

## IDA AT WORK

## Rwanda: From Post-Conflict Reconstruction to Development

Rwanda has achieved impressive progress since the 1994 genocide that killed approximately one million people. The country moved to rehabilitate devastated infrastructure and restore social norms, and has embarked on an ambitious development strategy seeking to transform the country from a low-income, agriculture-based economy to a knowledge-based service economy by 2020.

Country Indicators	1990	1994	2008
GDP per capita (US\$)	251	152	465
GDP growth (%)*	-2	-50	11.2
Inflation (CPI, %)*	4	1.6 (1996-98)	15
Total External Debt (% of GDP)	28	127	15
Fiscal deficit (% of GDP, incl. grants)	-5	-11	0.1
FDI net inflows (US\$ million)	8.0	0	3.6 (2004)
Poverty incidence (% under \$1 per day)	40	78	56.5 (2005)
Net primary school enrollment (%)	67	N/A	95
Under-five child mortality (per 1,000 live births)	150	209 (1995)	103
Immunization rate (measles, %)	83	25	98
HIV/AIDS prevalence (%)	-	13 (1997)	3
Population (millions)	7.1	5.5	9.6

Source: IMF and World Bank unless otherwise indicated.

\* National Institute of Statistics for Rwanda (NISR).

The country is increasingly seen as a development model, focused on results and eager to learn from global experience. Successful reform efforts resulted in double-digit growth rates during the reconstruction phase. Growth slowed slightly at the beginning of the decade as the country entered its development phase, but again reached 11 percent in 2008 thanks to strong agriculture performance. IDA continues to support Rwanda's efforts with a focus on building an enabling environment for growth and employment creation.

Since the early days of reconstruction in 1994, the International Development Association (IDA), the World Bank's fund for the world's poorest countries, has provided US\$1,054 million to Rwanda through investment and policy support operations. IDA's work adjusted rapidly to evolving circumstances, first meeting the needs of reconstruction and then supporting structural reforms for development.

Extensive economic and governance reforms undertaken between 1995 and 2008 contributed to GDP growth rates in Rwanda averaging over 8.6 percent per year. The progress in human wellbeing and service delivery has been remarkable. Primary school enrollment and completion rates are up. Immunization rates, at 98 percent, are among the highest in Sub-Saharan Africa, and HIV prevalence, at 3 percent, is low for Sub-Saharan Africa. Over the past four years, the percentage of the population with access to water almost doubled from 44 percent in 2003 to 71 percent in 2007.

Soon after the genocide, as Rwanda struggled to reestablish its future, the Bank was among the first donors to come in with support, providing targeted analytical work and policy advice, and facilitating donor harmonization and alignment.



## **COUNTRY ACHIEVEMENTS**

### **Rwanda has made a remarkable transition from post-conflict reconstruction to development in the past 14 years.**

The 1994 genocide destroyed Rwanda's fragile economic base, along with a large share of its human capital, while wiping out its ability to attract private investment. Close to one million people died and waves of Rwandans fled the country on foot. Poverty increased dramatically, particularly among women, reaching 78 percent of the population in 1994.

During reconstruction, the government of Rwanda focused on rebuilding institutions, which led to significant improvements in economic outcomes and social indicators. As a result of extensive economic and governance reform measures, taken between

1995 and 2008, annual GDP growth averaged over 8.6 percent. By 2005, the proportion of poor people had declined to 57 percent of the population. Child mortality, which had reached more than 300 per 1,000 live births after the genocide, decreased to 103 per 1,000 in 2008.

**Substantial progress has been made in stabilizing and rehabilitating the economy.** By 1998, GDP had recovered its pre-1994 level, with post-conflict reconstruction fueling an initial boom. During this boom phase, GDP growth rates averaged 10.5 per year between 1996 and 2002. As the economy moved into the development phase, annual growth averaged 6.1 percent in 2003-2008. Inflation has remained relatively low at 6-7 percent per year over the last decade.

Macroeconomic management has been satisfactory, as evidenced by the successful

completion of five reviews under the International Monetary Fund's Poverty Reduction Growth Facility (PRGF). A sixth PRGF arrangement was approved in 2006 and is expected to conclude in August 2009. Strong implementation of macroeconomic policies enabled Rwanda to reach the Highly Indebted Poor Countries Completion Point and qualify for the Multilateral Debt Relief Initiative (MDRI).

**First, the country is stable and at peace.**

While the legacy of the genocide persists, the country has made good progress toward resettlement, national reconciliation, demobilization, and reintegration of ex-combatants. About 15,000 members of the former government army have been integrated into the Rwandese National Army at various command levels, and about 3.5 million Rwandan refugees have been repatriated and resettled in a small, densely populated country.

**Governance indicators have improved, within an overall improvement**

in Rwanda's Country Policy and Institutional Assessment (CPIA). Of the 45 Sub-Saharan African countries rated (including Rwanda), 72 percent scored below Rwanda, 18 percent scored above, while 10 percent scored the same. Between 1998 and 2008, Rwanda has been recognized for its leadership in the fight against corruption. It currently ranks above 60 percent of countries worldwide in the control of corruption. It also improved its record on four out of six indicators monitored by the World Bank, namely political stability, government effectiveness, regulatory quality, and rule of law. Rwanda did not achieve significant progress in the area of voice and accountability. Bilateral donors are working with the government to create more open political dialogue. Rwanda is also pursuing an ambitious decentralization program to

empower local communities and increase transparency and accountability.

**Rwanda has made substantial progress towards meeting the Millennium Development Goals (MDGs).**

Impressive results have been achieved in the social sectors: primary school enrollment reached 95 percent in 2008, up from 67 percent in 1990, and completion rates increased to 55 percent in 2005. Immunization rates, at 98 percent, are among the highest in Sub-Saharan Africa. Use of insecticide-treated bed nets increased from 4 to 65 percent of the population from 2004 to 2008. HIV prevalence, at 3 percent, has been decreasing.

Unique in Africa, Rwanda has scaled-up access to health insurance (through local schemes called *mutuelles de santé*), from 7 to 70 percent of the population between 2003-2007, leading to increased use of health services, as reflected for example in the number of assisted deliveries. Over the past four years, the percentage of the population with access to water almost doubled from 44 percent in 2003 to 71 percent in 2007.

## **IDA CONTRIBUTIONS**

IDA has extended US\$1,054 million in credits and grants to Rwanda since 1994. About half of this financial support has been provided within economic recovery and policy support operations, financed by five Poverty Reduction Support Credits/Grants (PRSC/G). Since 2004, these PRSC/Gs have directly supported the government's strong reform efforts, particularly in the area of private sector development, provision of social and infrastructure services, and public sector management and accountability. IDA has also financed about 19 investment operations, and provided more than 27 analytical reports and reviews.

### **Responding to country needs.**

IDA support evolved with the changing conditions in Rwanda. Following the genocide, IDA helped finance reconstruction, including rebuilding of the economic and institutional base, and responding to basic needs in education, health, water, energy, transport, and communications. IDA also supported the government in its efforts to repair the social fabric and promote reconciliation.

IDA assistance then evolved from emergency assistance to financing for long-term development needs. IDA now focuses on supporting Rwanda as a model for development with innovative lending aimed at accelerating growth and poverty reduction.

Project support was combined with policy advice and dialogue and analysis. Because of the government's commitment to reform, IDA was able to work with country counterparts by offering them financial and technical assistance, and analytical services that contributed directly to tangible development results.

### **Conducting productive policy dialogue.**

As the country emerged from the reconstruction phase, IDA increasingly provided support to the government's policy reform agenda through PRSC/Gs encompassing social and infrastructure sectors, as well as public sector and macro management. These allowed for high-level, strategic and comprehensive discussions of Rwanda's reform program. IDA's analytical work helped inform this dialogue. But most importantly, the quality of the policy dialogue reflects the strength of the government's commitment to reform.

### **Building a country-led development program.**

IDA assisted the government in the preparation of its first Poverty Reduction Strategy Paper (PRSP), completed in 2002. An external evaluation shows that PRSP targets have generally been met or exceeded; it also discusses areas for improvement. IDA supported the government as it prepared its second PRSP, the Economic Development and Poverty Reduction Strategy (EDPRS), completed in 2007.

### **Facilitating donor harmonization and alignment.**

Coordination was crucial to the success of donor efforts during the post-conflict period. While, for example, the United Kingdom's Department for International Development (DFID) focused on human development, particularly education, IDA provided expertise and financial support for public sector management/fiduciary issues. Donor coordination was driven by the preparation of IDA's first Poverty Reduction Support Credit, within the framework of the government's strategy paper.

IDA, together with DFID and other donors, also provided assistance that informed the government's Common Performance Assessment Framework in 2008. The framework consists of a set of indicators and policy actions selected from the government's EDPRS (its second poverty reduction strategy) and a joint governance assessment between donors and the government. It forms the basis for budget support and for donors' joint assessment of Rwanda's performance in the implementation of the EDPRS.

IDA has also supported the development of Sector Wide Approaches (SWAP) in energy, agriculture, and health.

### **IDA's impact, through financing and policy advice, spans many sectors.**

**Overall policy dialogue.** Policy dialogue between IDA and the government started with a focus on basic security and reconciliation, macro stabilization and privatization, and provision of basic social services. Reforms continued with improvements in public financial management, the introduction of a Medium-Term Expenditure Framework (MTEF) to strengthen planning and budgeting, and the creation of a business-friendly investment climate. Recently, the focus has been on activities that promote economic transformation and remove bottlenecks to growth, and activities geared toward reducing social vulnerability. In addition, IDA seeks a strong collaboration with government, tangible development results and outcomes, and harmonization among development partners.

**Agriculture.** Agriculture is the backbone of Rwanda's economy, accounting for 39 percent of GDP, 80 percent of employment, and 63 percent of foreign exchange earnings. Agriculture significantly contributes to economic growth. Strong agriculture growth was the main driver for the 15 percent growth rate of the economy seen in 2008. IDA support to agriculture is aimed at increasing growth and reducing poverty through employment creation.

IDA is the lead donor in agriculture, providing technical assistance and assisting in donor harmonization together with DFID, the International Fund for Agricultural Development (IFAD) and Belgium. It supported the develop-

ment of a Sector Wide Approach that is the basis for the implementation of Rwanda's agriculture strategy as well as the upcoming Land Husbandry, Water Harvesting and Hillside Irrigation Project.

The Rural Sector Support Program in 2006-2008 resulted in doubling of rice yields on marshlands targeted by the project. Future IDA assistance will focus on hillside intensification—including horticultural production—through support to a government program in this area.

**Private sector development.** IDA support helped formulate and adopt a private sector strategy, followed by an export promotion strategy and the creation of the new Rwanda Investment and Export Promotion Agency (RIEPA). A one-stop shop was created in RIEPA to facilitate business development, and an Export Processing Zone was established.

Receipts from coffee and tea continued to increase in 2008 as did tourism receipts and numbers of visitors. Exports of hides, skins,

#### **Fertilizer for Growth**

IDA's response to the 2008 food crisis financed by a special emergency grant to IDA's ongoing Poverty Reduction Support Grant (PRSG) focused on domestic productivity of food crops through access to fertilizer. It resulted in the country's first fertilizer auction and voucher system, promoting private sector distribution. The program resulted in (i) a complete replacement of public with private distribution of fertilizer, improving access, particularly for food crops; and (ii) the vouchering of 26 percent of auctioned fertilizer to about 46,000 food farmers, most of whom gained access to fertilizer for the first time. Food production increased significantly in 2008, contributing both to growth and food availability per capita.

cassiterite (a tin oxide mineral), and coltan (a metallic ore) are also on the rise.

Although Rwanda remains a relatively high-cost place to do business, red tape has been rolled back in some areas. For example, it took only 16 days to open a business in Rwanda in 2008, down from 40 in 2003, according to the World Bank Group's *Doing Business* survey.

Privatization programs are underway for a major coffee exporter, several tea factories, and commercial banks. After some protracted negotiations, the government sold 80 percent of the state-owned telecom operator to foreign investors in 2007. Banking sector regulation and supervision have been strengthened, and a regulatory framework for microfinance has been created. Implementation of the government's ambitious ICT strategy has begun with the laying of fiber optic cable and installation of wireless capability.

**Public financial management.** IDA and other donors are working closely to support the government in this area. Results include the government's adoption of an Organic Law of State Finances and Assets; the creation of positions and appointment of an Auditor General and an Accountant General; and the submission to Parliament of a Procurement Code that incorporates international best practice. The government is also implementing an action plan to improve financial accountability.

In addition, the government produces a monthly budget "flash report" for priority sectors and has adopted the SMARTGOV budget system. It is moving toward a single treasury account, and has established a treasury management committee.

IDA's Public Sector Capacity Building and Decentralization Project and Community Development Project have placed a greater emphasis on capacity building for public financial management at the central and local government levels. A School of Finance and Banking has been established, and about 200 accountants are being trained for deployment mainly at decentralized levels.

**Decentralization.** IDA's Decentralization and Community Development Project supports a shift from centralized governance to decentralized pro-poor service delivery and targets the most vulnerable segments of Rwandans mainly in extremely remote areas. The project supported the creation of over 160 sub-projects --predominantly primary schools and health centers. In addition, it provided various training for local government staff. Anecdotal evidence linked these sub-projects to improvements in enrollments, school attendance, health services utilization, and earnings from income generating activities.

**Education.** IDA's support to education in Rwanda has been provided jointly through the Human Resources Development Project and policy support operations. IDA's extensive analytical work, particularly the Education Country Status Report, informed the government's sector wide approach and 10-year financing plan for education. The government's strategic planning resulted in the approval of supplementary funding through the Education for All Fast Track Initiative, a global partnership which aims to accelerate progress toward universal primary education by 2015. IDA was able to mobilize additional resources in 2008 for Rwanda, one of the countries that used this form of financing most effectively.

Other results include the grafting and implementation of an ambitious Higher Education Law and a multi-sector policy on science and technology, as well as a shift to free nine-year basic education.

Technical support has focused on helping the government provide free primary education, notably through capitation grants, which offer cash per student to schools. Non-existent in 2003, the size of the grant increased substantially from RwF300 in 2004 to more than RwF5300 (about US\$10) in 2007.

**Health.** IDA support in the sector was channeled through a health project and later through policy support operations. IDA helped the government develop health policies that ensure public health services benefit the poor and stronger health strategies—including performance-based contracts, human resources retention strategies, and a results-oriented Mid-Term Expenditure Framework for health.

IDA assisted the government in producing a Health Country Status Report and other analytical reports on service delivery and human resource challenges. Joint dialogue between donors active in the health sector and the government has led to an increase in public spending on health, better access by the poor to health care packages including malaria prevention and treatment, and the expansion of social protection mechanisms such as *mutuelles* (micro-insurance schemes). Such health insurance covered 70 percent of the population in 2007, up from just 7 percent in 2004.

The use of performance-based contracting and the implementation of a decentralized program for community health at the district level are especially notable. Innovative

schemes are being piloted to address the shortage of human resources in the sector, including hardship allowances for workers in rural areas.

**HIV/AIDS.** IDA has been providing grant financing for the Rwanda-HIV/AIDS program (about US\$10 million per year since 2003), acting in partnership with the Global Fund to Fight AIDS, Tuberculosis and Malaria and the United States President's Emergency Plan for AIDS Relief (PEPFAR), which have helped procure generic and brand-name drugs. These efforts are complemented by those of other bilateral and multilateral development partners.

**Water supply.** An IDA project helped repair damaged water supply systems, financed an evaluation of water needs in secondary cit-

#### Battling HIV/AIDS on Multiple Fronts

Under the IDA-financed Multi-Country Action Program (MAP) against HIV/AIDS in Rwanda:

- About 1 million individuals benefited from voluntary counseling and HIV testing.
- Roughly 17.5 million condoms have been distributed.
- Over 9,000 patients have been placed on antiretroviral therapy treatment (of which two-thirds are female), with an adherence rate of 95 percent.
- Roughly 56,000 households are benefiting from expanded access to community health financing schemes.
- Roughly 28,000 orphans and vulnerable children are benefiting from payment of school fees.
- In 2007, Rwanda placed over 48,000 patients on anti-retroviral treatment at 171 sites nationwide, compared to only 870 patients treated in seven sites in 2002.
- There has also been encouraging news on the prevention side: the percentage of young men who reported to use a condom rose to over 40 percent in 2008 from about 20 percent in 2000.

ies, and rehabilitated rural water supply systems. Another water and sanitation project in rural areas emphasized greater community participation in investment and maintenance decisions, and private sector participation in the provision of water supply and sanitation services. The PRSG/C series continues to support water supply. The following results were achieved:

- Direct financing of district water projects to improve access to reliable, affordable, and sustainable water and sanitation services in rural areas was piloted and scaled up.
- The global access rate to potable water increased between 2001 and 2008, from total 44 percent to 71 percent.
- An additional 600,000 persons gained access to potable water each year during 2005-2007.

**Energy.** Insufficient and expensive supply of electricity remains one of the main infrastructure bottlenecks to growth. IDA is supporting Rwanda meet its energy challenges on several fronts: policy-level issues are addressed through the PRSC/Gs, commercial issues through a competitiveness and enterprise development project, and investment issues through an urgent electricity rehabilitation project. A large investment to improve electricity distribution including into rural areas is planned for mid 2009.

As a result of IDA's policy support in the energy sector, the government adopted a revised electricity tariff in 2006 and established separate water and electricity utilities in 2009. For the long-term, the government recognizes the need to address energy shortages in Rwanda, where only 5 percent of the population was thought to have access to

electricity in 2004. The government is pursuing the development of new plants—including the Lake Kivu methane gas plant (with IFC and planned IDA support). The initiatives should lower energy costs for business and increase access for the population.

## CHALLENGES AHEAD

**Rwanda faces a number of challenging constraints, which IDA and other development partners can help address.**

**Achievement of MDGs.** With the help of IDA and other development partners, Rwanda has developed mechanisms that will ensure a sustained flow of resources from the central government to service delivery points. But to reach the MDGs, a sustained and increased flow of funding for service delivery in education, health (including HIV/AIDS), water, and energy is needed. Financing has been increasing substantially for AIDS and malaria, but increased support is needed to rebuild the entire health care system. Additional assistance would be needed to scale-up the health system response, create demand for services, and finance activities that reduce child and maternal mortality.

**Infrastructure constraints to growth/agricultural transformation.** Infrastructure deficiencies, particularly energy shortages and an inadequate road network, are hindering Rwanda's competitiveness. Additional financing is needed to increase energy production, through hydropower projects and alternative energy sources particularly in rural areas. In the transport sector, more resources would allow Rwanda to expand rural feeder roads and upgrade major regional axes.

As the economy remains largely agrarian, rapid population growth, low productivity, and high pressure on the land are key challenges to agricultural transformation. The density of population—356 people per square kilometer—is one of the highest in Africa—and will be a source of social and economic pressure. Issues of land management, agriculture productivity, population growth, and youth employment will have to be addressed to avoid further fragmentation of land and declining rural income.

**High aid dependence.** Despite debt relief under HIPC and the MDRI, Rwanda remains at a moderate risk of debt distress, mainly due to its high degree of reliance on external financing and its narrow export base. Debt sustainability analysis also indicates that Rwanda remains highly vulnerable to external shocks. Increasing the portion of development assistance that comes in the form of grants can mitigate the risks.

**Domestic and regional stability.** While Rwanda’s reconciliation process is unfolding, social tensions still exist. Efforts to restore trust and reconstruct the social fabric need to be expanded to prevent any deterioration in political or social outcomes. Rwanda’s political and economic stability is also closely linked to the rest of the Great Lakes Region and to the regional programs to demobilize and reintegrate combatants and to build a sustainable peace.

**Capacity building.** More resources for capacity building would allow for an increased focus on strengthening public financial management, with an emphasis on fiduciary aspects. Rwanda would also benefit from additional work on its monitoring and evaluation systems, data collection, and procurement.

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