities for each cluster are identified. The retreat involves the President and heads of government ministries and parastatals, and addresses priority issues aimed at achieving private sector-led growth in Rwanda. With respect to the private sector, the Rwandan Government mainly plays a facilitator role, which entails identifying the key constraints to private sector development within specific sub-sectors and facilitating their removal. Examples of Government's support to the development SMEs include: reducing the cost of complying with taxation; facilitating their access to existing and scattered funds; working with business development services providers to address SME difficulties in accessing market information; and facilitating SMEs access to skilled labour.

According to the Rwandan Government, there are linkages between the Leadership Retreat priorities and the Strategic Investment Plan. However, while the Strategic Investment Plan represents the longer term plan for diversifying into high value added exports and for transforming Rwanda into a service base economy, the Leadership Retreat identifies a number of shorter term priorities and quick wins, such as

increasing agricultural productivity, which in turn would also reduce food insecurity (JBSR, 2010).

2) Economic transformation in Rwanda is a top government priority. This is exhibited through the setting up of the Rwanda Development Board, a one-stop centre for attracting foreign direct investment and increasing jobs in the different sectors of the economy. Another is the Strategic Investment Plan, which is a long-term plan to increase export diversification and volumes in Rwanda, and the Industrial Master Plan to create industrial zones within the country. In addition, medium-term sectoral allocations in the national budget are in line with Rwanda's poverty reduction strategy (the EDPRS), and focus on the development of physical infrastructure to enable: the business environment; the development of productive sectors with a focus on agricultural supply, agri-business, land reform and promotion of value addition to exports; retaining momentum in human development and social sectors, and maintain and improve good governance. A Cabinet decision has been made relating to capping tertiary education spending to increase funding to basic education and TVET. In addition, a new SMEs strategy will come on stream during 2010/11 in order to boost the private sector.

3) Policy reforms and environment for economic transformation: As part of the efforts to improve the policy environment for the economic transformation of the industrial and the private sector, the Rwandan Government has launched a number of reforms, industrial policy documents and strategies, with actions to promote investment and exports and cut the bureaucratic procedures required to start a business. The focus of reforms is on increasing the value of existing exports, diversifying into new exports, facilitating trade through EAC integration, increasing investment, and improving the business environment (MINICOM, 2009). These include an Industrial Policy Review, the formulation of an Industrial Master Plan, as well as reformulation of the MINICOM Strategic Plan. This comes at the same time as the Rwanda Development Board (RDB) has been established as a one-stop centre, with one important goal being private sector development through investment and export promotion. One of the issues is that these reforms depend on an industrial and manufacturing sector which remains small and weak, operating under constraining factors such as serving a limited domestic market.

As a result of Rwanda being one of the high performing countries in terms of policy and economic management for economic transformation, the IMF has approved a Policy Support Instrument (PSI), whose components include maintaining fiscal stability, particularly through raising additional revenues; maintaining price stability and continuing the structural reforms to deepen the financial sector; diversify the export base and improve the business environment.

Institutional Mechanism for Planning and Budgeting

Looking at public financial management and fiscal decentralisation, a recent joint visit by development partners and government officials on the Joint Budget Support Review Committee has commended the Rwandan government for filling key positions in ministries, but highlighted that the high staff turnover in districts undermines the delivery of public services. The visit also showed that there has been progress in district capacity, although some concerns remain over the relationship between central agencies priorities and district work.

In terms of financing, the Rwandan Government foresees a reduction in aid dependency.

The Government of Rwanda has projected a significant increase in tax revenues and a medium term reduction in external grants as percentage of the budget, which will significantly increase the share of the budget that is domestically financed as opposed to externally financed. Despite the foreseen reduced aid dependency in the medium term, there are still considerable gaps in confirmed grants for budget years 2011/12 and 2012/13. Should these required grants not materialise, the Government would have to resort

to domestic financing or reduce spending (Joint Budget Support Review Report, 2010).

Coordination: Coordination is one of the on the many challenges involved in the process of fiscal decentralisation and enabling economic transformation to the grassroots level in Rwanda. One of Government's key priorities is to strengthen the linkages between Central Government and Local Government, particularly improving the interaction and communication between line ministries and districts. These interactions vary in quality, and is partly dependent on the clarity with which line ministries and districts agree on measuring progress, on funds receipt, actions and implementation. Government is currently working towards strengthening these linkages through consultative meetings and active planning with Central and Local Governments.

Despite the coordination challenges, good progress has been made in improving the overall quality of the policy dialogue within the sectors of the Rwandan economy. This resulted from an increased effort made by both Government and Development Partners in harmonising performance across sectors, including through issuing detailed guidance for sector working-groups. Good progress has also been made in mainstreaming cross-cutting issues at the sector level. Sector working groups do recognise the importance of cross-cutting issues and are increasing their effort to collect, for example, gender, age, or disability disaggregated data. One of the issues which should be addressed in order to improve high-level policy dialogue is the quality of monitoring and evaluation systems, which still need improvement (Joint Budget Sector Review report, 2010).

Statistical Capacity:

A 2010 DfID assessment of the National Institute of Statistics of Rwanda (NISR) rates the fiduciary risks moderate. One of the constraints they find in the assessment is weak capacity in the NISR makes it difficult to implement planned activities. However, this problem is not exclusive to NISR; it is faced in a number of government departments. They find that NISR does not have adequate numbers of staff trained in to handle

increased Public Financial Management activities envisaged under National Strategy for the Development of Statistics. NISR is currently mitigating these problems by implementing a new organisation structure, has hired new staff and continues with Public Financial Management training programmes for its staff.

The Private Sector and Business Environment

The structure of Rwanda's private sector is best understood from an analysis of the structure of the country's major economic sectors and their contributions to GDP. The economy is categorised into three main sectors: agriculture, service and industry. Agriculture, service and industry currently make up respectively 37.4%, 42.7% and 14.1% of the economy (MINECOFIN, 2008).

Since the year 2001, the service sector has expanded and become the largest contributor to GDP, accounting for an average of 42.4% between 2001-2007, and the industrial sector accounts for 14% of GDP (MINECOFIN, 2007, World Bank, 2007).

Private activity and private investments in Rwanda have been very low in the last thirty years (less than 20% of the GDP). Most of private activities are in the commerce and service sectors. Industrial activities are mainly import-substitution oriented towards the local market for basic products. The construction sector has been responsible for the continued growth in GDP over the past 10 years. Between the years 2003 to 2008, the construction sector grew by 351% (RDB, 2009). In addition, the service sector has become one of the most important engines of Rwanda's economy, leaving the agriculture behind in terms

of the contribution to the GDP since 2001. The service and agriculture sector recorded respectively 43% of GDP in 2001 and 45% of GDP in 2007, and 37% in 2001 and 36% in 2007 (World Bank 2007, and MINECOFIN 2007).

Rwanda's private sector is small but growing. According to the 2008 Enterprise Census by the Rwanda Private Sector Federation, the vast majority of firms in the economy are single proprietorships (96%), very small (90% with less than 4 employees) and with low levels of human capital (2% university educated) (PSF, 2008). Indeed the sector consists of family businesses, small and medium-sized enterprises (SMEs) and few large companies and cooperatives.

SMEs in Rwanda are defined as enterprises with full-time employees not exceeding 100 or annual sales turnover not exceeding RWF 50 million or Net Investment not exceeding RWF 75 million. These SMEs are further categorised into medium-sized companies, small enterprises and micro-enterprises (MINICOM, 2008).

Table 8: Categorisation of Small, Medium and Large Enterprises

Size of the Enterprises	Net capital investments in Million FRW	Annual Turnover in Million FRW	Employment Number (full time)
Micro Enterprises	Less than 0.5	Less than 0.3	Less than 3
Small Enterprises	0.5 to 15	0.3 to 12	3 to 30
Medium Enterprises	16 to 75	13 to 50	31 to 100
Large Enterprises	More than 75	More than 50	> than 100

Source: MINICOM2008

In December 2007 there were 72,994 establishments in the manufacturing, service and agriculture sectors, of which 71,899 (98.5%) comprised SMEs (PSF2008). In this PSF census, individual-owned businesses account for 96.39% of the entire business universe in Rwanda, with formally registered businesses accounting for less than 1% and cooperatives 2.89%. There is an acute shortage of formal and healthy SMEs in Rwanda. Businesses employing less than 4 persons account for close to 90% of total businesses in the country. Micro-enterprises are the largest employer in the private sector; employing 53% of the total employees from the private sector, followed by small enterprises (36%).

The Business Environment In Rwanda

As far as reforms are concerned, Rwanda has recently seen a great success in the World Bank Doing Business 2010 report. For the first time since Doing Business started tracking reforms, Rwanda led the world reforms. Overall, major reforms that have been implemented to assist the business community include easing the process of starting a business, registering property, protection for investors, trade across borders, access to credit and paying taxes. These reforms made Rwanda rise from 143rd to 67th place on the Ease Of Doing Business Rankings 2010.

Getting credit was made easier with a new Secured Transactions Act and Insolvency Act to make secured lending more flexible, allowing a wider range of assets to be used as collateral and a general description of debts and obligations. In addition, out-of-court enforcement of collateral has become available to secured creditors, who also now have top priority within bankruptcy. A new company law has strengthened investor protections by requiring greater corporate disclosure, director liability, and shareholder access to information.

Property registration was simplified by decreasing the number of days required to transfer a property. Business start-up was eased by eliminating the notarization requirement; introducing standardized memorandums of association; enabling online publication; consolidating name checking, registration fee payment, tax registration, and company registration procedures; and shortening the time required to process completed applications.

By implementing administrative changes, such as increased operating hours and enhanced cooperation at the border, along with the removal of some documentation requirements for importers and exporters, Rwanda has improved trading times. Lastly, paying taxes was made easier by introducing online applications, tax clearance certificates, decentralized tax information and payer services. The implementation of these various policies and reforms contributed to Rwanda's improved ranking in the World Bank's 2010 Doing Business Report.

Rwanda's Rankings on Different Aspects of the Business Environment

In terms of economic freedom, Rwanda is ranked 10th out of 46 economies in the sub-Saharan region by the Heritage Foundation (2010) and was fourth most improved economy on the 2010 index.⁷ In terms of ease of doing business, Rwanda moved from 143rd to 67th in 2009 and 58th in 2010 (The International Bank for Reconstruction and Development/World Bank, 2009). As Table 1 shows, Rwanda scores well compared with the other East African countries in terms of doing business, economic freedom and corruption, potentially giving it a competitive advantage in attracting FDI. It also scores comparatively well on the Global Competitiveness Index. It scores less well in terms of political freedom and civil liberties, but none of the countries score highly and these indicators are likely to be of less interest to FDIs.

Table 9 : Key Non-Financial Indicators

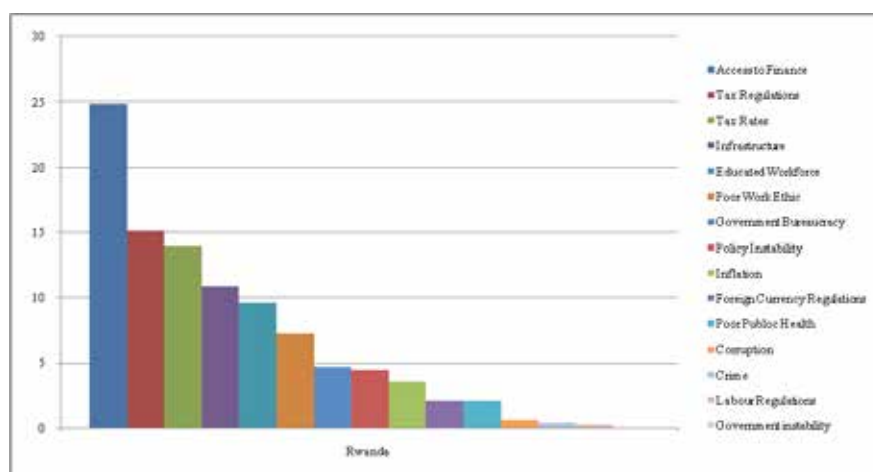
Country	Global Competitiveness Index 2010-11 Rank out of 139 ⁵	Doing Business 2011 Rank (183 Countries) ¹ Rank	Index of Economic Freedom 2011 ² Rank	Corruption Perception Index 2010 ³ Rank	Freedom in the World Political Rights (1 = free, 7 = least free) ⁴	Freedom in the World Civil Liberties (1 = free, 7 = least free) ⁴
Burundi	137	183	148	170	4	5

Kenya	106	98	106	154	4	4
Rwanda	80	58	75	66	6	5
Tanzania	113	128	108	116	4	3
Uganda	118	122	80	127	5	4

(¹World Bank 2010, ² Heritage Foundation 2010, ³ Transparency International, ⁴Freedom House 2009, ⁵ Schwab ed 2010)

However, Rwanda scores less well on the Global Competitiveness Index, compiled by the World Economic Forum (Schwab ed. 2010), when consideration is given to what are seen as the most problematic factors for going business. When looking at the most problematic factors for doing business on four key indicators its scores less well than the EAC average: access to finance (Rwanda 24.9, Burundi 20, Kenya 12.9, Uganda 15.3, Tanzania 15.1); tax regulations (Rwanda 15.1, Burundi 10.5, Kenya 5.0, Uganda 4.4, Tanzania 7.9); tax rates (Rwanda 13.9, Burundi 7.4, Kenya 7.2, Uganda 8.9, Tanzania 9.0); and, an inadequately educated workforce (Rwanda 9.6, Burundi 3.5, Kenya 1.1, Uganda 5.0, Tanzania 3.9). On infrastructure it scores at around the EAC average (Rwanda 10.9, Burundi 7.2, Kenya 9.5, Uganda 13.0, Tanzania 13.3). However, on corruption (Rwanda 0.6, Burundi 19.5, Kenya 21.7, Uganda 21.9, Tanzania 17.4) it scores much better than the other members of the EAC. Rwanda only scores below the average compared to other factor driven economies on size of market and scores significantly above average on institutions and labour market efficiency.

Figure II: The most Problematic Factors for Doing Business in Rwanda



(Source: Schwab ed. 2010)

PROSPECTS FOR TRANSFORMATION

Identification Of Export Activities In Which Rwanda Can Increase Its International Export Competitiveness Or Diversify Into (with Additional Efforts)

Rwanda Development Board (RDB) has undertaken a cluster selection exercise to identify alternative industries in which Rwanda has a chance of competing. Following this analysis, six clusters have been selected for immediate action including: mining services, niche tourism services and business process outsourcing in the service sector; silk textiles, fruits and vegetable processing and dairy in the manufacturing sector.

At commodity level, horticulture, hides and skins, handicrafts and pyrethrum are the sectors established by the government as priorities for investment promotion. Within the service sector, Rwanda has also identified tourism, financial service, engineering, construction, ICT, agri-business, mining and transport as priority sub-sectors because of their strategic nature as well as their role as drivers and facilitators of economic growth and transformation.

Tourism

Since the re-launching of the tourism sector in 2002, the tourism industry has achieved steady growth in arrivals. This offers various investment opportunities especially in hotels and lodges, entertainment



facilities, restaurants, tour operations etc. However, efforts to attract private investment and promote public-private partnership in a variety of tourism activities have been limited. Intensive and extensive skills development is needed to enable the industry to receive a high level tourists because the existing skills base is far from adequate to meet the standards of an internationally competitive tourism industry. Rwanda's National Tourism Strategy focuses on lower visitor numbers and higher receipts as its model for sustainable tourism in the country. The goal of Rwanda's tourism industry was to reach 70,000 tour-

ists and \$100M in receipts by 2010 through high-end, low environmental impact tourism initiatives. While domestic tourism is included in the National Tourism Strategy, Rwanda's experiences are aimed at attracting mainly three specific types of tourists namely eco-tourists, explorers and individual business travellers

Recently RDB/ORTPN has developed a new methodology which consists of recording international visitors rather than just tourists. Under the new methodology, in 2008 Rwanda attracted 985,000 visitors, up from 826,300 in 2007 (an increase of 19%) (MINICOM, 2009). International visitors in this new methodology include visitors from neighbouring countries, African countries and outside of Africa. In 2008, the share of international visitors in Rwanda for business/conference/official purpose was the highest, accounting for 35.3% in the total of international visitors. The increase of arrivals in that context is favourable for the investment in property.

Rwanda's experiences are aimed at attracting mainly three specific types of tourists:

- **Eco-Tourists:** Visitors who enjoy nature-based activities and are particularly interested in Rwanda's primates, animals and birds in the national parks and specialized circuit, for example primate discovery tours.
- **Explorers:** Visitors interested in Rwanda's history and culture who have desire to experience the real Rwandan beauty .
- **Individual Business Travellers:** Visitors coming to Rwanda for events and conferences who briefly tour the country, as well as those seeking investment opportunities in the country.

ii) ICT and Business Outsourcing

The government is particularly keen on attracting investors in ICT-related activities given the business development needs. ICT development is favourable for business development in various areas especially, business development services to support entrepreneurship and promote business opportunities, exchange of information with potential suppliers and customers, marketing local products, access to market prices, consultative decision making, combating bureaucracy, and keeping updated accounting information, to name just few. The country has undertaken reforms including reforms in telecommunications, with the aim to increase competitiveness in the telecommunications industry and to attract foreign investment. This contributed to the increase of telecom network operators. Facilitating the development of the private sector in ICT service requires an investor-friendly environment together with increasing market liberalization (full privatization of incumbent, licensing of other operators). Competition and privatisation in telecommunications is vital for the sector to offer a remarkable impact.

Coupled with promoting ICT, Rwanda is also positioning itself as a regional hub from which business , financial and conference services can be outsourced for both the regional and international markets. This is in line with Rwanda's Vision 2020 objective of becoming a knowledge-based economy. A number of interventions are currently under implementation in order position Rwanda as a regional hub. The government of Rwanda has invested in the ICT infrastructure by laying a fiber-optic network throughout the country. This is aimed at making the internet nationally available for the public and private sectors. In addition, the government has invested in initiatives like the one-laptop-per-child, which aims to promote ICT literacy to pupils at the grassroots. The capacity of air travel to Rwanda has been increased through the expansion of Kigali airport and the purchasing of new aircrafts for Rwandair to access new trade destinations like Dubai, Turkey, and Qatar. A modern convention centre is currently under construction in order to host international events and conferences, while new hotels have also been constructed in order to accommodate the growing number of business and non-business tourists in the country. Rwan-

da has not only laid the the infrastructure for ICT but is also upgrading the capacity for ICT training through setting up linkages and exchanges with centres of excellence like the Massachusetts Institute of Technology (MIT) and the Carnegie Melon University of USA.

iii) Export promotion

As one of the ways for Rwanda to diversify and increase exports in the new products outlined above, Rwanda has passed a national exports strategy which is currently under implementation. Given that is land-locked and the high cost of transportation of goods to and from main ports is one of the major obstacles to export expansion, Rwanda has become more pro-active in pushing for the implementation of the East African Common Market Protocol. This protocol was signed to allow the free movement of goods, labour and capital between the East African Community states of Rwanda, Uganda, Kenya, Tanzania and Burundi. Although the common market protocol has been ratified and signed for implementation, non-tariff-barriers (NTBs) still remain. To this end, Rwanda has engaged partner states on a one-to-one basis in order to ease the burden that NTBs place external trade. At the Rwandan border with Uganda, one-stop border posts have been implemented so that goods do not have to be cleared twice at the same border points. In addition axle loads have been standardised at border posts so that the time spent by trucks carrying goods at border posts is minimised. Lastly, border posts are currently operating 24 hours, and a standard information system is being implemented between border posts within the EAC in order to quicken the clearing of goods. What remains is corruption and multiple weighbridges within the countries where Rwanda's goods transit on their way to and from the ports. Rwanda is engaged in bilateral negotiations with member countries to reduce NTBs due to corruption and multiple weighbridges. In addition, Rwanda is pushing for a legal framework through which implementation of the EAC Common Market Protocol can be enforced with penalties to member states that fail to comply.

iv) Mining

Although smaller in volume when compared to agricultural exports, minerals are becoming an important source of revenue for Rwanda and have shown good potential as an avenue for increased growth and economic transformation. For instance, Rwandan exports in value terms showed a strong growth of 56 per cent in 2011 compared to 2010 on account of high prices led by minerals exports. In the area of minerals exports, production in 2010 carried over to 2011 contributed to the increase in receipts. During the years 2006-2008, the mining and quarrying activities registered an exceptional performance. In 2006, the Rwandan Minerals Industry set revenue targets of \$54 million and \$63 million for 2007 and 2008 respectively. The targets were exceeded with revenues of \$71 million in 2007 and \$93 million in 2008 (MINICOM, 2009). The performance of this sector is due to strengthened supervision regulation, availability of new data for investor's interest and the support for value addition in metallic ores and quarries. The main issue with Rwanda's mineral exports is to increase the scale at which the current mineral exports are produced.

v) Value addition in agricultural sector

Value addition to the agricultural sector is another of the potential areas in which Rwanda will have diversify its exports in order to increase its competitiveness. However, developing Rwanda's agricultural value chains has been a major challenge and this has limited the extent to which the benefits of increased exports have been be passed on to the local producers of both agricultural and non-agricultural exports. The linkages between foreign direct investment and the local supply chains (a relevant proxy for the export sector) in Rwanda is low. The intensity of these linkages is an important driver of industrial development (c.f. Rodriguez-Clare, 1995; Markusen and Venables, 1999) and Rwanda Development Board, the institution mandated with increasing investment, should coordinate with relevant ministries such as commerce, agriculture and finance to help strengthen these linkages by identifying potential sectors which

generate this broad based growth. This is because not all sectors are equally predisposed to contribute to broad-based economic growth. Examples of progress with these linkages has been in the handicraft industry. Handicrafts exports have been a potentially important avenue for export - local supply linkages sector in the immediate and medium term and a lot of efforts are being put in place to explore more opportunities in the world market.

vi) Construction

The construction sector is buoyant in Rwanda, and is the major contribution of the tax revenue in the country. The construction industry contributed about 8% to the Rwanda GDP in 2007. In order to stimulate and encourage investment in this sector, the government has encouraged strategic partnership between local and foreign companies.

V. What is to be Done

Recommendations on seizing identified opportunities for speeding economic transformation

Sustainable economic transformation will not only require Rwanda to move up the value chain in its major exports but also increase the ability of Rwanda to seize opportunities from the global economy by engaging with other countries and regions on mutually beneficial terms. The following are the recommendations needed for Rwanda to seize opportunities for speeding economic transformation.

Joined-up thinking in investment promotion and investment after-care activities;

Some export promotion activities have been uncoordinated and of low impact. While the Government of Rwanda, through the RDB is becoming more coordinated with export promotion activities, they had previously not been executed in a coordinated manner. There is still scope for joined-up thinking in the way investment promotion activities and programs are coordinated in Rwanda in order to promote and retain both local and foreign direct investments which are critical for economic transformation.

Increasing the value of existing exports

Given Rwanda's concentrated export mix, small share of exports in the economy and low export growth, the government has made efforts to diversify exports in Rwanda. Although a number of new exports exist in Rwanda, the challenge of export diversification is not about the number of new export discoveries but rather the fact that, while many, they are small (World Bank, 2007). Thus, in light of its endowments, stage of development and geography, Rwanda's problem of export diversification is primarily a lack of scale in products other than coffee and minerals. Except for coffee, tea and minerals, other exports have relatively small values in terms of export revenues.

In order to add value to their existing exports, Rwanda's coffee, tea and tourism sectors should focus on moving towards the more stable value added or specialty segments of their respective export markets. Led by tea, coffee, mining and re-exports Rwanda's exports have increased significantly over the past decade, rising to \$262 million in 2008 which is close to a 50 per cent growth rate since 2007. This marks an acceleration of an impressive trend in nominal export revenue growth since 2003. Although Rwanda has had an impressive growth in exports, imports to Rwanda have grown faster, from \$325 million in 2003 to \$1,142 million in 2008 leading to a large trade deficit relative to neighbouring countries like Uganda, Kenya and Tanzania. Efforts to both expand exports more rapidly and at the same time reduce or substitute for imports are critical to reduce the trade deficit and ensure a stable macro-economic climate which is crucial for sustainable economic transformation. The large trade deficit is currently financed by international transfers. This is not sustainable and reduces the ability for the government to finance investments using these transfers

Diversify into new exports including trading in tasks

Since manufactures dominate global exports, it implies that there are opportunities in the large and expanding world markets in manufactures. In addition, communication and transport costs are falling and this has led to the fragmentation of much of manufacturing production into trade in tasks over time. The opportunity to trade in tasks represents a simplified entry point to international markets for industrial late-comers such as Rwanda who no longer need vertically integrated industries to enter into world trade. In order to promote trade in tasks, Rwanda should take advantage of the growing information technology-enabled shared services and business process outsourcing. In addition, Rwanda should continue pursuing its long term objective of positioning and promoting itself as a regional hub and a location which provides lower costs for high value shared services. This will enable Rwanda to attract international companies in sectors such as banking to establish themselves in Rwanda together with their service centres. This will help speed up economic transformation in the short and medium term.

The second aspect of diversification relates to markets. Research has shown that the majority of export growth at the extensive margin is achieved not through new products (discovery) but by expanding existing exports to new markets (Brenton & Newfarmer, 2009). Most developing countries like Rwanda export to a relatively narrow range of markets, far fewer than developed countries exporting in the same sector. Expanding market reach in products that have already proven to be competitive in some export markets can offer a substantial channel for growth. To achieve this Rwanda typically requires overcoming some barriers to competitiveness such as transport costs, standards, or access to market information.

Deepen regional integration and international trade in order to facilitate and increase exports.

Rwanda is a landlocked country that is located a long distance from the ports through which it trades i.e. 1800km from Mombasa and 1400km for Dar-es-Salaam. Due to this limitation, Rwanda should continue to deepen its efforts in facilitating trade and promoting conformity with standards in order to increase exports both in regional and international markets. The Rwandan Government has reduced tariff barriers through the negotiations in the East African Community trade block. However, a number of non-tariff barriers to trade at both regional and international level still remain. At regional level, Rwanda faces the highest costs for exporting containers in the East African Community. The time taken to export a container in Rwanda takes 42 days compared to 24 days in Tanzania. The cost of transporting a container from Mombasa to Kigali (including all customs payments) amounts to 53 per cent of its value. The extensive length of time it takes for containers arriving in Mombasa and Dar-es-Salaam to reach Kigali results not only from poor road infrastructure, but also from the many weigh bridges and police road-blocks along the route (BICS survey). It also results from lengthy bureaucratic procedures for customs, health and standards clearance within Rwanda. These factors constitute non-tariff barriers that can be addressed through increased bilateral and regional negotiations.

Rwandan exporters must also meet the high standards of quality control and packaging required in international markets

According to the Ministry Of Commerce Strategic Plan, there are two main challenges for Rwandan food products exported to the European Union. They include the quality control of processed food products and packaging. The use of traditional technology to process different products has revealed challenges in exporting to the European market. The EU requires the use of Hazard Analysis and Critical Control Points (HACCP) as a minimum for the processing of food, but importers often apply private standards which are much more onerous.

Packaging: Although packaging is common issue to all exporters, it affects exports of fruits and vegetables more. Rwanda's exporters have to first import packaging before they can export since there is no

packaging plant in Kigali. However, the ban on the import of plastics has meant that exporters struggle to import the optimal packaging products. There should be continued efforts to encourage investors to invest in packaging plants which will produce packages of high standards in order to expand exports and increase economic transformation in Rwanda

Increase the level and quality of investment in productive sectors

For Rwanda to speed economic transformation it must increase the level and quality of investment in the productive sectors like manufacturing. Two areas that are useful in developing manufactured (low technology) and resource-based exports. These are the development of skills necessary for manufacturing, and the development of infrastructure to offset the land-lockedness as a disadvantage faced by Rwandan exporters.

Capturing gaps in domestic market with local production

Much of the efforts in transforming Rwanda's economy have been geared towards increasing exports. However there is still room to close the trade deficit in Rwanda by manufacturing some of the products that Rwanda imports locally. Products in which Rwanda has an opportunity to locally produce and substitute for imports include the cement and the vegetable oil. These are mainly imported from Uganda and Kenya at the moment.

Deepening the integration of Rwanda's export sector and the overall economy

In order to achieve broad based economic growth coupled with economic transformation an important issue is how Rwanda translates export trade into growth and poverty reduction. One leading indicator is the degree to which a country's export sector is integrated with its wider economy, particularly through forward and backward supply linkages. To this end, these linkages between Rwanda's manufacturing export sector and the rural agricultural sector are still limited. Indeed, while an enclave sector may contribute to employment and foreign exchange earnings, it is much less likely to deliver the critical, dynamic benefits of exporting. A well integrated sector, by contrast, should be in a better position to access technology and knowledge spill-overs while also benefitting from greater direct and indirect employment and output opportunities

Conclusion

Due to sustained government efforts to improve and regulate the business and investment climate,, Rwanda has had impressive economic growth in terms of GDP and exports in the past ten years. However the translation of this economic growth into sustained economic transformation that increases income and employment for a large size of the population has been limited. With the policies and reforms that have been implemented so far, Rwanda is on the right path in terms of positioning and structuring the economy for long term economic transformation. However, some challenges still remain, including a large trade deficit, low added value of manufacturing sector and dependency of external aid. Addressing these limitations is crucial in both the short and long term in order to achieve sustained economic transformation.

ANNEX I

Table I: Rwanda Macro-economic Indicators between 1995 and 2008

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(Footnotes)

I. Umuganda takes place on the last Saturday in the month and all able-bodied residents under 65 years of age are expected to take part in general maintenance work in their own community.

