



CHAPTER 3

Leadership, Policy Making, Quality of Economic Policies, and Their Inclusiveness: The Case of Rwanda

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Fifteen years ago, Rwanda was considered a dead country, one whose future was simply unclear following the 1994 genocide against Tutsi. The entire system—from the economy to the security situation, to the justice framework, to the infrastructure—had been destroyed. However, important socioeconomic achievements have been realized in Rwanda since the genocide. Although economic development challenges remain, owing essentially to structural problems, the country has attained very good results and built a solid foundation for its development in the long term. These impressive achievements of the past 15 years are attributable to good leadership committed to finding durable solutions for Rwandan’s people despite important challenges.

Rwanda is landlocked and far from ocean ports, a factor that raises transportation costs for both exports and imports. These natural barriers to trade hinder industrial and other forms of development.

Rwanda faces challenges in building its institutional capacity. Governance, including the management of public resources, remains insufficient because

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of the lack of sound institutions and competent personnel. Although great progress has been made on this front, the severe shortage of professional personnel constitutes an obstacle to the development of all sectors. Lack of adequately trained people in agriculture and animal husbandry hampers modernization of this sector, while a shortage of technicians and competent managers constrains the expansion of the secondary and tertiary sectors.

The 1994 genocide against Tutsi devastated the Rwandan economy as well as its population. Gross domestic product (GDP) was halved in a single year, 80 percent of the population was plunged into poverty, and vast tracts of land and livestock were destroyed. The genocide exacerbated numerous constraints on development that existed before 1994. The poorly developed productive infrastructure was completely destroyed. The genocide devastated Rwanda's social, political, and economic fabric.

Since 2000 Rwanda has envisaged a set of policies with the goal of transforming the agrarian subsistence economy into a sophisticated knowledge-based society. These policies are defined in a framework called Vision 2020. The main socioeconomic objectives of Vision 2020 include transforming Rwanda into a middle-income country, with per capita income of about \$900 (from \$290 in 2000), and transforming the structure of the economy such that the industrial and services sectors will take over by 2020. It is expected that services will contribute 42 percent, industry 26 percent, and agriculture 33 percent of GDP. In 2007 the contribution of the three sectors was 42 percent, 14 percent, and 36 percent, respectively (based on 2007 statistics from the National Institute of Statistics of Rwanda). It is also expected that the population living under the poverty line will be reduced from 60 percent in 2000 to 25 percent by 2020, the population will grow, on average, 2.7 percent a year until 2020, the literacy rate will increase from 48 percent in 2000 to 90 percent in 2020, and average life expectancy will rise from 49 to 55 years (MINECOFIN 2000, *Rwanda Vision 2020*).

This chapter analyzes the role of political leadership, the process of policy making, and the process of policy learning in sustaining economic growth. It also examines the extent to which public policies in Rwanda are effective and inclusive.

The rest of the chapter is organized as follows. The first section highlights macroeconomic performance in Rwanda with regard to the dynamic of post-conflict economic growth. The second summarizes existing empirical findings on the sources of growth in Rwanda. The third analyzes the nature, goals, and objectives of the Rwandan leadership as well as the extent to which leadership in Rwanda is conducive to growth. The fourth section analyzes the economic reforms undertaken by the government of Rwanda with the expectations of sustaining growth.

Overview of Macroeconomic Performance in Rwanda: The Dynamics of Post-Conflict Growth

To understand the current macroeconomic performance in Rwanda, it is important to consider the Rwandan economy before and after the 1994 war and genocide against Tutsi. The post-conflict government inherited two sets of problems: the consequences of the 1994 genocide and the structural problems of Rwanda's economy. As a consequence of the genocide, the country lost not only 1 million people, including highly skilled people, but also economic infrastructure. The genocide also had strong social repercussions, including losses at different levels of society and increased poverty, leading, for example, to higher government transfers in the form of social security payments.

To deal with these problems, the government introduced macroeconomic and structural reforms. Among others, the government embarked on reforms in the following areas: the central bank was made independent in an effort to control inflation and achieve macroeconomic stabilization (National Bank of Rwanda, Annual Reports 2002–05); the tax system was reformed by creating an independent tax collection agency (Rwanda Revenue Authority) and introducing a value-added tax (VAT); state enterprises were privatized; the tariff structure and labor market were reformed; and trade was liberalized by removing price controls. Over the years, Rwanda has attained a reasonable level of macroeconomic stability and fiscal discipline. This has been achieved in spite of the ongoing heavy reliance on foreign savings to compensate for insufficient domestic savings. In 2005 Rwanda's economic reforms were advanced enough to qualify for the highly indebted poor countries (HIPC) debt cancellation. Under the enhanced HIPC, Rwanda gained an estimated \$1.4 billion out of \$1.5 billion as a result of the adoption of strict measures in public debt management. These reforms and different economic policies explain important economic achievements in Rwanda during the last five years. From 2004 to 2008, the economic growth in Rwanda was around 8 percent on average against -1.8 percent from 1990 to 1993. The real GDP per capita, which grew on average 0.1 percent from 1980 to 1989, rose by 5 percent per year from 1995 to 2003 (Ezemenari and Coulibaly 2008) and by 14.9 percent per year on average from 2003 to 2007 (2007 statistics from the National Institute of Statistics of Rwanda).

Economic reforms alone could not have brought about this degree of positive change in Rwanda. As Napoleon said in 1815, "Men are powerless to secure the future; institutions alone fix the destinies of nations" (World Bank 1997). Peace and stability must be established first and foremost. Democratic rule, supported by institutions of good governance and a strong political will, must exist concurrently. Involving people in governance and making them responsible for their own destiny are essential elements of legitimacy and consensus. Rwanda embarked on a program of decentralization of public administration to improve the delivery of services

Table 3.1. Real Economic Growth by Sectors from 2004 to 2008 (percent)

	2004	2005	2006	2007	2008
GDP growth	5.3	7.2	7.3	7.9	11.2
Agriculture	0.1	4.8	1.1	0.7	15.0
Food crops	-1.8	6.4	0.0	1.8	16.4
Export crops	58.2	-24.3	29.8	-33.1	20.3
Industry	12.8	7.5	10.9	10.2	10.7
Manufacturing	6.4	3.5	9.9	6.9	-4.1
Electricity, gas, and water	-16.1	17.4	28.0	3.7	16.9
Construction	20.1	9.1	13.2	11.6	25.9
Services	7.9	9.1	10.9	12.8	7.9
Wholesale and retail trade, restaurants and hotels	7.4	9.3	13.1	13.9	9.4
Transport, storage, and communication	11.7	10.6	16.4	18.4	11.4
Finance and insurance	17.2	10.5	20.3	22.7	12.0
Real estate and business services	3.0	8.3	4.5	10.5	14.2

Source: Ministry of Finance and Economic Planning 2008.

and empower people to participate in their own development programs. Important efforts were made to build peace, security, and reconciliation.

The following sections of this chapter analyze more deeply the dynamics of the Rwandan economy after the genocide, focusing on the role of the Rwandan leadership, because conflicts and development clearly should not be dealt with separately.

Summary of Empirical Studies on Sources of Growth in Rwanda

Two major studies have been conducted on sources of growth in Rwanda. One was conducted by Kene Ezemenari and Kalamogo Coulibaly at the World Bank (Ezemenari and Coulibaly 2006). Another study, titled “Convergence des économies de la CEPGL, cas du Rwanda et du Burundi,” was conducted by the author of this chapter (Thomas 2006) and was commissioned by the African Economic Commission. The results of these two studies are similar.

Rwanda’s growth performance during the 1995–2004 period was significant, as compared to growth during 1980–89. Average annual real GDP per capita grew by over 6 percent during 1995–2004, whereas it averaged 0.1 percent during 1980–89. Rwanda’s economic performance was far better than the combined growth rate of all sub-Saharan African¹

1 Angola, Benin, Botswana, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Comoros, Republic of Congo, Democratic Republic of Congo, Côte d’Ivoire, Ethiopia, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Liberia, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, São Tomé and Príncipe, Senegal, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

countries, which on average was -1.6 percent during 1995–2003. The key question for Rwanda is how this performance has been realized and how this remarkable growth rate, which is required for sustained poverty reduction, can be sustained.

The economic growth in Rwanda was due mainly to factor accumulation before 1995. Since 1995, both factor accumulation and total factor productivity have contributed to growth. The determinants of growth analysis show that in addition to these factors, human capital, credit to the private sector/GDP, public investment/GDP, share of imports of capital goods/GDP, and official development assistance/GDP positively contributed to GDP growth. This growth in GDP contrasts with the outcome of the appreciation of the real effective exchange rate in the late 1980s, as well as the aftermath of the 1994 genocide, which had a dampening effect on GDP growth.

In the two studies, annual real GDP growth was regressed on measures accounting for access to credit, human capital formation, exchange rate reforms, financial conditions, and investment.

The variable *human capital* exerts a large positive effect on economic growth because its estimated coefficient is both positive and significant (elasticity between 0.5 and 0.6). The variable *CREDIT* also has a positive effect on real GDP growth.² This suggests that financial reforms led to a financial deepening by making economic resources available throughout the economy. The real effective exchange rate had a negative and statistically significant impact on real GDP growth. The appreciation of the real effective exchange rate in the late 1980s made tradable goods from Rwanda less competitive than those from abroad. The coefficient of public investment over GDP is positive and significant, which suggests that public investment contributes to improving economic growth.

Additionally, capital has a positive significance, which illustrates that capital imports underscore the importance of new capital in incorporating new technology and, in many cases, enabling greater productive efficiency and therefore greater economic growth. In Ezemenari and Coulibaly (2006) the variable tax revenue collected on international trade exerted a positive and significant effect on the GDP growth rate. The positive connection between revenue and economic development suggests that collected revenues may have been directed to more productive projects that led to improvements in economic growth.

The variable official aid, as expected, was positive and significant. Since 1994 most aid that Rwanda has received from the international community has been used, for among other purposes, to build schools, pay teachers, provide school furniture, build hospitals, and purchase computers for workers and students. Such spending on education and health, along with increased training of civil servants, has contributed significantly to productivity growth and therefore greater economic development.

² Broad money (M2) was also tested instead of private sector credit, but the results did not change significantly.

Finally, and predictably, the 1994 dummy variable, measuring the economic effects of the political events at that time, was both negative and significant, indicating a decrease in economic growth.

One of the specificities of the findings presented here is that the openness factor plays a nonnegligible role in the observed GDP growth.

Leadership and Economic Growth in Rwanda

Fourteen years ago, Rwanda was considered a shell of a country, racked by destruction, whose future was in doubt following the 1994 genocide. The entire system was destroyed, from the economy to security and justice systems to infrastructures. However, the condition of the country today has been called “the Rwandan miracle.” Rwanda has achieved tremendous progress both politically and economically.

The fundamental causes of this decade of quick development are most likely the following: charismatic leadership, rich and positive ideology, strict political will, and lessons from the genocide and Rwandan history. A leadership is charismatic when it works to serve the general interest, rather than egoistic and selfish interests. Such leadership is always committed to finding durable solutions to community problems. Since its military victory over the forces who carried out the genocide forces, Rwanda Patriotic Front (RPF) leaders have worked to reestablish social harmony and promote sustainable economic development. For these purposes the RPF has created mechanisms, institutions, principles, and practices to serve the country efficiently. The results include the reestablishment of security, economic and social reconstruction, and promotion of the private sector and civil society.

The RPF’s ideology is one of victory, an ideology of optimism, hard work, and community empowerment. The core of this ideology is summarized in nine points (Rwanda Patriotic Front 1997, revised 2003), one of which is strong social and economic development. It states that the key to the country’s development is “within the Rwandans’ hands,” and nowhere else. This builds national self-confidence and the will for all Rwandans to own their own future.

This political will of Rwanda’s leadership is manifested through the creation of structures, mechanisms, and practices that guarantee the participation of all citizens and transparency in management of public affairs. Reforms are enacted following mass consultative meetings to react efficiently to community problems. Another current mechanism for finding solutions to community problems in Rwanda is decentralization.

Leadership and Economic Growth in Rwanda

The links between peace and economic development are likely to be more evident in Africa than in any other part of the world. Many conflicts are ongoing in Africa at different levels of violence, and the most violent

conflicts are correlated to a high level of poverty. Ibrahim A. Gambari (2004) argues that it is no accident that Africa is the most marginalized part of the world undergoing globalization. The continent's share of total world trade has declined from about 4 percent in the 1990s to less than 2 percent at present. Conflict is among the key variables determining such a position in world trade.

There is common understanding that conflicts in Africa are essentially crises of governance. They are violent responses to lack of democracy, freedom and to the politics of exclusion, mismanagement and tyranny by many African governments. Kofi Annan, in his 1998 report, "Causes of Conflict and Promotion of Durable Peace and Sustainable Development in Africa," recognizes that "conflicts and development should not be dealt with separately; rather, they need to be dealt with within a comprehensive framework of governance that addresses the root causes of conflict and sustainable development."

Considering this need for a comprehensive framework of governance, a postconflict country such as Rwanda cannot deal with economic growth separately from conflict resolution and building peace and security. Peace is a precondition for security, stability, and development. The leadership of Rwanda understands that it needs political stability to attract domestic and foreign investors, and it needs peace to implement development plans and growth. In 1997–98 the office of the president of the republic took the initiative to organize discussions about the future of Rwanda. On the basis of the ideas agreed upon at the discussions, the Vision 2020 project was born and further developed to become a high-level vision for the Rwanda's future. One of the key ingredients of this vision is building peace and security to facilitate productive initiatives. This will help realize the main goal of the vision: to transform Rwanda into a modern, strong, and united nation, proud of its fundamental values, politically stable, and without discrimination among its citizens.

In the aftermath of the 1994 genocide, Rwandans have been able to share the vision of peace and to work together without fear of civil crises. The environment of peace obviously has promoted the involvement of Rwandans in productive activities such as agriculture and business. This involvement in productive sectors is an important factor of growth.

After the genocide, national reconciliation has been and continues to be promoted as an official policy, understood as a prerequisite to economic development. Reforms in different areas of the Rwandan society have been realized and can be summarized as follows.

Political and Institutional Reforms

The postgenocide transition has been ended by the implementation of political institutions based on democracy and equity. Rwanda now is headed by an effective government that maintains law and order and demonstrates economic leadership. Mutual support and complementarity among different institutions have been shown to be essential for the

attainment of stability and security in the country. The government also has much invested in good governance, and an important administrative reform based on decentralization has been completed. Today administrative services are decentralized to the low levels of sectors, so-called *umurenge*. This has greatly facilitated easy and quick access to public services for all Rwandans, especially those living in rural areas. Easy availability of public services has been shown to be less costly in terms of money and time.

Moreover, in the spirit of institutional development, different institutions have been created to contribute to the process of national reconciliation and socioeconomic growth, among them the following:

The *National Commission for Reconciliation* is a national organization that implements reconciliation mechanisms. This commission has trained Rwandans to participate in personal exchanges, business, and any other socioeconomic activity without discrimination. Its work has proved to be a good way to concentrate the national effort into activities of social and economic interest nationwide.

The *Rwanda Investment and Export Promotion Agency* has significantly contributed to economic growth by putting in place measures and incentives for investment and exports.

The *National Commission to Fight against HIV/AIDS* is a successful organization that tries to protect the Rwandan population through anti-HIV/AIDS programs. It is known that HIV-affected and -infected people are economically less productive or unproductive in the long term, especially in developing countries where methods of care for these people are inefficient. Therefore, fighting HIV/AIDS in Rwanda is, among other purposes, a way for providing and maintaining the workforce for the economy.

The *RWANDA Revenue Authority* has significantly contributed to allocating government revenues to finance public investment budgets.

Many other specialized programs and socioeconomic initiatives to support youth and women have been put in place and are significantly contributing to economic development. Important institutions with the objective of fighting corruption have been created. The Ombudsman deals with the national leader's property (personal wealth), the General Auditor's Office checks the management of public institutions, and the National Tender Board manages public procurement. In Africa, in postconflict situations, disarmament and demobilization programs have often left a power vacuum. There is a tendency to reduce the numbers of the police and the military without paying much attention to the challenges that lie ahead for the already weakened institutions to maintain order and security. The national commission for demobilization has developed a good program for reintegration of former soldiers and police into civil life by providing training and financial support in the implementation of small projects that generate income for the demobilized soldiers.

Judicial Reforms

After the 1994 genocide, the International Criminal Tribunal for Rwanda (ICTR) was created in Arusha, Tanzania, in November 1994 to try those accused of responsibility for the genocide. It targets those who masterminded the genocide and who bear the greatest responsibility for the crimes committed. As of December 2005, the ICTR had completed 26 trials, and cases involving 26 other accused were in progress. In March 2006, eight trials were being run concurrently, and 15 detainees remained in custody awaiting trial. There was optimism that all trials will be completed by the deadline in 2008 and appeals by 2010, but this has not been achieved.

However, individuals accused of “intermediate crimes” are tried in national jurisdictions. More than 100,000 accused persons face justice in Rwandan courts and traditional justice in village assemblies called *gacaca*. This process, whereby witnesses, suspects, and victims give testimony during neighborhood meetings, began in January 2005. Many international observers acknowledge that it is the best, if not the only, alternative. In fact, one of the main objectives of *gacaca* is to make reconciliation possible between victims of genocide and the perpetrators. By enabling Rwandans to live together, it provides incentives to work hand in hand and thus contribute to the socioeconomic development of the country.

The Process of Policy Making: A Way of Sustaining Economic Growth

The policy-making process is defined as the procedure by which policies are discussed, approved, and implemented. It is intended to be a dynamic and interactive process that involves all stakeholders. The process has an important impact on the quality of public policies, including the capacity of a given country to provide a stable policy environment, adapt policies when needed, implement and enforce policies effectively, and ensure that the policies that are adopted are in the public interest.

In Rwanda today the process of policy making is essentially characterized by the elements discussed in the following sections.

The Decentralization Policy as a Structure for the Mobilization of Economic Development Energies

The government of Rwanda adopted the national decentralization policy in May 2000 to achieve three main goals: good governance, pro-poor service delivery, and sustainable socioeconomic development. Through its willingness to succeed, Rwanda has successfully implemented the planned decentralization policies. This policy was developed from nationwide consultative processes aimed at determining the causes of genocide and outlining lasting solutions. Bad governance, extreme poverty, and exclusive political processes have been identified as some of the main underlying causes of the genocide (Ministry of Local Government and Social Affairs 2000). On the basis of these findings, and within the government’s long-term Vision 2020 and poverty reduction strategy, the government of

Rwanda designed and adopted an implementation program to put the decentralization policy into practice.

Rwanda's decentralization policy has five specific objectives (Ministry of Local Government and Social Affairs 2000):

To enable and be reactive to local people's participation in initiating, making, implementing, and monitoring decisions and plans that concern them, taking into consideration their local needs, priorities, capacities, and resources by transferring power, authority, and resources from the central government to local government and lower levels.

To strengthen accountability and transparency by making local leaders directly accountable to the communities that they serve and by establishing a clear linkage between the taxes people pay and the services that are financed by these taxes.

To enhance the sensitivity and responsiveness of public administration to the local environment by placing the planning, financing, management, and control of service provision at the point at which services are provided and by enabling local leadership to develop organization structures and capacities that take into consideration the local environment and needs.

To develop sustainable economic planning and management capacity at local levels that will serve as the driving motor for planning, mobilization, and implementation of social, political, and economic development to alleviate poverty.

To enhance effectiveness and efficiency in the planning, monitoring, and delivery of services by reducing the burden on central government officials who are distanced from the point at which needs are felt and services delivered.

In this context, decentralization is taken as an instrument for people's political empowerment, reconciliation, social integration, and well-being. In particular, decentralization in Rwanda is understood as a platform for sustainable democratization and a structured arrangement for mobilization of economic development energies, initiatives, and resources. It is intended to give the power to the people and enable them to execute their will for self-development. In this regard, the following reforms, which can be considered as important ingredients of socioeconomic growth, have been established:

1. Community Development Committees have been created as planning organs answerable to the local population. Some of them have already had their planning capacities developed through training, and they have gone on to develop District Development Plans.
2. Fiscal responsibilities and financial resources have been transferred to decentralized units. The most important element of the fiscal and financial decentralization is the relative autonomy in budgeting and financial management at local levels, which facilitates prioritization of the expenditure needs in situations of inadequate financing.
3. Substantial improvements in the delivery of services have been registered, including local trade, small-scale industries, tourism and environmental protection through the practice of the *Umuganda* (Community Work), cooperatives and associations, local government roads, and others.

These results indicate that the decentralization policy is obviously pro-poor because it promotes small-scale economic activities, including small

industries in the poorest areas (rural zones) of the country. Decentralization has also significantly reduced the cost of public services in terms of money, time, and energy. The savings probably are used in more productive activities. Decentralization in Rwanda is then worthy to be considered as an engine for economic growth.

Additionally, to make the decentralization policy more effective, local governments sign performance contracts with the president of the republic. These contracts include details on programs that are achievable within one year, and evaluation is performed every three months. For example, the evaluation done on April 2–3, 2007, indicated that the absorption capacity of districts has significantly increased. Therefore, the next budget revision is expected to allocate 10 percent of the national budget to the Common Development Fund.

Ubudehe: A Way of Improving People's Participation in Their Own Development

To promote and enforce participatory people-centered initiatives, *ubudehe* has been created. *Ubudehe* is the traditional Rwandan practice and cultural value of working together to solve problems (MINECOFIN, Concept Note, 2003).

The literal origins of the word describe the practice of digging up fields before the rains come and the planting season arrives. A group of households join together to dig their fields, acting collectively to share the burden of the work and make sure that everyone is ready for the planting season.

In the present context, the *ubudehe* process in Rwanda is a unique policy of promoting citizens' collective action in partnership with a government committed to decentralization. It is a policy designed to increase institutional problem-solving capacity at the local level by citizens and local governments, and it seeks to put into operation the principles of citizens' participation through local collective action. It also sets out to strengthen democratic processes and governance starting from the people's aspirations, ability, and traditions. As carried out under the Participatory Poverty Assessment, each *umurenge* (neighborhood) is expected to go through a process of collectively defining and analyzing the nature of poverty in its community. The first step is to look at local categories of poverty, the characteristics of each category, mobility between categories, causes and impacts of poverty, and the roles of security, risk and vulnerability, social cohesion, crime and conflict, and social exclusion. The *umurenge* then goes on to identify and analyze the characteristics of the problems that it faces. This list of analyzed problems is then ranked in terms of priority, using pairwise comparison, and the problem on which the community wants to spend the most time, effort, and resources is selected. From there, the people develop an action plan to address the problems that they have prioritized.

After this process, funds are made available to support the identified *ubudehe* collective action. The European Union until now has been the major donor supporting the *ubudehe* process. The flow of these funds can

be summarized as follows: Once funds are deposited in the National Bank of Rwanda (NBR), they are released through the Strategic Planning and Poverty Monitoring Department in the Ministry of Finance and Economic Planning (MINECOFIN), which manages these funds and channels the money destined for the actual collective action from the NBR account to the district-level accounts. All cellules (an administrative unit) have set up an account in the Banque Populaire's nearest branch. The money, which is now at the district level, is then transferred to the cellule account.

This framework clearly shows the innovation and the usefulness of the *ubudehe* process as a tool to make Rwandan people at the grassroots level aware of their poverty-related problems and help them address these problems in a participatory way. *Ubudehe* has helped increase understanding of poverty in Rwanda and how it is felt by the people through the Participatory Poverty Assessment process.

Economic Reforms Conducive to Targeted Growth

Rwanda embarked on economic restructuring as a necessary step on a development path that would help rebuild an economy shattered by war and genocide. The instituted reforms emphasized the importance of efficient allocation of resources, transparency, putting an enabling environment in place to promote private investment, obtaining value for money, and accountability, among other themes. These reforms included the following activities.

Privatization of State Enterprises

Because of the effects of the war, many public enterprises were in a weakened state. The government resolved to carry out a privatization program to create a market-oriented economy; increase efficiency and production; provide employment; attract investment, technology, and innovation; reduce costs of production; and, as a result, increase competitiveness. The government decided to concentrate on policy matters while the private sector took over as a business operator. To empower the private sector to take up these challenges and to facilitate a market-oriented economy, legal reforms to deregulate the government from business operations were carried out. In the beginning of the process, there was not much demand for the state enterprises, and the private sector, mainly made up of the local business community, lacked both managerial and financial capacity.

The government revised investment laws to attract business from abroad and encouraged local business operators to team with foreign investors for mutual benefit. In the beginning, foreign investors were very slow to come to Rwanda because it was a postconflict country. However, different economic reforms and the creation of a good business environment have opened up the economy and attracted foreign direct investment in areas such

as the construction industry, telecommunications, and the services sector. Consequently, skills have been acquired and employment increased. This in turn has resulted in increased demand for goods and services, stimulating more production and economic growth as a whole.

Reforming the Tax System

To improve government revenues, the tax system was reformed to increase efficiency and effectiveness. An independent tax collection agency was created and a VAT introduced, and the tax base was broadened to include more taxpayers. This reform has met its expectations, with tax revenues increasing each year since 2000. In nine years the revenue to GDP ratio almost doubled, from 7 percent in 1997 to 15.5 percent in 2005.

Despite this economic performance, Rwanda remains dependent on foreign aid, which currently provides resources to fund around 50 percent of the budget. Effective resource management and good governance are among the most important elements that ensure that foreign partners will continue funding the Rwandan government's programs.

An Appropriate Monetary Policy for Rural Sector Challenges

The 1994 genocide destroyed the banking system. Important measures were initiated for rebuilding the system, and the NBR was transformed into an independent institution. This enables the NBR to contribute significantly to controlling inflation and financing the economy. Direct control and orientation of credit was abolished, and the regulation of liquidity based on indirect instruments was established. An appropriate monetary policy reform has been adopted to address rural sector challenges. To provide funds for the agriculture sector in rural areas, Rural Investment Facilities have been put in place in the form of guarantee funds, managed by the NBR. Through this facility framework, the agriculture sector is being progressively financed and enormous socioeconomic effects are being observed. Table 3.2 shows the rural-sector funding through the three main facilities.

These facilities are conceived of as an important way of promoting growth, especially for a country whose economy is mostly based on agriculture. In particular, the facilities have had a positive impact on export production.

**Table 3.2. Rural Investment Facilities
(amount in RF)**

Facility	2002	2003	2004	2005	Total
Facility 1	—	—	109,370,912	637,430,762	746,801,674
Facility 2	—	—	758,200,000	548,412,000	1,306,612,000
Facility 3	481,546,339	782,329,378	1,265,794,041	1,252,121,409	3,781,791,167
Total	481,546,339	782,329,378	2,133,364,953	2,437,964,171	5,835,204,841

Source: National Bank of Rwanda, Capital and Money Market Department.

Rural Investment Facilities provide short-term credits for agriculture projects and long-term investment credits for rural economic agents. For a given project to be financed, the bank that funds the facility is responsible for economic, financial, and risk analysis. Next, the NBR makes its own analysis before providing the guarantee funds for the project. In collaboration with the commercial bank that deals directly with the rural economic agent in need of funds, a monitoring and evaluation framework is established and agreed on. Every three months, a credit reimbursement report is transmitted to the NBR. An account audit for the credit beneficiary is regularly made to ensure that the received credit has been used according to the credit contract. If it is found that the credit has been misused, the guarantee offered through the Rural Investment Facility is immediately canceled.

Regional Integration and Economic Growth

Rwanda has embraced the New Partnership for Africa's Development (NEPAD). The country is a member of its 15-member Implementation Committee and has also volunteered for the NEPAD African Peer Review Mechanism (APRM). In June 2005 Rwanda, along with Ghana, was one of the first states to submit an APRM report, which demonstrates its willingness to produce a self-critical and consultative evaluation about conditions in the country. Rwanda is also demonstrating economic leadership in Africa's regional institutions. Rwanda is a member of the Common Market for Eastern and Southern Africa, and it has already joined the East African Community (EAC). The regional integration is obviously creating a good environment for sustainable economic growth. Attempts at regional integration are reflecting the desire to deal with the perceived growth-inhibiting problems associated with the structure of Rwandan economy—its small size, its landlocked status, and the country's poor infrastructure. Regional integration is then envisaged as an important engine for high and sustainable economic growth in Rwanda. The integration in the EAC is an especially high interest for the country, because almost 70 percent of Rwandan imports come from East African countries. Trade liberalization is thus very important and should make transactions easy and cheap.

Given the lack of natural resources of Rwanda, the current leadership has adopted more investment in science and technology and in human development so that Rwanda can be competitive and benefit from regional integration, with a goal of transforming Rwanda into a knowledge-based economy. The eventual target that is under consideration is to produce 50 trained engineers and scientists per 10,000 population. This planning process is summarized in table 3.3.

Similar targets were defined in terms of qualified doctors and health professionals. The eventual target under consideration is for 10 trained doctors and 20 trained nursing professionals per 10,000 population. This will require additional investment in the development of courses and facilities to increase the training capacity in Rwanda.

Table 3.3. Development of Professionally Qualified Rwandan Scientists and Engineers

Institute	Average Number Studying Science and Technology ^a	Average Yearly Output Degrees and Diplomas	Total Degrees and Diplomas over 15 Years ^a	Enrollment Growth at 3%	Taking into Consideration KIST Rapid Expansion Plans
Kigali Institute of Science and Technology (KIST)	2,000	500	5,625	9,300	19,188
National University of Rwanda	1,300	325	4,875	6,044	6,044
Institut Supérieur d'Agriculture et d'Élevage	1,000	250	3,750	4,650	4,650
Kigali Institute of Education	1,000	250	3,750	4,650	4,650
Total	—	1,200	18,000	24,643	34,532
S-T trust fund	—	—	5,000	5,000	5,000
Revised total	—	—	23,000	29,644	39,532
Engineers and scientists per 10,000 in 2020	—	—	19	24	32

Sources: Murenzi and Hughes 2006, Rwandan Ministry in the President's Office in Charge of Science and Scientific Research, 2006

— Not available.

a. Estimated.

Conclusion

This chapter has analyzed the role of the Rwandan political leadership and the process of policy making in sustaining economic growth, indicating the extent to which public policies and several reforms have sustained economic growth.

The 1994 genocide has had deep consequences for Rwanda's social, political, and economic structures. In its willingness to promote socioeconomic development, the country's leadership is convinced that reconciliation, political stability, and security constitute a good environment for economic growth. In this regard, the main goal of the current leadership is the transformation of Rwanda into a modern, strong, and united nation, proud of its fundamental values and politically stable. Over the last 13 years, the government of Rwanda has invested enormous efforts into rebuilding the national peace and reconciliation process, which is considered a prerequisite to any economic development.

Rwanda's process of policy making has its own foundations and orientations that make it country specific. In effect, the process of policy making in Rwanda is a dynamic and interactive game that involves all stakeholders. The government of Rwanda adopted the national decentralization policy in May 2000 to achieve three main goals: good governance, pro-poor service delivery, and sustainable socioeconomic development. This policy was developed from a nationwide consultative

processes aimed at determining the causes of genocide and outlining lasting solutions. In this context, decentralization is taken as an instrument for people's political empowerment, reconciliation, social integration, and well-being. In particular, decentralization in Rwanda is understood as a platform for sustainable democratization and a structure for mobilization of economic development energies, initiatives, and resources. Decentralization is currently giving the power to the people and enabling them to execute their will for self-development.

To reinforce decentralization and self-development, the *ubudehe* process was established in Rwanda. This is a unique policy of promoting citizens' collective action in partnership with a government committed to decentralization. It is a policy designed to increase the level of institutional problem-solving capacity at the local level by citizens and local governments. It has succeeded in putting into operation the principles of citizens' participation through local collective action.

To increase accountability and make the decentralization policy more effective, a strategy of local governments signing performance contracts with the president of the republic has been adopted. These contracts include details on the programs that are achievable within one year. Evaluations are performed every three months, which allows institutions to plan their activities and establish quantifiable indicators for evaluation.

The above public policies are enacting the willingness of the government to make Rwanda a middle-income country by 2020. Since 1994 Rwanda has attained impressive achievements following the turbulent war and genocide and since that time has been on a path of economic development and poverty reduction of its citizens. Recently attained economic performance and social and political achievements are strongly linked to a charismatic leadership that invests in the development of all Rwandans.

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