Turning Vision 2020 into Reality

From Recovery to Sustainable Human Development

EXECUTIVE SUMMARY

ILLUMINATIO ET SALUS POPULI

National Human Development Report • Rwanda 2007

Turning Vision 2020 into Reality: From Recovery to Sustainable Human Development.
National Human Development Report, Rwanda 2007: Executive Summary

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National Human Development Report

Rwanda 2007

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PILLARS OF VISION 2020

NO	PILLARS
1	GOOD GOVERNANCE AND A CAPABLE STATE
2	HUMAN RESOURCE DEVELOPMENT AND A KNOWLEDGE-BASED ECONOMY
3	A PRIVATE SECTOR-LED ECONOMY
4	INFRASTRUCTURE DEVELOPMENT
5	PRODUCTIVE AND MARKET ORIENTED AGRICULTURE
6	REGIONAL AND INTERNATIONAL ECONOMIC INTEGRATION

THE MILLENNIUM DEVELOPMENT GOALS

NO	MDG
1	ERADICATE EXTREME POVERTY AND HUNGER
2	ACHIEVE UNIVERSAL PRIMARY EDUCATION
3	PROMOTE GENDER EQUALITY AND EMPOWER WOMEN
4	REDUCE CHILD MORTALITY
5	IMPROVE MATERNAL HEALTH
6	COMBAT HIV/AIDS, MALARIA, AND OTHER DISEASES
7	ENSURE ENVIRONMENTAL SUSTAINABILITY
8	DEVELOP A GLOBAL PARTNERSHIP FOR DEVELOPMENT

EXECUTIVE SUMMARY

After a long and difficult process of recovery from one of the worst atrocities in Africa Rwanda is now firmly on the path of resurgence and economic development. In recent years, all the key institutional and legal instruments have been put in place to structure Rwanda's long-term development.

Today, Rwanda finds itself at a crossroads in its development process. After a successful transition from emergency to stabilisation and recovery, Rwanda now needs to find the path that will set the country on course for achieving the objectives laid out in Vision 2020. This transition will create new challenges for Rwanda and require the country to find new sources of growth for long-term human and economic development. Furthermore, it needs to establish mechanisms for managing the profound structural transformation of the economy and society that will be required in order to achieve Vision 2020. In this report, we review in depth some of the key challenges Rwanda will face over the coming years and we discuss possible solutions.

The main argument of this report is that the MDGs can be achieved in Rwanda, even within reasonable assumptions about economic growth and aid.

Achieving this will require us to break with the "business as usual" approach to development assistance, and create a mutually accountable partnership for human development. This partnership should bridge the two missing links of development assistance in Rwanda: the link from aid to national development strategies and the link from public spending to the Millennium Development Goals (MDGs) and targeting the most vulnerable in society.

Our analysis proceeded by examining (1) the main development challenges facing Rwanda, (2) strategies to target these challenges, (3) identifying the cost and financing options, and (4) policy priorities for the future. The main findings and policy recommendations are summarised below.

1. **THE CHALLENGE:** In order to operate a successful transition from recovery to long-term growth, Rwanda will have to tackle three major challenges (**agriculture, population and income distribution**) that could compromise the sustainability of its development.

2. **THE STRATEGY:** Rwanda's long-term development challenges can be tackled through a targeted **public investment strategy** that builds human capital and eases key bottlenecks in the economy.

3. **THE COST:** It is possible, with reasonable assumptions about economic growth and aid flows, to finance the **"Big Push" in investments** needed to break the poverty trap, provided that the quality of aid is substantially improved.

4. **THE FUTURE:** In order to ensure the sustainability of its long-term development strategy, and make optimal use of additional resources, Rwanda must maintain progress on governance and adopt a comprehensive approach to **social change management.**

1. GROWTH AND POVERTY

Meeting Vision 2020 through Broad-Based Sustainable Growth

Between 2001 and 2006, Rwanda's poverty rate decreased from 60.2% to 56.9% of the population. Yet at the end of the period there were 600,000 more people living in poverty in Rwanda. This is because Rwanda's population growth is outpacing the rate of poverty reduction and economic growth has not been sufficiently pro-poor.

Achieving human development will require enhancing the quality of growth. In the most densely populated country in Africa, population growth in Rwanda is putting additional pressure on scarce land through over-cultivation and soil erosion. In order to break the cycle of decreasing agricultural productivity, population growth and poverty, Rwanda needs to invest four times more resources than it is currently. This should enable the agricultural sector to become an engine of economic growth generating the surpluses of capital and labour needed to fuel the development of other sectors.

Rwanda has experienced a remarkable recovery since the 1994 genocide that devastated the country's human and physical capital, as well as its social and institutional fabric. Since the end of the emergency period, growth rates have averaged 5.8% per annum, making Rwanda one of the top performers in Africa and an example of successful post-conflict reconstruction. This economic success has enabled significant progress in the fight against poverty, with poverty rates dropping from over 70% at the end of the war to 56.9% in 2006.

Rwanda's challenge over the next decade will be to operate a successful transition from recovery and reconstruction-based growth to a broad-based and sustainable growth that will allow it to maintain past performance levels up to the year 2020 and beyond. In this chapter, we will take a hard look at the facts surrounding poverty and growth in Rwanda, and address some of the major challenges the country faces in order to achieve its long-term development objectives. The analysis identifies three key issues:

1. THE AGRICULTURAL CHALLENGE: Current investments in agriculture are insufficient to meet MDG 1 and Vision 2020.

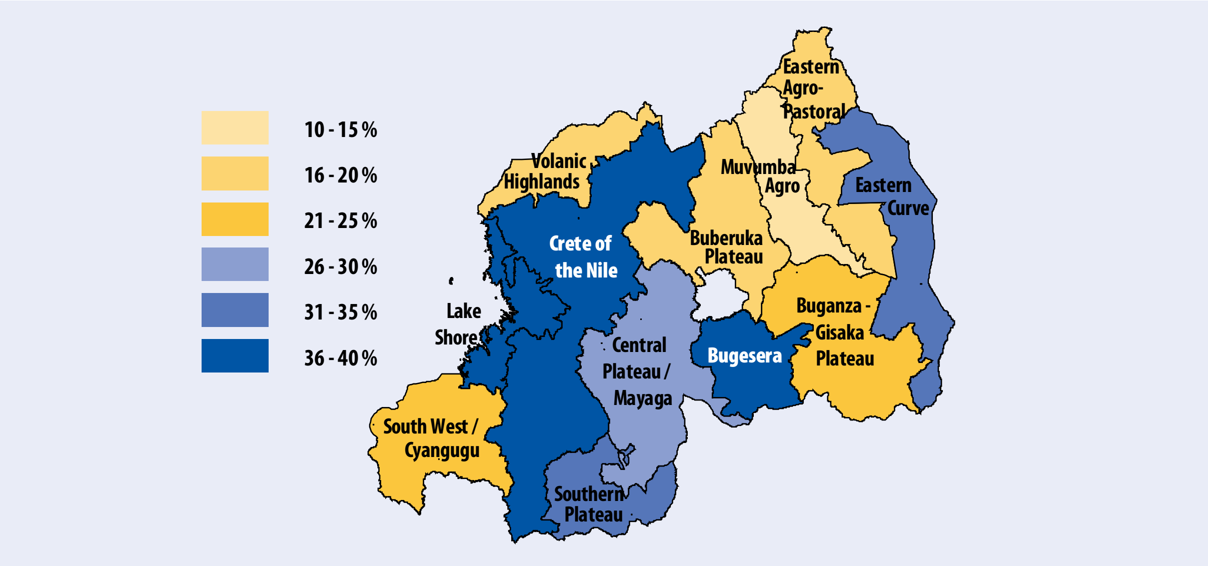
Economic growth has so far come almost exclusively from the service and manufacturing sectors, as agricultural performance has remained highly volatile and dependent on rainfall.

In order to sustain growth rates in the long term, Rwanda will need to modernise the agricultural sector in order to initiate the transition from a subsistence-based agriculture to one that will be capable of generating the surpluses of labour and capital needed to fuel economic development. This means lifting people out of the poverty trap, where they are currently unable to meet their minimum nutritional requirements and unable to invest in improving their overall situation.

BOX 1: THE AGRICULTURAL CHALLENGE

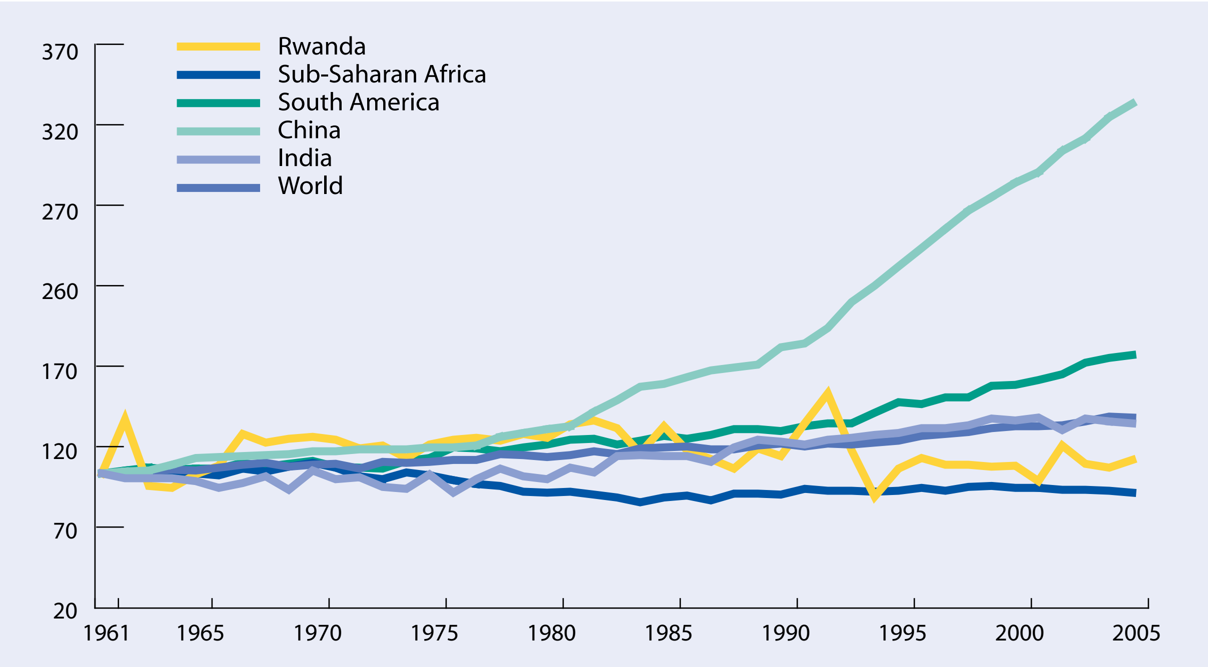
- Rwanda's head-count poverty rate has decreased from 60.2% to 56.9% from 2001 to 2006, but **there are 600,000 more Rwandans living in poverty** than there were five years ago.
- Despite a decrease in acute malnutrition among children under five, from 7% to 4%, **chronic malnutrition has increased from 43% to 45%** of children in the past five years.
- 78% of Rwandan households present some vulnerability in access to or consumption of food. **28% of Rwandan households are food insecure.** In Bugesera, 40% of households are food insecure.
- Rwanda needs to **quadruple its investments in agriculture** to US$15 per capita per year if it is to break the cycle of hunger and poverty needed to meet MDG 1.

Figure 1: Percentage of Food-Insecure Households by Food Economy Zone



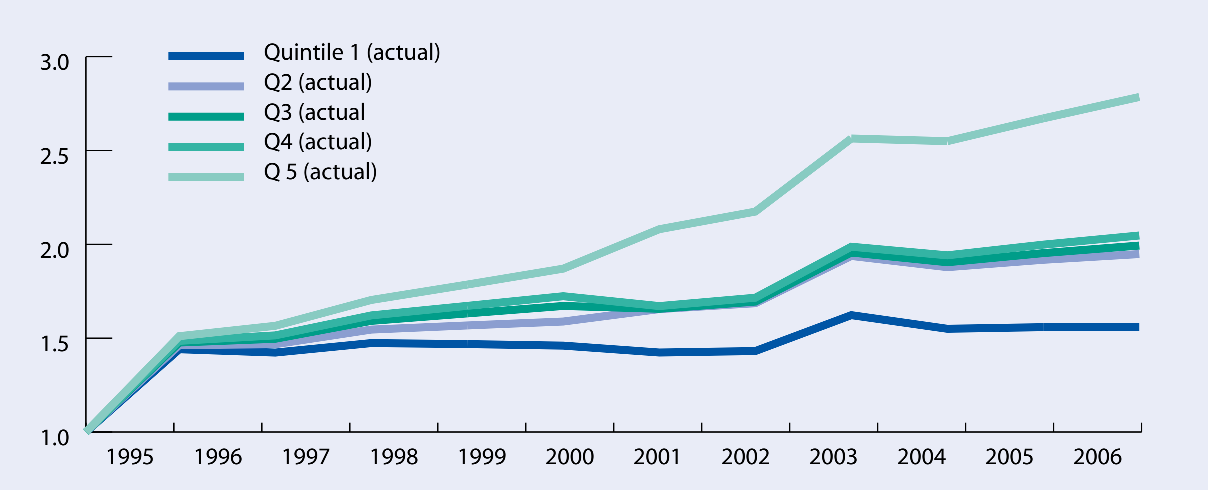
Source: Comprehensive Food Security and Vulnerability Assessment (CFSVA 2006)

Figure 2: Food Production Per Capita Index (1961-2005)*



Source: Food and Agriculture Organisation of the United Nations (FAO) 2006. FAOSTAT Online Statistical Service.
* Per cent of 1999-2001 average food production per capita.

Figure 3: Evolution of income Per Quintile (1995-2006), Base Year 1995



Source: Income distribution data: World Bank (2004a), EICV1, EICV2; GDP data: MINECOFIN (2007)

While the agricultural sector is unlikely to be the main source of long-term growth for Rwanda it will need to increase its capacity to provide for the vast majority of its population who are dependent upon agriculture for their livelihoods. Experience from emerging economies has shown that the agricultural sector is, if not the engine of long-term economic growth, at least a necessary condition.

The take-off of South East Asia's agricultural sector started in the late 1960s and that of South Asia in the late 1970s. In the same period, agricultural productivity has been decreasing in much of sub-Saharan Africa, including in Rwanda. In order to achieve Vision 2020, Rwanda must invest in the 79.6% of its labour force who are currently employed in agriculture, to enable them to become engines of small and medium enterprise development, investment and economic growth, rather than recipients of food aid.

2. THE POPULATION CHALLENGE: High population growth is eroding economic growth and destroying the environment.

Due to population growth, the number of Rwandans living in poverty has increased in absolute terms by more than half a million since 2001, despite progress in reducing the poverty rates.

In order to reduce poverty and initiate the take-off of the economy, Rwanda must break the downward cycle of land fragmentation, over-cultivation and decreasing agricultural productivity, which has locked a large part of the population out of the development process.

In order to sustain current performance levels, Rwanda will need to adopt a comprehensive and integrated approach to natural resource management that will enable it to anticipate and respond to challenges posed by population growth, urbanisation, climate change and environmental degradation.

BOX 2: THE POPULATION CHALLENGE IN FIGURES

- Rwanda has the highest population density in Africa at **over 350 inhabitants per square km**, and the population is growing at 3.5% per year.
- The **average plot size for farming is 0.81 ha** in Rwanda. FAO estimates that 0.9 ha is required to satisfy the nutritional needs of a household (EICV2).
- **Access to safe water sources has been stagnant in the past five years** in Rwanda, decreasing by 6.5 percentage points in Kigali, despite heavy public investments in water and sanitation.
- **95.5% of rural households still depend on firewood** for cooking, while Rwanda lost 50.2% of its forest cover between 1990 and 2005.

Given the fragility of Rwanda's agricultural sector, it is clear that the success of Rwanda's economic development over the medium to long term will be intimately linked to the fate of its natural environment. Rwanda's natural environment is being threatened by population growth and it is likely that these problems will be exacerbated in the future by climate change. Inadequate water management and recurrent drought are already having an impact on the country's energy production and are undermining the competitiveness of Rwanda's fledgling industry.

It is important to note that drought was cited as a major cause of food insecurity in the 2006 Food Security and Vulnerability Assessment (58% of food-insecure respondents had suffered through a drought).

Finally, urbanisation is likely to generate a new set of environmental needs, such as waste and wastewater management.

To respond to these challenges, Rwanda will need to devise an ambitious and coherent response that covers all sectors of the economy, and offer an integrated strategy to deal with the management of environmental and climatic risk, as well as with predictable consequences of population growth and soil degradation.

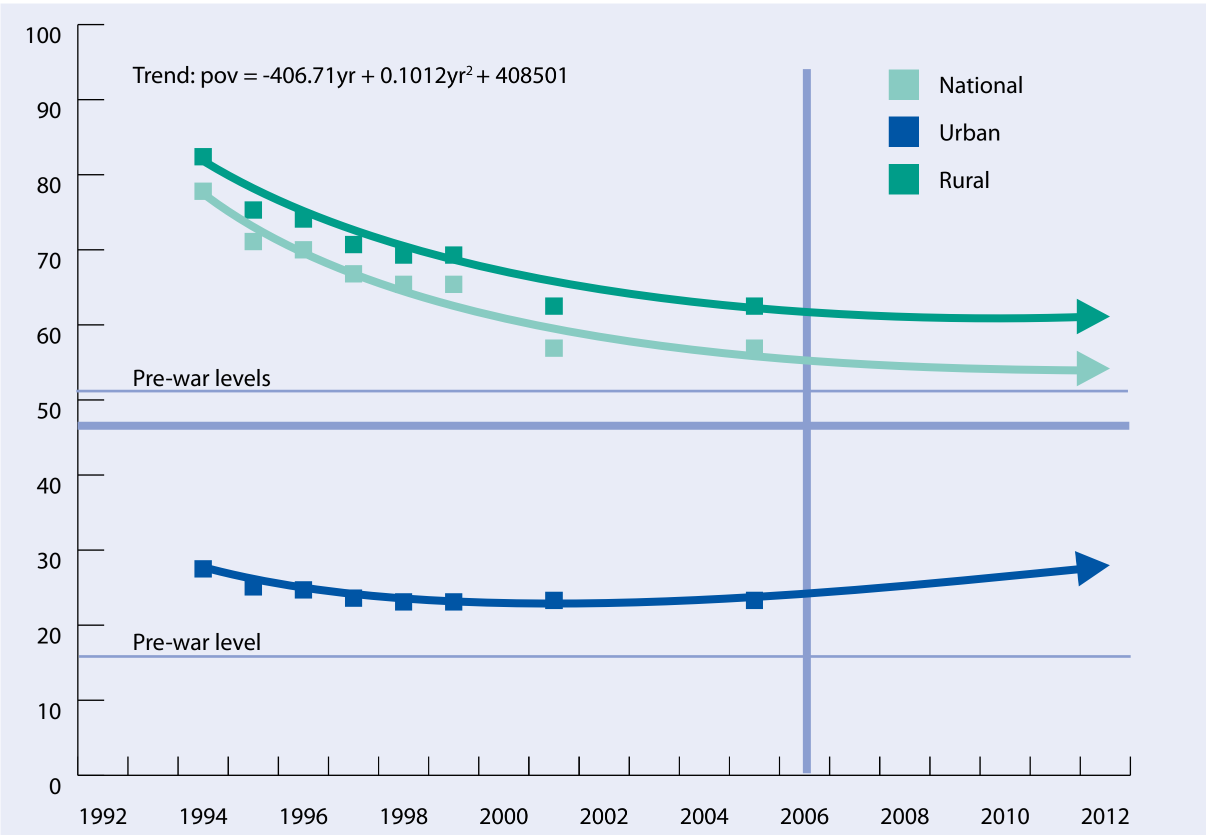
3. THE INCOME DISTRIBUTION CHALLENGE: Soaring inequality is threatening poverty reduction and economic growth.

Rwanda's high growth rates are deceptive in that they hide large and growing inequalities between social classes, geographic regions and gender.

These disparities cut across all sectors and undermine Rwanda's progress towards the MDGs in all areas from health to education and even poverty reduction. Rwanda's recent growth has largely bypassed the rural poor, leading to a concentration of wealth at the top of the income distribution, and an increase in the country's Gini coefficient from 0.47 to 0.51 from 2001 to 2006.

Despite growth, we observe an increase in the depth of poverty in several areas and a deterioration of living conditions at the bottom of the income distribution. As a consequence of rising inequality, we estimate that Rwanda could soon have exhausted its ability to reduce poverty rates through economic growth alone.

Figure 4: Five-year Prediction of Poverty Rates, Based on 1995-2006 Trends



Source: RoR 2002a:14, EICV2

BOX 3: THE INCOME DISTRIBUTION CHALLENGE IN FIGURES

- The average income of the top 20% of the population has almost doubled since 1996, while the **income of the bottom 20% has remained stagnant in the past 10 years**.
- Rwanda's Gini coefficient, measuring economic inequality, has almost doubled in the last 20 years, placing Rwanda among the **top 15% most unequal countries in the world**.
- If income distribution had remained constant since the war, then the average annual **income would have been more than double what it is today** among the bottom 20% of the population.
- Despite rapid economic growth, **poverty increased in one province and deepened in two provinces** since 2001, due to rising inequality. At current inequality rates, it is estimated that further growth could increase the gap between rich and poor without decreasing poverty.

Growing inequality is not only an obstacle to poverty reduction and sustainable economic growth; it could also undermine social peace.

With gross domestic product (GDP) per capita standing at less than US$250 per year, Rwanda could not hope to eliminate extreme poverty through redistribution alone, even if it were to redistribute resources exactly equally between the entire population. Hence, in Rwanda, growth is a condition *sine qua non* for improvement in the living standards of the population. In fact, since the war, Rwanda's impressive growth rates have played an important role in reducing poverty levels from an estimated 77% in 1995 to 56.9% in 2006 (EICV2). As the poverty head-count ratio decreases, however, Rwanda will have to reach further down the income scale to reach the remaining poor. In 1994, with poverty rates estimated at over 80%, the poor belonged to the top 20% of the population; today, with poverty rates of 56.9%, we have to go down to the 3rd income quintile to find the poor.

This means that it will become increasingly difficult for Rwanda to reduce poverty rates through economic growth alone, especially if growth fails to trickle down the income distribution.

In this section we will argue that in order to sustain past rates of poverty reduction over the coming years, Rwanda will need to take active measures to address the issue of income distribution. At current levels, inequality is not only undermining poverty reduction efforts, but it could even threaten the sustainability of economic growth.

2. SOCIAL SECTORS

Achieving Broad-Based Growth by Investing in People

Unlike many of its neighbours, Rwanda has limited land, natural and mineral resources on which to base its development strategy. Rwanda must invest in its people and build the country's human capital to be able to decrease poverty in the long run.

Investing in education will help build the basis of a knowledge economy, but will also strengthen the social capital and help create the conditions for long-term peace and democracy. Investing in health can help ease some major bottlenecks, such as malaria and HIV, that are weighing on Rwanda's development, reducing the productivity of its labour force and preventing numerous households from undertaking investments. Reducing child and maternal mortality can also be a major factor helping to reduce the fertility rate and thus population growth. Investing in women can help maximise the impact of development strategies in the agricultural sector, where they constitute the majority of the labour force. It can also help improve the quality of education and health interventions in which women play a major role.

To meet the targets of Vision 2020, Rwanda must invest in its people in order to expand their capacities to enable them to become active and productive members of society.

In this chapter, we argue that sustained and well targeted investments in key social sectors can make a major difference in overcoming the challenges identified in Chapter 1 (agriculture, population, inequality), provided that they are sufficiently well distributed to enhance human development and the formation of human capital.

Investments in human capital are investments that are naturally pro-poor. Growth in a service- and knowledge-based economy is dependent on human development. As the greatest success stories of the past decades – for instance, Japan, Korea, Taiwan and the new emerging economies – have shown, there is no necessary contradiction between growth and equity.

Long-term sustainable growth requires the ability to replace the "vicious circle" of poverty, hunger and population growth by a "virtuous circle" whereby investments in human capital strengthen economic growth and economic growth enables sustained investments in human capital. In this chapter we will focus on three key areas of intervention, which we believe to have the highest potential impact on the development challenges identified in Chapter 1.

1. EDUCATION: Investing in education is vital in order to achieve the Vision 2020 objective of transforming Rwanda from a subsistence agricultural economy into a service- and knowledge-based economy.

This will require large and well balanced investments across the whole spectrum of education levels to enable human capital formation that is

BOX 4: KEY FACTS AND FIGURES ABOUT THE EDUCATION SECTOR

- **Net enrolment in primary schools rose from 73.3% to 85.9%** between 2001 and 2005 and gender parity in enrolment has been achieved.
- Quality remains a challenge in primary education, however, as the **pupil/teacher ratio has risen from 54 to 69** between 2001 and 2005.
- Secondary school enrolment remains a major challenge, with **barely 10% net enrolment nationally, dropping to a mere 7.9% in rural areas**.
- Access to the Education for All Fast Track Initiative should guarantee adequate funding to the education sector over the coming years. However, there may be inter-sectoral issues to address with this additional funding as **the Rwandan Government already spends more than twice as much on education as it does on health**.

BOX 5: KEY FACTS AND FIGURES ABOUT THE HEALTH SECTOR

- Under-five mortality **decreased from 196% to 152%** between 2000 and 2005, thus recovering to pre-war levels.
- A child born into a poor (bottom quintile) family **has a one in five chance of dying before reaching the age of five**, twice as much as a child born into a rich (top quintile) family.
- Malaria is the leading cause of morbidity and mortality in Rwanda. **Children under the age of five account for 35% of all malaria-related deaths**.
- HIV prevalence among women in Kigali is 8.6%, meaning that a woman living in Kigali is **nearly eight times more likely to get infected with HIV** as a man living in the Northern Province.

both sufficiently broad and of sufficiently high quality to cater for the demands of a growing service economy.

In particular, an expansion of resources and effort needs to be directed towards increasing the number of children (especially girls) transitioning from primary to secondary school and then completing secondary school.

Despite remaining challenges, the education sector is in many ways an example of what well planned, coordinated and targeted investments can achieve in terms of human and economic development. Rwanda's education sector has managed to pull itself up from total devastation to levels of achievement that, for several indicators, surpass pre-war achievements.

Rwanda is investing heavily in educating its people, as well as in research and development in order to achieve the objectives it has set in Vision 2020 of transforming Rwanda into a service-based economy that heavily depends on human capital. A solid and broad education system, with a quality curriculum can also play an important role in strengthening the bases of democracy, as well as fostering long-term peace through dialogue and awareness.

In this section we discuss some of the challenges that the sector will face in coming years to maintain, consolidate and deepen the successes of the past few years. Some of the key challenges we identify include:

1. Improving the quality of education in the face of rapid scaling up of the number of students.
2. Planning and catering for a scale-up of secondary education as a consequence of rising completion rates in primary education.
3. Improving equity in access to, completion of and achievements in education to ensure broad participation in human capital formation.
4. Achieving the right balance between expenditures at different levels of the education system and maintaining the quality of investments in the face of rapid scaling up of financial resources.

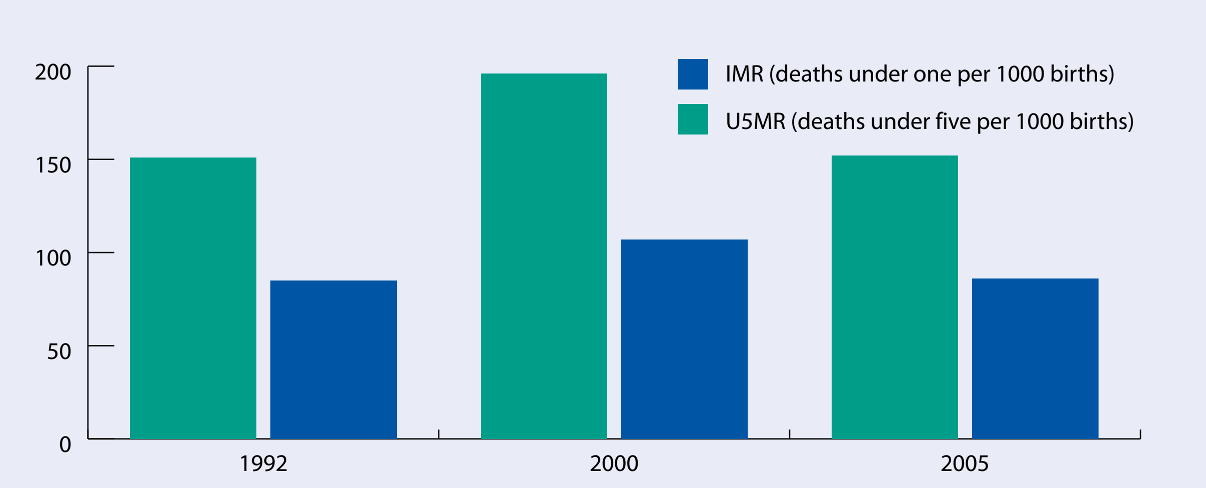
Finally, Rwanda will face a challenge in replicating the successes of the education sector to other, more complex and less clearly defined sectors and to ensure the macro-economic viability of a broad scale-up strategy.

2. Health: Investments in health can reduce the cost of disease, increase labour productivity and reduce population growth.

Preventable diseases such as HIV/AIDS and malaria are enormous burdens on the Rwandan economy, both in terms of direct costs to poor and vulnerable households (e.g. cost of treatment) and in terms of lost labour and labour productivity. Most importantly, Rwanda's high rates of infant and child mortality and low life expectancy are one of the major reasons for the observed fertility rates. Investments in health can thus have a significant economic return, but can also contribute to reducing Rwanda's population growth, which constitutes a threat to the environment, agriculture, and to the economy.

A child born in Kibungo today has a one in four chance of dying before reaching the age of five and a child born into a poor (bottom quintile) family is twice as likely to die before five than a child born into a rich (top quintile) family. When the results of action, or inaction, are literally counted in human lives, there can be no excuse for not doing what is needed to stop the daily tragedy of preventable death; especially since the experience

Figure 5: Under-five Mortality and Infant Mortality (1992 to 2005)



Source: RoR 2005b

of places such as Kerala in Southern India or Cuba has shown that it is possible to reduce infant mortality rates well into the teens, even with the limited means of a low-income country.

Enormous efforts have been made in recent years to improve service delivery and funding of the health sector in Rwanda, with public spending on health more than doubling over the last few years. However, Rwanda's starting point is extremely low. Much of its human and institutional capacity was decimated during the genocide and its health system is only now emerging from the ashes of war and years of neglect.

Despite an impressive rebound after 1994, many of Rwanda's health indicators remain below pre-war levels and well below African standards. Given the enormity of the challenge facing the country, public efforts – particularly by donors – still fall short of what would be required to achieve the health MDGs.

Rwanda needs more, better coordinated and aligned aid to the health sector, and it needs to spend it in a more equitable and effective way.

3. Gender: Engendering development policies can increase their impact and improve the contribution of women to economic development.

Despite remarkable progress in recent years to improve the representation of women in decision making, the gap between men and women remains

BOX 6: KEY FACTS AND FIGURES ABOUT GENDER EQUALITY

- Rwanda enjoys the world's highest rate of female representation in parliament as **48.8% of parliamentarians** are women.
- Rwanda has already **achieved and surpassed gender equality in primary school enrolment**.
- Rwanda ranks **119th out of 177 countries on the Gender Development Index**.
- The national commitment and the commended achievements in parliament and other decision-making positions have not yet translated into any major differences for the vast majority of women in Rwanda – **female headed households have a higher and deeper incidence of poverty**.
- More than one-third of Rwandan women (35%) reported having experienced acts of spousal violence—physical, sexual, or emotional (DHS 2005).
- The legacy of war still weighs heavily on the condition of women in Rwanda: the 2002 Census found **35.2% of Rwandan households headed by women, 56% of whom are widows**.

vast in terms of human development. The exclusion of women from social and economic progress is a net loss to the Rwandan economy and to the overall society.

To be broad-based, pro-poor and sustainable, Rwanda's development must include women, who are the custodians and depositories of Rwanda's natural and human capital: they till most of its land, care for its children and supervise the education of the country's next generation.

The national commitment to gender equality in the constitution and through the institutions created to support this commitment have resulted in a high representation of women in decision-making positions.

Rwanda has the world's highest rate of female representation in parliament. Similarly, Rwanda has already achieved gender parity in both primary and secondary school enrolment. Yet these achievements have not translated into major differences for the majority of women. Higher and deeper incidence of poverty for women indicate that deep inequalities still remain between men and women in terms of human development achievements.

In this section, we look at the reasons behind this apparent paradox and try to understand what barriers must be overcome in order to ensure that improved political representation of women can be translated into real human development achievements for Rwandan women.

3. MACROECONOMIC FRAMEWORK

Post-HIPC Financing Strategies for Vision 2020 and the MDGs

In order to overcome the trap of decreasing agricultural productivity, poverty and population growth, Rwanda will need a "Big Push" of investments across a range of key sectors, so as to ease the bottlenecks to long-term economic development. We argue that the nature of the development challenges Rwanda faces is such that a minimum threshold of investments will have to be reached before we can see a substantial impact on Rwanda's poverty and growth figures.

After reviewing Rwanda's financing options, we argue that the Big Push is achievable within reasonable assumptions on economic growth and increased aid flows. Rwanda's narrow tax base and small export sector prevent it from raising domestic revenue through debt or taxation. Therefore, Rwanda will need the support of its development partners for a sufficiently long period of time to put the country on a trajectory of sustainable long-term economic growth.

More important than the quantity of aid is its quality. Currently, most of the aid comes in the form of small uncoordinated projects, that are often neither on budget nor on plan and are only vaguely aligned with the MDGs. Also, resources are not systematically programmed and sequenced so as to increase the country's absorptive capacity.

Equally important will be Rwanda's commitment (a) to strengthen the alignment of national policies on the MDGs, within the comprehensive development framework provided by Vision 2020, (b) to strengthen the consistency between budgetary allocations and sector strategies, and (c) to ensure that the additional resources made available reach the poorest and most vulnerable sections of the population.

We proceed in three logical steps to identify what it will take to overcome the challenges identified in Chapter 1:

1. INVESTMENTS: Rwanda needs a "Big Push" of investments in order to reach the minimum threshold required to break poverty traps.

The Economic Development and Poverty Reduction Strategy (EDPRS) Needs Assessment has helped to define with some level of accuracy the investments needed to achieve the MDGs and Vision 2020 objectives.

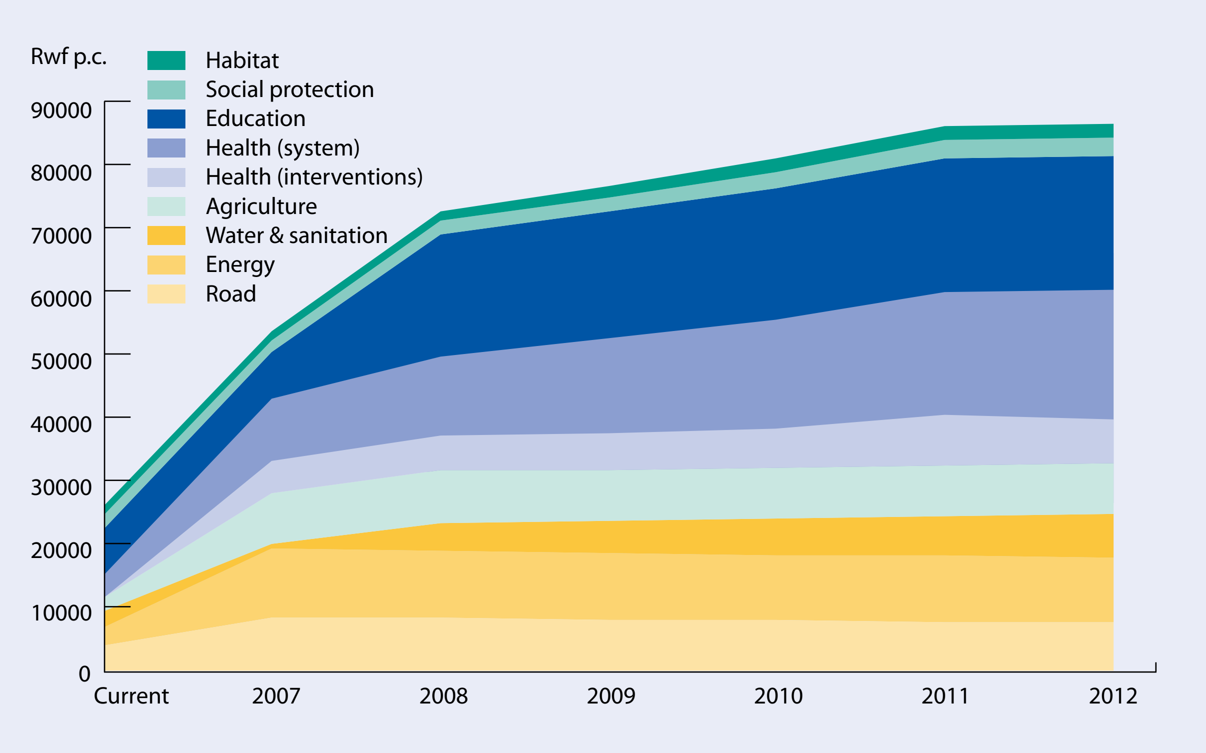
Total investment needs are estimated at approximately US$140 per capita per year over the EDPRS period, just for the MDG-related interventions. Given the extent of poverty and the small size of the private sector, the bulk of these investments would have to be carried out by the public sector. This would imply a substantial and rapid scaling up of public investments from current levels to around 50% of GDP.

While the required investment levels are not out of line with what has been observed in other parts of the world, notably in East and South East Asia, the scale-up would have to be carefully planned

BOX 7: THE BIG PUSH IN FIGURES

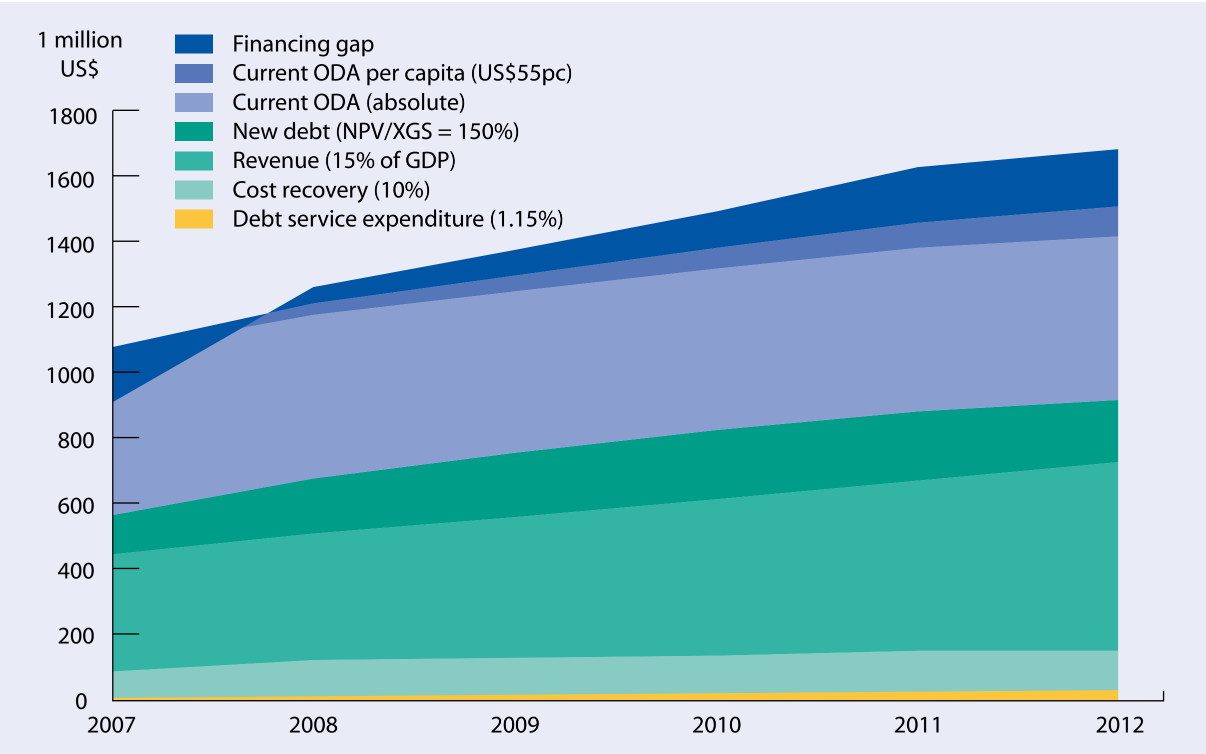
- Rwanda needs to invest **US$140 per capita per year over the EDPRS period** to stay on track to achieve the MDGs.
- Investments in **agriculture, health and energy need to quadruple over the next five years** if Rwanda is to meet the MDGs.
- **Education and health account for more than half of Rwanda's investment needs** over the next five years.
- Rwanda needs to **raise its investment rate to 50% of GDP** to build sufficient physical and human capital to break the poverty trap.

Figure 6: Per Capita Investments Needed to Achieve the MDGs (2007-2012)



Source: EDPRS Needs Assessment (2006)

Figure 7: Rough Financing Scenario for the Big Push in Investments (10% Growth)



BOX 8: RWANDA'S FINANCING OPTIONS IN FIGURES

- Rwanda's public revenue has already reached the 15% of GDP ceiling recommended by the IMF, meaning that future increases in revenue will have to come from economic growth and from growth-neutral and pro-poor taxes, such as taxes on urban real estate. Currently, **public revenue can only cover three months of Big Push per year**.
- The decrease in debt service through the HIPC Initiative represents **a permanent release of over US$60 million per year of domestic revenue** to Rwanda. However, this represents less than three weeks of Big Push every year.
- The HIPC Initiative has imposed new restrictions on the Rwandan economy, limiting its ability to raise new debt. At current export levels, Rwanda's financing ability through new debt is limited to **US$205 million in NPV, roughly enough to cover four months worth of Big Push**.
- Rwanda will need between **US$10-24 per capita per year in additional aid** over the EDPRS period to cover the financing gap to meet the MDGs. The bigger challenge will be to ensure that the two-thirds of aid that currently comes in project form is on budget, on plan, and in line with MDG targets.

and monitored in order to avoid negative externalities, such as crowding out of private investments, absorption capacity bottlenecks and corruption.

The systematic and detailed needs assessment that has been carried out in the EDPRS has shown, with some degree of precision, what investments are required in each sector to achieve the objectives defined by the MDGs and Vision 2020.

The Needs Assessment found that current levels of investments are inadequate in a number of sectors, such as agriculture and health, to achieve the stated objectives. In other sectors, such as education and water and sanitation, there is a need to scale up investments over the coming years to sustain current rates of progress under growing demographic pressure (see Figure 6). Finally, some sectors, such as habitat and social protection, have to improve the quality of their spending in order to be better aligned with MDG objectives.

The EDPRS Needs Assessment has highlighted the need for a significant increase in national investments in order to break the poverty trap and to set the country on a trajectory of growth and poverty reduction.

More importantly, the Needs Assessment highlights the fact that the objectives are attainable, and it highlights the importance of (a) reducing fragmentation of interventions and strengthening the alignment of development partners behind nationally led strategies, (b) strengthening the linkage between planning and budgeting processes to ensure that budget allocations reflect the real needs identified by the sector strategy, and (c) strengthening monitoring and evaluation and the accountability framework to ensure that responsible institutions are held accountable for delivering the results required to achieve the MDG and Vision 2020 objectives.

2. Financing: The Big Push is achievable with reasonable increases in ODA, provided that the quality of aid is substantially improved.

Once the investment needs have been identified, it is necessary to define a financing strategy that will support the scale-up in investments.

The financing strategy can use a number of instruments, ranging from cost recovery, through user-fees, to private sector investments, to domestically or externally financed public investments and debt. Given the extent of poverty in Rwanda and the small size of the private sector, it is likely that the first two options are going to be limited as a source of financing, at least in the initial stages of the development process. The analysis carried out in this section shows that Rwanda's narrow tax base and export base limit the country's financing options, either through domestic tax revenue or debt.

Given Rwanda's narrow tax base and the small size of its export sector, the country's domestic financing options are limited if Rwanda is to comply with the criteria of debt sustainability defined in

BOX 9: RWANDA'S AID MANAGEMENT IN FIGURES

- At US$55 per capita per year, **Rwanda currently receives enough aid to double the income of all the poor people in Rwanda** (US$100 for every Rwandan living below the poverty line).
- Almost 10% of ODA (**US$50 million per year) goes to defence and public order**, almost twice the amount going to agriculture.
- The share of aid going through **direct budget support increased from 27% to 44%** from 2004 to 2005.
- Rwanda currently receives **over US$30 million per year in food aid** and spends over US$100 million on social protection – encompassing more than 80 stand-alone donor projects of less than US$300,000 each.

the context of the Highly Indebted Poor Countries (HIPC) framework. Meeting the minimum threshold of investments will require additional long-term commitments of aid to Rwanda of the order of US$10-24 per capita per year.

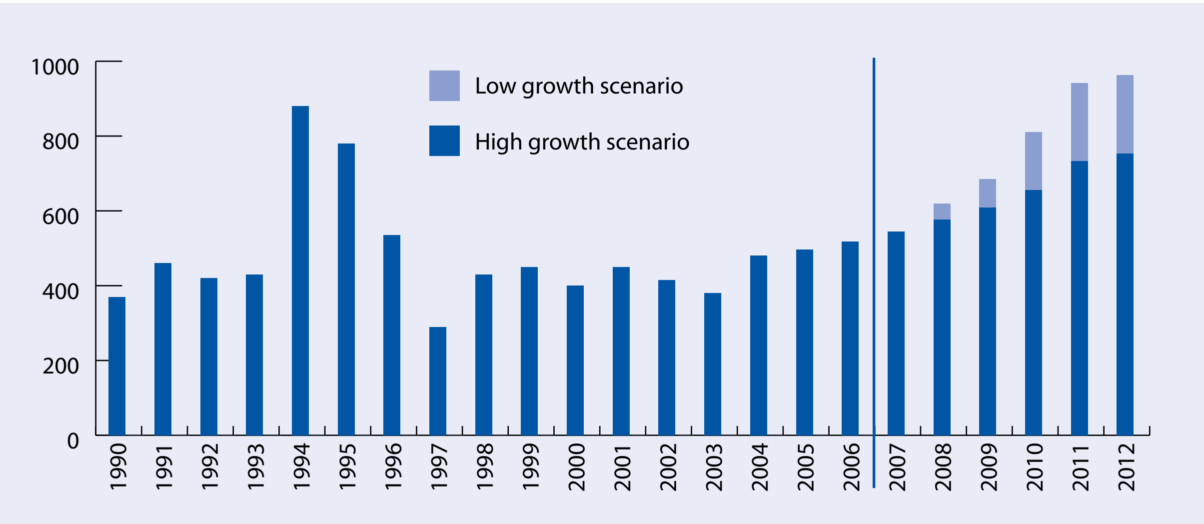
However, we will see that the critical factor in Rwanda is not the quantity, but the quality of aid. Progress in revenue collection, and debt relief in recent years, as well as increases in Official Development Assistance (ODA), mean that Rwanda is close to covering its investment needs to achieve the MDGs (see Figure 7). However, currently, only a fraction of this aid is on plan, and even less is on budget; most of it is not aligned with the MDG objectives and is not adequately targeted to reach the poorest sections of the population.

3. Aid Management: The quality and predictability of aid must be radically improved if Rwanda is to achieve the MDGs and Vision 2020.

At US$55 per person (US$100 for every Rwandan below the poverty line) current aid levels would be sufficient to double the average income of the poor in Rwanda! Yet, the number of Rwandese living in poverty has grown by 600,000 in the last five years.

This shows that current aid flows are fundamentally misaligned to achieve their stated aims of reducing poverty and achieving the MDGs. We argue that, if Rwanda is to achieve the MDGs, donors have a particular responsibility to radically improve the quality of aid and align it with the MDGs.

Figure 8: ODA to Rwanda, 1990 to 2004



Data source: OECD-DAC International Development Statistics and own computations based on EDPRS Needs Assessment

Scaling up of aid will also pose new challenges to aid management in Rwanda, in terms of inflation and exchange rate management. Finally, we argue that the scale-up must be accompanied by a strengthening of mechanisms that reduce the volatility of aid flows, as well as contingency measures to prevent a sudden reversal of aid flows in case of political instability.

In this section we contrast the evidence on current ODA flows to Rwanda against the findings of the EDPRS Needs Assessment.

There is a large gap, not only in the amount of resources needed to achieve international commitments, but more fundamentally in the quality of those resources and their alignment with the MDGs. Figure 8 shows the projected increase in aid necessary to achieve the MDGs, and highlights the volatility of aid flows which has been closely linked to political events.

Much progress has been made in recent years at the international level to define standards of aid quality and effectiveness fit to meet the challenge of the MDGs. Similarly, much effort has been made in Rwanda to translate these standards into national policy and institutional frameworks that are suited to the local context. It is now time to start turning these engagements into reality on the ground so that the aid coming into Rwanda can be put to work to make a real difference to the lives of Rwandans and to help the country achieve the MDGs and Vision 2020. Rwanda's selection as a pilot country for UN reform is an important development in this respect: a more effective, streamlined and focused UN can play an important role in acting as a technical and neutral interface between the donor community and the government so as to improve the coordination and alignment of aid in Rwanda around the MDGs.

4. GOVERNANCE AND PEACE

A Social Change Management Strategy for Vision 2020

The last and possibly most important piece of the Rwandan MDG puzzle is that of governance: no matter how much aid flows are available, no country can hope to attain the MDGs unless it has a sound and accountable governance framework to ensure that the resources are effectively and transparently utilised to benefit those in need.

Rwanda enjoys a very favourable institutional and policy environment by African standards. However, large inflows of additional aid can have distorting and even destabilizing effects, as they can create new special interests and competition for control over resources.

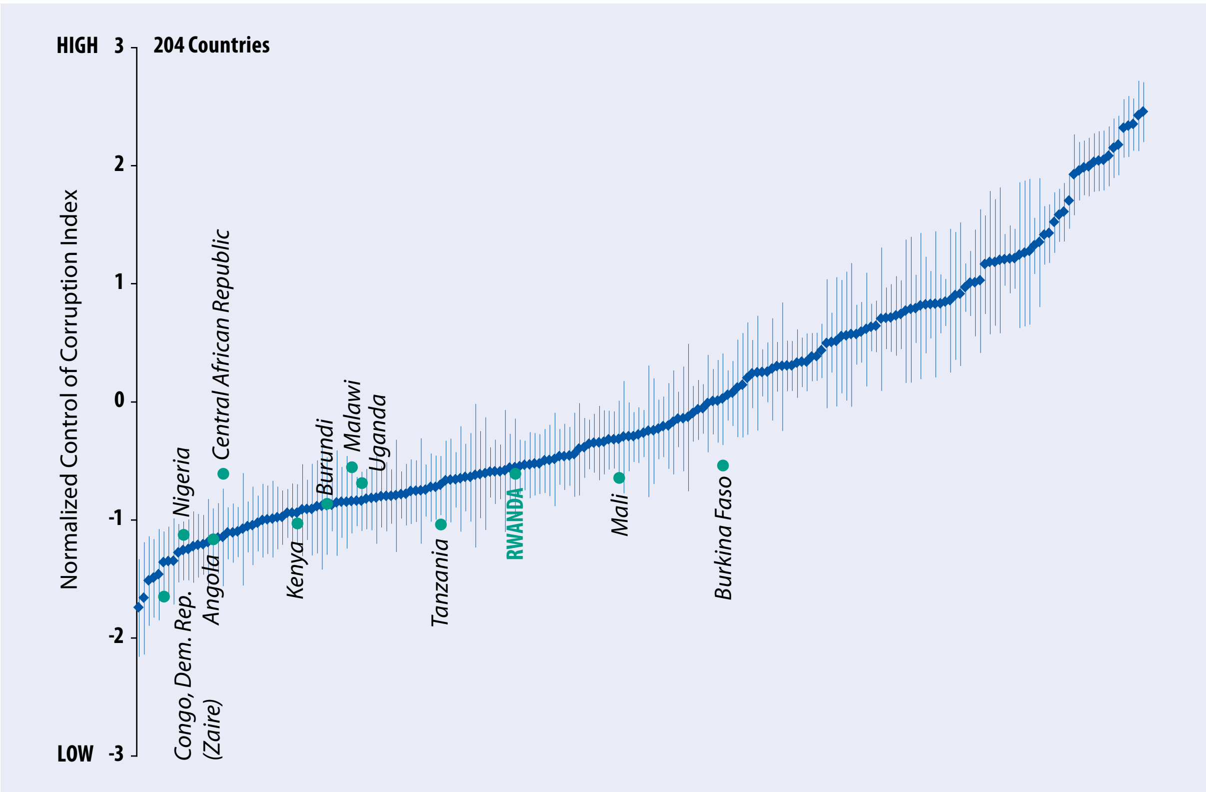
Therefore, scaling up aid and investments to achieve the MDGs will require strong governance structures, to ensure that the country is ready to receive the additional resources and make optimal use of them.

Dealing with the structural tensions arising from any process of social transformation requires a solid political and institutional structure that is capable of channeling differences and transforming them into a positive engine of change.

The profound transformation of the Rwandan economy and society that is required to achieve Vision 2020 will put new strains on the country's fragile social capital, that is still recovering from conflict and genocide. To enable Rwanda to successfully meet and manage the inevitable structural tensions arising from rapid social change, it is crucial that achievements in the area of good governance are consolidated and strengthened over the coming years.

This will require Rwanda to continue improving the quality and effectiveness of governance. It will also need to further deepen the democratisation process by strengthening the capacity of civil

Figure 9: Control of Corruption index (2003-2005 Average)



Source: Kaufmann, Kraay and Mastruzzi (2005)

BOX 10: KEY RECOMMENDATIONS TO STRENGTHEN GOVERNANCE AND CONFLICT PREVENTION

- Establish **joint monitoring mechanisms on governance** to assess progress towards strengthening democratisation.
- Strengthen the **capacity of the media and civil society** to act as a positive and constructive counter-balance to political power.
- Establish a **crisis early warning system** to monitor structural causes of tension and prevent any future crisis before it arises.
- **Mainstream conflict prevention into development planning** to eradicate the root causes of tensions and prevent the unforeseen emergence of new structural tensions due to rapid economic and social development.

society, the media and the wider political sphere, which represent the pillars of a truly open and vibrant democratic society.

In this chapter, we argue for a comprehensive approach to governance, stretching from state effectiveness, to participation and justice, considering all these as indivisible elements of an integrated system of social change management. We focus, in particular, on three aspects that are crucial for the achievement of the objectives set forth in this report:

1. PUBLIC MANAGEMENT: Maintaining progress on good governance is essential to ensure progress towards Vision 2020.

In recent years, the Government of Rwanda has embarked on a series of important institutional reforms aimed at strengthening good governance and public service delivery. The Public Sector Reform and the National Decentralisation Policy (NDP) were started simultaneously in 2000, whereas the anti-corruption agenda was initiated officially with the setting up of the Ombudsman's Office in 2004. The ongoing reforms are targeting the improvement of individual and institutional performances and should first and foremost help the Government of Rwanda to deliver better services to all citizens of the country. They are also meant to introduce a new organisational culture for a results-oriented, effective and efficient state.

As a result of these reforms and stringent anti-corruption measures Rwanda has significantly improved the quality of governance and service delivery in recent years (Figure 9 shows Rwanda's position on the world ranking in terms of control of corruption, compared to selected African countries).

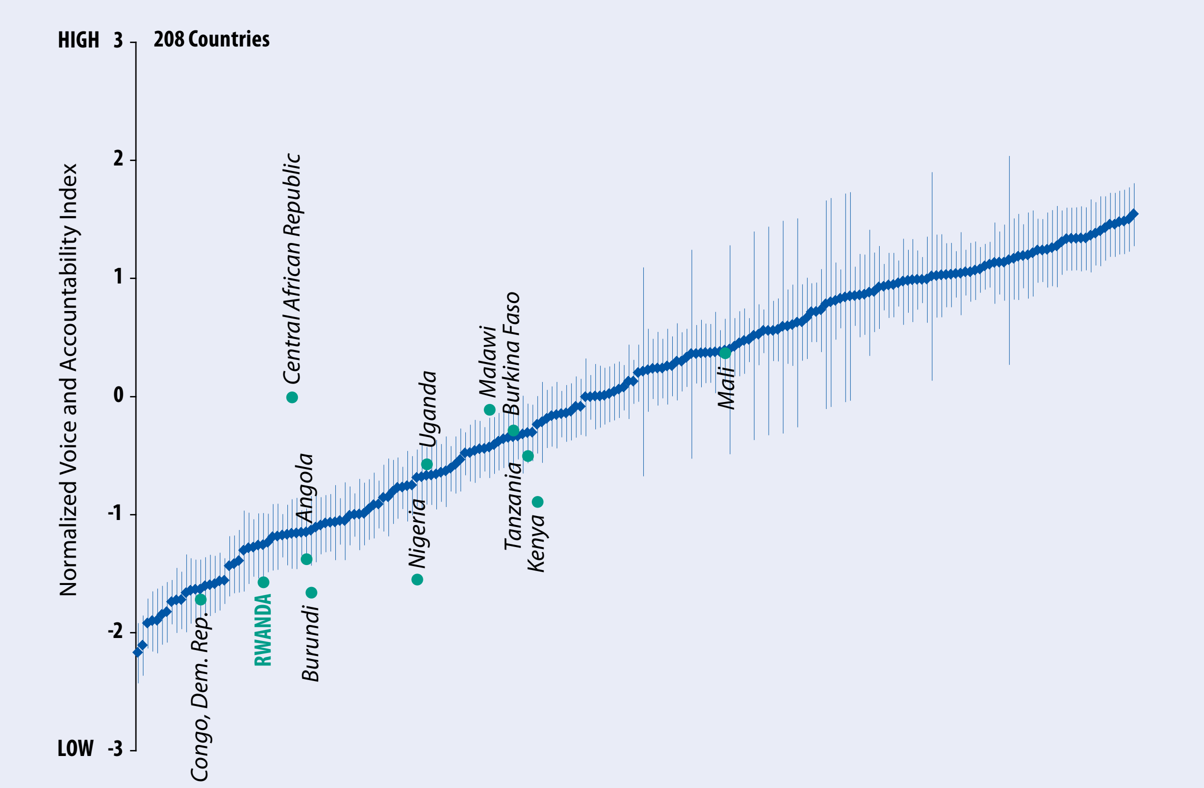
This has enabled effective management of public resources and significant improvements in service delivery. In coming years, we argue, attention will have to focus on deepening those reforms and consolidating their institutionalisation so as to ensure continued progress.

2. DEMOCRATIC GOVERNANCE: Continuing to deepen democratic governance is essential to ensure long-term peace and stability.

Because of Rwanda's violent history and fragile social fabric, democratic governance remains one of the most delicate, but also most important, elements of Rwanda's development process. In this section, we analyse the difficult trade-offs Rwanda faces between long-term peace and short-term stability. We argue that a carefully managed democratisation process can be an essential element of a comprehensive social change management strategy.

Building a functioning state that is able to effectively serve the needs of its population is a necessary first step in the establishment of an open and progressive society. Building a truly democratic society that is able to thrive on its differences and progress through the constructive tension of public debate is a much longer term endeavour. It requires the existence of a vibrant civil society, an inquisitive media that is able hold politicians accountable, and a political class that is able to represent the needs and aspirations of its constituents. In a country emerging from violent internal strife and genocide, this is a very delicate exercise that needs to be

Figure 10: Voice and Accountability Index (2003-2005 Average)



Source: Kaufmann, Kraay and Mastruzzi (2005)

BOX 11: KEY RECOMMENDATIONS TO STRENGTHEN JUSTICE AND RECONCILIATION

- Continue reforms of business law to cut red tape and **strengthen legal protection of property rights, investments and credit** to encourage private sector development and foreign investments.
- Strengthen access to justice by providing **free legal aid**, especially for the poor and disadvantaged, and develop a legal aid regulatory framework.
- Allow sufficient time in the judgment phase of the *Gacaca* process to **permit adequate preparation of defence and appeals processes** and strengthen psychosocial support and protection systems for participants in *Gacaca*.
- Continue **strengthening the capacities of the National Human Rights System** and the Mediation Committees or *Abunzi*.

carefully managed in order to prevent a revival of ethnic tensions and polarisation. Yet Rwanda's long-term stability and success will depend on its ability to institute a genuine, idea-based, political dialogue, not tainted by ethnicity, where ideas can be freely exchanged and differences can be resolved peacefully and constructively.

3. Justice: Strengthening the rule of law and broadening access to justice is essential for reconciliation, as well as for social and economic development.

Rebuilding a fair, independent and accessible justice system is a vital element of Rwanda's long-term reconstruction effort. Much progress has already been made in clearing the backlog of genocide related cases through the *Gacaca* process. Attention now needs to turn to the consolidation of a formal justice system that is turned towards the post-reconstruction phase and is supportive of Rwanda's economic, social and political development objectives.

Rebuilding Rwanda's justice system is a task of Herculean proportions. At the end of the genocide, only 12 prosecutors remained in the entire country, as most of them had either been killed or fled the country. At the same time, the new Rwandan government faced the biggest backlog of justice ever experienced by any country. The department of *Gacaca* jurisdiction estimated that as many as 760,000 people could be prosecuted for involvement in the genocide (one in four of the 1994 adult population). Despite the almost insurmountable nature of the challenge, the Rwandan government, in little more than a decade, has restored the basis of a functional justice system that is capable of upholding the rule of law and enabling development.

Of course, given the extent of the devastation, many hurdles remain to establish a justice system that meets international standards of fairness and independence and fulfils the goals of Vision 2020.

First, a whole new generation of judges must be trained to fill the posts left empty after the genocide. Currently, most *Gacaca* judges do not have formal legal training. Secondly, the reform and streamlining of the legal system must continue in order to create a legal system that is supportive of economic growth and private sector development. Access to justice for the poor is another major issue that must be tackled in order to ensure that growing economic inequalities do not translate into legal inequalities that could create a sentiment of unfairness and discrimination. Lastly, in order to enable Rwandan society to get closure and turn towards the future, the backlog of genocide-related cases must be swiftly cleared without compromising the quality of the restorative process.

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