COUNTRY PROFILE 2015

RWANDA

United Nations
Economic Commission for Africa

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ACKNOWLEDGEMENTS

The aim of the Economic Commission for Africa country profile series is to produce and disseminate country and region-specific policy analyses and recommendations for economic transformation that will promote sustainable growth and social development, strengthen regional integration and facilitate better development planning and economic governance. They are a joint collaboration of the Commission's subregional offices and the African Centre for Statistics, with inputs from the Macroeconomic Policy Division, the Regional Integration and Trade Division and the Social Development and Policy Division.

The lead author of the Rwanda country profile was Andrew Mold of the Subregional Office for Eastern Africa. The country profile was prepared under the overall coordination and substantive guidance of Giovanie Biha, Deputy Executive Secretary for Knowledge Delivery of the Commission, and the direct leadership of Antonio Pedro, Director of the Subregional Office for Eastern Africa.

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RWANDA AT A GLANCE

General information	
Subregion	Eastern Africa
Official language(s)	Kinyarwanda, French, English
Currency	Rwandan Franc (RF)
Capital city	Kigali
REC membership(s)	COMESA, EAC, ECCAS

Rankings	
Human development index (United Nations Development Programme)	163/188 (2014)
Gender Inequality index (United Nations Development Programme)	80/155 (2014)
Ibrahim index of African governance (Mo Ibrahim Foundation)	11/54 (2014)
Ease of doing business index (World Bank)	55/189 (2015)
Corruption perceptions index (Transparency International)	44/168 (2015)

ECONOMIC GROWTH

The gross domestic product (GDP) of Rwanda grew by 7 per cent in 2014, and is estimated to have grown by 7 per cent again in 2015. This represents a marked improvement on the 2013 performance of 4.6 per cent, when the economy was negatively affected by the suspension of disbursements by a group of donors. The improvement in 2014 was attributable to stronger private consumption (partly due to increased confidence) and higher investment (on account of expanding private sector credit and a resumption of aid inflows).

FISCAL POLICY

Over the last 15 years Rwanda has steadily increased both its fiscal revenue and overall government spending. Total government spending peaked in 2014 at 30.7 per cent of GDP. Nevertheless, it has proved difficult for revenues to keep pace with the growth of expenditures since 2012, and the fiscal deficit has increased, reaching -5.5 per cent of GDP in 2014. At the same time, financial support from some donors has been declining.

MONETARY POLICY

Since early 2014 favourable energy prices and the good performance in agriculture have contributed to keeping inflation low. However, inflation moved upwards in the course of 2015, partly as a consequence of the currency devaluation. Relative to December 2014, the nominal RF depreciation against the United States dollar reached 7.2 per cent by mid-January 2016, trading at RF 746.50 per dollar, up from RF 694.37 at the end of December 2014.

CURRENT ACCOUNT

The current account balance deteriorated sharply in 2014, mainly because of lower current transfers and a relatively weak trade performance. Regarding the goods trade, an acceleration of imported capital and intermediate goods combined with weak export growth in value terms of 3 per cent resulted in a trade deficit of about US$ 1.3 billion in 2014, or approximately 16 per cent of GDP.

CAPITAL AND FINANCIAL ACCOUNTS

Rwanda is dependent on large capital inflows to finance its current account deficit. The capital and financial account balance rose to US$ 953 million in 2014, up from US$ 902 million in 2013. It was boosted in 2013 by the proceeds from the Eurobond issue, which raised the contribution of long-term debt to the financial balance. In 2014 there was a very significant rise in both capital transfers and foreign direct investment. The current inflows represent approximately 5 per cent of GDP.

DEMOGRAPHY

Rwanda has a largely youthful population, and 41 per cent of the population was under the age of 14 years in 2012. The fertility rate (number of children per woman) has declined sharply, from 6.1 in 2005 to 4.2 in 2014/15.

POVERTY

The extreme poverty rate has fallen rapidly, declining from 24.1 per cent in 2010/11 to 16.3 per cent in 2013/14. Poverty is geographically concentrated, with the largest levels of poverty evident in the western and southern parts of the country and in parts of the northern districts. In these areas, the poverty incidence is 60-80 per cent higher than the national average.

EMPLOYMENT

The official unemployment figure is just 2 per cent. However, these figures do not reflect the considerable degree of underemployment in a country where nearly 70 per cent of the population is working in rural areas. In urban areas, the rate of unemployment is higher, at 8.7 per cent. Among university graduates unemployment is even higher, at 13.5 per cent, suggesting the existence of a significant skills mismatch.

HEALTH

Rwanda has achieved a marked reduction in maternal mortality, from over 1,000 deaths per 100,000 births in 2000/01 to just 210 in 2013/14. Improved health facilities explain the improvements. Thus, 97 per cent of births to urban mothers are now assisted by a skilled provider or in a health facility, as compared to 89 per cent of births to rural mothers.

EDUCATION

Although the net enrolment of children in secondary school has been expanding since the early 2000s, at the national level just over one in five children go to secondary school. Among the poorest quintile of the population, that figure is just one in ten.

GENDER SCORECARD OF THE AFRICAN UNION COMMISSION

Rwanda is one of the few countries to have gone beyond parity on two of the key indicators – education and women in politics. The gross enrolment ratio in secondary education is 42.1 per cent and 39.3 per cent for women and men, respectively. In terms of women's participation in politics, the proportion of seats held by women in national parliament stands out at 63.8 per cent, the highest in the region. The score of 8 out of 10 on access to land in the African Gender Scorecard shows a low level of inequality in access to and ownership of land.

1

OVERVIEW

By general consensus, the Rwandan economy has performed extremely well over the last 15 years. Since 2000, the average rate of growth has been nearly 8.0 per cent per annum. The international context for land-locked low-income countries like Rwanda has become more challenging since the latter half of 2014, with major downward shifts in commodity prices, uncertain growth prospects in traditional and new trading partners, and, since early 2015, a rapidly rising United States dollar. Notwithstanding this difficult context, since the global financial crisis in 2008-2009 Rwanda has managed to sustain a rate of economic growth significantly higher than the African average and, with the exception of 2013 (when the country suffered a temporary suspension of aid), has been one of the fastest growing economies in East Africa. Growth was estimated to have reached 7.0 per cent in 2015.

The good results have not been confined to the economic sphere. Under the Government's first and second economic development and poverty reduction strategies (which cover the periods 2007-2012 and 2013-2018, respectively, and set out the country's mid-term development objectives), improvements have been registered over a wide range of development indicators in areas such as macroeconomic stability and growth, infrastructure provision, and human and social development. These objectives are complemented by the longer-term goals of the country's Vision 2020 document, which include reaching an average growth in gross domestic product (GDP) of 11.5 per cent and a GDP per capita of US$ 1,240, and reducing to 20 per cent the proportion of people living below the national poverty line. Newly released figures from the Integrated Household Living Conditions Survey 2013/14 reveal the pace of progress over the last three years. The share of the population living below the national poverty line declined to 39.1 per cent in 2013/14, down from 44.9 per cent in 2010/11. Maternal mortality declined over the same period by 56 per cent, literacy rates have increased to 86 per cent, and income inequality, as measured by the Gini coefficient, has fallen from 0.49 to 0.45.

Despite these achievements, Rwanda (151st on the human development index (HDI) ranking of 2014) is still considered a country with low human development, but is on a par with Kenya (147th), a country with a per capita income (US$ 1,564 in 2014) that is double that of Rwanda (US$ 733) (EAC, 2015). The Government has consciously pursued greater gender equality and has achieved the highest share in the world (64 per cent) of women representatives in its national parliament. Rwanda is also generally considered to have some of the best institutional capacity in Africa. It was ranked sixty-second in the World Bank 2016 ease of doing business ranking, the second-highest ranking in Africa after Mauritius (thirty-second) and ahead of Botswana (seventy-second) and South Africa (seventy-third), both of which have much higher per capita incomes.

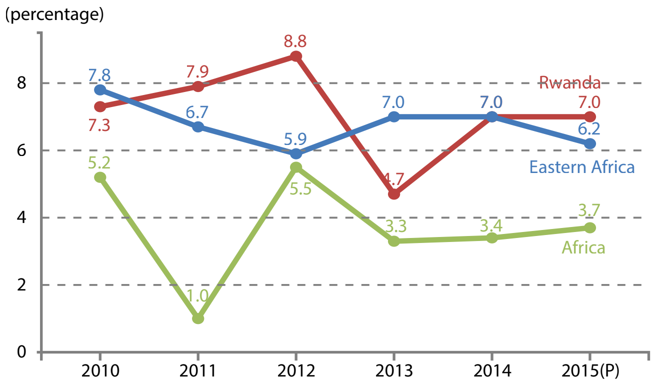
The country is now reaching a different stage in its development trajectory, and a new set of challenges needs to be addressed. The growth process has yet to be accompanied by sufficient structural change, and although the economy has responded strongly to the new economic opportunities, investment has been principally led by the public sector. In contrast, the private sector remains relatively weak. There are a number of other important social and economic challenges constraining growth: the energy sector is proving to be a major bottleneck to growth; the agricultural sector's performance is respectable, but far from reaching the Government's target of 8 per cent growth per annum; the private sector is constrained by the lack of suitable infrastructure; government finances are still highly dependent on foreign aid, and the large current account imbalance acts as a brake on attaining a faster pace of growth. This last point is further discussed in section 5 of this country profile.

2

NATIONAL AND SUBREGIONAL CONTEXT

Despite efforts to increase domestic resource mobilisation, Rwanda is still dependent on aid and investment inflows to fund its growth and development. Uncertainties concerning commodity prices and the expected low performance of trade for Rwanda could worsen the country's terms of trade and reduce the flow of foreign exchange resources (Ministry of Finance and Economic Planning, 2015a, p. 62). Nonetheless, while international organizations have been revising downwards the estimates for growth in Africa in 2015 and 2016 owing to negative external factors, Rwanda is one of five countries[1] in Africa that sustained solid growth in 2015. The fast rate of economic expansion is expected to continue at around 7 per cent until at least 2017 (see box 2 for a more detailed discussion).

Figure 1: GDP growth 2010-2015



* = estimate.

Source: Ministry of Finance and Economic Planning (2015b), United Nations, Department of Economic and Social Affairs and ECA calculations.

Being a small landlocked country, Rwanda sees regional integration as an essential part of its development strategy through membership of three regional communities - the Common Market for Eastern and Southern Africa (COMESA), the International Conference on the Great Lakes Region (ICGLR) and the East African Community (EAC). Of the three regional blocks, EAC is the regional grouping in which Rwanda has the greatest protagonism – and which is arguably the most strategic for Rwanda's future. The country's total trade with its EAC partners increased eightfold between 2001 and 2014, from US$ 86.1 million to US$ 689 million (EAC, 2015). Nonetheless, Rwanda sustains a large deficit with its EAC trading partners – the largest deficits being with Uganda and Tanzania, followed by Kenya and Burundi. Interestingly, however, the country's most diversified exports (its non-traditional exports) are destined for the Democratic Republic of Congo, rather than for an EAC country. The Democratic Republic of the Congo was the second largest export destination in the first semester of 2015, accounting for 16 per cent of total exports (behind only Kenya, with 23 per cent).

Since joining EAC in July 2007, the Government has been an important driver in promoting progress within that grouping. The landlocked nature of the country means that Rwanda has a vested interest in seeing the barriers to trade reduced to a minimum.

1 The other countries are Côte d'Ivoire, Ethiopia, Mozambique and the United Republic of Tanzania.

Rwanda has also been in the forefront of ensuring that EAC legislative agreements are applied and enforced. Thus, for instance, within the single customs territory, the transit time between Mombasa (the major port for Rwanda's external trade) and Kigali has been significantly reduced from 21 to 5 days, while the cost of shipping a container has fallen by 19 per cent, from US$ 5,200 to US$ 4,200 in 2014 (Ministry of East African Community, 2015, p. 1).

More generally, Rwanda's pro-active response to opportunities arising from regional integration is reflected in its good scoring in the African Development Bank/African Union/Economic Commission for Africa (ECA) new composite index, the Africa regional integration index (box 1).

Chief among the external risks is the political instability currently prevailing in Burundi. As at March 2016, the crisis had had only a limited negative impact on the Rwandan economy, in terms of interrupting business links and trade with that country. Despite their proximity, those links are in any case only weak ones. For instance, a mere 2-3 per cent of Rwanda's formal exports are destined for neighbouring Burundi.[2]

2 According to government sources, Rwanda-Burundi trade revenues have declined from US$ 20 million in 2014 to US$ 9 million in 2015 due to the conflict (Kanamugire, 2016).

Box 1: Africa regional integration index: Rwanda

The Africa regional integration index is designed to measure the extent to which each country in Africa is meeting its commitments under the various pan-African integration frameworks. The index covers the following dimensions: (i) free movement of persons; (ii) trade integration; (iii) productive integration; (iv) infrastructure; (v) financial integration and macroeconomic policy convergence. The following section gives highlights on selected indicators. A technical description of the indicator may be found on the ECA website at www.uneca.org.

Overall rank: Third in EAC (0.55) (the best performer in EAC is Kenya, with 0.66) Eighth in COMESA (score: 0.45)*				
Free movement of persons: Joint-best performer in EAC with Kenya (score: 0.8).	Trade integration: Fourth in EAC (score: 0.69). Best performer in EAC is Kenya with 1. Ninth in COMESA (0.60).	Productive integration: Fourth in EAC (score: 0.41). Best performer in EAC is Kenya with 0.84. Tenth in COMESA (0.42).	Infrastructure: Fourth in EAC (score: 0.37). Best performer in EAC is Burundi (score: 0.84).	Financial integration and macroeconomic policy convergence: Best performer in EAC (score: 0.5). Fifth in COMESA (0.46).

Free movement of persons: Rwanda scores strongly in this dimension; it allows nationals of all other African countries to enter visa-free or with a visa on arrival, and it has ratified the relevant EAC instruments concerning free movement of persons, rights of establishment and free movement of workers (although the ratification of the COMESA protocol is still pending).

Trade integration: Rwanda performs moderately in the dimension of trade integration. Rwanda has an average applied tariff of zero on imports from EAC; and an average applied tariff of just 0.3 per cent on imports from COMESA. In 2013, the country's imports from EAC amounted to 5 per cent of its GDP, meaning that it ranks second within the bloc on this measure.

Productive integration: Rwanda falls within the group of middle-ranking countries in the regional economic communities of which it is a member in terms of its integration into regional value chains. Rwanda's share of intermediaries in its imports from the regional economic communities of which it is a member was also high at 21 per cent, ranking second in the EAC on this measure.

Infrastructure: Rwanda's infrastructural integration with the rest of the continent appears to be more moderate. Based on the latest available data (2013), Rwanda's internet bandwidth per capita of around 0.9 megabits per second per person is the nineteenth-highest on the continent. Consistent with the country's service sector hub strategy, the degree of competitiveness in intra-regional transport - particularly air-transport, is also increasing. Around 57 per cent of international flights to and from Rwanda in June 2014 were intra-COMESA.

Information on Rwanda's performance in terms of financial integration and macroeconomic policy convergence can be retrieved from the dedicated website on the Africa regional integration index.

Conclusion: Overall, Rwanda appears to perform strongly in the dimensions of free movement of persons and financial integration and macroeconomic policy convergence while performing more moderately in trade integration, productive integration and infrastructure. In part, this is explainable by structural factors such as the landlocked nature of the country, its distance from its major ports (Mombasa and Dar es Salaam), and low, if rapidly rising, per capita incomes. In terms of specific policy measures that could boost its performance, Rwanda could consider: continue efforts to upgrade its internet infrastructure and review the policy framework to provide greater incentives for Rwandan firms to integrate into regional value chains.

* A continent-wide ranking, in which all African countries from all regional economic communities will be compared with one another, is currently under development for the Africa regional integration index and will be added to subsequent updates of the ECA country profiles.

3

ECONOMIC PERFORMANCE

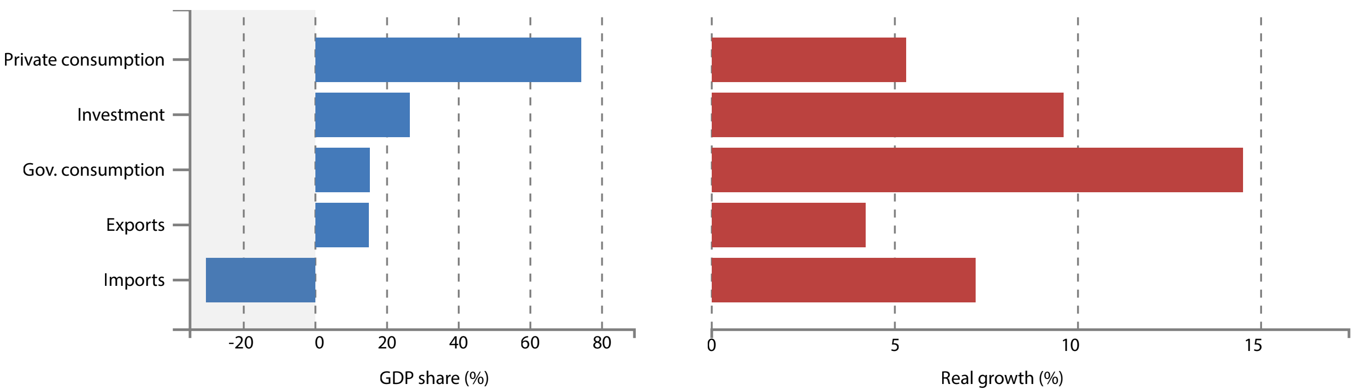
3.1 Economic growth and sectoral performance

Rwanda's economy is estimated to have grown by 7 per cent in 2015, the same rate as in 2014. This represents a marked improvement on the 2013 performance of 4.6 per cent, when the economy was negatively affected by the suspension of disbursements by a group of donors. The improvement in 2014 was attributable to stronger private consumption (partly due to increased confidence) and higher investment (because of expanding private sector credit and a resumption of aid inflows). The recovery gained momentum in the first quarter of 2015, when growth was 7.6 per cent, but in the second and third quarters the annualized growth rate declined to 7.1 per cent and 6.1 per cent respectively.

The driver of the growth recovery since 2014 has been domestic demand, through both government and private consumption (see figure 2). External demand, by contrast, had a negative impact on growth due to the weak performance of exports in 2014 and 2015, weighed down by weak commodity prices. Government consumption is likely to fall in 2015/16, in view of the slowdown in donor support and as the Government implements a fiscally more conservative budget, with an increment of just RF 6 billion in nominal terms (representing a rise of just 0.3 per cent) (see section 3.2 for more details). Currently, the growth prospects for 2016 range between 6.8-7.5 per cent for 2016 (box 2), although downward revisions are possible later in the year in view of the marked deterioration of the global economic environment in early 2016.

There are a number of downside risks to this scenario. In 2016, the overall growth rate could moderate, due to lower government spending, weaker export earnings and lower agricultural

Figure 2: Demand shares and real growth (2014)



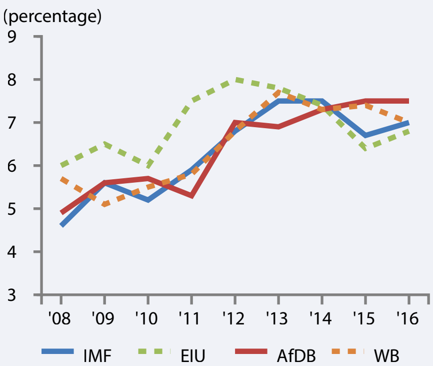
Source: ECA calculations, based on data from the Ministry of Finance and Economic Planning (2015b).

Box 2: Forecasts for the Rwandan economy

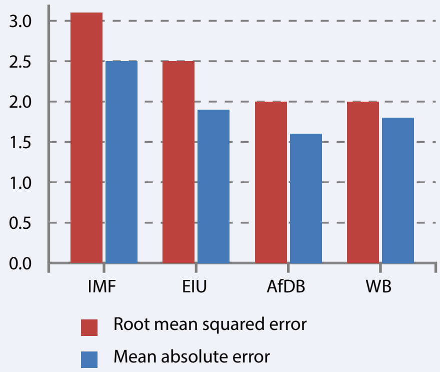
Economic forecasts provide essential information for decision makers in the public and private sectors. Reliable economic forecasts support reliable decision-making. A number of organizations currently produce forecasts of economic growth in Rwanda: the African Development Bank (AfDB), the Economist Intelligence Unit (EIU), the International Monetary Fund (IMF) and the World Bank (WB). The forecasts produced by these organizations all remained within 2 percentage points of each other for all years over the period under review (2008-2016) except for 2011 (see figures below). The Economist Intelligence Unit provided the most optimistic forecasts of growth in every year during the period 2008 to 2013. Since then, their estimates have more closely tracked those of the other organizations. Looking forward, the most optimistic growth rate forecast for 2016 was from the African Development Bank (7.5 per cent), while the World Bank and IMF have produced identical estimates of 7 per cent.

The degree of accuracy of these forecasts is an important issue. ECA has carried out an analysis to assess which forecasts tend to be more reliable. The root mean squared error and the mean absolute error are common measures used to evaluate forecasts - generally speaking, the higher the value of these errors, the less accurate the forecasts.* Our analysis suggests that the most accurate forecasts produced for Rwanda in relation to the 2008-2014 period were those forecasts made by the African Development Bank and the World Bank, closely followed by the forecasts of the Economist Intelligence Unit.

Forecasted GDP real growth rates, by institution



Forecast error (2008-2014)



* For more information on these terms and the ECA approach to evaluating the accuracy of forecasts, see ECA (2015a).

production on account of more erratic rainfall due to climate change. A lack of rainfall has also affected power generation. Over 50 per cent of the country's electricity is generated by hydroelectric power plants, and power cuts and load shedding became more frequent in the last quarter of 2015.[3] The central bank is currently predicting that growth will fall to 6.3 per cent in 2016 (National Bank of Rwanda, 2016).

On the upside, the finalization of a number of major projects in 2016 (e.g. the Kigali Convention Centre) is likely to maintain the buoyant domestic economy. In addition, reflecting declines in international prices, and despite the introduction of taxes in the 2015/16 budget on fuel imports to facilitate the setting up of strategic oil reserves,[4] fuel pump prices

3 This problem was compounded by the breakdown of the Mukungwa hydropower plant, which was scheduled to become operational again in December 2015. Of the current 160 MW generation, Ministry of Infrastructure data for 2014 shows that 60.3 per cent comes from hydro, 32.0 per cent from thermal, 2.3 per cent from methane and 5.4 per cent from solar energy.

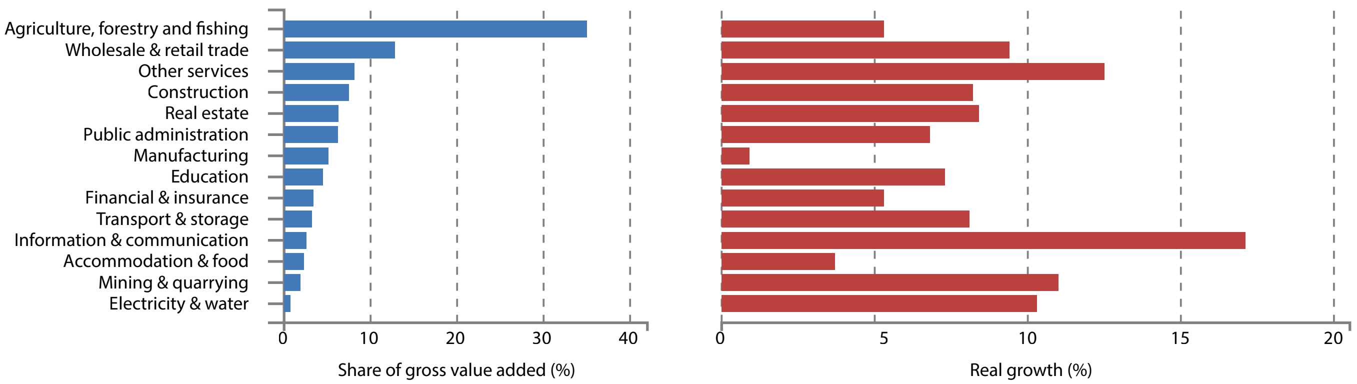
4 The levy for imported fuel products is projected to contribute about RF 8.6 billion to enable the Government to set up strategic oil reserves.

are still low, at RF 888 per litre in October 2015 (in 2013 average prices were in excess of RF 1,000 per litre). Rwanda is highly dependent on fuel imports, importing in the region of US$ 379 million of energy and lubricants in 2014 (or around 16 per cent of total imports) (Ministry of Finance and Economic Planning, 2015b). Any moderation in fuel prices is likely to have positive knock-on effects for the rest of the economy, in particular by lowering transport costs.

In sectoral terms, a number of service subsectors (information and communication, wholesale and retail trade, and other services) displayed a particularly dynamic performance in 2014, posting growth rates in excess of 10 per cent (see figure 3). These sectors benefited from the recovery of domestic demand and private sector activity. Manufacturing performance was lacklustre however, registering growth of just one per cent, attributable in part to the impact of unilateral tariffs in the market of the Democratic Republic of the Congo during the year (Ministry of Finance and Economic Planning, 2015a, p. 10)[5]. Regarding the overall sectoral distribution of economic activity (see figure 3), in 2014 the services sector contributed 47 per cent of GDP, the agriculture sector 33 per cent and the industry sector accounting for 14 per cent (6 per cent is attributed to adjustment in taxes without subsidies and products). Given the fact that 70 per cent of the labour force still depends for their livelihood on the sector, trends in the agriculture sector are still crucial. Agriculture grew at 5 per cent in the second quarter of 2015 – more or less in line with the average growth rate from 2005-2014 (5.3 per cent). However, this is still 3 per cent short of the annual growth target for the sector under Economic Development and Poverty Reduction Strategy 2 (8 per cent per year). When taking into account the demographic pressures in the countryside, it implies only a modest rate of growth in agricultural production per capita.

Another major challenge is the performance of manufacturing – which has been unable to keep up with the pace of growth in other sectors of the economy. While industry as a group has been growing quite rapidly (it was the fastest growing sector in the first semester of 2015), this has mostly been on the back of the strong performance in the construction sector.[6] Manufacturing, in contrast, has seen its role in the economy contract since the early

Figure 3: Sector shares and real GDP growth (2014)



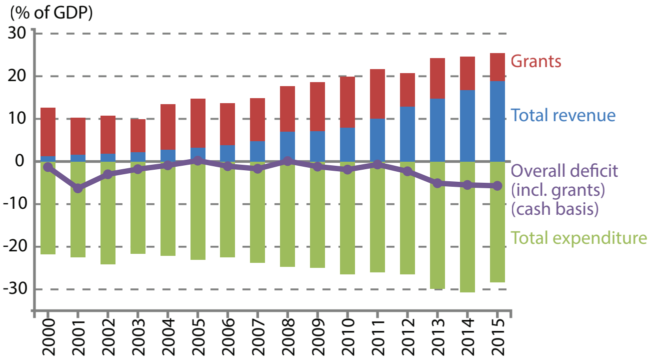
Source: Ministry of Finance and Economic Planning (2015b).

5 Official direction of trade statistics from the National Institute of Statistics of Rwanda suggest that the Democratic Republic of the Congo is now the second most important destination for Rwandan exports.

6 Construction was given a particular boost in May 2015, when the new Investment Code extended tax relief on the import of construction materials to investors.

2000s– while it contributed 7 per cent of GDP in 2002, by 2014 its share was only 4.8 per cent of GDP.[7] In the context of an economy heavily dependent on the import of manufactured goods, this raises some important questions regarding policies to revitalise the sector. While the Government has enthusiastically (and understandably, given the high transport costs and general lack of competitiveness in the sector) endorsed a service-led strategy, it is important that this strategy is not followed to the neglect of manufacturing. These issues will be discussed further in section 5.

Figure 4: Government revenue, expenditures and deficit (2000-2015*)



Note: * = ECA estimate from government figures.
Source: MINECOFIN (2015).

3.2 Fiscal policy

Concomitant with the scale of its developmental objectives, over the last 15 years Rwanda has steadily been increasing both its fiscal revenue and overall government spending. Total government spending peaked in 2014 at 30.7 per cent of GDP. It has proved difficult for revenues to keep pace with the growth of expenditures since 2012, and the fiscal deficit has increased, reaching -54.5 per cent of GDP in 2014. Simultaneously, financial support from some donors has been declining. As there has also been a switch from grant to loan financing from the African Development Bank and the World Bank, in the context of Rwanda's low debt distress rating, the Government is increasingly going to have to mobilise greater domestic resources (see figure 4).

Against this backdrop, the Government has ambitious plans to increase its financial autonomy and reduce dependence on donor contributions.[8] In 2014/15, donor financing contributed 40 per cent of the total budget. The Government is planning to reduce that figure to 34 per cent in the 2015/16 budget, by expanding the tax base and improving tax collection. To this end, series of tax exemptions was eliminated early in 2015, and the Investment Code was revised in May 2015 to focus tax incentives on a more select group of priority sectors. Other measures announced in the 2015/16 budget include: an increased levy on fuel to support both the Road Maintenance Fund and the strategic oil reserves; a change in the excise tax for tobacco; the introduction of the Infrastructure Levy on Imports; measures to enforce greater compliance regarding value added tax (VAT) and other taxes; and a revision of the Property Tax Regime, especially for urban land, with the twin objectives of raising greater revenue and making it progressive (Government of Rwanda, 2015, pp. 7-8).[9]

Nonetheless, recent trends in tax collection suggest that the targets may be overly ambitious. In 2014, domestic revenue collection was two per cent off target (by RF 17 billion), due to weaker than expected VAT receipts. The Government of Rwanda (2015, p. 3) reported that the delayed disbursement of donor funds in 2014 also slowed down some priority spending, notably in agriculture and in energy.

7 Interestingly, only one subsector of manufacturing has seen significant growth over the last ten years – beverages and tobacco. The other manufacturing sectors have contracted.

8 Concerns over the impact of an excessive dependence on donor financing were highlighted in 2012/13 by the suspension of aid by a group of donors. The suspension significantly damaged the growth prospects for the economy, particularly through its indirect impact on private sector activity, with the result that the economy grew at only 4.6 per cent in 2013.

9 For a recent discussion on the potential for a well-organized property tax to raise additional revenue, see Goodfellow (2015). According to one expert, the tax could potentially raise in Rwanda the equivalent 5 per cent of GDP, but currently is only providing 0.018 per cent of GDP.

Going forward, in its Budget Framework Paper (2015) the Government has set out quite conservative expenditure plans for the 2015/16 cycle, with an increment of just RF 6 billion (an increment of just 0.3 per cent).[10] This represents a projected decline in government expenditure as a percentage share of GDP, from 30.7 per cent in 2014 to an estimated 28.4 per cent in 2015, in an effort to constrain the further growth of the budget deficit (estimated to decline to -3.1 per cent in 2015). The Government is simultaneously trying to earmark as much budgetary expenditure as possible towards economic transformation. Fifty per cent of the budget is projected to be spent on Economic Development and Poverty Reduction Strategy 2 initiatives for 2015/16, rising to 55 per cent in 2016/17. Priority areas include the following, accelerating growth in exports; the timely completion of ongoing energy projects; accelerating transport projects, and an information and communications technology (ICT) focus on security and increasing countrywide access (Ministry Of Finance And Economic Planning, 2015a, pp. 47-61).[11]

The Government has been complementing its resources through a modest amount of external borrowing. In April 2013, the country raised US$ 400 million by issuing its first Eurobond in April 2013. Orders worth more than US$ 3 billion were placed for the ten-year bond, which brought the yield down to 6.875 per cent. (Economist Intelligence Unit, 2013). Half of the Eurobond funds were used to service debt that was more expensive; US$ 150 million were to be used to complete Kigali Convention Centre, while US$ 50 million was assigned to finance the Nyabarongo hydropower station.

10 In January 2016, the government announced an additional RF 40 billion of public spending in order to help expedite ongoing development projects.

11 IMF (2015, p. 19) claims that the degree of priority spending on health, education and social protection has been falling, from around 13 per cent of GDP (approximately 50 per cent of the budget) in 2008/09, to around 11 per cent in 2014/15. But this is only as a share of the total budget – in real terms, the level of spending is approximately the same.

The Government has also been increasingly resorting to domestic sources of finance. Since December 2014, the Government has been supplementing its sources of financing by issuing bonds on a quarterly basis. This is in addition to periodic treasury bills issued by the central bank as monetary policy instruments. Some economists have urged caution, saying that the escalation of government borrowing on the domestic market may starve the private sector of credit as banks choose to lend to the Government instead of lending to private businesses.[12] However, the issue of the lack of credit to the private sector is more complex than a simple “crowding out” analysis suggests. In any case, given the government emphasis on spending such revenues on major infrastructure projects, the private sector is the principal beneficiary of such borrowing.

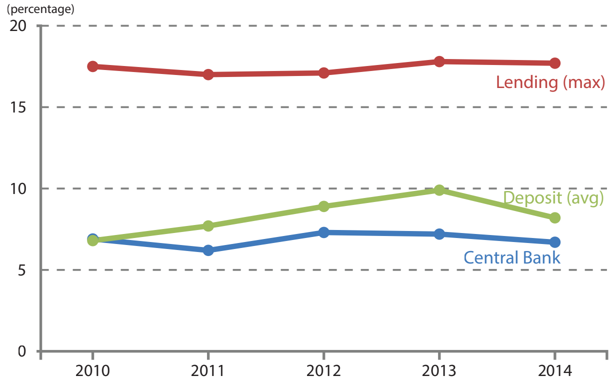
3.3 Inflation and monetary policy

For a low-income country sustaining a large current account deficit, it is a testimony to the quality of macroeconomic management that economic conditions have remained stable despite a high degree of regional and global instability. Monetary policy has been expansionary in the first half of 2015. The policy rate has been maintained at 6.5 per cent since June 2014. The money supply rose by 27.5 per cent in the year to June 2015, against 14.1 per cent in the year to June 2014 (National Bank of Rwanda, 2015, p. 23). The Rwandan authorities acknowledge that there is still rigidity in lending rates, reflecting the structural problem of higher operating costs incurred by banks in Rwanda, as well as the limited bargaining power of individual borrowers either due to lack of information and to terms and conditions embedded in loan contracts, or due to liquidity constraints (National Bank of Rwanda, 2015, p. 27).

Private sector credit grew by 15.1 per cent in the first six months of 2015 (December 2014-June 2015),

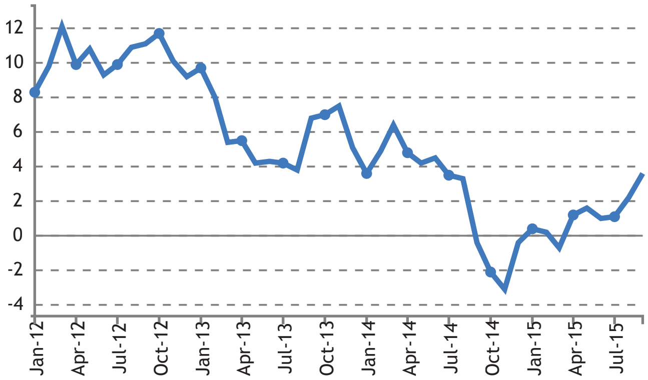
12 See, for instance, “Formula to wean Rwanda off aid”, *The Independent*, 24-30 July 2015. pp. 7-9.

Figure 5: Monetary policy



Source: National Bank of Rwanda (2015).

Figure 6: Consumer price index: Year-on-year percentage change



Source: National Institute of Statistics of Rwanda (2015a).

nearly double the rate (7.9 per cent) prevalent in the first half of 2014). There are limits to the rate of credit growth; international experience shows that episodes of unusually high credit growth tend to be associated with increased financial risk. Nevertheless, at around 16-17 per cent of GDP on an annual basis, the level of credit in the economy is arguably still not conducive to high levels of private sector investment and hence to higher levels of growth. The current credit-to-GDP ratio in Kenya is more than double the rate in Rwanda, while in fast-growing developing countries like China, it was 3-4 times higher during comparable stages of their own development. The private sector cannot grow dynamically if it faces constrained access to credit.

Concerning price inflation, since early 2014 favourable energy prices and the good performance in agriculture have contributed to keeping inflation low (it is particularly driven by food prices, which contribute around 40 per cent of total inflation using the existing weightings). Inflation has been moving upwards during the course of 2015, partly because of the devaluation of the currency (see figure 6). Although their impact on the weighting of the consumer price index is relatively small, the underlying trend in inflation is also increasing due to significant hikes in utility prices. For example, in September 2015 electricity increased 35 per cent (for low-voltage consumers) and water tariffs 19 per cent on average.

Inflation is still within manageable levels, and far below the regional average. Nonetheless, there is a persistent perception that price levels in Kigali make the economy relatively uncompetitive regionally. An analysis carried out by ECA (2015b) for the Ministry of Trade and Industry suggests that these arguments are not fully borne out in international comparisons - survey data shows that Kigali is relatively price competitive in areas important to international businesses and employees like housing and eating out. In the same vein, in a recent study comparing real estate prices in business and residential rental, Kigali came out as cheaper than its EAC partners Kenya, Uganda and the United Republic of Tanzania. In retail business, the average prices were on a par with Kampala, and only about half as expensive as Nairobi. Only in office space was Kigali the outlier, being about 20-25 per cent more expensive than both Nairobi and Kampala (Knight Frank, 2015).

With regard to exchange rate policy, Rwanda formally targets inflation when deciding on monetary policy.[13] However, variations in the

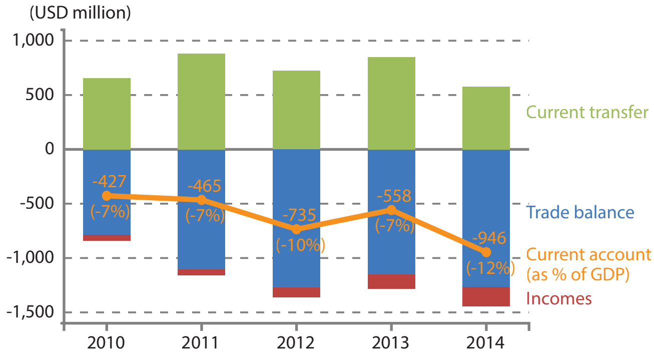
13 The goal of monetary policy is set out in the law governing the National Bank of Rwanda (Law No. 55/2007 of 30 November 2007), which "requires the National Bank of Rwanda to conduct monetary policy in a way to deliver price stability and in low inflation environment."

exchange rate also play a prominent role in taking monetary policy decisions, and the exchange rate regime is best described as a crawl-like arrangement (Adam and others, 2014). Relative to December 2014, the nominal RF depreciation of the franc against the United States dollar reached 7.2 per cent by mid-January 2016, trading at RF 746.50 per dollar from RF 694.37 at the end of December 2014. The scale of the depreciation started to accelerate in the second half of 2015. Administrative policy measures (such as tighter monitoring of the operations of foreign exchange bureaus) were implemented in August/September 2015 to stem this acceleration. In any case, the depreciation of the RF has been more modest than for Rwanda's main regional trading partners, which sustain higher rates of inflation, and thus declined more sharply against the United States dollar. As a consequence, by the end of 2015, in nominal terms the RF was relatively expensive vis-à-vis other regional currencies. Between end-December 2014 and end-December 2015, it appreciated by 4.6 per cent, 13.5 per cent and 11.6 per cent against the Kenyan, Tanzanian and Ugandan shillings respectively (National Bank of Rwanda, 2016, p. 36). Beyond the current international context (particularly the strong United States dollar), the Government attributes the recent depreciation of the national currency to the country's unfavourable balance of payments – something which also represents a long-term structural problem (see section 5).

3.4 Current account

Rwanda's current account balance deteriorated sharply in 2014, due principally to lower current transfers and a relatively weak trade performance (see figure 7). Regarding the goods trade, an acceleration of imported capital and intermediate goods, reflecting faster implementation of public investment projects in the first half of 2014 and a rebounding private sector, combined with weak export growth, resulted in a trade deficit of about US$ 1.3 billion in 2014, or approximately 16 per cent

Figure 7: Current account balance 2010-14 (percentage of GDP)



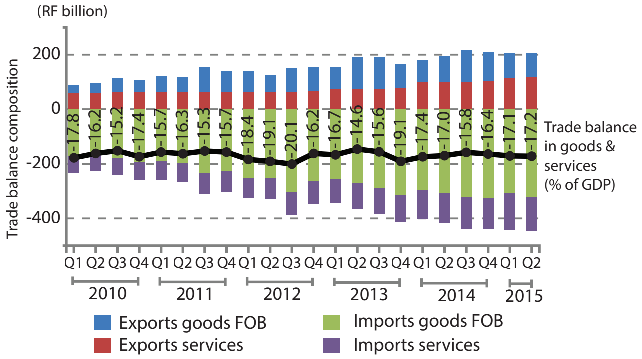
Source: ECA elaboration from Ministry of Finance and Economic Planning (2015b) data.

of GDP (Ministry of Finance and Economic Planning, 2015b). The traditional exports of tea and minerals were adversely affected in 2014 by weaker prices.

Export performance remained weak going into 2015, again principally driven by low commodity prices. Compared with the second quarter of 2015, the third quarter of 2015 saw a slight rise in values of domestic exports of 1.4 per cent, with total domestic exports amounting to US$ 96.1 million. Although the increase was not substantial, it followed three consecutive quarters of decline in domestic exports (National Institute of Statistics of Rwanda, 2015c, p. 8). Preliminary results for 2015 suggest a decline in the value of total exports of -6.8 per cent over the year, despite a 20.5 per cent increase in export volumes over the same period, highlighting the way in which export earnings have been hit hard by declining commodity prices (National Bank of Rwanda, 2016, p. 13).

Longer term trends have been more encouraging. Export value growth has been increasing by an annual average of approximately 19 per cent since 2005, measured in current prices. Nonetheless, the seemingly impressive long-term rate of growth has to be put in context. Firstly, it remains short of the Government's own target (under the second Economic Development and Poverty Reduction

Figure 8: Trade balance in goods and services



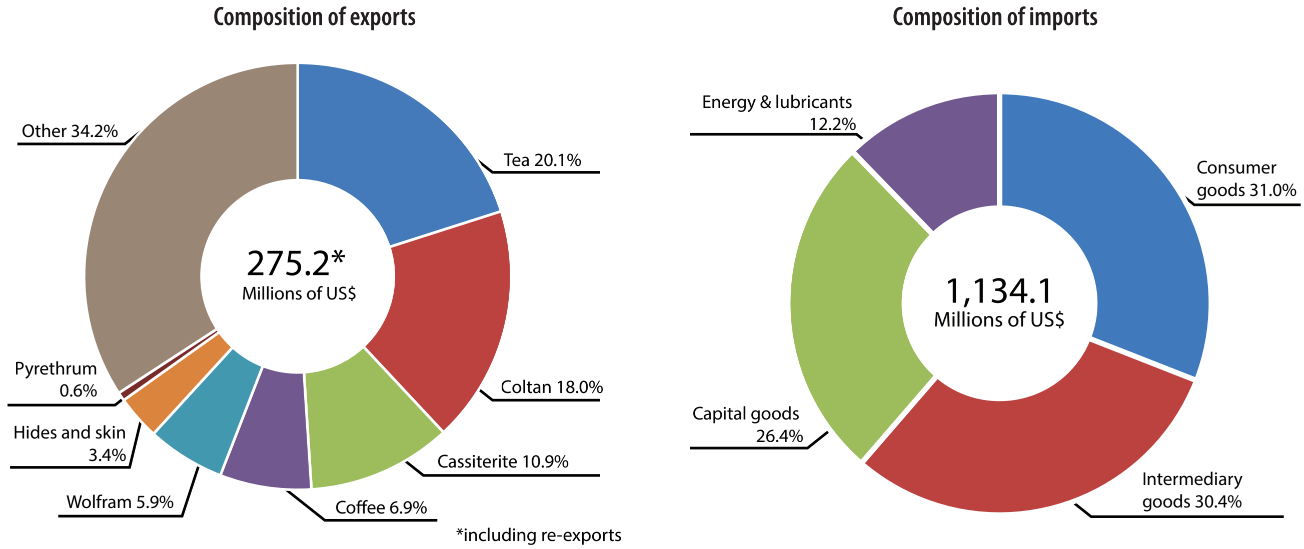
Source: National Institute of Statistics of Rwanda (2015d).

Strategy) of 28 per cent. Secondly, in constant price terms, the growth rate of exports falls to 8 per cent. Finally, because imports are 4-5 times larger than exports in value terms, there is a structural tendency for import growth to outpace export growth. To make a difference to the trade deficit, export growth would have to significantly outpace import growth over a sustained period.

Conscious of the significant drag that the balance of payments imbalance causes on economic growth, Rwanda has ambitious plans to increase its export capacity. Total export revenues are targeted to increase from US$ 1.27 billion in 2013 to US$ 4.52 billion in 2018 under the second Economic Development and Poverty Reduction Strategy. This equates to a 29 per cent annual average growth (Government of Rwanda, 2014). However, for such targets to be feasible, it is essential that new market opportunities (particularly "low-hanging fruit") are exploited to the maximum. There are a number of initiatives underway to address this challenge. The Government has recently established an Export Guarantee Fund to help support export development, initially financed by RF 500 million in the national budget for the financial year 2015/16. There are also attempts to explore new market opportunities, such as the Economic Community of Central African States (ECCAS) market and the East Asian markets. More will be said on this issue in section 5.

One clear priority is the diversification of exports. In terms of the composition of the goods trade, most of the exports are currently from either the agricultural or mining sectors, namely, tea, niobium and tin ores are the major export goods,

Figure 9: Foreign trade (2015)



Source: National Institute of Statistics of Rwanda (2015c).

while cement, vaccines, medicaments and gas oil constitute the main import basket. Traditional formal goods exports still account for around two thirds of total exports - something that engenders risks of volatility.

Regarding geographical trading ties, in line with the rapidly growing influence of the emerging markets across Africa, a significant reorientation of the source of imports has been occurring in Rwanda. Data on the source of imports for the second quarter of 2015 reveal that China and India have become the leading sources of imports - jointly accounting for more than 30 per cent of all Rwandan imports. However, this structural shift is not reflected in export figures. Indeed, barely 4 per cent of Rwandan goods exports are destined for the same markets (National Institute of Statistics of Rwanda, 2015d).[14]

Ultimately, logistical constraints and a high cost structure may seriously inhibit the diversification process into manufacturing. Hence, the wisdom of the Government's strategy to promote the expansion of services (e.g. tourism, financial services, ICT) as sources of future development and foreign exchange. Since 2008, tourism has been the country's single largest foreign exchange earner. Rwanda tourism revenues reportedly increased from US$ 293m in 2013 to US$ 303m in 2014, representing a 3 per cent increase - though these figures may decline in 2015 due to the impact of lower tourism arrivals during the first semester because of the Ebola outbreak in Western Africa.

3.5 Capital account

Like many low-income countries, Rwanda is dependent on large capital inflows to finance its current account deficit. The capital and financial account balance rose to US$ 953 million in 2014, up from US$ 902 million in 2013. It was boosted in 2013 by the proceeds from the Eurobond issue, which raised the contribution of long-term debt to the financial balance. In 2014, according to balance-of-payments figures released by the National Bank of Rwanda, there was a very significant rise in both capital transfers and foreign direct investment (FDI) (see figure 10).[15] On the latter, there is often much discussion about Rwanda following a "Singaporean model", in the sense of adopting a model of open markets and creation of a business-conducive environment to attract sufficient foreign investors to "jump start" the economic transformation of the economy. Yet despite the high rankings achieved in the World Bank Doing Business reports, coupled with other efforts to improve the business environment, in reality the response of foreign investors to the Government's reforms has not been as encouraging as expected. The current inflows represent approximately 5 per cent of GDP, while Singapore during the 1970s and 1980s was typically attracting FDI inflows equivalent to 20-25 per cent of GDP (see figure 11).

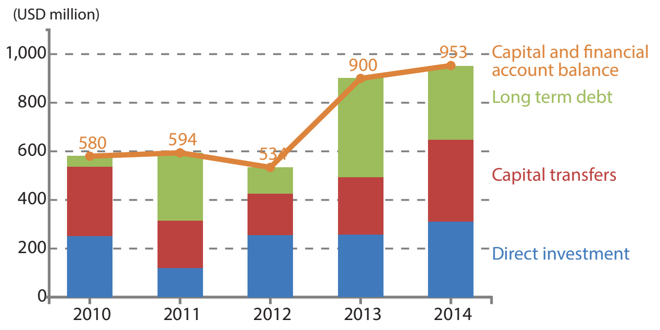
On one level, this is surprising. Despite the geographical constraints, the small size of the domestic market and low incomes, Rwanda is a surprisingly profitable location for overseas investors. Considering profitability per sector, the *Foreign Private Capital Report 2013* reveals that manufacturing came first with a 24 per cent return on assets per year, followed by mining with 23 per cent. Even taking into account risk-adjusted figures, these levels of profitability are multiple times higher than those prevailing in Western Europe, the United States of America or emerging markets such as China, suggesting that the potential exists to promote FDI further.

Why Rwanda has not yet managed to attract larger FDI inflows is open to speculation. It could be that the business environment is more challenging than that reflected in rather subjective indicators like the Ease of Doing Business survey. The relatively

14 China is responsible for that 4 per cent – India has a negligible share of total goods exports (National Institute of Statistics of Rwanda, 2015b).

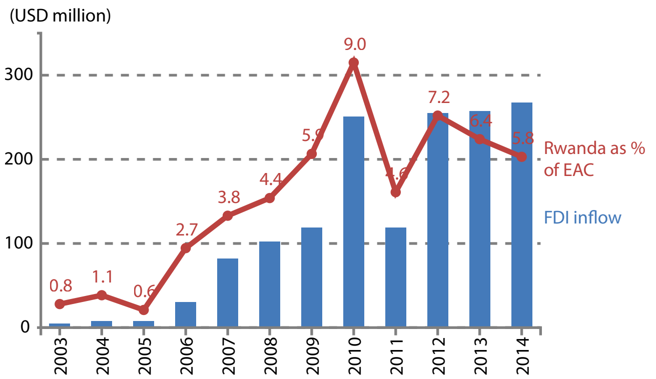
15 Note that there is a discrepancy between FDI figures available from the National Bank of Rwanda, and those provided by UNCTAD.

Figure 10: Capital and financial account (billions of RF)



Source: National Bank of Rwanda (2015).

Figure 11: FDI inflows, 2000-2014 (millions of US$)



Source: UNCTAD (2015).

high costs of doing business in Kigali also have to be factored in, particularly from the point of view of transport and communications. Another possibility, however, is simply that attracting large-scale FDI inflows to a landlocked low-income country is difficult, and that in such economies the Government needs to play a more active role in the business sector. This to some extent would justify the Government's decision to provide direct support for new strategic ventures such as RwandAir, which is currently receiving extensive support from the treasury.[16]

16 See Berhuria (2015) for a recent discussion about the role of the Rwandan State in the economic development of the country.

4

SOCIAL DEVELOPMENTS

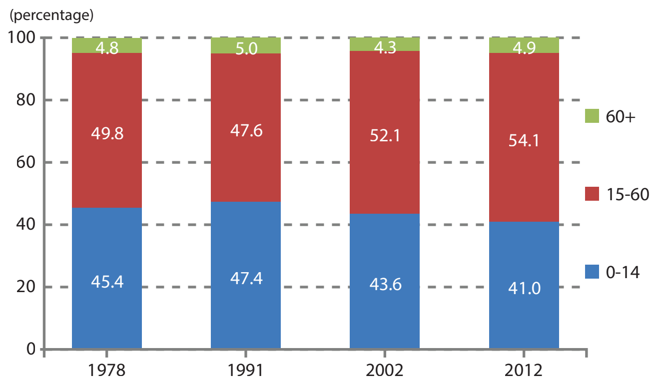
We cannot as yet make a full assessment of the degree to which Rwanda has achieved the Millennium Development Goals. It will take at least another year before all the pertinent data for 2015 is available to make a full assessment. Nonetheless, as confirmed both by the recent results of the fourth Integrated Household Living Conditions Survey and the 2015 Demographic and Health Survey and by other independent evaluations,[17] Rwanda has been one of Africa's strongest performers. Some aspects of this progress will be documented in the following sections.

4.1 Demography

Rwanda is the most densely populated country on the continent. Given the mountainous topography of the country, this has meant that the amount of available arable land per capita is extremely low. Smallholding agriculture has limited the potential to increase agricultural productivity, yet 70 per cent of the population is still dependent on agriculture. Rwanda has a largely youthful population, whereby 41 per cent of the population in 2012 were under the age of 14 (see figure 12).

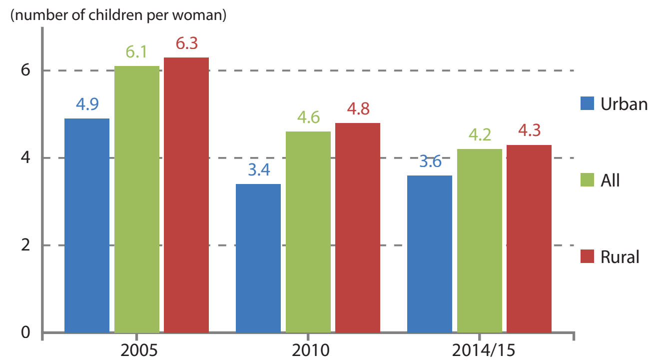
The Government has been very conscious of the problems presented by the high rate of fertility. In contrast with neighbouring Democratic Republic of the Congo and Uganda (which have some of the highest fertility rates in the world), the Government has successfully applied family planning policies and brought down fertility by a third over the last

Figure 12: Demographic profile of Rwanda



Source: Rwanda Statistical Yearbook (2014).

Figure 13: Fertility rates



Source: Fourth Integrated Household Living Conditions Survey.

17 See, for instance, UNCTAD (2014, p. 34), which notes that Rwanda is one of only four countries among the 32 least developed countries in the Africa and Haiti group that are on track for a majority of the goals. The only major goal not fully achieved is Goal 1 (eradicate extreme poverty).

decade.[18] The most recent Demographic and Health Survey (2015) reports that overall, 53 per cent of currently married women are using a family planning method, and 48 per cent use a modern contraception method; only 6 per cent of currently married women are using a traditional method. Nevertheless, given the constraints on arable land and the difficulties in creating sufficient employment opportunities for young people, there is also a realisation that fertility has to decline even further. The dependency ratio, upon which any future demographic dividend will depend, is declining (from 87.2 per 100 of the working-age population in 2005/06 to 82.7 in 2013/14) but still very high by international standards.[19]

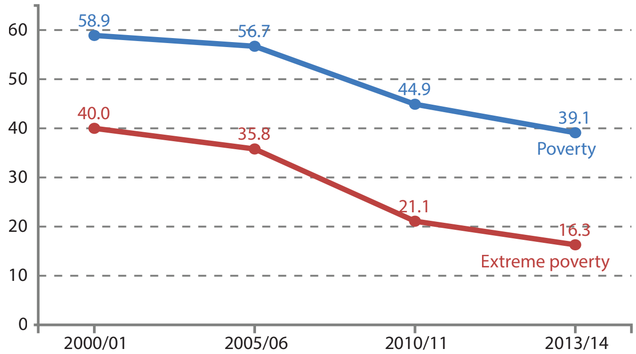
One factor that will contribute to achieving a lower rate of fertility is the fact that Rwanda has achieved high levels of women's empowerment, particularly with regard to access to education.[20] More will be said on education in section 4.4, but with regard to net attendance in primary education, the attendance rate is higher for girls (89 per cent) vis-à-vis the comparable figure for boys (86.8 per cent) (fourth Integrated Household Living Conditions Survey, 2015, p. 38). It is also notable that the reported literacy rate among those aged 15 years and above is higher for women (87.5 per cent) than for men (84.9).

4.2 Poverty and employment

The rapid reduction in poverty has been one of the principal achievements of the Government over the last 15 years.[21] That share was equivalent to 39.1

Figure 14: Trends in poverty and extreme poverty

(percentage of the population)



Source: Fourth Integrated Household Living Conditions Survey.

per cent in 2013/14, compared to 58.9 per cent of the population in 2000/01 (Ibid. 2014, p. 21). The reduction in the numbers of those living in extreme poverty has been even more rapid, declining to 16.3 per cent in 2013/14 compared to 24.1 per cent in 2010/11 (see figure 14).[22]

Poverty is also quite geographically concentrated, with the largest levels of poverty being evident in the western (Nyamasheke) and southern parts (Gisagara) of the country, but also in parts of the northern districts (Gicumbi and Burera Districts). In those areas, the poverty incidence is 60-80 per cent higher than the national average, making the case for more targeted actions in those parts of the country.

At the time of the release of the previous household survey in 2012, there was some debate on how changes in the distribution of income had affected the rate of poverty reduction. In the period 2000/01 to 2005/06, the pace of poverty reduction was quite limited, partly due to the slower growth during that period but also because the positive effects of growth were partly offset by an increase in inequality over that period. Between 2005/06 and 2010/11, however, the rate of poverty reduction accelerated.

18 The figures in the fourth Integrated Household Living Conditions Survey show a slight increase in the fertility rate in urban areas, from 3.4 children per women in 2010 to 3.6 in 2014/15. This could be a sign of a slowdown in the reduction in fertility, or, alternatively, it could simply reflect the fast rate of urbanisation, with more and more rural families moving towards the cities.

19 For instance, comparable figures from the World Bank World Development Indicators dataset for two countries that have benefited enormously from a demographic dividend, India and China, are 52.4 and 26.6, respectively.

20 Higher levels of education of girls has been shown to be strongly positively correlated with the reduction of the birth rate. See Lloyd and others (2000).

21 The national poverty line is determined as the share of the population whose total consumption falls below the total poverty line (defined as RF 159,375 in January 2014 prices) - that is, those who cannot afford to buy the basic basket of food and non-food goods.

22 Extreme poverty is defined as the share of the population whose total consumption is below the poverty line of RF 105,064 in January 2014 prices.

This was reportedly due to successes in increasing non-farm wage opportunities and in enhancing production and sales in agriculture, together with an improvement in income inequality (National Institute of Statistics of Rwanda, 2012, p.14). The 2013/14 survey results have confirmed these positive trends in both income poverty and inequality - with a decline in the Gini coefficient from 0.522 in 2005/06 to 0.448 in 2013/14.

Regarding employment, although the share has declined rapidly over the last 15 years, nearly 70 per cent of the workforce still works in the agricultural sector. Consequently, Rwanda is one of the least urbanized countries in the world (although this situation is changing rapidly). This heavy preponderance of the population in rural areas limits the rate of progress in terms of human development on the one hand. However, the high population density facilitates the provision of health and educational facilities. The official figure of unemployment, according to the survey figures, is just 2 per cent. However, these figures do not reflect the considerable degree of underemployment in a country where nearly 70 per cent of the population are still working in rural areas. In urban areas, the rate of unemployment is higher, at 8.7 per cent. Significantly, among university graduates, unemployment is even higher, at 13.5 per cent, reflecting a mismatch in terms of the skill set of many graduates vis-à-vis the demands of the labour market. One response to this from the Rwandan authorities is to continue to roll out technical and vocational education and training (see section 4.4).

4.3 Health

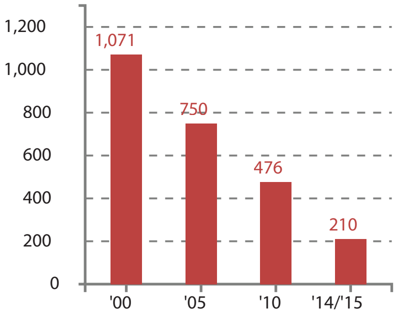
Emblematic of the major improvements seen in the provision of health care across the country over the last 15 years, the country has achieved a marked reduction in maternal mortality, from over 1000 deaths per 100,000 births in 2000/01 to just 210 in 2013/14 (see figure 15). Ninety-seven per cent of births to urban mothers were assisted by a skilled provider, and the same percentage was delivered in a health facility, as compared with 89 per cent, respectively, of births to rural women (DHS, 2013/14). Primary health care in remote rural areas has benefited from a rapid increase in the number of health posts, from 34 in 2009 to 252 in 2013. Infant and under-five mortality rates have similarly declined significantly (figure 15). These impressive achievements were realized despite persistent resource constraints. For instance, there were only 684 doctors in the whole country working in the public sector (National Institute of Statistics of Rwanda, 2015g). That represents one doctor for every 15,800 people, well above the World Health Organization (WHO) recommendation of one doctor per 10,000. Treatment for more complex conditions such as cancer or heart disease is still difficult to obtain.[23]

The health sector has been a main beneficiary of donor aid. According to donor statistics, 24 per cent of all donor funding to Rwanda in 2012-13 was focused on health and population (Organisation for Economic Co-operation and Development (OECD) Development Assistance Committee (DAC), 2015). The Global Fund to Fight AIDS, Tuberculosis and Malaria, established in 2002, was the second largest donor (after the United States) in 2012/13, providing US$ 129 million. The Government has embraced the principle of universality in the provision of health care. In this regard, Rwanda took the bold initiative of establishing universal health care insurance – *Mutelle de Santé* – for a symbolic fee for those on low incomes of RF 2,900 a month (approximately US$ 4). Outside South Africa and Ghana, few other schemes of this extensive nature exist in sub-Saharan Africa. As a result, the fourth Integrated Household Living Conditions Survey reports that 70 per cent of Rwandans are now covered by health insurance. Getting coverage for the remaining 30 per cent presents some challenges (although the

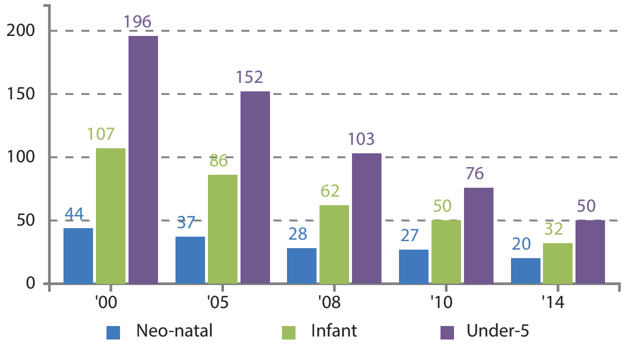
23 Some facilities to treat cancer have been established. In 2012, for instance, the first rural cancer referral facility opened. Available from http://www.rbc.gov.rw/spip.php?article312

Figure 15: Health

Maternal Mortality Rates per 100,000 live births



Neo-natal, infant and under-five mortality rates per 1,000 live births, 2000-2014



Source: Rwanda Statistical Yearbook 2015.

Government has been clear that no one will be denied health care).

Childhood malnutrition is considered one of the major challenges. Thirty-eight per cent of children are stunted, and 14 per cent are severely stunted. Stunting increases with age, peaking at 49 per cent among children age 18-23 months. More male children (43 per cent) than female (33 per cent) are stunted. Stunting affects children in rural areas (41 per cent) more than those in urban areas (24 per cent) (Demographic and Health Survey, 2015, p. 21).[24] The costs of such severe levels of child undernutrition have been estimated at RF 503.6 billion in 2012, equivalent to 11.5 per cent of GDP (ECA and others, 2014). The Government has several strategies to tackle malnutrition, including: strengthening the implementation of the Joint Action Plan to Eliminate Malnutrition; continuing to improve agriculture productivity through the Strategic Plan for the Transformation of Agriculture in Rwanda; and establishing a new factory for fortified food for children, pregnant and lactating women, which is expected to start production in 2016.

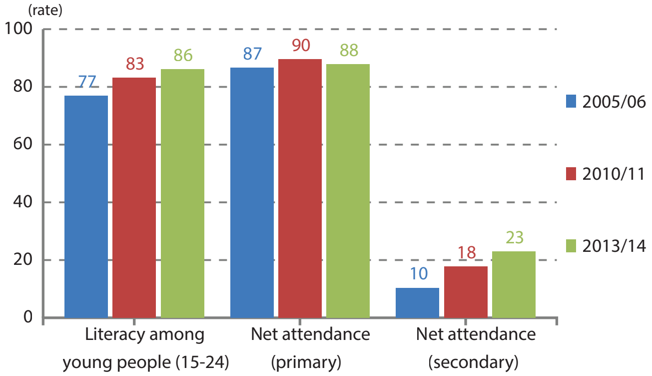
4.4 Education

There have been impressive improvements in enrolment rates (see figure 16). However, this masks considerable challenges with regard to both the quality of education (detectable in areas such as primary completion rates and reading/maths scores), and in the number of children passing through the education system to secondary education and above. About 74 per cent of the 1.37 million young people aged between 13 and 18 years were attending school at the time of the 2012 Census. Yet in that year, barely 28,000 successfully passed the "Senior Six" leaving test. In a country of 11 million people, this means that sufficiently qualified employees are still scarce in many sectors. To be sure, the net enrolment of children at the secondary level has been expanding rapidly since the early 2000s, but at the national level just over one in five children go to secondary school, and among the poorest quintile of the population that figure declines to one in ten.

Similarly, the expansion of tertiary education between 2011 and 2014 has been rapid with the net attendance ratio nearly doubling. However, currently only 3 per cent of young people manage to enter tertiary education. Particularly worrying is the fact that, despite the skills shortages reported in many sectors, the fourth Integrated Household Living

24 Stunting is also inversely correlated with the mother's education level and household wealth quintile. For example, 49 per cent of children in the lowest wealth are stunted, as compared with 21 per cent of children in the highest quintile

Figure 16: Education



Source: Rwanda Statistical Yearbook 2015.

Conditions Survey reports an unemployment rate of 13.5 per cent among university graduates.

One important response of the Government to these challenges is to expand technical and vocational education and training. Inspired by both the Singaporean and German models, Rwanda is fast expanding its vocational training programmes. There are 384 vocational training schools, most of them equipped with both Internet and electricity. About 65 per cent of these schools are private and more than 70 per cent are equipped with computer laboratories. The Government has recently injected over RF 900 million to benefit 38 private technical and vocational institutions, channelled through the Workforce Development Authority in its Skills Development Project.[25]

25 See Moises Gahigi, "Struggle to reduce unemployment gaps as graduate numbers swell", *The East African*, 18 September 2015. Available from http://www.theeastafrican.co.ke/Rwanda/News/Struggle-to-reduce-unemployment-gaps/-/1433218/2876412/-/item/1/-/15onfh8z/-/index.html.

4.5 Gender scorecard of the African Union Commission *

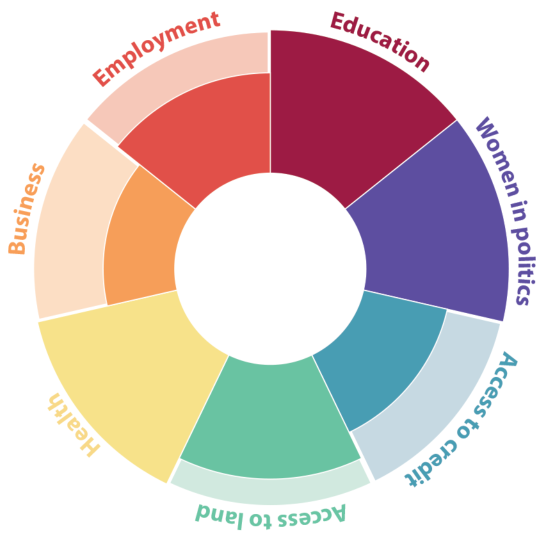
The African Union declared 2015 as the Year of Women's Empowerment and Development towards Africa's Agenda 2063, with a view to building momentum for gender equality and women's empowerment on the continent. Based on this commitment, the African Union developed the African gender scorecard. The scorecard is designed to measure the status of gender equality and women's empowerment in seven core sectors that have a transformative impact on women's lives through their contribution to broad-based, sustainable and inclusive growth. These core sectors are: employment, the business sector, access to credit, access to land, women in politics and decision-making, health, and education at the secondary and tertiary levels.

Interpretation of the pie chart: *The scoring is between 0–10, with 0 being the worst level of inequality, 5 suggesting middle parity, and 10 indicating perfect parity. Perfect parity connotes a situation where the proportion of men and women is equal, irrespective of the developmental level of the variable or indicator being assessed. Some countries go beyond the score of 10, thus showing that women may be more highly empowered in that subsector than men for that country. However, caution is needed when drawing conclusions based only on the scores, particularly when there are large variations in levels of developmental achievements between countries.***

Employment	Score
Employment in non-agricultural sector	5
Labour force participation rate	10

Business	Score
Top management in firms	2
Ownership in firms	7

Health	Score
Under-five survival rate	10
Children under age five who are not stunted	11
Life expectancy at birth	11
Share of population without HIV	7



Education	Score
Youth literacy rate	10
Enrolment ratio in secondary education	11
Enrolment ratio in tertiary education	8

Women in politics	Score
Representation in parliament	18
Ministerial positions - cabinet	6

Access to credit	Score
Account at a financial institution	7
Borrowed from financial institution	5

Access to land	Score
Access to land	8

* The data used in the calculation of the scorecard are drawn from several international databases and sources, including: United Nations, Statistical Division; World Development Indicators, Global Financial Inclusion Database and Enterprise Surveys of the World Bank; the Gender and Land Rights Database of the Food and Agriculture Organization of the United Nations; International Labour Organization; United Nations Children's Fund; Joint United Nations Programme on HIV/AIDs; World Health Organization; International Food Policy Research Institute; United Nations Educational, Scientific and Cultural Organization; United Nations Population Division; United Nations Population Fund; Inter-Parliamentary Union; and some national data sources. Data on access to land were drawn from several sources, with the scoring and harmonization of legislative frameworks done in-house by the African Centre for Statistics and the African Centre for Gender.

** The pie chart is based on the African Gender Scorecard, which was presented to the Heads of State and Government at the twenty-fifth ordinary session of the Assembly of the African Union in June 2015.

5

MAJOR POLICY CHALLENGE: TACKLING THE BALANCE OF PAYMENTS DEFICIT

The Government aspires for the country to grow at 11.5 per cent per annum. This target is undoubtedly an ambitious one - attaining it would not only mean Rwanda becoming the fastest growing economy in Africa, but also in the world. In addition, the international economic environment since 2008-2009 has been more adverse to achieving high rates of growth, and with the recent significant weakening of the emerging markets, it may be about to become more difficult still. However, progress towards that target is still achievable, if Rwanda fully capitalizes on its existing potential and mobilizes greater resources, both domestically and externally. This will require a new set of policies to put Rwanda on a higher growth path. The government's stated objective is to achieve an "economic transformation" that entails a "…process of sustained high economic growth during which the fundamentals of an economy change, shifting from a traditional and low productivity agricultural base and a rural labour force, to a more industrial, diversified and high productivity urban economy." (Economic Development and Poverty Reduction Strategy 2013-2018, p. 16). While recognizing that this is a long-term objective, spanning several decades, the Government argues that the pace of change has not been sufficiently rapid so far.

Since 2001 Rwanda has in fact experienced a relatively fast rate of structural transformation towards higher value-added activities – for instance, official figures show that since 2000, the agricultural sector has shed approximately 20 per cent of the labour force towards other sectors. However, the downside is that growth seems to have been driven almost exclusively by shifting labour out of low-productivity agriculture towards higher-productivity sectors, rather than simultaneously achieving rapid improvements of productivity within sectors. A balanced growth strategy involves both between-sector shifts of labour (structural transformation), and within sector improvements in productivity (by, for example, introducing better technologies, better training for staff, and better managerial procedures). A particular challenge is thus achieving a higher overall rate of productivity growth. Weak productive capacities in Rwanda within the private sector have thus far limited gains in productivity. Yet over the long run, economic growth is almost entirely dependent on productivity growth. It is also strongly associated with the development of new products.

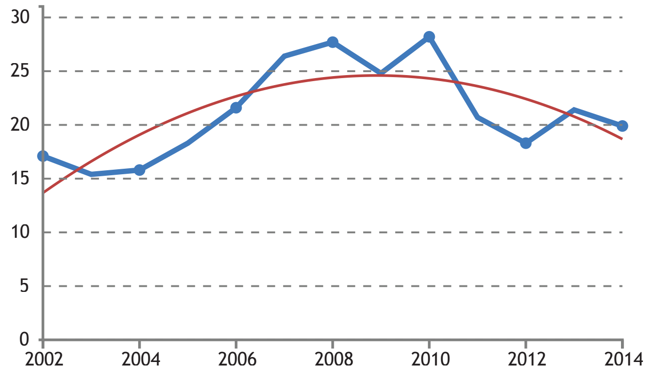
Empirical studies show that the income elasticities of exports of fast-growing countries are typically much higher than those of slow-growers (Krugman, 1989; Thirlwall, 2011). Crucially, the income elasticities of their export goods will also typically be higher than the corresponding income elasticities of their imports, allowing these countries to grow faster without incurring balance of payments problems. This is one of the fundamental challenges for Rwanda – a trade balance in the region of -15 to -20 per cent of GDP simply acts as a drag on the growth rate, as faster growth will lead to further deterioration of the trade and current account balances, resulting in a deficit which cannot be easily financed.

Reflecting the aforementioned weakness in productive capacities, the growth in the manufacturing sector over the last decade has at best been lacklustre. From a supply-side perspective, a number of structural characteristics make the development of vibrant manufacturing industry particularly challenging in the case of Rwanda. Chief among these are the landlocked nature of the country, the small size of the domestic market, the non-tariff barriers that continue to impede trade among EAC partners, and weaknesses in transport infrastructure – all of which place a heavy burden on trade and manufacturing competitiveness for Rwanda.

Figure 18 shows the ratio of free on board (FOB) prices of import goods compared to the cost, insurance and freight costs (CIF), which can serve (with some important caveats) as a proxy for transport costs (Hummels and Lugovskyy, 2003). Globally, for high-income countries, the difference between these two measures is typically in the order of a 4-6 per cent higher cost for CIF than FOB prices. In the case of Rwanda, the difference between FOB and CIF import prices, while diminishing somewhat in recent years, is still in excess of 20 per cent. Clearly, despite policy reforms, structural impediments continue to place a heavy burden on the country's goods trade.

However, the same high transport costs that make export to international markets so difficult can also act as a form of cushion to domestic producers for some consumer and intermediate goods, giving them a cost advantage over the imported product. Rwandan firms need to "recapture" parts of the domestic market from imports while simultaneously expanding exports by capitalizing more on the dynamism of regional markets. An example is the national cement producer CIMERWA, which has recently invested US$ 170 million in a new modern

Figure 17: Percentage difference in the ratio of FOB to CIF import values 2002-2014



Source: ECA Calculations from Ministry of Finance and Economic Planning (2015b) data.

dry process production plant with a capacity of 600,000 tons of cement per year. This represents a six-fold increase from the older plant's total production, and will significantly reduce the import bill for cement. The same strategy needs to be adopted in other manufacturing and industrial sectors.

A complimentary strategy would be for Rwanda to diversify its export destination markets. For a number of completely understandable historical and geostrategic reasons, Rwandan developmental and export promotion policy has so far been focused principally on its easterly neighbours, particularly the East African Community. Yet its location in the heart of Africa means that trade and development policy needs to fully leverage its geographical location by also developing the potential for deeper trading and investment links with its western neighbours.

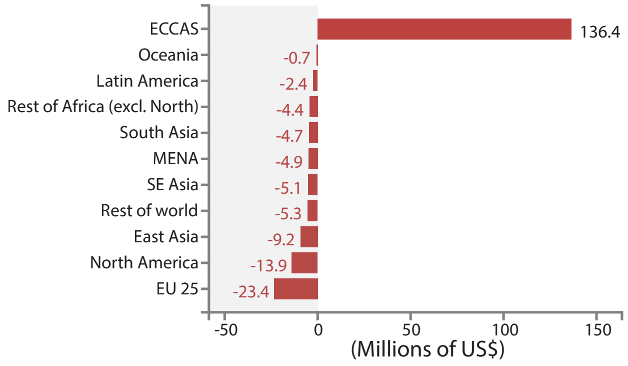
To this end, Rwanda recently expressed its intention to rejoin the Economic Community of Central African States (ECCAS). This is especially significant because collectively the ECCAS represents a market almost double the size of the EAC market.[26] They are also countries that are quite heavily dependent

26 A founding member of ECCAS (established in 1983), Rwanda left the organization in 2007 to join the East African Community (EAC). The ECCAS treaty provided for the establishment of a free trade area after a period of eight years. However, the free trade area is not yet in effect.

on the import of food and animal products. FAO estimates that collectively they are currently importing in excess of US$ 5 billion of food and animal products. Most of these imports are currently being sourced from Europe and South Africa at high prices. This in itself constitutes an interesting market opportunity for Rwandan firms in the agro-business sector. This has already been earmarked by the Government as a priority sector given its enormous potential for employment creation and its strong forward and backward linkages with the rest of the economy. There may be other sectors – particularly in the sphere of services - where significant market opportunities exist.

The Economic Commission for Africa Subregional Office for Eastern Africa (2015b) calculates the potential benefits that could accrue from such a strategy, focusing particularly on the trade impacts, using the multi-country computable equilibrium model of the Global Trade Analysis Project. The results suggest a 7.8 per cent (or US$ 87 million) increase in total merchandise export volumes, which at first sight may seem quite modest. However, ECCAS-exports specifically would rise by a more notable US$ 136 million (the difference of US$ 49 million being explainable by the deviation of exports away from some traditional trading partners towards the ECCAS region) (see figure 18).

Figure 18: Trade creation and deviation of Rwandan exports, post-simulation



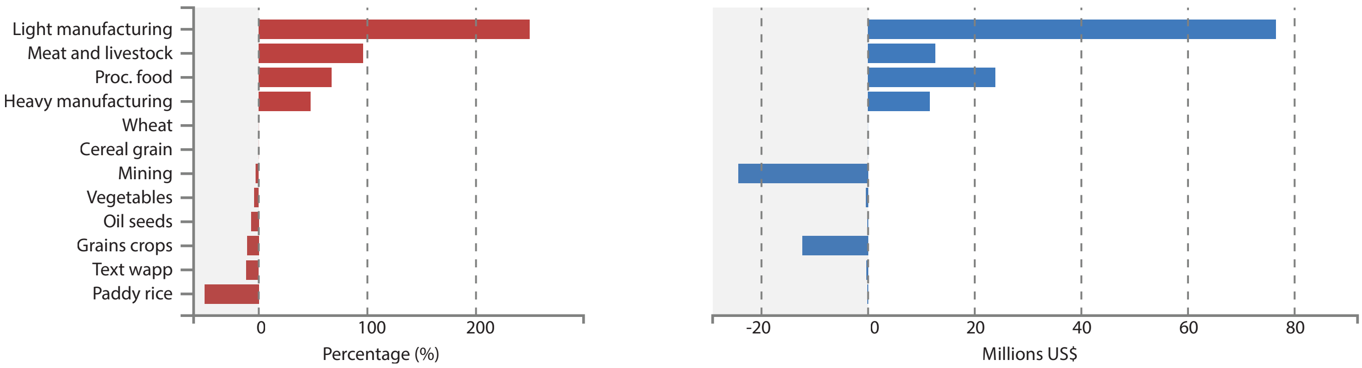
Source: Mold (2015).

The changes in the sectoral pattern of those exports are particularly encouraging – ECCAS liberalisation would shift Rwandan export production towards light manufacturing, which would experience a 250 per cent increase in exports (in value terms), processed foods (67 per cent), and heavy manufacturing (48 per cent) (see figure 18). The results also seem to confirm the relative competiveness and viability of exports of meat, which has already begun to show some results with exports to Congo-Brazzaville - liberalisation within ECCAS would expand this trade by US$ 12.6 million (to a total of US$ 25.7 million). Achieving these gains, however, would be contingent on significant policy measures (especially in terms of manufacturing).

Another challenge to achieving a higher rate of growth is improving the export orientation of foreign investors. Foreign investors do not currently contribute positively to the balance of payments (NBR, 2014, p. 11). The net import bill of majority-owned foreign companies amounted to US$ 90 million in 2013, resulting from US$ 214 million of exports and US$ 304 million of imports. In manufacturing, foreign-owned firms contributed US$ 60 million of exports, but imported US$ 118 million, leaving a net balance of US$ 58 million. Data for 2011 from a UNIDO study analysed by Amendolagine and others (2013) tell a similar, but even more alarming, story. Their study reveals the extent of demand for local intermediates for the seven East African countries included in the survey. In the Rwandan case, the local content represented just 3.3 per cent of total production costs.

A clear message arising from this is that measures should be taken to address this problem, both by increasing the export-orientation of foreign investments and by reducing their reliance on imported inputs. In 2014 the Ministry of Trade and Industry launched a "Made in Rwanda" campaign to promote Rwandan brands, to persuade customers to "buy local" more often. Initiatives like these are

Figure 19: Changes in export values, post-simulation, by sector



Source: Mold (2015).

also important to persuade foreign firms to source more items locally. New measures have also been considered under the Investment, Development and Exports Council framework, in which flagship projects have been highlighted for boosting exports, such as a Chinese garment company that is expected to start operating in 2015 and Stevia Life Ltd, an agricultural exporter from Canada. The purpose is to provide support for some specific industries to double the number of one million dollar exporters (Ministry of Finance and Economic Planning, 2015a, p. 31).

Given the difficult context for manufacturing, the Rwandan Government is wisely not pinning all its hopes on an industrial transformation, but is also targeting service subsectors, including the ICT, tourism and financial sectors. Several trends are favourable to a service-based strategy, including the fact that the service sector is the fastest-growing within global trade. Technology and outsourcing are increasingly enabling traditional services to overcome old constraints such as physical and geographical distance. Many services are, by nature, "light", meaning that they are usually unimpeded by high transport costs. Modern services, such as software development, call centres, and outsourced business processes, can be traded like value-added manufactured products, enabling developing countries that focus on such services, innovation, and technology to leverage services as an important driver of growth. The Government is trying to catalyse the emergence of a service-based hub in Rwanda, to serve regional markets through initiatives like the support given to RwandAir (box 3) and attempts to attract major financial sector players.

However, it is debateable whether these service-led exports can become major drivers for the economy. A stronger manufacturing sector would create mutually beneficial linkages with the service sectors, enabling both to prosper. This review does, however, establish one important point - that without an improvement in the trade deficit, faster growth is likely to remain elusive.

Table: Local content share of foreign firms in sub-Saharan Africa

	No. of foreign firms	Value of locally purchased inputs as a percentage of total purchased inputs
Destination Country		
Kenya	233	31.9%
Ethiopia	105	16.8%
Tanzania	104	16.7%
Uganda	190	14.5%
Madagascar	9	12.7%
Burundi	14	6.8%
Rwanda	31	3.3%

Source: Amendolagine and others (2013).

Box 3: Efforts to catalyse private sector development through investments in the national airline

For the service-based strategy to be viable, Rwanda needs to be sufficiently well connected through air transport. The development of a national airline could thus be considered of strategic importance, even if the air travel market in and out of Rwanda is not yet a profitable investment option for private investors. Inspired by similar ventures elsewhere (for example, Singapore Airlines, Ethiopian Airlines), the Rwandan Government has been investing substantially to support and develop its national carrier, RwandAir. The Government currently has a 99 per cent stake in the company. As an example of the kind of financial support received, in April 2013 the Government gave RwandAir US$ 80 million from the proceeds of its Eurobond issue as a soft loan to repay more expensive debts taken out with private banks acquired for the purchase of new planes (Ministry of Finance and Economic Planning, 2014). This may not seem like a large injection of funding, but considering that the whole of the Government budget was only round US$ 2.4 billion in the fiscal year 2013/14, such injections reflect a significant commitment on the part of the Government.

The Government of Rwanda aims to make RwandAir a profit-making company by 2018 and expand its annual turnover from the current US$ 46 million to more than US$ 350 million during the same period. Objectives include: (i) to expand its fleet from 7 to 12 aircraft including 3 wide-bodied aircraft; (ii) increase destinations from the current 13 to at least 25; (iii) achieve and maintain certification with the International Air Transport Association Operational Safety Audit programme (IOSA), thereby strengthening operational management and safety control standards; and (iv) significantly strengthen branding. Increased connectivity will support Rwanda's tourism sector and, crucially, help to improve the country's overall business environment (Economic Development and Poverty Reduction Strategy 2013, p. 24). Barely five years in business, RwandAir is still in the investment phase— quite highly indebted with the buying of passenger aircraft. However, there are many signs of growth given the revenue trends and projections in both mid- to long-term. In competitive markets like air travel, such a strategy is risky, but the potential payoffs are large.

RwandAir has grown significantly over the last 5 years. From five international destinations in 2010, the company now flies to seventeen destinations, sixteen on the African Continent plus Dubai (UAE). Annual passenger volumes have risen from about 100,000 in 2010 to over 500,000 passengers recorded in 2014. Numbers are projected to grow even higher (600,000+) since RwandAir has just signed documents for the purchase of two large aircraft that will enable the company to add the major destinations of China and India. In the next 3 years, RwandAir targets carrying in excess of 1 million passengers. The vision of the Government is to grow Rwanda as an aviation and business hub. About 40 per cent of the total passengers handled by RwandAir are transit passengers—a clear justification for its "hub" vision. Given the size of the Rwandan market, it is very important to look beyond borders for the sustainability of RwandAir.

RwandAir's development could also play an important role in facilitating goods exports. RwandAir has not invested yet in cargo business (cargo planes). It does cargo for its clients but on a very limited basis—not as one of its regular lines of business. The export of perishables is still on a very limited scale. If the demand and volumes are adequate and make business sense, RwandAir is prepared to venture into chartering cargo planes from bigger continental carriers like Ethiopian and Kenya Airways to airlift Rwanda's perishable exports to any destination of the world. It has done this twice before when the Rwanda Development Board and the Private Sector Federation facilitated local horticultural exporters to go to Brazzaville. RwandAir is currently in talks with Ethiopian and Kenya Airways to explore possibilities of chartering some of their cargo freighters (30-ton and 17-ton respectively), as and when the local production for export makes business sense.

Source: ECA and interview with CEO, RwandAir, John Mirenge, July 2015.

6. NATIONAL DATA QUALITY EVALUATION

Methodological note on data quality evaluation

The quality of national data sources for key indicators in the country profiles was evaluated. The result is presented in colour codes, with green indicating a "good" data source, yellow for "satisfactory", and red for "needs improvement".

The evaluation focused on the transparency and accessibility of each national data source. The evaluation took into consideration the timeliness and periodicity of data publishing, based on the punctuality of publication and frequency of data updates in accordance with international standards. It also measured the comparability of the data series, based on their length, definition and standard units of measurement. It evaluated database accessibility, specifically whether the data were open and freely available to the general public, the format of the data, and the ease of downloading and sharing. Data citation, together with references to primary or secondary sources, was also assessed. Finally, the evaluation checked the completeness of metadata for data release and the completeness and clarity of documentation and notes.

Demography	Value	Evaluation
Population (millions)	10.5 (2012)	3
Children (0-14 years, %)	41 (2012)	3
Adults (15-60 years, %)	54.1 (2012)	3
Elderly (60+ years, %)	4.9 (2012)	3

Key macroeconomic and sectoral performance indicators	Value	Evaluation
GDP, constant prices (RF billion)	4,685 (2014)	1
GDP, current prices (RF billion)	5,389 (2014)	1
Real GDP growth rate (%)	7.0 (2014)	1
Inflation rate (%)	1.8 (2014)	3
Current account balance (millions of US$)	-945.5 (2014)	2

Economic trends and Performance Indicators	Value	Evaluation
Inward flows of foreign direct investment (millions of US$)	311 (2014)	2
Total exports (millions of US$)	723.1 (2014)	1
Total imports (millions of US$)	2,386.9 (2014)	1
Gross capital formation (billions of RF)	1,417 (2014)	1

Education and employment	Value	Evaluation
Literacy rate (15-24 years), both sexes (%)	86.2 (2013-14)	3
Ratio of girls to boys in primary education	1.03 (2014)	3
Ratios of girls to boys in secondary education	1.12 (2014)	3
Share of labour force working in primary sector (%)	69.7 (2013-14)	3

Health	Value	Evaluation
Under 5 mortality rate (per 1,000 live births)	50 (2014-15)	3
Infant mortality rate (per 1,000 live births)	32 (2014-15)	3
Maternal mortality rate (per 100,000 births)	210 (2014-15)	3
Contraceptive prevalence rate (% of married women)	48 (2015)	3

Data Sources Code Index

1. Ministry of Finance and Economic Planning
2. National Bank of Rwanda
3: National Institute of Statistics of Rwanda

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