This paper analyzes the role of the leadership in the economic growth in Rwanda, a country that was seriously affected by civil war and the 1994 genocide. It appears that the will and the clear vision of the leadership in Rwanda were one of the central pillars of the very good economic and social performances in Rwanda. This is particularly important because the country has almost no natural resources and the economy and its fundamentals were completely destroyed by the 1994 genocide. This paper thus helps enrich the various economic growth models by stressing the importance of the quality of leadership.

Thomas Rusuhuzwa Kigabo, Chief Economist, National Bank of Rwanda
Leadership, Policy Making, Quality of Economic Policies, and Their Inclusiveness: The Case of Rwanda

Rusuhuzwa Kigabo Thomas
About the Series

The Commission on Growth and Development led by Nobel Laureate Mike Spence was established in April 2006 as a response to two insights. First, poverty cannot be reduced in isolation from economic growth—an observation that has been overlooked in the thinking and strategies of many practitioners. Second, there is growing awareness that knowledge about economic growth is much less definitive than commonly thought. Consequently, the Commission’s mandate is to “take stock of the state of theoretical and empirical knowledge on economic growth with a view to drawing implications for policy for the current and next generation of policy makers.”

To help explore the state of knowledge, the Commission invited leading academics and policy makers from developing and industrialized countries to explore and discuss economic issues it thought relevant for growth and development, including controversial ideas. Thematic papers assessed knowledge and highlighted ongoing debates in areas such as monetary and fiscal policies, climate change, and equity and growth and. Additionally, 25 country case studies were commissioned to explore the dynamics of growth and change in the context of specific countries.

Working papers in this series were presented and reviewed at Commission workshops, which were held in 2007–08 in Washington, D.C., New York City, and New Haven, Connecticut. Each paper benefited from comments by workshop participants, including academics, policy makers, development practitioners, representatives of bilateral and multilateral institutions, and Commission members.

The working papers, and all thematic papers and case studies written as contributions to the work of the Commission, were made possible by support from the Australian Agency for International Development (AusAID), the Dutch Ministry of Foreign Affairs, the Swedish International Development Cooperation Agency (SIDA), the U.K. Department of International Development (DFID), the William and Flora Hewlett Foundation, and the World Bank Group.

The working paper series was produced under the general guidance of Mike Spence and Danny Leipziger, Chair and Vice Chair of the Commission, and the Commission’s Secretariat, which is based in the Poverty Reduction and Economic Management Network of the World Bank. Papers in this series represent the independent view of the authors.
Abstract

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This paper thus helps enrich the various economic growth models by stressing the importance of the quality of leadership.
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Leadership, Policy Making, Quality of Economic Policies, and Their Inclusiveness: The Case of Rwanda

Rusuuzwa Kigabo Thomas

Introduction

Rwanda is located in East Africa, bordered by Uganda in north, Burundi in south, Tanzania in the east, and the Democratic Republic of the Congo in the west. Rwanda remains an underdeveloped, agrarian economy with around 60 percent of the population living below the poverty line. In 2006, GDP was comprised of agriculture (41 percent), services (39 percent), and industry (18 percent). The economy of Rwanda is currently characterized by internal (budget deficit) and external (balance of payments) macroeconomic disequilibria, low savings, and low investment rates. In addition, Rwanda’s exports, composed mainly of tea and coffee, are subject to fluctuations on the international market and have not been able to cover import needs.

This overall situation can be best explained by reviewing a number of individual challenges.

The agriculture sector, which accounts for more than 90 percent of the labor force, remains unproductive and largely on a subsistence level. Distribution of arable land now stands at one hectare for every nine Rwandans and is diminishing due to high birth rates. The country’s narrow economic base and export regime based on coffee and tea are insufficient to build the economy.

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 still has challenges in building its institutional capacity. Governance, including the management of public resources, remains insufficient due to 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

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modernization of this sector, while a shortage technicians and competent managers constraints the expansion of the secondary and tertiary sectors.

The 1994 genocide devastated the Rwandan economy as well as its population. 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 also exacerbated a number of development constraints that existed before 1994. The already poorly developed productive infrastructure was completely destroyed. Thus, the consequences of genocide have devastated Rwanda's social, political, and economic fabric.

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

This paper attempts to analyze the role of political leadership, the process of policy making and the process of policy learning in sustaining economic growth on the one hand. On the other hand, it examines to what extent public policies in Rwanda are effective and inclusive.

The rest of the paper is organized as follow: The first section highlights macroeconomic performance in Rwanda in terms of the dynamic of post-conflict economic growth. The second section summarizes existing empirical findings on the sources of growth in Rwanda. The third section 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.
I. Overview of Macroeconomic Performance In Rwanda: The Dynamics of Post-Conflict Growth

To better understand the current macroeconomic performance in Rwanda, two considerations are important: the Rwandan economy before and after the 1994 war and genocide. 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 one million people, including the highly skilled people, and economic infrastructures were destroyed. The 1994 genocide had also strong social repercussions like losses at different levels of society and increased poverty, leading, for example, to increased government transfer payments in terms of social security funds.

To deal with these problems, the government introduced macroeconomic and structural reforms. Among others, the following reforms in different areas were envisaged: the government decided to make the Central Bank independent to help control inflation and achieve macroeconomic stabilization; 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 total of US$1.4 billion out of a total US$1.5 billion due to strict measures adopted in public dept management. These reforms explain what we can call an economic miracle in Rwanda, as agree by many observers of African economies.

Economic reforms alone however could not have succeeded in bringing about positive change in Rwanda, a post conflict country. As Napoleon I said (1815): “Men are powerless to secure the future, institutions alone fix the destinies of nations.” Peace and stability must be established first and foremost. Democratic rule as a basis, supported institutions of good governance, and, above all, a strong political will, must concurrently exist. Involving people in governance and making them responsible for their own destiny is a paramount factor for legitimacy and consensus. Rwanda embarked on a program of decentralization of public administration to improve on service delivery and empower people to participate in their own development programs. Important efforts were made to build peace, security, and reconciliation.

Different macroeconomic indicators show clearly that the Rwandan government has been mostly concerned by reorganizing all sectors of the economy, and that a lot has been achieved. From 1990 to 1994, the economic
growth rate was negative, except in 1991. However, the growth of GDP was positive in several years after 1994 and seems to have become more stable since 2004. Indeed, after a record growth rate of 11 percent in 2002 due to very good rains and an exceptional harvest of subsistence crops, there was a serious setback in 2003 due to drought, which affected agriculture very seriously. Growth fell to 0.3 percent. But from 2004 to the present, economic growth has been relatively sustainable and varies between 5 and 7 percent.

The overall sector structure of Rwanda’s economy has changed very little, but from 2005, it is clear that economic growth observed resulted from developments in two sectors, namely, industry and services. This conforms with the government of Rwanda’s vision of structural transformation (table 1).

In the following sections, we analyze more deeply the important factors of the dynamics of the Rwandan economy after genocide. We focus on the role of the Rwandan leadership, because it’s now recognized that conflicts and development should not be dealt with separately.

II. Summary of Some Empirical Studies on Sources of Growth In Rwanda

There are two major studies on this subject, One was conducted by Kene Ezemenari and Kalamogo Coulibaly (World Bank). Another study, whose the topic is “Convergence des économies de la CEPGL, cas du Rwanda et du Burundi,” was conducted by Dr. Rusuhuzwa Kigabo Thomas (the author of this paper), commissioned by the African Economic Commission. The results of these two studies are not very different.

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, while it was averaging 0.1 percent during 1980–1989. Rwanda’s economic performance was far better than the combined growth rate of all Sub-Saharan African (SSA) 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 to sustain this remarkable growth rate, which is required for sustained poverty reduction in the coming years.

Table 1: Real GDP Per Sector in 2001 Constant Price (in RF billions)

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<tbody>
<tr>
<td>GDP</td>
<td>632.7</td>
<td>611.3</td>
<td>651.7</td>
<td>591.2</td>
<td>310.7</td>
<td>411.2</td>
<td>473.5</td>
<td>552.5</td>
<td>598.4</td>
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<td>GDP Variation in %</td>
<td>-3</td>
<td>6.6</td>
<td>-9</td>
<td>-47</td>
<td>32</td>
<td>15</td>
<td>17</td>
<td>8</td>
<td></td>
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<tr>
<td>Agriculture (share of agriculture in %)</td>
<td>40.3</td>
<td>37.1</td>
<td>36.2</td>
<td>37.2</td>
<td>41.7</td>
<td>39.7</td>
<td>41.1</td>
<td>35.8</td>
<td>36.9</td>
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<tr>
<td>Industry (share of Industries in %)</td>
<td>133.9</td>
<td>113.5</td>
<td>138.5</td>
<td>124.2</td>
<td>49.5</td>
<td>65.5</td>
<td>77.2</td>
<td>86.3</td>
<td>91.5</td>
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<tr>
<td>Services (share of services in %)</td>
<td>238</td>
<td>257.9</td>
<td>263.1</td>
<td>232.6</td>
<td>128</td>
<td>173.4</td>
<td>184.4</td>
<td>236.2</td>
<td>251</td>
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<tbody>
<tr>
<td>GDP</td>
<td>632.5</td>
<td>683.8</td>
<td>741.8</td>
<td>823</td>
<td>825.4</td>
<td>868.8</td>
<td>930.4</td>
<td>981.1</td>
<td>1,039.80</td>
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<tr>
<td>GDP Variation in %</td>
<td>6</td>
<td>8</td>
<td>8</td>
<td>11</td>
<td>0.3</td>
<td>5</td>
<td>7</td>
<td>5</td>
<td>6</td>
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<td>Agriculture (share of agriculture in %)</td>
<td>238.2</td>
<td>254.5</td>
<td>276.9</td>
<td>318.3</td>
<td>303.5</td>
<td>303.8</td>
<td>318.5</td>
<td>322</td>
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</tr>
<tr>
<td>Industry (share of Industries in %)</td>
<td>91.6</td>
<td>93.1</td>
<td>105</td>
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<td>113.7</td>
<td>127.8</td>
<td>136.6</td>
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<tr>
<td>Services (share of services in %)</td>
<td>266.7</td>
<td>297.3</td>
<td>317.4</td>
<td>345.2</td>
<td>360.9</td>
<td>389.3</td>
<td>424.6</td>
<td>459</td>
<td>501.2</td>
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Source: Ministry of Finance and Economic Planning.

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

In the two studies, annual real GDP growth was regressed upon 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 as its estimated coefficient is both positive and significant (elasticity between 0.5 and 0.6). The variable CREDIT has also a positive effect on real GDP growth.3 This suggests that financial reforms led to a financial deepening by making economic resources available throughout the economy. The real effective

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3 Note that broad money (M2) was also tested instead of private sector credit, but the results did not change significantly.
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 the tradable goods from Rwanda less competitive than those from overseas. The coefficient of public investment over GDP is positive and significant, suggesting that public investment contributes to improving economic growth.

We note also the positive significance of capital, illustrating 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 the study of Kene 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 revenues collected may have been directed to more productive projects that led to improvements in economic growth.

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

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 my findings is that the openness factor plays a non-negligible role in the observed GDP growth.

III. Leadership and Economic Growth In Rwanda

Rwandan Leadership Background

Fourteen years ago, Rwanda was considered a dead country, deeply destroyed, whose future was simply unclear following the 1994 genocide. The whole system was down from economy to security through justice and infrastructures. However, conditions currently observed in the country have been called “the Rwandan miracle.” The country 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 (innovative forces of conflict).
A leadership is charismatic when it works in order to serve the general interest, rather than egoistic and selfish interests. Such leadership is always committed to find durable solutions to community problems. Since its military victory over the genocide forces, the Rwanda Patriotic Front (RPF) leaders have been working to reestablish social harmony and promote sustainable economic development. It created for that mechanisms, institutions, principles, and practices to efficiently serve the community. The result is the reestablishment of security, economic and social reconstruction, promotion of the private sector and civil society, and so forth.

The core of the RPF ideology is summarized into 9 points, one of which is strong social and economic development. The ideology of RPF is a one of victory, an ideology of optimism, of hard work, and of community empowerment. It states that the key of the development is “within the Rwandan’s hands,” nowhere else. This builds national self-confidence and the will for all Rwandans to own their future.

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

**Leadership and Economic Growth in Rwanda**

The linkage between peace and economic development is likely more evident in Africa than any other region of the world. There are many different ongoing conflicts in Africa at varying levels and degrees of violence, and the fact is that 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 continent in the process of globalization. Africa’s share of total world trade has declined from about 4 percent in 1990s to less than 2 percent at present. Conflict is among the key variables determining such a position in world trade.

According to Professor Adebayo Adedeji (2003), “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.” Mr. Kofi Annan, in his 1998 report on “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, a post-conflict country like Rwanda cannot deal with economic growth separately from the conflict resolution and building peace and security. In fact, peace is a precondition for security, stability, and development.
In this regard, the leadership of Rwanda has understood that it needs political stability to attract domestic and foreign investors; 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 on the future of Rwanda. On the basis of the ideas agreed at the discussions, the Vision 2020 was born and further developed to become a high-level vision for the future of Rwanda. One of the key ingredients of this vision is the peace and security building to facilitate productive initiatives. This will help realize the main goal of the vision, which is to transform Rwanda in a modern, strong, and united nation, proud of its fundamental values, politically stable, and without discrimination among its citizens.

From the end of the 1994 genocide, Rwandans have progressively been able to share the vision of peace and to work together without any fear of civil crises. The environment of peace has obviously promoted the involvement of several categories of Rwandans in productive activities such as agriculture, business, and so forth. This involvement of Rwandans in productive sectors is considered to be an important factor of growth.

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

**Political and Institutional Reforms**

The post-genocide 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 revealed as essential for the attainment of stability and security in the country. The government has also much invested in good governance. In this regard, an important administrative reform based on decentralization has been completed. Nowadays, the administrative services are decentralized to the low levels of sectors, so-called “umurenge.” This has seriously facilitated the easy and quick access to public services for all Rwandans, especially those living in the rural area. 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 others, we can mention the following.

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

- The Rwanda Investment and Export Promotion Agency (RIEPA) 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 Rwandan population through anti-HIV/AIDS programs. It is known that HIV affected/infected people are economically less productive or unproductive in the long term, especially in developing countries where care methods for these people are inefficient. Therefore, fighting HIV/AIDS in Rwanda is, among others, 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 as well as recurrent 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 leader’s possessions (personal wealth), the General Auditor’s Office checks the management of public institutions, and the National Tender Board manages public procurement. In Africa, in post-conflict 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 lying ahead for the already weakened institutions to maintain order and security. The national commission for demobilization developed a good program for reintegration of the ex-soldiers and police in civil life by providing training and financial support in the implementation of small projects that generated 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 accused were in progress. In March 2006, eight trials were being run concurrently and 15 detainees remained in custody awaiting trial. There is optimism that all trials will be completed by the deadline in 2008 and appeals by 2010.

However, individuals accused of “intermediate crimes” are tried in national jurisdictions. More than 100,000 accused 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 and see it as 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, the process of policy making is currently and essentially characterized by the following elements.

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. In fact, 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 central to local government and lower levels.
- To strengthen accountability and transparency by making local leaders directly accountable to the communities 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 where 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 where needs are felt and services delivered.

In this context, decentralization is taken as an instrument for people's political empowerment, people's reconciliation, social integration, and well being. Especially, decentralization in Rwanda is being 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 execute their will for self development. In this regard, the following reforms that can be considered as important ingredients of the socioeconomic growth have been established:

1. Community Development Committees (CDCs) have been created as planning organs answerable to the local population. Some of them have already had their planning capacities developed through training and thus they have developed District Development Plans (DDPs).
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. Concerning the delivery of services, substantial improvements 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 so forth.

These results are indicating that the decentralization policy is obviously pro-poor since 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 engine for economic growth.

Additionally, in order 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. Every three months, evaluation is done. For example, the evaluation made 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 (CDF).

Furthermore, in order to promote and enforce participatory people centered initiatives, “ubudehe” has also been created.

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

Ubudehe is the traditional Rwandan practice and cultural value of working together to solve problems.

The literal origins of the word describe the practice of digging 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 in time 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 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 their community. The first step is to look at local categories of poverty, the characteristics of each category, mobility between categories, the 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 they face. This list of analyzed problems is then ranked in terms of priority, using pair-wise comparison, and the problem on which the community wants to spend the most time, effort, and resources is selected. From there, they develop an action plan to address the problem that they have prioritized.

After this process, funds are made available to support the identified ubudehe collective action. The European Union has until now been the major donor supporting the ubudehe process. The funds are used for collective action. 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 (SPPMD) 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 have set up an account in the Banque Populaire’s nearest branch. The money, which is now at 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 (PPA) process.

IV. Economic Reforms Conducive to Targeted Growth

Economic restructuring was embarked on as a necessary step to a development path that would help rebuild the economy shattered by war and genocide. The reforms that were instituted 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. The reforms included the following.

Privatization of State Enterprises

Because of the effects of the war, many public enterprises were in a weak 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 comprised 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 as it was a post-conflict 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 value-added tax (VAT) introduced, and the tax base was broadened to include more taxpayers. This reform has met its expectations with tax revenues on the increase 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 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 inflation control 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. In order 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 huge socioeconomic effects being observed. Table 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 agriculture based. In particular, the facilities have had a positive impact on export production.

**Table 2: Rural Investment facilities (amount in RF)**

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

*Source: NBR, Capital and Money Market Department.*
Rural Investment Facilities provide short-term credits for agriculture campaigns 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. Thereafter, the NBR makes its own analysis before the provision of 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 by through the Rural Investment Facility is immediately cancelled.

**Regional Integration and Economic Growth**

Rwanda has embraced the New Partnership for Africa’s Development (NEPAD), being one of its 15-member Implementation Committee and having 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 the Rwandan reality. Rwanda is also demonstrating economic leadership in Africa’s regional institutions. Rwanda is a member of the Common Market for Eastern and Southern Africa (COMESA) 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 position, 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 the East African countries. Trade liberalization is then 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 the regional integration. The goal is to transform 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 below.
Table 3: Development of Professionally Qualified Rwandan Scientists and Engineers

<table>
<thead>
<tr>
<th>Institute</th>
<th>Estimated average number studying science and technology</th>
<th>Average yearly output degrees +diplomas (/4)</th>
<th>Estimated total degrees/diplomas over 15 years</th>
<th>Enrollment growth at 3%</th>
<th>Taking into consideration KIST rapid expansion plans</th>
</tr>
</thead>
<tbody>
<tr>
<td>KIST</td>
<td>2,000</td>
<td>500</td>
<td>5,625</td>
<td>9,300</td>
<td>19,188</td>
</tr>
<tr>
<td>NUR</td>
<td>1,300</td>
<td>325</td>
<td>4,875</td>
<td>6,044</td>
<td>6,044</td>
</tr>
<tr>
<td>ISAE</td>
<td>1,000</td>
<td>250</td>
<td>3,750</td>
<td>4,650</td>
<td>4,650</td>
</tr>
<tr>
<td>KIE</td>
<td>1,000</td>
<td>250</td>
<td>3,750</td>
<td>4,650</td>
<td>4,650</td>
</tr>
<tr>
<td>TOTAL</td>
<td>—</td>
<td>1,200</td>
<td>18,000</td>
<td>24,643</td>
<td>34,532</td>
</tr>
<tr>
<td>S-T trust fund</td>
<td>—</td>
<td>—</td>
<td>5,000</td>
<td>5,000</td>
<td>5,000</td>
</tr>
<tr>
<td>Revised total</td>
<td>—</td>
<td>—</td>
<td>23,000</td>
<td>29,644</td>
<td>39,532</td>
</tr>
<tr>
<td>Engineers and scientists/10,000 in 2020</td>
<td>—</td>
<td>—</td>
<td>19</td>
<td>24</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Murenzi et al. (2006).
KIST: Kigali Institute of Science and Technology
NUR: National University of Rwanda
ISAE: Institut Supérieur d’Agriculture et d’Elevage
KIE: Kigali Institute of Education

Similarly targets were defined in terms of qualified doctors and health professionals. The eventual target that is 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.

Conclusion

This paper attempts to analyze the role of the Rwandan political leadership and the process of policy making in sustaining economic growth. By doing so, the extent to which public policies and several reforms sustain economic growth is indicated.

The 1994 genocide has had deep consequences for Rwanda’s social, political, and economic structure. In its willingness to promote socioeconomic development, the 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 past 13 years, the government of Rwanda has invested huge efforts into rebuilding the national peace and reconciliation process because it is considered as a prerequisite to any economic development.
The 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 being 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 the self development process, 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 achievable within one year. Every three months, evaluation is done, which allows institutions to plan their activities and establish quantifiable indicators for evaluation.

The above public policies are enacting the willingness of the government of making Rwanda a middle-income country by 2020. Since 1994, Rwanda has attained impressive achievements following the turbulent war and genocide and has since 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 categories of Rwandans.
References


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<thead>
<tr>
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<th>Solid Waste</th>
<th>Water</th>
<th>Net Greenhouse Gases</th>
<th>Total Energy</th>
</tr>
</thead>
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<td>48</td>
<td>2,247</td>
<td>17,500</td>
<td>4,216</td>
<td>33 mil.</td>
</tr>
</tbody>
</table>

*40 inches in height and 6–8 inches in diameter

*Pounds

Gallons

Pounds CO₂ Equivalent

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

Rusuhuzwa Kigabo Thomas