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Rwanda: National Economic Transformation

On April 7, 2004, Rwanda, a small country in east Africa, commemorated the 10th anniversary of a genocide in which roughly 1 million people, or almost 11% of the population, had been killed. Rwanda, one of the world's poorest countries, was dependent on subsistence farming, coffee exports, and international aid. Skilled human capital had either fled the country or been killed, and virtually everyone had lost a family member or neighbor. Infrastructure was destroyed. While the genocide had stopped in Rwanda, militia that committed the genocide were still operating in neighboring Democratic Republic of the Congo, which meant that peace was not yet fully secured.

Paul Kagame, who led the forces that ended the genocide and had been elected president in the first presidential elections in over a decade, faced daunting challenges. With the help of foreign aid, the economy had grown rapidly but had barely regained the standard of living that it had in 1990. Rwanda needed to mount a strategy to put the nation on a new economic trajectory.

Profile of Rwanda

Rwanda, "the land of a thousand hills," was a landlocked country in the Great Lakes region of east Africa with an area of just 10,169 square miles, slightly smaller than Maryland (see **Exhibit 1**). It was bordered by Uganda, Tanzania, Burundi, and the Democratic Republic of the Congo (DRC, formerly Zaire). (See **Appendix A** for a brief description of neighboring countries and their economies.) Rwanda had a pleasant climate with two rainy seasons and two dry seasons and an average daily temperature of 70 degrees Fahrenheit.

Rwanda, unlike most countries in Africa, had existed as a unified political entity prior to the arrival of European colonizers. The Rwandan population comprised three socioeconomic groups: the Hutu (about 85% in 2001), the Tutsi (14%), and the Twa (1%),[1] a "pygmy" people who were indigenous to Rwanda. The groups had mixed over time, and even after the genocide it was estimated that at least 25% of the population had great-grandparents from both the Hutu and the Tutsi.[2] There were three official languages: Kinyarwanda, French, and English. English had only recently become an official language, following the return of refugees from English-speaking countries. Rwandan society had historically been devoutly religious, and the Catholic Church had wielded substantial influence in Rwanda's political development. About 50% of the population was Roman Catholic, 27% Protestant, 12% Adventist, 2% Muslim, and the rest traditional religions in 2001.[3]

Professor Michael E. Porter and Research Associates Michael McCreless and Kjell Carlsson prepared this case with the assistance of Kaia Miller. This case was developed from published sources and field interviews. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

In 2003, Rwanda had a population of 8.4 million.[4] With 322 people per square kilometer in 2002, it was the second most densely populated country in Africa.[5] The capital and largest city, Kigali, had about 600,000 inhabitants. The next largest city was Gitarama, with 85,000 inhabitants. There were 11 other cities with over 40,000 inhabitants. Outside of these cities, the remaining 83% of the population was distributed roughly evenly across the country. Women accounted for 53% of the population.[6] One-third of households were headed by women, and 220,000 children had lost at least one parent.

Rwanda had a gross domestic product (GDP) of roughly $1.7 billion in 2003. With an estimated GDP per capita of $193 ($1,215 adjusted for purchasing power parity, or PPP), Rwanda was one of the poorest countries in the world (see **Exhibit 2** for comparative economic performance and labor productivity data).[7] An estimated 60% of the population lived in poverty. Most housing was of adobe, often with corrugated metal roofing.[8] The average life expectancy at birth was 49 years in 2001. The large rural population was engaged in subsistence agriculture. Commercial agricultural production was dominated by coffee, tea, pyrethrum, and bananas. The country's mineral resources were modest, including small amounts of tin ore, tungsten ore, columbo-tantalite (coltan), gold, and sapphires. Large natural-gas reserves were located underneath Lake Kivu near the DRC border but remained largely unexploited.

Rwanda's political system was restructured when a new constitution was ratified in May 2003.[9] Legislative power rested with an 80-member elected National Assembly (Parliament) and a newly created 26-member Senate, with a mix of appointed and elected members. The Forum of Political Organizations was formally established in the new constitution as a forum to discuss policy and resolve conflict within and between parties. Rwanda's president was elected directly. The president appointed and could remove the prime minister and a council of ministers. No party was allowed to hold more than half of the positions in government. However, numerous "independent" parties held allegiance to the ruling Rwandan Patriotic Front. The president and speaker of Parliament could not belong to the same party. In the National Assembly, each of the 12 provinces was represented by at least two elected women, and 30% of government posts were reserved for women.[10]

Members of Parliament held five-year terms, members of the Senate held nonrenewable eight-year terms, and the president could hold up to two seven-year terms. Rwanda was divided into 12 provinces, 106 districts, 1,545 sectors, and 9,165 cells. Cell-level leaders were directly elected and made up the administration at the sector level. Districts were headed by elected mayors, and each province was administered by an appointed prefect.

History of the Rwandan Economy

Hutu and Tutsi populations had occupied east-central Africa since the late thirteenth century. The historical basis of this division is uncertain, and it was possible for individuals to cross between groups. Through an arrangement known as *ubuhake*, farmers pledged their services and those of their descendants to a Tutsi lord in return for the loan of cattle and use of land. In the 1600s, the Tutsi King Ruganzu Ndori extended the kingdom to cover most of modern-day Rwanda, as well as parts of Uganda, the DRC, and Tanzania. Kings enjoyed absolute power. In 1895, Rwanda became a province of German East Africa. The first missionaries arrived in Rwanda in the early 1900s, establishing missions and schools, and introduced coffee farming. Churches came to be responsible for all education in Rwanda.[11]

Colonization and Independence

After World War I, Belgium was granted the right to govern Rwanda, and the Rwandan king ruled under the supervision of a Belgian "resident." The Belgians strongly favored the Tutsi elite, through preference in schools and the civil service. However, the majority of Tutsis faced the same hardships as Hutus. In 1935, the Belgian colonial administration started issuing identity cards that categorized people as "Hutu," "Tutsi," and "Twa." According to one account, Rwandans with 10 or more cows were categorized as "Tutsi." In 1943 local chieftains, who were mostly Hutu, were replaced with Tutsi chiefs directly appointed by the king, and Tutsis held 95% of civil service jobs.

In 1956, the Rwandan King Rudahigwa demanded complete independence and the withdrawal of Belgian occupation. The Rwandan National Union, a party consisting mainly of the ruling Tutsi elite, was formed to pursue immediate independence. The following year, Gregoire Kayibanda, a Hutu journalist, published the "Hutu Manifesto" demanding political power for the Hutu majority. With the encouragement of the Catholic Church, he formed the Mouvement Démocratique Rwandais (MDR) in 1959, also known as the Hutu Emancipation Movement (Parmehutu). Parmehutu pushed for delayed independence. With escalating civil unrest, the Belgian administrators declared a state of emergency and called in troops.

In 1959, the king died under suspicious circumstances in Burundi and, with the aid of the Belgian military, there was a Hutu uprising—the first recorded instance of politically motivated mass ethnic violence between Hutu and Tutsi—in which an estimated 100,000 Tutsis were killed and many more forced into exile, including the new king, Kigeli V.[12] The Belgian administration held local elections in 1960 that were overwhelmingly won by Parmehutu.

In June 1962 a UN General Assembly resolution granted full independence to Rwanda. Gregoire Kayibanda became the president and prime minister. The economic union between Rwanda and Burundi was abolished. The Rwandan franc was introduced in 1963, and the National University was established. The new country had the third-lowest income per capita in the world. Rwanda quickly became a single-party state with a highly centralized and authoritarian administration under the control of Hutu elite from south-central Rwanda. France became Rwanda's most important foreign partner and its largest creditor and arms supplier.

Following independence, the state took ownership over all land. A quota system based on the proportion of Hutu and Tutsi in the country determined access to education and employment in the civil service, and it was virtually impossible for Tutsis to attain high-level positions in government or the military. In 1963, Tutsi refugees attempted an armed incursion into Rwanda, which triggered retaliatory massacres of Tutsis numbering in the tens of thousands.[13] By the mid-1960s it was estimated that half of Rwandan Tutsis lived abroad,[14] mainly in Uganda, Burundi, Tanzania, the former Zaire, Kenya, some European countries, and North America. Between 1972 and 1973, mass killings of Hutus in Burundi led to reprisals against Tutsis in Rwanda. Many Tutsis were forced from universities, the civil service, and private businesses, and many were killed.

Habyarimana and the Second Republic

On July 5, 1973, the Minister of Defense Major General Juvenal Habyarimana seized power, abolished all political activity (including Parmehutu), and dissolved Parliament. Habyarimana formed the National Revolutionary Movement for Development (MRND). In 1978, he established a new constitution that confirmed him as president of a single-party state. Though the 1978 constitution allowed the president to hold only one five-year term, President Habyarimana was reelected by a referendum in 1983 and again in 1988, winning 99.98% of the vote as the sole candidate.

State control soon permeated every aspect of Rwandan society. An extensive secret service was created. Jobs in the military and civil service went overwhelmingly to Hutus from Habyarimana's home region in northern Rwanda. The country was organized in 145 communities headed by "burgomasters" appointed by the president who had ultimate authority at the local level, including control over land, local public staff, the police force, and access to education. Traveling and moving between districts, as well as trade in goods and services, required government permission.

Habyarimana's economic strategy was based on import substitution and industrialization, with the intention of selling manufactured goods to neighboring countries. Heavy export taxes were set on coffee to raise revenue. Rigid price and foreign-exchange controls were instituted. Agriculture as a percent of GNP declined from 80% at independence to 48% in 1987. Manufacturing increased, though 90% of the inputs used in manufacturing were imported.

Though harassment of Tutsis declined, they continued to suffer systematic discrimination. A small number of Tutsis managed to rise in the private sector and government. However, the Hutu government refused to allow the return of Tutsi refugees. Many Rwandan refugees joined Yoweri Museveni's Ugandan National Resistance Army (NRA), and an estimated 3,000 of the NRA's 14,000 soldiers were of Rwandan origin, many at senior levels. Among them was Kagame, who had fled Rwanda with his family at the age of four and eventually became head of military intelligence for the NRA. Kagame had a degree in professional management and business studies from the Open University of London and had received military training in the U.S.

Compared to its neighbors, Rwanda at the time was perceived favorably by the international community. "[We] used to compare the nearly idyllic situation in Rwanda with the post-Idi Amin chaos in Uganda, the Tutsi apartheid in Burundi, the 'real African socialism' of Tanzania, and Mobutu's kleptocracy in Zaire, and we felt the regime had many positive points," claimed one German missionary.[15] Rwanda had, relative to its neighbors, good roads, reliable electricity, water, and telephones. The population had almost tripled since independence, reaching over 7 million by the early 1990s.

Rwanda had received significant foreign aid since independence and was referred to as a "development dictatorship," a term used to describe countries considered development successes despite the absence of democracy. Foreign aid rose from 5% of GNP in 1973 to 22% in 1991 and accounted for more than three-quarters of capital expenditures. Aid-financed projects were successful in several areas. Health care improved, and infant mortality was reduced. Aid also financed reforestation and land reclamation, and agricultural productivity increased. High world prices for coffee, tea, and tin, the three core Rwandan export products, created rising wealth. Rwanda rose to 19th from the bottom in terms of per capita income. (See **Exhibit 3**.)

However, real PPP-adjusted GDP per capita in Rwanda had stagnated since 1980. The country still ranked below the sub-Saharan average in life expectancy, child survival, adult literacy, years in school, nutrition, and per capita GNP. Primary-school enrollment had dropped to 51% in 1992, and secondary schools only had capacity for 10% of primary-school graduates.[16] Access to safe drinking water had also declined.

In 1985, there was a collapse in the tin market, Rwanda's second-largest foreign-exchange earner, followed by famines in 1987, 1989–1990, 1991, and 1993. Coffee prices fell by 50% in 1989, and coffee exports fell from $144 million in 1985 to $30 million in 1993. Falling coffee prices also weakened the government's financial position, as it guaranteed coffee prices to farmers through the Coffee Equalization Fund. The budget deficit tripled between 1989 and 1990 and remained at 7% or more of GDP through 1993. Real GDP fell by 10% between 1989 and 1993, and inequality increased as the percentage of income held by the top 10% rose from 10% in 1982 to 41% in 1992.

Development aid continued to increase. In September 1990, the government undertook a structural-adjustment program with the assistance of the International Monetary Fund (IMF) and the

World Bank that brought $216 million in pledges of new aid. Despite strong domestic opposition, the currency was devalued, leading to sharp price increases. Social expenditures were slashed, and civil service wages were frozen. Fees were increased for schools, health care, and utilities. In 1993, 86% of the population was living beneath the poverty line, the highest level of poverty in the world. Much of the promised aid was cancelled. Donors cited the government's failure to meet conditions including the elimination of coffee price guarantees and reduction of the budget deficit to 5%, but many observers suspected political motivations.

Civil War

As Rwanda was mired in economic crisis, the civil war in neighboring Uganda ended when the NRA successfully overthrew the government in 1986. The next year, Rwandans who had served in the NRA joined forces with other Rwandans in exile to form the Rwandan Patriotic Front (RPF).

Despite pressure from the international community, the between 600,000 and 1 million Tutsis in exile were not allowed to return to Rwanda. In October 1990, RPF forces under the leadership of Kagame invaded Rwanda. With the support of troops from France, Zaire, and Belgium, as well as diversion of aid flows to the military with the approval of the IMF, the Habyarimana government was able to negotiate a cease-fire in March 1991.

Under substantial international pressure, Habyarimana agreed, in 1991, to allow other political parties and to hold elections. In addition to Habyarimana's MRND, 14 new parties were formed, and a coalition government (not including the RPF) was established in 1992, though Habyarimana continued to resist power sharing. Extremist government leaders from the north, facing threats to their power, began inciting ethnic hatred against Tutsis. The newly liberalized media, including more than 20 newspapers and a new radio station, was filled with anti-Tutsi rhetoric.

Hutu extremists and elements of the Rwandan army started organizing civilian militias, the most notorious of which was the MRND's *interahamwe*, to attack political opponents and Tutsis. Extremists in the Hutu government and the army, the *interahamwe*, and other civilian militias became a movement known as "Hutu Power." Organized massacres of thousands of Tutsis were carried out between 1990 and 1994, with active encouragement by the police and the army. The UN Commission on Human Rights declared in 1993 that the government was involved in killings that were "genocidal in nature." In response, the RPF renewed fighting in February 1993 but pulled back under international pressure to resume peace talks.

The new coalition government agreed to peace negotiations in Arusha, Tanzania. The August 4, 1993 Arusha Accord provided for the return of refugees, the formation of a power-sharing government of national unity, the integration of the two armies, and the stationing of 2,500 UN troops in Kigali. The Habyarimana government signed the Arusha Accord under the threat of foreign aid cuts, but implementation soon stalled. The training and equipping of militias were accelerated, and anti-Tutsi propaganda increased. Nongovernmental organizations (NGOs), foreign diplomats, and UN personnel began warning of an imminent catastrophe.

The Genocide and its Aftermath

In early 1994, rumors spread that Habyarimana was about to finally implement the Arusha Accords and that there were plots to assassinate him. As Habyarimana returned to Rwanda with President Ntaryamira of Burundi from a meeting in Dar es Salaam on April 6, his plane was shot down by unknown attackers, killing both presidents. Within hours of the assassination, Hutu Power took control of the government, and the *interahamwe* and the Rwandan army began killing Tutsis, opposition politicians, and moderate Hutus based on "death lists" that had been prepared in advance. Large-scale killings commenced shortly thereafter, and over 800,000 Tutsis and moderate Hutus were killed in three months. Over three-quarters of the Tutsi population were killed.[17]

On April 8, the RPF launched a major offensive to stop the genocide and take control of the country. Despite strong protests by the UN force commander in Rwanda, Lt. Gen. Romeo Dallaire, UN headquarters ordered the forces stationed in Rwanda not to intervene. Following the murder of 10 Belgian peacekeepers, UN forces were sharply reduced. France continued providing arms to Hutu Power forces until June 1994.[18] In June 1994, France received UN Security Council approval to create a safe zone in southwestern Rwanda. Though some Tutsis were saved, this step enabled the Hutu Power leadership and armed forces to escape into Zaire. By July 1994, the RPF had established control and ended the killing in most of the country. UN forces were able to prevent the killing of approximately 20,000–25,000 Rwandans.

Oxfam provided large-scale portable water projects in Ghana and elsewhere. The World Food Program established a transportation corridor through Tanzania for cost-effective transport of food to southern Rwanda. NGOs effectively rehabilitated primary health clinics, with the assistance of the World Health Organization and UNICEF. Despite scattered attempts at coordination, the humanitarian response was characterized by lack of coordination at all levels: between aid agencies, politicians, and the military; between different aid agencies; and within aid agencies. Agencies followed refugee movements reactively but did not proactively plan in anticipation of likely movements and often did not share information about refugee movements with other agencies, further hindering effective planning. Coordination among the various UN agencies was also poor, as they were in competition for authority and resources from UN headquarters, which was in turn divided into factions by its constituent member states.

Roughly 2 million Hutus fled to neighboring Burundi, Tanzania, Uganda, and Zaire. A transitional Government of National Unity, designed along the lines of the Arusha Accords, was established in July 1994 under President Pasteur Bizimungu, a Hutu member of the RPF, and Vice President Kagame. The new government included representatives of five major political parties, with the RPF and the Mouvement Démocratique Rwandais (MDR) dominant. A transitional National Assembly was also established, comprising representatives of all the political parties except for the most extreme anti-Tutsi party.

Following the installation of the new government, about 800,000 exiles, mainly Tutsis from previous conflicts, returned to Rwanda. Some of the refugees had grown up in the English-speaking countries, Uganda, Kenya, and Tanzania, and in North America, and English started to be taught in schools in 1995. The Government of National Unity encouraged Hutu refugees to return and guaranteed that their homes and lands would be returned. Members of the former MRND army were assimilated into the RPF army or demobilized and reintegrated into the population.

Remnants of Hutu Power established control over refugee camps in Zaire and Tanzania after the genocide ended, controlling relief funds and preventing refugees from returning. The camps became bases for attacks into Rwanda, leading to hundreds of deaths and the displacement of thousands of civilians.[19] Zaire President Mobutu was accused of providing arms and other support to the insurgents. The new Rwandan government repeatedly called for international intervention to stop these acts, but to no avail. In 1996, the Rwandan government supported a Congolese rebel group, led by Laurent Kabila, in taking power and disbanding the refugee camps. Approximately 1.2 million Hutu refugees returned to Rwanda from the DRC, while the Tanzanian government forced 500,000 refugees to return to Rwanda. When President Kabila broke off ties with the RPF in 1998, Rwandan and Ugandan forces again entered the DRC. A complex war ensued in the DRC involving four other African countries, three Congolese rebel movements, and a number of renegade forces. In August

1999, the governments and rebel groups signed the Lusaka Agreement to stop the DRC war and committed to a framework for peace.

Trials of genocide perpetrators began in early 1997 at the UN International Criminal Tribunal for Rwanda in Arusha. However, trials proceeded slowly, and the tribunal was criticized for mismanagement.[20] Prisons in Rwanda were crowded with an estimated 100,000 people accused of having participated in the genocide. The local legal system was in shambles, with many lawyers and judges having been killed. The government created the *gaçaça* process, whereby communities gathered to hear the cases of prisoners from their area and decide the sentences. In October 2001, 260,000 *gaçaça* judges were elected, and initial trials began in June 2002. In February 2003, the government released 30,000 prisoners who had confessed or who had already spent more time in prison than the maximum sentence of the crime of which they were accused.

Starting Reconstruction

Rwanda's civil war had devastated the country's economy. In 1994, the economy shrunk by 50%, inflation was 64%, and per capita income dropped to $143 ($673 PPP-adjusted).[21] Government institutions were completely devastated. Property and infrastructure had been destroyed on a massive scale. The country's population had fallen to 5.1 million in 1994. Skilled professionals had been particularly targeted in the killings. In addition to the 2 million refugees abroad, there were 900,000 displaced persons within Rwanda, and almost half of Rwandan children had lost at least one parent.[22] With few trained professionals in the country, the RPF, Vice President Kagame in particular, spent considerable effort recruiting skilled Rwandans living abroad to return and take key leadership positions in the government. Many government officials worked for months without pay.

The international community initiated a massive humanitarian relief effort. In 1994, $1.4 billion of aid was disbursed by over 20 bilateral and multilateral donors and was implemented by eight UN agencies and approximately 250 NGOs. In 1995, Rwanda received more than $705 million in aid, 54.5% of Rwandan GDP.[23] The majority of foreign aid attributed to Rwanda between 1994 and 1997 went to refugee camps in Zaire and Tanzania. Most of these funds were channeled through international NGOs or went to community groups. Aid was generally effective in preventing mass famine and an outbreak of epidemics.

One of the new government's highest priorities was to establish a new Rwandan identity that was not based on ethnicity. The National Unity and Reconciliation Commission was established in December 1999. With the help of USAID, the government issued new identity cards without ethnic designations. A new national flag and national anthem were introduced in 2001.

The new government also started implementing macroeconomic reforms. Inflation was quickly brought under control, and reforms were implemented to improve public administration and budgeting and financial management and to stimulate private-sector development. Inflation fell from 64% in 1994 to 2.5% in 2002, though it fluctuated substantially. Wage controls and price controls on most goods were dismantled, though they remained on cement and utilities. Petroleum prices were allowed to fluctuate with world prices beginning in 1999.

The exchange rate was fully deregulated in 1995 when a fluctuating exchange-rate system was implemented and 20 foreign-exchange bureaus were licensed. Bank interest rates were deregulated. In 1997, several steps were taken to give the central bank greater independence. A cap of 11% was imposed on government borrowing from the central bank. Treasury bill auctions commenced in 1998, giving the National Bank a tool to control the money supply and interest rates. A system of public accounts was developed to prepare public reports of government operations in 1998. In 1999, a new banking law was introduced, liberalizing much of the banking sector. Rwanda's five commercial banks, of which the state owned one and held shares in another, were audited and restructured.

A new income tax law was passed in 1997. The maximum personal income tax and corporate income tax rates were reduced from 50% in 1997 to 40% by 1999. Excise taxes on soft drinks, alcohol, and cigarettes were increased in 1998. In 1998, the Rwanda Revenue Authority was created to strengthen the collection of taxes and customs duties. In 1999, state-owned enterprises (SOEs) were required to pay income taxes. In order to encourage coffee production, the coffee export tax was removed in 1999. Rwanda switched from a sales tax, plagued by numerous exceptions, to a value-added tax (VAT) with exemptions for a few basic necessities in October 2000. It was believed that the old system favored many imports over domestic production and that the new system would reduce the tax on domestic production. The VAT was raised from 15% to 18% in early 2003, while the maximum personal and corporate tax rates were further reduced to 35%. Government efforts at improving revenue collection were successful, as government revenues rose from 7% of GDP in 1995 to 13% in 2003.[24]

Government social expenditure, particularly in education and health, went up from 24% of the recurring government budget in 1998 to 38% in 2001. The government had two budgets, a recurring budget and a development budget. Women were given the right to own and inherit property in 1999, and seats were reserved for women in local committees and in the National Assembly. A five-year Gender Action Plan was commenced in 2000 to eliminate gender disparities. Rwanda faced an acute housing shortage given the destruction during the civil war and the return of Tutsi and Hutu refugees. The government issued a National Habitat Policy in 1996. The policy, known as *imidugudu*, focused on creating villages as opposed to the traditional system of farmers living directly adjacent to their lands. With the aid of donors and NGOs, four villages were created. Human rights groups claimed that there were frequent instances where people were resettled involuntarily or lost land, and the program was later downscaled.

Rwanda started to open its economy and joined the World Trade Organization (WTO) in 1996. In 1998, maximum tariffs were reduced from 100% to 40%, and tariffs were removed altogether on many categories of goods. In 2000, the Internal Trade Act removed the last remnants of government control on trade among Rwandan provinces. In 1998, the National Tender Board was set up to establish and enforce procurement rules and serve as the central government procurement agency. In 1999, the Office of the Auditor General was created to undertake fiscal audits of ministries and companies owned by the government to limit corruption. At the same time, civil servant wages were increased by an average of 40%. In the first year, 6,000 fictitious workers were removed from the government's payroll, and 6,000 employees were fired on the grounds that they were unqualified. By 2003, audits were conducted every two years for ministries, and it was planned that all ministries, SOEs, and major projects be audited annually. An Anticorruption Commission was created in 1999, and the government became active in investigating allegations of corruption, resulting in numerous resignations. The government issued a code of conduct and disclosure rules for officials in 2001. In 2004, the Office of the Ombudsman was created to investigate corruption, and public officials were required to declare their wealth. In March 2004, more than 139 police officers were fired on charges of corruption.[25]

The new government inherited a number of SOEs, from utilities, to banks, to agriculture-producing enterprises. In 1996, the government created a legal framework for privatization and embarked on a privatization campaign in 1998. The president, along with a few ministers and advisors, was actively seeking investors and promoting the country internationally. By 2003, the Privatization Secretariat had sold 48 SOEs, several to foreign investors, and eight enterprises were in the final stages of privatization. Seven enterprises had been shut down, and an additional 27 remained to be privatized (see **Appendix B**).[26] In 2003, at the urging of the World Bank, foreign consultants were awarded a five-year contract to manage and improve the operations of Electrogaz, the company that provided electricity, gas, and water.

In 1998, legislation was passed exempting foreigners who invested $100,000 or more in Rwanda from import and sales taxes when importing equipment. Foreign investors were given legal protection and access to work permits and allowed to import vehicles and personal items duty and sales tax free and also to recruit up to three expatriate workers. There were no restrictions on foreign-exchange earnings from exports except for tea and coffee exports, where 90% of earnings had to be exchanged in Rwandan commercial banks.[27] Foreigners could invest in any sector of the economy.

In 1999, the government replaced the state-controlled chamber of commerce with the privately run Rwandan Private Sector Federation (RPSF), consisting of 14 professional associations. The RPSF met with the government four times a year (two meetings chaired by the prime minister and one chaired by the president) to discuss ways to improve the business environment and develop the private sector. The RPSF helped create a tax appeals court and an arbitration center for labor disputes in 1999.[28]

In June 2000, the government set up the Rwandan Investment Promotion Agency (RIPA) to create incentives for new investors and to provide a "one-stop-center" to assist investors with approvals, certificates, and land. RIPA was housed together with the RPSF and the arbitration center. RIPA began to plan a free-trade zone and a free-export-processing zone to attract investors wanting to serve the regional market, a project that remained incomplete in 2004. Approximately 100 new investors had entered Rwanda by 2001. Overall, Rwanda had attracted $30.6 million in foreign direct investment between 1995 and 2002.[29] The government held Rwanda's first investment and trade fair in 2003.

A law reform commission was formed in 2000. The legal and judiciary system had not been revised since the Belgian system was adopted at independence. During the 1990s, less than 10% of lawyers and judges had law degrees, and many had been given their positions by the Catholic Church. A new labor code was created in 1999 that prohibited gender discrimination, restrictions on labor mobility, and wage controls. The code made it possible for employers to fire nonperforming staff and employ expatriates and guaranteed maternity leave and other basic benefits. In 2001, the National Assembly created a regulatory law that covered public utilities (telecommunications, electricity, gas, and water). A regulatory agency was created to grant licenses, enforce regulations, prosecute anticompetitive behavior, and enforce standards. In 2004, the commission implemented a mix of civil and common law, and 90% of those lacking requisite degrees were relieved.

To supplement several existing private Catholic universities in various provinces, the private Kigali Independent University and the Kigali Health Institute were created in 1996, and the Kigali Institute for Science and Technology (KIST) and the Kigali Institute of Education were founded in 1997. KIST introduced a new business management program in 2000. The government sponsored several hundred Rwandan students to attend computer and software training in India. A School of Finance and Banking, affiliated with the Ministry of Finance and Economic Planning, was created in June 2002. KIST also became an Internet services provider (ISP), competing with government-owned Rwandatel. Internet cafes in Kigali proliferated, and Internet usage rose dramatically.

Assistance from International Aid Organizations

In July 1994, the World Bank issued a grant of $20 million to Rwanda. Many projects that had been initiated prior to the genocide were restructured to support reconstruction. An emergency recovery credit of $50 million was approved in early 1995. International aid to Rwanda continued at a high level, with NGOs constituting the second-largest source of employment in Rwanda in 1996. The focus of international assistance shifted over time to rebuilding the nation's social and economic infrastructure, developing institutional capacity, and providing economic stimulus. Donors strongly approved of the new government's commitment to economic reform and reducing aid dependency but criticized the high level of military expenditure. Rwanda was seen as a case requiring long-term aid to secure peace and reduce poverty and a situation where more aid than normal should be directly controllable by the government. (See **Exhibit 4**.)

Between 1995 and 1999, the government held a series of "round table conferences" in Europe with all major donors to review progress in reconstruction, discuss policy choices, and appeal for aid. Three such meetings were held in 1995, and they continued with less frequency through 1999. While meetings often led to significant pledges from donors, actual aid fell short of the amount pledged. By 1997, a total of $2.5 billion had been spent on refugee camps since the genocide, while $572 million had been spent on Rwanda itself.[30] However, with the cost of camps rising to over $1 million a day, in 1996 donors, led by the United States, pushed for closing the refugee camps and encouraging refugees to return. The World Bank initiated the Emergency Reintegration and Recovery Project with a loan of $94 million in July 1997 and provided an additional $45 million for transport. In 1999, a new three-year, $75 million World Bank loan program was approved.[31]

The European Commission provided $159 million to Rwanda between 1995 and 2000 through the European Development Fund (EDF). Funds were used to rebuild road infrastructure ($29 million), rehabilitate tea and coffee production ($27 million), support the budget and balance of payments ($25 million), rebuild the health and education system (19 million), and repair the Kigali Airport ($8 million). Starting in 2000, $57 million went for infrastructure projects, $23 million for institutional development, $22 million for budget support, and $11 million to rehabilitate the facilities of the Ministry of Justice and the National Assembly. An additional $7 million for rural microcredit programs was pledged but not disbursed. In 2003, the next EDF program allocated $200 million, of which $67 million was for rural development, $54 million for budgetary support, and $67 million in reserve for emergency aid.[32]

The U.K. Department for International Development (DFID) made a commitment in April 1999 to provide financial aid over a 10-year period in exchange for progress in key areas including national unity and reconciliation, the resolution of conflict, good governance, poverty reduction, macroeconomic stability, and human resource development. A lengthy memorandum of understanding detailed the specific conditions under which DFID would withdraw aid if it felt the government did not fulfill its commitments. DFID's support was particularly valued by the government because the great majority went directly to the government to be allocated according to the government's own priorities. DFID became Rwanda's largest bilateral donor, providing $248 million between 1997 and 2003, of which $173 million went directly to the government budget.[33] USAID observed a policy of not providing aid funds directly to any recipient government but funding and implementing projects independently.

Overall, between 1995 and 2001, donors pledged a total of $3.9 billion to Rwanda and disbursed roughly $2.7 billion. Total aid per capita averaged $59 between 1995 and 2001, falling to $37 in 2001 as aid for humanitarian assistance and reconstruction abated. As a percent of GDP, aid decreased from 54% in 1995 to 17% in 2001.[34] Aid was managed on a project-by-project basis by a small team within the Ministry of Finance and Economic Planning. While Rwandan government officials were concerned that some promised aid had not materialized, their greatest concern was the large share of aid that went to refugee camps outside of Rwanda.

A New Development Strategy

Between 1995 and 2000, the Rwandan economy recovered at a rapid pace. After growing 35% in 1995, the economy grew at an average rate of 9.8% per year, and in 2000, Rwanda surpassed 1990 GDP levels for the first time. Less than 40% of prewar industries had resumed operations by 1999. However, growth was slowing. With an increase in world oil prices, drought, pressures due to the conflict in the DRC, and a reduction in international aid, growth fell to 6% in 2000. Exports grew to $93 million in 1997, reaching their 1990 level, but fell again with the collapse of world coffee prices (see **Table B**). In real dollar terms, the price of coffee dropped 20.7% between 1990 and 2000, while the price of tea declined 6.4%.[35]

Rwanda held local elections in 1999, its first since 1994. The elections were praised by international observers for being fair, and there was high voter turnout. In March 2000, President Bizimungu resigned following charges of ethnic divisionism, and anticorruption investigations led to the resignations of the parliamentary speaker, three cabinet ministers, and the prime minister.[36] In his place, Kagame, vice president and minister of defense, was unanimously elected president by the National Assembly. A new cabinet was appointed, and a commission to create a new constitution was formed in 2000. Government decentralization was initiated in May 2000, and mayors were elected to administer Rwanda's 106 districts in March 2001.

President Kagame began a process for developing a long-term strategy for economic development. Starting in April 2000, consultations were held across all regions and sections of Rwandan civil society to formulate a long-term vision for Rwanda. With the encouragement of the World Bank, the Rwandan government involved an outside consulting firm to advise on the strategy. With the president personally driving the initiative, the *Vision 2020 National Development Plan* was created. Ambitious goals were set forth.[37] (See **Exhibit 5.**)

With the strong encouragement of the World Bank and the IMF, the government shifted its attention to the preparation of a poverty reduction strategy paper (PRSP). Such a paper was a requirement under a new World Bank model to qualify for further development aid and debt relief under the Heavily Indebted Poor Country (HIPC) Initiative. Poverty reduction had been adopted as the World Bank's central goal. The preexisting Ministerial Commission for Reform, headed by the prime minister and other key members of government, was converted into the Commission for Poverty Reduction. National surveys were begun to collect household data.

All major international donors participated in the PRSP process, and Rwanda was commended for its high level of commitment to the effort. The PRSP, which overlapped substantially with the National Development Plan, was finalized in June 2002 and set a goal of 6% to 7% annual GDP growth, a reduction of households in poverty to 30% in 2015 (from 60% in 2001), and a variety of other social goals consistent with the UN Millennium Development Goals. The Development Partners Coordination Group (DPCG), consisting of government representatives and the heads of all bilateral and multilateral agencies active in Rwanda and chaired by the UN resident coordinator, was established in 2002 to facilitate coordination of donor and government activities toward these goals. The DPCG launched working groups in which one or two donors would assume a leadership role and coordinate the efforts of all donors in discrete areas such as health, education, and private-sector development.

As a result of the PRSP, the World Bank funded projects to support rural development ($50 million) and to promote competitiveness and enterprise development ($41 million), institutional reform ($85 million), and a project to combat HIV/AIDS ($32 million). The World Bank also funded a $53 million project to demobilize and reintegrate troops returning from the DRC.[38] Rwanda's external debt was $1.2 billion, equivalent to 63% of GDP in 2002. Rwanda received approval for the HIPC debt-relief program in mid-2002, based on its level of poverty and indebtedness, its satisfactory performance on previous IMF adjustment programs, and its preparation of an approved PRSP. Donors began to partially forgive Rwanda's debt, but the relief would not be full and irrevocable until Rwanda fulfilled additional conditions.[39]

In 2001, the government had created a strategy to boost competitiveness, termed the "Rwanda National Innovation and Competitiveness program" (RNIC). (See **Table A**.) Working with local leaders, three key sectors were identified—coffee, tourism, and tea—on the basis that they had the potential to generate $1.3 billion in revenue by 2010 with an investment of $293 million. The study also covered two supporting sectors, telecommunications and financial services, judged to be necessary for the others to be successful.

Table A Summary of the Rwanda National Innovation and Competitiveness Program

Sector	Product Development	Marketing	Institutionalization
Coffee	• Build washing stations in top 50 producing districts ($12 million) • Improve extension services for coffee farmers and associations • Replant aging tree stock and introduce new varieties	• Create quality control systems • Create systems to provide info on local and intl. coffee market • Promote Rwandan coffee locally and abroad • Establish a coffee culture in Rwanda	• Create new coffee organizations and institutions • Establish Internet presence • Provide financial framework for microfinance and credit for washing stations
Tourism	• Develop attractions and infrastructure in 7 tourism regions • Build high-standard rooms outside of the capital • Improve existing rooms • Open new restaurants and improve current ones • Procure equipment for guides and tour operators	• Promote Rwanda as a global tourist destination	• Promote tourism-related training in secondary schools • Promote training for customer service staff, guides, and drivers • Implement a conservation plan
Tea	• Diversify into new teas • Create tea nurseries and research into new varieties • Support tea inputs (fertilizer, pesticides, etc.) • Train planter associations and cooperatives • Build transportation infrastructure • Improve capacity at tea factories • Procure equipment for flavoring teas, blending, and packaging • Ensure electricity supply and reduce electricity cost	• Conduct local and international promotional campaigns • Train tea makers • Switch to direct sales • Target markets for direct sales	• Strengthen associations and tea cooperatives • Continue privatization

Source: Rwanda National Innovation and Competitiveness Program: Executive Briefing, July 2002.

Rwanda in 2004

Rwanda adopted a new constitution in May 2003, endorsed in a national referendum, paving the way for presidential and parliamentary elections. The constitution guaranteed civil liberties and human rights, and propagating ethnic or regional divisions was forbidden. All parties were required to reflect national unity and could be banned if they promoted an ethnic identity over national Rwandan identity.[40] Direct presidential elections were held for the first time since 1994 in August 2003, and Kagame was elected with 95% of the vote. Some foreign observers criticized the short amount of time available for campaigning and the exclusion of the main opposition party, the MDR, which was accused of reverting to the ethnic ideology. In April 2003, the interim parliament found the MDR guilty of divisionism, and it was dissolved.[41] An independent newspaper claimed to have been harassed and prosecuted by the government, and several reporters were imprisoned in 2004.[42]

Parliamentary elections were held in October 2003. The RPF received 73% of the vote with 99% of the 3.5 million eligible voters participating. The other two main parties, the SDP and the Liberal Party, both supporters of Kagame in the presidential elections, received 12% and 10% of the vote, respectively. A few observers, notably the European Union (EU), raised concerns about signs of fraud and irregularities in some areas.[43] Following the elections, 39 of Rwanda's 80 members of Parliament (MPs) were women, the highest ratio of women MPs in the world. Overall, Rwanda's government was known in international circles for its lack of corruption.

In 2002 the Rwandan economy had grown by 9.4%. In 2003, growth fell to 3.2% as agricultural exports dropped by 30% due to adverse weather conditions and weak international prices for tea and coffee. Delays in aid disbursements by the EU and the World Bank due to their concerns over the Rwandan government's fiscal deficit forced the government to borrow on the domestic market, raising inflation.[44] The government's development budget for 2004 was at $166 million, 25% higher than the year before. International donors financed 70% of the budget, down from 93% in 1999. (The composition of the budget in 2002 and 2003 is shown in **Exhibit 6**.)

Land and physical infrastructure The government owned all land in Rwanda, and property rights were distributed to citizens only when structures were built. In practice, land use in Rwanda was highly fragmented, and effective ownership of land depended on occupying it. However, the government was drafting new land legislation to enable private ownership and the consolidation of land holdings as part of its strategy for agricultural development.

Rwanda's 14,000-kilometer network of roads was one of the densest in Africa. Over 1,000 kilometers of roads, mainly between cities, were paved and being rehabilitated with EU funding. Rwanda's mountainous terrain and heavy rainfall increased road maintenance costs to twice the sub-Saharan African average. Transportation and logistics costs were among the highest in Africa, as imports and exports had to travel through other countries.[45] There was no national railway system, and Rwandan exports had to be transported 1,500 kilometers northeast through Uganda to Mombasa, a route favored for its efficient Kenyan haulers, or southeast to Dar es Salaam (Tanzania), which offered a less crowded port but lengthy unpaved road segments and unreliable railway services. Typical transport rates from these ports to Kigali were $165 per ton, versus $95 per ton to Kampala. Such transport typically took four weeks, but delays of up to two months were not uncommon, due in part to manual customs processes in Kenya and Tanzania. The government hoped to build a railway between Kigali and Isaka (Tanzania), but the World Bank calculated that low volume of goods along the corridor might not justify the $750 million investment required. In Rwanda, five private transport companies operated one to four heavy trucks each, while an estimated 10,000 pickups or small trucks could carry smaller loads. Trucks often returned to the port empty, as export volumes were much lower than import volumes. Two small domestic airlines provided service within Rwanda and to neighboring countries. There were regular flights to Nairobi (Kenya), Bujumbura (Burundi), Addis Ababa (Ethiopia), Dar es Salaam (Tanzania), and Johannesburg (South Africa). SN Brussels Airlines provided the only direct intercontinental flight from Kigali, to Brussels. Airport facilities were believed to be adequate for the foreseeable future.

No investments in energy had taken place since 1990, and there had been little maintenance of generation and transmission assets except for emergency rehabilitation after 1994. Three hundred large customers represented 70% of demand. All energy customers paid the same subsidized rate, regardless of volume and peak/off-peak time of use. The Mukungwa and Ntaruka dams, operated by Electrogaz, provided 24 megawatts (MW) of capacity under typical conditions, or 42% of Rwanda's total installed and imported generation capacity of 57 MW. An additional 15 MW (26%) was imported from the Rusizi Dam shared with the DRC and Burundi, and several smaller hydro and thermal stations contributed the remainder.[46] Due to the conflict in neighboring countries and varying lake levels, the electricity supply was volatile. Electricity costs were three to four times higher than in neighboring countries because of the need to rely on generators. The poor quality of the energy distribution network also resulted in transmission losses of 25%. Less than 2% of households had electricity, and almost 80% of Rwanda's fuel came from wood and charcoal. Widespread usage of wood for cooking had led to severe deforestation in some areas, and the government had issued a decree strictly regulating wood use. The World Bank was exploring the possibility of establishing "microhydro" generation in rural communities independent of the main electricity grid. Imports of oil and petroleum amounted to $37 million in 2002. The state-owned PetroRwanda, the national fuel company, was privatized in 1998, selling its gas stations to Shell Uganda. There were an estimated 60 billion square meters of natural gas under Lake Kivu. It was estimated that these reserves were sufficient to supply at least two plants generating 34 MW each at an estimated cost of $0.05 per kWh.[47] A pilot project from the 1960s was still operational and provided small amounts of power to the nearby Bralirwa brewery. The government was in final negotiations with investors to develop gas production to generate sufficient electricity to satisfy Rwanda's power needs.

In 2001, a 20-year National Information and Communications Infrastructure program was launched to transform Rwanda into a knowledge-based economy by 2020. In the first phase, from 2001 to 2005, all government ministries and agencies were to be connected to the Internet for the first time, and their data and communication systems were to be integrated.

Rwanda had 25,000 telephone lines in 2004, 90% of which were in Kigali. Roughly 550 telephone lines were located in rural areas. The government was seeking a strategic investor to acquire Rwandatel, the state-owned telecommunication provider. Mobile phone service was offered by Rwandacell, a joint venture between the private Telstar (50% ownership), Rwandatel (25%), and South African MTN (25%). There were 161,000 mobile subscribers in 2004, up from 78,000 in 2001.[48] The service extended across most major towns and into the eastern DRC. Rwandacell had implemented a pay-as-you-go system, which lowered initial costs and speeded adoption. Internet access was known to be expensive and unreliable. Internet service provision had been deregulated, however. In 1998, most government ministries and agencies had no access to the Internet.

Human resources Rwanda faced a severe shortage of skilled workers after years of civil war. Roughly half of adult Rwandans were literate, but it was estimated that 1 million youths were unskilled and 44% of the population was under the age of 15. Optimistic estimates put two-thirds of the agricultural labor force as underemployed. Only about 200,000 jobs were believed to exist outside of agriculture.[49]

Education spending accounted for 24% of government expenditure (4.3% of GDP) in 2004. Fees for primary education were eliminated in 2003, and enrollment increased dramatically. Facilities were insufficient for the rapid increase in enrollment, and over 650 makeshift classrooms were established under trees or plastic sheeting.[50] In 2004, Rwanda had a gross primary-school enrollment rate of over 100%, higher than the sub-Saharan average. Secondary-school enrollment was low at 10%. At the secondary level and above, there were few students from the poorest households. The quality of education was still poor but improving. Only half of secondary-school teachers were trained. The curriculum was perceived by some to be outdated and poorly connected to the economy. A new national syllabus and examination system had been under development for many years. French and English were supposed to be taught, but in practice this depended on the skills of the teacher. In 2003, enrollment in tertiary education was up slightly to 2%, having significantly increased despite fees. In 2003, there were seven universities, with over 10,000 students, all located in Kigali and Butare, up from under 1,000 in 1994.[51] Despite the founding of the Kigali Institute of Science and Technology in 1997, there was little vocational training, and school curricula were not well connected to the labor market. Roughly one-third of government spending on education in 2004 went to tertiary education. Of those enrolled at the tertiary level, 74% were men. Overall, 7.1% of the population had education beyond primary school and 0.4% of the population had a tertiary education.[52]

Labor unions were seeking a National Labor Commission, maternity leave at two-thirds of regular salary, health and safety committees in workplaces, faster arbitration, and a labor court. Rwandan workers often took labor issues to the courts, driving up costs.

Health The top causes of premature death in Rwanda in 2002 were HIV/AIDS (23,000), respiratory infections (16,000), diarrhea (13,000), perinatal conditions (8,000), and tuberculosis (5,000).[53] An estimated 8%–9% of the adult population was infected with HIV/AIDS; the proportion was higher in Kigali. Despite attempts at educating the public, condom use was believed to be less than 10%. Patients with AIDS occupied 80% of hospital beds.[54]

The health-care system had been rebuilt since 1994. The health-care management system had been decentralized, and the government promoted community health insurance schemes whereby villages would pay under $10 per year for access to state health care. Rwanda had the region's highest access to health care at 87% of the population, but there were only two doctors and 18 paramedics per 100,000 people. Health care accounted for 5% of government spending in 2001, which, despite increases, was below the regional average. International donors had paid for 60% of total health-care expenditures and all capital investment in the health sector.

Financial markets All commercial banks had been audited between 1999 and 2002, paving the way for annual inspections from 2004 onwards. Since 1999, Rwandan commercial banks were required to have minimum reserves between $631,000 and $3.2 million, while development and merchant banks had reserve requirements of $1.1 million. The share of bank loans deemed non-performing fell from 40% in 2002 to 27% in 2004. Recovery of nonperforming loans was difficult due to lengthy legal procedures and weak enforcement.

In 2001, commercial bank interest rates averaged 16.5%, and domestic savings remained low to nonexistent. Credit was typically short term and mainly directed at commerce, with only 2% of loans going to agriculture. Banks supplied comparatively small amounts to the private sector, citing few local investment opportunities. Private-sector financing was limited to the largest enterprises. Foreign currency withdrawals from local banks were regulated, and withdrawals over $50,000 per year required documentation proving that the currency was necessary.

Five new banks had been formed in Rwanda since 1994, bringing the total number to nine. Banks and their depositors were concentrated in urban areas, though a few coffee and tea farmers enjoyed access to credit through cooperatives and OCIR-Café and OCIR-Thé, the state agencies that oversaw coffee and tea production and export. Several foreign banks held stakes in Rwandan banks. The Belgian banks Banque Bruxelles Lambert and Banque Belgolaise held substantial shares in Banque Commerciale du Rwanda (BCR) and Banque de Kigali, respectively. Foreign banks with close ties with the previous government were being investigated.[55] BCR was being privatized, and many international banks had expressed interest. Banque Populaire Co-operative provided loans for housing. Caisse d'épargne, a rural savings bank, had been in the process of liquidation since 2001.

The government-owned Banque Rwandaise de Développement (BRD) had been restructured to provide financing to agricultural projects and longer-term investments. Despite some success, the shares of agricultural and long-term loans in the bank's portfolio were lower than targeted. Local government and cooperative leaders could apply to the government's Community Development Fund grants for local infrastructure projects. There were an estimated 65 microfinance institutions in Rwanda serving 200,000 primarily poor, rural clients with small loans.[56] Microfinance loans typically carried interest rates of 2% to 3% per month.

The government planned to open the Kigali Stock Exchange in mid-2004. Following the example of the Singapore-Kuala Lumpur Stock Exchange, the exchange would be a subsidiary of the Nairobi Stock Exchange until sufficient infrastructure was put in place. The exchange was expected to facilitate government privatization efforts and attract additional foreign direct investment. (See **Exhibit 7** for foreign direct investment data.) A bond market was also planned.

International trade Rwanda had been a member of the WTO since 1996 and was a signatory of the Convention on International Trade in Endangered Species. Rwanda's imports and exports as a share of GDP were among the lowest in Africa, and Rwanda had a trade deficit of $185.6 million in 2003.[57] In 2003, the major export destinations were Kenya ($41.0 million), Uganda ($26.6 million), the EU ($8.6 million), Tanzania ($8.0 million), and the DRC ($4.1 million), while imports came primarily from Kenya ($28.4 million), the EU ($25.9 million), Uganda ($7.6 million), United Arab Emirates ($7.6 million), and Tanzania ($5.6 million). The export price index had declined by 26% since 1995.[58] Much cross-border trade with neighbors was unrecorded; it was believed that Rwanda maintained a substantial informal trade surplus by exporting food and services to the DRC and Burundi.

In the Uruguay round of trade negotiations (1986–1994), Rwanda had agreed to maximum import tariffs of 0% to 100% depending on the product, with a simple average of 89%. In practice, Rwanda applied a four-tiered system of import tariffs: 30% for finished goods, 15% for intermediate goods, 5% for raw materials, and 0% for capital goods. The trade-weighted average tariff was 19.4%, but regional trade partnerships and tariff exemptions granted for investment promotional purposes brought the actual applied rate down to 14.6%, slightly above that of other countries in the region. The country's import/export licensing system was seen as efficient, with export licenses obtainable from any commercial bank. However, traded goods had to pass through an inefficient bonded warehouse where they were held until all duties and tariffs were paid. The warehouse assessed a fee of 4% of the value of the shipment, of which three-fourths went to the government.

Exports were exempt from sales tax and duties. In 2003, the U.S. designated Rwanda eligible for preferential, duty-free trade access to the U.S. market under the African Growth and Opportunity Act. However, the U.S. had never imposed duties on Rwanda's main exports of coffee and tea, and so preferential access had so far had little impact in practice. The African Trade Insurance Agency was created in 2001 by Rwanda and six other countries to insure investors against political risk.

Rwanda was a member of the Economic Community of Great Lakes Countries (CEPGL) and the Economic Community of Central African States (ECCAS) and joined the 20-member Common Market for Eastern and Southern Africa (COMESA) in January 2004. Neither the CEPGL nor the ECCAS had achieved substantial progress. COMESA had created a free-trade area in 2000, and nine of the members had removed all barriers to intraregional trade. Together with Burundi, Rwanda had become part of the free-trade area in 2004. Regional export guarantee and insurance schemes, such as the World Bank's African Trade Insurance Agency, had been created but were rarely used by Rwandan companies. President Kagame became First Vice President of the African Union in July 2003. Rwanda had been invited to join the East African Community (Tanzania, Kenya, and Uganda), which planned to create a customs union and eventually a common market, though progress had been limited.

Clusters

The Rwandan economy was dominated by agriculture (42% of GDP), concentrated on food production (estimated 35% of GDP) and livestock (3.8%). Services (37%) consisted mainly of wholesale and retail trade (7.8%), government (7.6%), transportation and communications (7%), and tourism. Industry (22%) employed roughly 10,000 workers and was dominated by construction (11%) and food processing and beverages (8.9%). (See **Exhibit 8**.) Industrial firms were mainly small and medium-size companies with capital below $1 million. Electrogaz, the state-owned energy monopoly, was the largest company in Rwanda, with revenues of $20 million in 2003.[59] The formal sector consisted of roughly 50 large enterprises and 200 companies with more than 10 employees; an estimated 70,000 micro- and small-scale enterprises operated largely in the informal sector.[60] The informal sector was estimated to be growing faster than the formal sector, depressing government tax revenues.[61] An estimated 2,000 to 3,500 ventures were in the process of becoming formal firms. In most firms, accounting and financial statements were poorly kept. A variety of accounting standards were used, and smaller firms simply used cash accounting.

Agribusiness Agricultural production employed 90% of the population. Farm sizes had continually decreased as the population had grown, and the average size of agricultural farms in 2002 was 1.9 acres, estimated to be too small to support a family of five. Virtually all land, except that secured for several national parks, was occupied. Overall agricultural production had achieved pre-war levels by 1998. Production grew by 4% in 2000 and 3.7% in 2001, but growth appeared to be slowing. Domestic food production was insufficient to meet the country's needs, and food shortages were an ongoing concern. Production was hindered by soil erosion that had been the result of deforestation, and irrigation and water-storage systems were lacking. Roughly 5% of Rwandan farms used fertilizer, and 11% used insecticide.

The main cash crops were unprocessed coffee, tea, tobacco, and pyrethrum, and there was some processing of coffee, tea, and other agricultural goods. Coffee and tea output accounted for less than 2% of GDP but typically earned more than 80% of foreign exchange. (See **Table B** for exports by product.) Beans, plantains, sweet bananas, and sweet potatoes made up 80% of agriculture, while Irish potatoes, cassava, sorghum, and maize constituted the majority of the rest. Rwanda started exporting beans and maize to Uganda and Kenya in 2000 for the first time and had begun to export potatoes. Food safety and horticultural sanitation facilities and management were poorly developed.

Rwandan tea was considered among the best in the world when grown and processed well. After 1994, tea production had rebounded in quantity, but quality had declined. Rwanda was Africa's sixth-largest producer, with 15,200 tons in 2001 compared with 240,000 tons produced by the leader Kenya. Productivity was at 1,431 kilograms per hectare (kg/ha) versus Kenya's 2,394 kg/ha, India's 1,996 kg/ha, Vietnam's 800 kg/ha, and China's 627 kg/ha.[62] Rwanda's nine tea-processing estates, all in the region around Ruhengeri and Gisenyi, were government owned, and the privatizations planned for 2001 had been delayed. Sorwathe, which accounted for 20% of national tea output, was the country's only privately owned tea company, though the government held a 49% stake. The government had offered stakes of up to 55% ownership in the estates but had been unable to find strategic buyers. In some cases, the farmers that had historically supplied raw tea to the estates claimed that they should collectively hold 45% of the equity. The tea estates had further deteriorated, and the government had embarked on a project to improve productivity before re-attempting to privatize them. Prices paid to tea farmers were set at FRW 10/kg, regardless of quality, by OCIR-Thé, a state agency that bought the country's tea crop each year and transported and sold it for a flat price at auction in Mombasa. Nearly all of Rwandan tea was exported, unprocessed, and in bulk.[63] As part of the Rwanda National Innovation and Competitiveness (RNIC) program, the tea sector was to diversify into other types of tea and to produce flavored and blended teas. The aim was also to move beyond just production to packaging and direct sales. It was believed that tea production could double and revenues could increase to $91 million by 2010, up from $26.8 million in 2003.[64]

In coffee, Rwandan beans were of high quality. Roughly 10% of rural households (400,000 farms) grew at least some coffee. The average number of trees per farmer was between 150 and 300, as compared with 12,000 per farmer in Central America.[65] Coffee production was devastated by the civil war and fell from 45,579 tons to 21,051 in 1996. With poor weather, old and diseased trees, and low coffee prices, production dropped further. In 1987, 40% of Rwandan coffee was classified as standard grade; by 2000, the percentage had fallen to 10%. Fertilizer was rarely used; when it was available, farmers typically used it on food crops rather than cash crops. Coffee prices fluctuated widely but had collapsed in the late 1990s, reaching their lowest levels in over 25 years in 2001 and 2002.

Table B Major Exports by Value ($ million, fob)

Export	1990	1995	1996	1997	1998	1999	2000	2001	2002	2003
Coltan	N/A	0.6	1.3	2.7	2.5	4.6	11.9	39.2	13.7	6.3
Tea	21.0	3.8	9.3	20.6	22.9	17.5	24.3	22.7	22.0	22.5
Coffee	65.7	38.2	43	45.3	28.1	26.5	22.5	19.4	14.6	15.0
Pyrethrum	1.9	0.5	0.3	3.4	0.9	0.3	0	1.8	1.1	1.3
Tin and Cassiterite	3.6	0.9	0.8	1	0.4	1.2	1	1.1	1.4	4.5
Hides	2.6	2.2	3.2	4.6	2	0.5	0.4	0.8	2.6	3.8
Total	**103.0**	**51.2**	**61.7**	**93.0**	**64.1**	**62.0**	**89.8**	**93.5**	**67.3**	**63.0**

Source: Rwanda Development Indicators 2002, EIU Country Report 2004, 2005.

Rwandan specialty coffee had begun to be sold in the United States and the United Kingdom. The government was in the process of selling its stake in Rwandex, the country's largest coffee exporter, to existing minority shareholders, and government-owned coffee-processing plants were to be privatized in the near future. The RNIC goal for the coffee sector was to focus on specialty coffee. Investing in washing stations, increasing the number from two in 2000 to over 100 in 2010, was seen as central to this strategy. Fully washed coffee commanded more than double the price of unwashed coffee, and cyclical price volatility was substantially lower. However, the quality of the coffee beans declined if they were not washed within six hours of being harvested, and lack of transportation, poor rural roads, and the logistical challenge of hundreds of farmers utilizing each washing station all posed complexities.

Cattle, poultry, and goat stocks had returned to 88%, 70%, and 30%, respectively, of pre-1994 levels. Fishing took place on Lake Kivu and smaller lakes including Lake Ihema. The catch was estimated at 4,500 tons, down from 5,000 to 6,000 pre-1994. It was estimated that the potential for fishing and fish farming was still underutilized. Pyrethrum, a flower used to make insecticide, benefited from favorable growing conditions in Rwanda. It was estimated that flowers matured in 44 days in Rwanda as opposed to 60 days in Kenya. A local firm, Highland Flowers, started exports to Europe in 1999 but was hindered by the lack of direct flights to Europe and closed in 2004.

Mining Rwanda had deposits of tin, columbo-tantalite (coltan), tungsten, gold, and sapphires, all mined using small-scale techniques. Production of coltan, a rare mineral used in mobile phones and other high-tech industries, had increased from 256 tons in 1997 to 360 tons in 2001. Coltan prices collapsed in 2001. A German company had bought the one Rwandan state-owned mineral-processing factory.

Tourism Rwanda was one of three countries, along with **Uganda and the Democratic Republic of Congo**, that were home to the world's 650 remaining mountain gorillas. Tourism had come to a halt during the civil war but had begun to grow again. In 2001, 8,000 tourists visited Rwanda, generating revenues of $15 million, still well below the 36,000 that visited in 1988. By 2004, the number had recovered to 27,000.

Virunga National Park, with the Virunga volcanoes and mountain gorillas, was Rwanda's most unique tourist attraction. The park reopened in 1999, and gorilla viewing was limited to 35 visitors per session at a fee of $250 per day per person. The number of mountain gorillas in the Virunga mountains had increased from 320 in 1989 to 376 in 2004 thanks to conservation efforts.[66] The Akagera National Park in the east had many unique forms of wildlife, but some claimed that the number of animals was not as great as in other parks in east Africa. The Nyungwe Forest in the southwest was known for its birds and monkeys. Most of the international tourism business was focused around Ruhengeri and Cyangugu, while domestic tourism focused on Lake Kivu around the town of Kibuye. (See **Exhibit 1**.)

The RNIC analysis of tourism focused on high-value travelers. Two main tourist packages were designed, "Primate Discovery" tours for eco-travelers who came to see the mountain gorillas, and "500 Years of Great Lakes History" tours. By upgrading tourism infrastructure and attractions and increasing skills in tourism (creating a tourism culture), the country hoped to increase tourist arrivals nine-fold to 70,000 arrivals worth $98 million. With government backing, a five-star intercontinental hotel had been completed in Kigali in 2004 and a four-star hotel on scenic Lake Kivu at Gisenyi. Both were staffed primarily by expatriates. Rwanda was ranked the seventh-best African exhibitor at the Berlin International Tourism Exchange in March 2004.

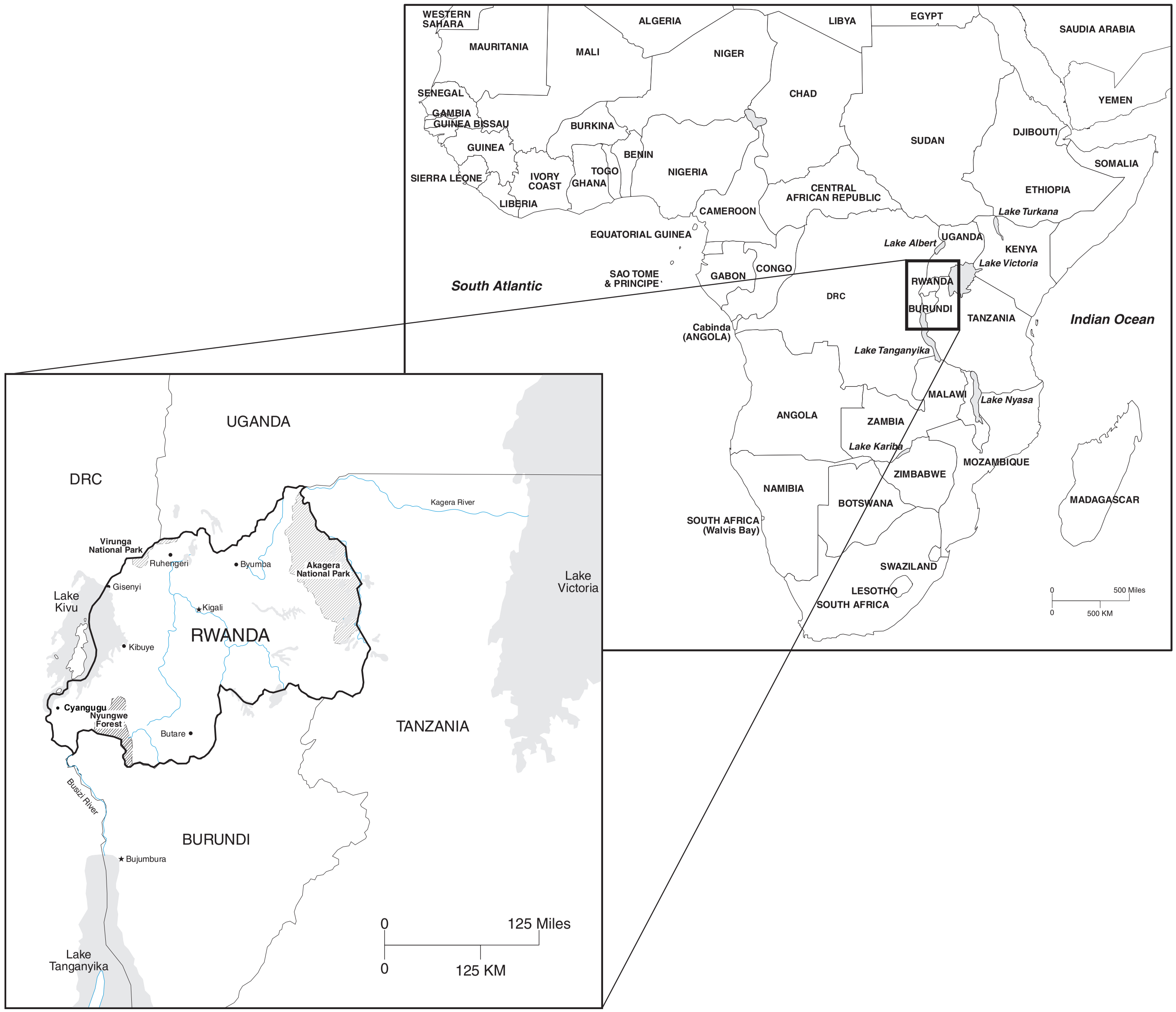
Construction After the war, Rwanda had experienced a construction boom. Construction had grown an average of 15% per year since 1994 and by 21% in 2002.[67] Infrastructure development and reconstruction had been spurred by donor-funded projects. Population growth in Kigali had led to significant demand for housing, and returning refugees had triggered considerable construction in rural areas.

Other industries Total employment in the industrial sector was estimated at 36,000, mostly in state-owned enterprises.[68] Manufacturing, most in the vicinity of Kigali, accounted for less than 10% of GDP. Food, beverages, and tobacco accounted for 80% of manufacturing. Chemical industries accounted for 4% and textiles and clothing for 2%, both below regional averages. Firms complained about low local purchasing power, the high costs of manufacturing inputs, and competition because of tariff reductions.

Future Challenges

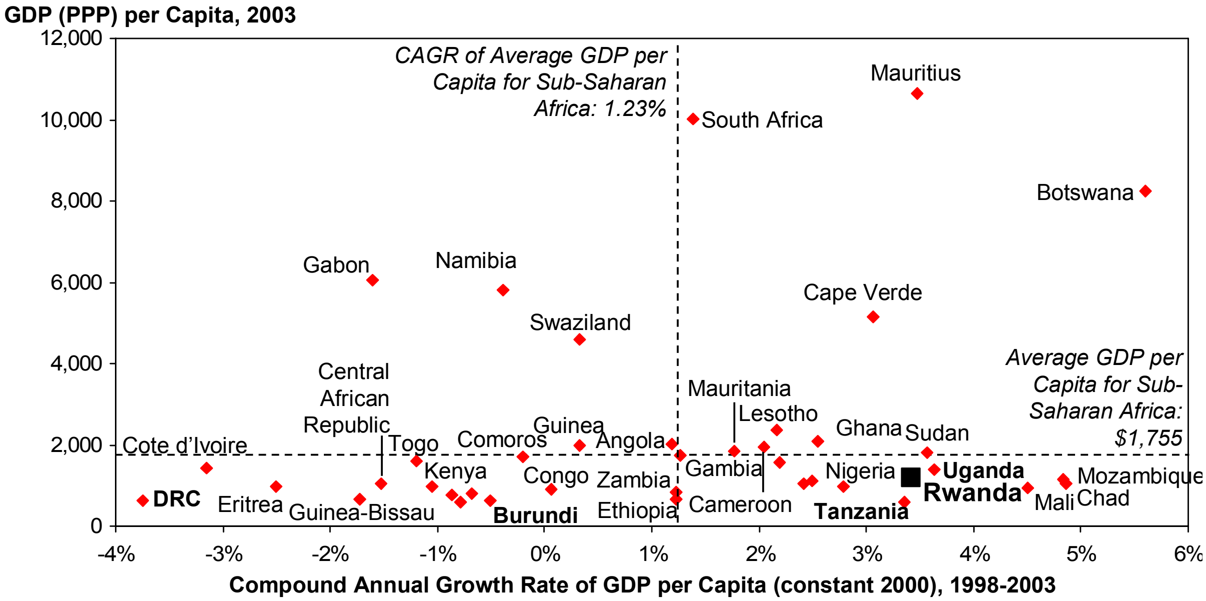
One thing was clear: Rwanda had made real progress since 1994. The challenge was how to accelerate the growth of the nation's prosperity while bringing a sense of justice and reconciliation to its people. One observer noted that while the country appeared placid during the current period of economic growth no one could predict how the population would react in the event of an economic crisis. A cabinet member commented, "We have to remember that nobody owes us anything. Today our donors may be feeling generous, but tomorrow they may not. We have to work twice as hard as other people. We don't have the resources that others have; the only resource we have is ourselves."

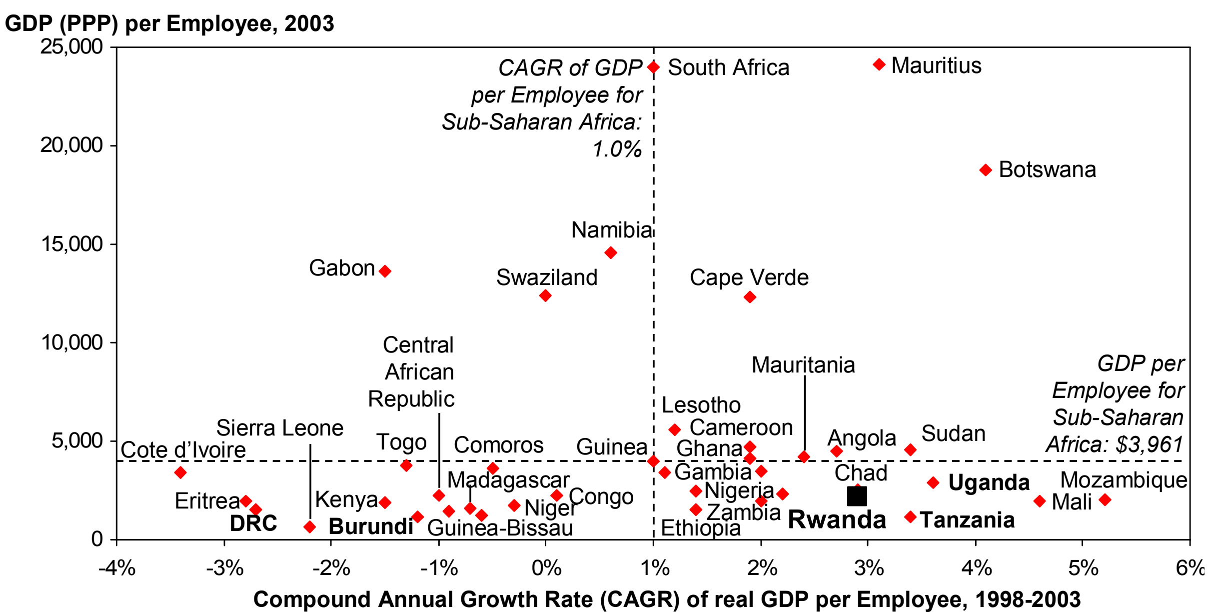
Exhibit 1 Map of Rwanda, 2003



Source: Casewriter.

Exhibit 2 Rwandan GDP per Capita Performance and Labor Productivity versus Other Nations





Source: World Bank World Development Indicators, author's analysis.

Exhibit 3 Rwanda, Selected Economic Data by Presidential Administration, 1962–2003

Period	Year	Nominal GDP PPP (US$ billions)	Real GDP per Capita PPP ($,1995 prices)	Real GDP Growth (%)	Inflation, Consumer Prices (%)	Exchange Rate (Rw Francs per US$)	Commercial Bank Lending Rate (%)	Exports of Goods and Services ($m, 2000 prices)	Imports of Goods and Services ($m, 2000 prices)	Gross International Reserves (current $m)	FDI Net Inflows (BoP, current $m)	Official Development Aid (current $m)	Outstanding World Bank and IMF Loans (current $ m)
Paul Kagame	2003	5.52	1,104	3.2	7.5	538	N/A	274	445	215	4.7	332	909
	2002	5.36	1,089	9.4	2.0	476	N/A	279	422	244	2.6	355	826
	2001	4.82	1,023	6.7	3.3	443	16.4	264	447	212	4.6	299	713
	2000	4.41	1,001	6.0	3.9	393	16.5	151	445	191	8.3	322	692
Pasteur Bizimungu	1999	4.07	1,011	7.6	-2.4	338	16.3	138	503	174	1.7	351	692
	1998	3.73	1,030	8.9	6.2	314	15.7	116	535	169	7.1	326	639
	1997	3.39	1,047	13.8	12.0	301	16.7	114	491	153	2.6	206	558
	1996	2.93	1,002	12.7	7.4	306	17.2	88	353	107	2.2	393	536
	1995	2.55	927	35.2	N/A	262	15.4	62	341	99	2.2	617	512
	1994	1.85	674	-50.2	N/A	141	15.0	57	525	51	0	698	474
Juvenal Habyarimana	1993	3.63	1,272	-8.1	12.4	144	15.0	146	465	47	5.8	336	446
	1992	3.87	1,276	5.9	9.6	134	16.7	177	399	79	2.2	315	408
	1991	3.57	1,126	-2.5	19.6	125	19.0	194	389	110	4.6	354	390
	1990	3.54	1,113	-2.4	4.2	84	13.2	210	211	44	7.7	291	340
	1989	3.49	1,137	0.0	1.0	80	12.0	217	249	70	15.5	266	302
	1988	3.36	1,165	4.5	3.0	76	12.0	207	266	118	21	284	274
	1987	3.11	1,164	0.0	4.1	79	13.0	260	267	164	17.5	292	251
	1986	3.03	1,223	5.5	-1.1	88	14.0	234	298	162	17.6	297	195
	1985	2.81	1,213	4.4	1.8	101	13.9	231	259	113	14.6	325	152
	1984	2.61	1,205	-4.2	5.4	100	13.5	183	250	107	15.1	300	118
	1983	2.63	1,299	6.0	6.6	96	13.5	160	244	111	11.1	263	95
	1982	2.38	1,261	1.8	12.6	93	13.5	177	251	119	20.7	262	77
	1981	2.21	1,273	5.4	6.5	87	13.5	173	176	168	18	256	65
	1980	1.91	1,243	9.0	7.2	86	13.5	171	178	196	16.4	236	58
	1979	N/A	N/A	11.9	15.7	87	13.0	184	151	165	12.6	247	48
	1978	N/A	N/A	9.2	13.3	89	12.5	136	143	95	4.7	230	37
	1977	N/A	N/A	2.0	13.7	96	N/A	94	112	84	5	205	31
	1976	N/A	N/A	19.5	7.2	97	N/A	147	116	62	5.9	188	21
	1975	N/A	N/A	-2.1	30.2	92	N/A	87	99	25	3	225	13
	1974	N/A	N/A	1.4	31.1	93	N/A	112	117	13	2.2	131	8
	1973	N/A	N/A	3.4	9.4	84	N/A	106	73	15	2	123	4
Gregoire Kayibanda	1972	N/A	N/A	0.3	3.1	92	N/A	73	85	6	0.5	109	1
	1971	N/A	N/A	1.2	0.5	100	N/A	68	68	6	1.7	104	0
	1970	N/A	N/A	6.0	0.5	100	N/A	75	61	8	-0.2	97	0
	1969	N/A	N/A	11.0	0.5	100	N/A	48	54	3	N/A	84	N/A
	1968	N/A	N/A	7.0	3.2	100	N/A	49	51	6	N/A	80	N/A
	1967	N/A	N/A	6.9	1.5	100	N/A	55	49	7	N/A	63	N/A
	1966	N/A	N/A	7.0	N/A	88	N/A	55	59	5	N/A	57	N/A
	1965	N/A	N/A	7.0	N/A	50	N/A	55	47	4	N/A	40	N/A
	1964	N/A	N/A	-12.5	N/A	50	N/A	51	33	4	N/A	36	N/A
	1963	N/A	N/A	-9.8	N/A	50	N/A	29	37	N/A	N/A	36	N/A
	1962	N/A	N/A	11.3	N/A	50	N/A	50	42	N/A	N/A	62	N/A

Sources: World Bank, World Development Indicators; Rwanda Development Indicators; EIU country data.

Exhibit 4 External Aid by Major Donor (over $10 million) and Usage Category ($ millions)

Aid by Donor ($M)	Cumulative Pledges 1994 – 2002	Disbursed 2000 and before	Disbursed 2001	Disbursed 2002
Bilateral Donors	**$851.2**	**$374.3**	**$160.0**	**$128.4**
USA	$259.5	$153.2	$27.4	$21.3
United Kingdom	$134.5	$71.2	$39.3	$32.6
Germany	$112.3	$60.0	$21.6	$6.0
Belgium	$111.4	$21.3	$25.0	$19.5
Netherlands	$68.6	$35.9	$14.0	$18.7
Canada	$52.7	$0.4	$10.5	$9.3
Sweden	$41.6	$2.6	$5.8	$11.5
France	$19.8	$8.8	$5.0	$3.6
Switzerland	$18.4	$7.9	$3.0	$1.8
Luxembourg	$11.8	$4.1	$2.0	$2.5
Other (7)	$20.6	$8.9	$6.3	$1.6
Multilateral Donors	**$1,252.9**	**$347.8**	**$155.0**	**$77.4**
World Bank	$379.1	$155.3	$54.1	$16.0
EU	$355.7	$3.7	$38.4	$19.4
ADB	$153.7	$68.2	$15.5	$12.8
PNUD	$94.3	$56.4	$7.1	$4.3
FIDA	$66.4	$3.2	$8.5	$2.2
UNICEF	$50.5	$22.9	$5.7	$3.5
OPEP	$43.3	$0.0	$6.1	$0.0
IMF	$40.7	$25.1	$12.1	$0.7
FNUAP	$21.9	$5.1	$3.0	$3.4
BADEA	$15.8	$0.0	$0.1	$0.6
HCR	$14.9	$6.5	$3.1	$2.9
Red Cross	$11.1	$0.0	$0.0	$11.1
Other (2)	$5.6	$1.5	$1.2	$0.5
NGOs	**182.03**	**$87.0**	**$31.7**	**$35.1**
Catholic Relief Service	$19.2	$1.1	$4.6	$4.9
Int'l Rescue Committee	$18.4	$8.3	$2.8	$2.2
Norwegian People's Aid	$18.0	$15.9	$0.0	$0.0
Trocaire Ireland	$17.0	$10.1	$3.0	$2.7
Care International	$11.3	$3.8	$1.4	$1.5
Agro Action Allemande	$9.6	$5.1	$1.2	$0.6
Concerne	$8.9	$6.2	$1.2	$0.0
Lutherian World Fed.	$8.8	$4.8	$1.7	$3.7
Avocat Sans Frontiere	$5.2	$5.3	$0.0	$0.0
Population Services Int'l	$5.1	$0.0	$1.6	$0.9
Other (34)	$60.8	$27.0	$14.1	$18.8
Total	**$2,286.1**	**$809.1**	**$346.7**	**$240.9**

Aid by Usage Category ($M)	Cumulative Pledges 1994–2002	Disbursed 2000 and before	Disbursed 2001	Disbursed 2002
Governance	**$663.7**	**$292.0**	**$154.7**	**$76.9**
Public Administration	$558.1	$257.7	$146.0	$68.5
Defense	$8.4	$1.6	$0.0	$0.0
Justice and Public Security	$97.3	$32.6	$8.7	$8.3
Production and Environment	**$256.7**	**$38.4**	**$25.9**	**$23.4**
Environmental Protection	$8.5	$4.1	$2.3	$1.0
Agriculture	$236.2	$28.8	$19.7	$21.0
Industry and Commerce	$12.1	$5.6	$3.9	$1.4
Infrastructure	**$595.2**	**$182.5**	**$69.0**	**$50.4**
Energy and Fuel	$41.7	$21.6	$1.2	$0.4
Transport and Communication	$237.4	$69.2	$20.2	$12.2
Land and Public Infrastructure	$222.5	$66.2	$39.3	$31.8
Water and Decontamination	$93.7	$25.5	$8.4	$6.1
Social & Human Development	**$770.4**	**$296.2**	**$97.0**	**$90.2**
Youth and Sports	$30.3	$6.9	$6.1	$4.0
Health	$220.3	$66.0	$33.7	$26.9
Education	$203.4	$38.0	$22.2	$19.8
Social Services	$316.5	$185.3	$35.0	$39.4
Total	**$2,286.1**	**$809.1**	**$346.7**	**$240.9**

Source: Rwanda Development Indicators 2003.

Exhibit 5 Summary of the Vision 2020 National Development Plan, 2002

Goals

Reconstruction of the Nation Rwanda will be a reconstructed, modern, united, and prosperous nation, open to its Diaspora

Human Resource development Rwanda's population will be fully literate and have raised and diversified professional and technical skills. Major epidemics (AIDS, Malaria) and causes of death will be under control. The population will have more access to quality health services.

Land Use Management, Urban Development and Basic Infrastructure Land use will be rationally planned. Imidugudu (villages) will become pillars for development. Rural population will have basic infrastructure necessary for non-agricultural income generating activities. Towns will be better planned. Urbanization will have exceeded 10% to 30% of the population.

> ***Transport:*** There will be a modern, well-maintained road network connecting to the Indian Ocean and Atlantic Ocean. Rwanda will be a sub-regional hub for air and railway transport.
>
> ***Communication:*** ICT will be an engine of development. The majority of the population will have access to ICT. The efficiency of public services will be improved using ICT.
>
> ***Energy:*** Rwanda will produce enough energy while avoiding environmental degradation. The use of wood will be replaced by electricity, solar energy, methane gas, and wind energy.
>
> ***Water:*** Universal access to safe drinking water. Better use of techniques to collect and store water. Water resources will be rationally managed.
>
> ***Waste management:*** More than 80% of the population will have access to waste management infrastructure.

Private Sector Development There will be a culture of initiative and entrepreneurship and a dense, competitive private sector. Private sector investment will have increased.

Modernization of Agriculture and Animal Husbandry Agricultural and animal production will have increased in quality, quantity and value. Only 50% of the population will be employed in primary agricultural production. 50% of farms will use modern methods, improved varieties and breeds.

Gender Issues There will be equality between the sexes in all areas of civil life and before the law.

Natural Resources and Environment Environmental pressures will have been eased, pollution will have been reduced and environmental degradation will have been reversed.

Science and Technology Rwanda will be able to generate and disseminate skills and technological innovations. The country will have become a regional center of excellence in ICT.

Regional and international integration Rwanda will have become more stable. It will be enjoying comparative advantages at the regional and international level, in the framework of NEPAD and other sub-regional organizations.

Exhibit 5 (continued)

Reforms

Political reforms: Governance and Reconciliation
- National reconciliation
- Rule of Law
- Good governance
- Decentralization
- Regional and international integration

Creation of Wealth and Poverty Reduction
- Liberal and stable macroeconomic environment
- Reduced reliance on foreign aid
- Withdrawal of government from private sector activities
- Stabilization of national debt

Agricultural Development
- Promotion of commercial agriculture
- Use of improved varieties and breeds
- Improved rural infrastructure
- Improved land use management, water management and irrigation techniques
- Increased use of agricultural inputs
- Promotion of marketing, processing and storage
- Environmental protection
- Promotion of processed agricultural products
- Improved access to credit for agriculture
- Creation of land titles to serve as commercial assets
- Human resources development

Promotion of Industry and the Service Sector
- Emphasis on producing goods and services for mass consumption and export
- Improving and reducing the cost of utilities and transportation
- Human resources development

Emergence of a Business and Entrepreneur Class
- Liberalization of the economy
- Privatization/liquidation of public enterprises
- Public/private sector partnership
- Establishment of free trade zones

Creation of Jobs and self-employment
- Large-scale labor intensive public works
- Human resources development
- Regional integration
- Promote the communication and tourism industry
- Connected to agricultural development
- New labor policy and a new national training and apprenticeship policy
- Micro-credit particularly to young technicians, the self-employed and to rural entrepreneurs
- Leveraging the informal sector

Increase Investment Capacity
- Improved resource allocation and monitoring at the national and decentralized level
- Increased and diversified exports
- Increased internal revenues
- Reduction of recurring public expenditure
- Decentralized public administration
- Reduction in military expenditures
- Reducing government employment

Human Capacity Improvement
- Emphasis on science and technology
- Adult literacy campaign and universal education
- Intensive teacher training programs
- Training senior officers in technology, engineering and management
- Teaching computer science, information management, electronics and electrical engineering in secondary schools
- Special emphasis on educating youth and women
- Transform technical schools into polytechnic schools and technological colleges
- Programs focusing on on-the-job training, continuing education, and correspondence courses

Entry into Regional and Global Markets
- Develop cheaper transport alternatives, e.g. a railway link to Tanzania or Uganda
- Infrastructure investment program to promote Rwanda as a regional transport and communications hub
- Encourage provincial and regional trade and exchange
- Regional free trade agreements, e.g. COMESA, and bilateral cooperation agreements

Funding the Vision 2020
- Funds from international financing institutions and debt reduction
- Foreign direct investment
- Community development works and activities
- Internal revenue
- Promotion of savings
- Establish new capital markets
- Financial sector reform and privatization
- Improved financial sector regulation
- Banking sector opened up to competition
- Specialized financial institutions for long-term savings to be created
- Micro-finance activities
- Bank guarantee system

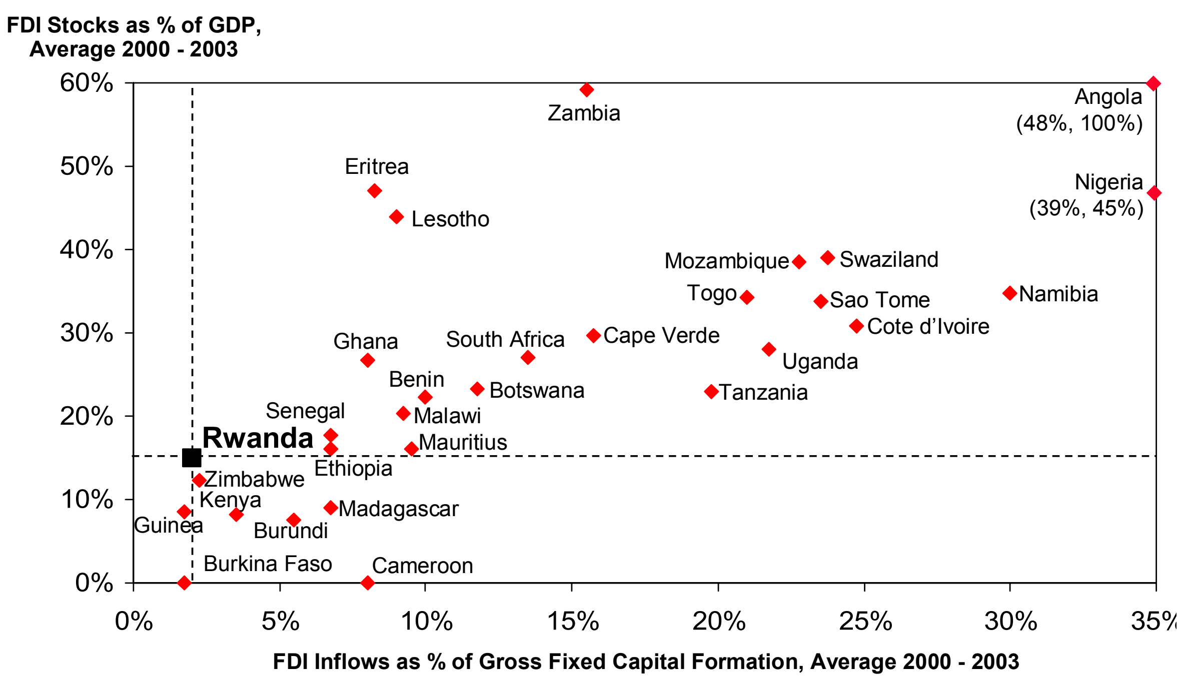
Source: Vision 2020, 2002.

Exhibit 6 Rwandan Development Budget by Sector, 2002–2003 ($ millions)

Sector	2002	2003	No. of Projects 2003
General Administration	$16.8m	$25.6m	21
Defense	1.8	1.6	10
Justice, Public Order & Safety	8.4	7.8	15
Environmental Protection	1.3	1.2	6
Agriculture	18.2	14.0	21
Industry, Commerce, Tourism	4.1	5.1	9
Fuel & Energy	1.4	7.8	12
Transportation & Communication	11.5	11.7	12
Land, Housing, Community Development	8.3	10.8	11
Water & Sanitation	7.4	8.4	11
Youth, Culture, Sports	2.8	1.8	4
Health	9.3	5.9	10
Education	20.4	14.2	12
Social Protection	6.9	6.4	11
Total	**118.4**	**122.4**	**165**

Source: Rwandan Government, Budget Statement to Parliament for 2003; IMF, International Financial Statistics.

Exhibit 7 Rwanda's Foreign Direct Investment



Source: EIU (2005), author's analysis.

Exhibit 8 Country Economic Data, Selected African Countries

Indicator	Year	Rwanda	Burundi	DRC	Tanzania	Uganda
Population						
Population, total (million)	2002	8.2	7.1	53.8	35.2	23.4
Population growth (annual %)	2002	1.7	1.9	2.7	2.0	2.6
Urban population (% of total)	2002	6.4	9.6	N/A	34.2	14.9
Health						
Life expectancy at birth, total (years)	2002	39.8	41.7	45.3	43.1	43.1
Mortality rate, infant (per 1,000 live births)	2001	96	114	129	104	79
Adult Population living with HIV/AIDS (%)	2001	8.9	8.3	N/A	7.8	5
Economic Indicators						
GDP (current $m)	2002	1,736	719	5,704	9,383	5,866
Average GDP Growth Rate (last 5 years, %)	2002	7.7	1.9	-2.4	4.8	5.5
Average GDP Growth Rate (last 10 years, %)	2002	4.2	-1.5	-3.5	3.8	6.8
Average GDP Growth Rate (last 20 years, %)	2002	2.9	1.2	-2.3	3.7	5.2
GDP per capita, PPP (current international $)	2002	1,221	613	606	557	1,354
GNI per capita, PPP (current international $)	2002	1,210	610	580	550	1,320
Inflation, consumer prices (annual %)	2002	2.5	-1.4	31.5	4.6	-0.3
Inflation, food prices (annual %)	2001	6.0	N/A	N/A	6.1	-3.4
External debt, total (DOD, current $m)	2001	1,283	1,065	11,392	6,676	3,733
Trade and Investment Flows						
Exports of goods and services (current $m)	2002	140	47	1,047	1,533	699
Growth in exports of goods and services (annual %)	2002	-6.8	6.4	8.0	-2.2	2.8
Imports of goods and services (current $m)	2002	435	136	1,224	2,290	1,636
Balance of trade (current $m)	2002	-294.3	-88.8	-176.1	-756.4	-936.9
Current account balance (BoP, current $m)	2002	-207	-58	N/A	-699	-546
Current account balance (% of GDP)	2002	-11.9	-8.1	N/A	-7.5	-9.3
Net current transfers from abroad (current $m)	2002	-17.9	39.9	N/A	90.8	545.0
Foreign direct investment, net inflows (% of GDP)	2001	0.3	0.0	0.6	2.4	2.5
Foreign direct investment, net inflows (BoP, current $m)	2001	4.6	0	31.9	224.4	144.7
Foreign Aid						
Official development assistance (current $m)	2001	291	131	251	1,233	783
Aid per capita (current $)	2001	36.6	18.8	4.8	35.8	34.3
Aid (% of GNI)	2001	17.3	19.3	5.3	13.3	14.1
GDP Structure (% of GDP)						
Agriculture, value added (% of GDP)	2002	41.6	49.3	56.3	44.7	31.4
Total Industry, value added (% of GDP)	2002	21.8	19.4	18.8	16.0	22.7
Manufacturing, value added (% of GDP)	2002	10.4	N/A	3.9	7.5	10.2
Services, etc., value added (% of GDP)	2002	36.6	31.3	24.9	39.4	45.9
Education						
Public spending on education, total (% of GDP)	2000	2.8	3.4	N/A	2.1	2.3
School enrollment, primary (% gross)	2000	118.6	65.2	N/A	63.0	135.8
School enrollment, secondary (% gross)	2000	12.1	10.3	18.4	5.8	18.6
School enrollment, tertiary (% gross)	2000	1.7	1.2	1.4	0.7	3.0
Illiteracy rate, adult total (%, age 15 and above)	2002	30.8	49.6	35.9	22.9	31.1
Infrastructure						
Internet users (thousands)	2001	20	6	6	300	60
Internet service provider access charges ($ per 30 hours)	2001	38.5	N/A	95	69	30
Telephone mainlines (per 1,000 people)	2001	2.7	2.9	0.4	4.1	2.8
Financial Sector						
Credit to private sector (% of GDP)	2002	10.2	24.7	0.7	6.3	6.6
Domestic credit provided by banking sector (% of GDP)	2002	12.5	35.0	0.1	10.0	15.2

Sources: WORLD DEVELOPMENT INDICATORS by STAFF WRITER. Copyright 2006 by WORLD BANK. Reproduced with permission of WORLD BANK in the format Textbook via Copyright Clearance Center.

Appendix A Rwanda's Neighbors

Uganda

Following independence from the British in 1962, Uganda experienced political upheaval culminating in the rule of Idi Amin between 1971 and 1979. Asians, who had run most trade and manufacturing and contributed the majority of private investment, were expelled in 1972. The economy was devastated.

Uganda returned to political stability in 1986 when Yoweri Museveni and the National Resistance Movement came to power. The government embarked on an economic recovery program in 1987. Strict fiscal and monetary controls were enacted to curb inflation, the currency was devalued by 77%, the exchange rate was liberalized, tariffs were reduced, and many price controls were removed. The country began a privatization campaign, and two-thirds of the country's 142 SOEs were sold. Uganda's investment law was reformed. The government created the Uganda Revenue Authority in 1991, reformed land laws in 1995, and introduced a VAT in 2000. A Poverty Eradication and Action Plan was finalized in 2000. The country had received substantial foreign assistance, and foreign debt had risen to $3.7 billion in 2001.

Uganda's economy had grown by an average of 5% per year since 1986. Coffee ($109 million in 2002), fish ($90.1 million), tobacco ($51.1 million), tea ($30 million), and cotton ($26.2 million) were the country's main exports. Fish exports were expected to exceed coffee exports going forward. The banking sector was dominated by large, respected foreign banks. Tourism at the country's 10 national parks was growing quickly, and 282,000 tourists (114,247 from African countries) visited in 2001. Corruption was endemic in the Ugandan economy. Both high-level and petty corruption were common. The country was ranked 113th in the world by Transparency International in 2003, and between 1996 and 2001, corruption was estimated to have cost Uganda $500 million.

Burundi

Previously ruled by the Belgians as part of a union with Rwanda, Burundi had been plagued by ethnic conflict and numerous massacres between Tutsis and Hutus since its independence in 1962. Burundi had been in a state of internal conflict since 1988 with the Tutsi-dominated government fighting Hutu militias and rebel groups, some based in the DRC. The conflict worsened throughout the 1990s, and hundreds of thousands were displaced. After a military takeover in 1996, regional economic sanctions were imposed against Burundi until 1999. A peace agreement had been signed in 2000, and a transition government was in place until elections could be held. However, cease-fire agreements had still to be signed with rebel groups. Following the peace agreement there were substantial pledges of international aid, and the government drafted an interim PRSP in March 2002.

Burundi had experienced low or negative real GDP growth for a decade. Subsistence farming constituted 50% of GDP. The main exports were coffee ($33.9 million in 2000), tea ($12.1 million), cotton, and fishing. The output of these industries had declined substantially in the last decade. Mineral resources existed, but extracting them had been impossible due to the conflict. Substantial corruption existed among civil servants and soldiers, and there were many cases of senior politicians being involved in smuggling.

Roughly 80% of the population lived in poverty. Gross primary-school enrollment had shrunk to 55%, with public expenditure disproportionately weighed toward secondary and tertiary education. Health care had collapsed in many provinces.

Tanzania

From independence in 1964 until the 1980s, Julius Nyerere ran Tanzania as a socialist country, modeled on Chinese communism. The country embarked on a structural adjustment program in 1986, which entailed strict fiscal discipline, a privatization program, floating exchange rates, and a liberalized financial sector. The country ceased to be a single-party state in 1992 and conducted its first multiparty elections in 1995, though Nyerere's CCM party still dominated. A favorite among international donors since the 1960s (particularly Scandinavian and eastern European countries), Tanzania was one of the most aid-dependent states in Africa, having received an average of $1 billion a year between 1993 and 1999. The government had formulated a PRSP in 2000.

Tourism had grown strongly in the 1990s, reaching 628,000 tourists in 1999, though the number had fallen to 525,122 in 2001, earning roughly $500 million. New mining legislation was enacted in 1997, and the mining sector had grown to $373 million in 2002 (up from $51.1 million in 1997), mainly in gold, diamonds, and gemstones. Other exports were cashews, coffee, cotton, tobacco, and fish. Agriculture employed two-thirds of the labor force. Tanzania had 20 banks including most international banks that were active in Africa. A stock exchange was launched in 1998. Businesses were affected by frequent blackouts and water-supply problems.

In terms of corruption, Tanzania was ranked 92nd in the world by Transparency International in 2003 (higher than neighboring Kenya at 112th), and there was substantial corruption in the judicial and police system.

Democratic Republic of Congo (DRC)

The third-largest country in Africa and one of the richest in natural resources, the DRC had been plagued by colonialism, corrupt government, and civil war. Before independence in 1960, the country was the private property of the Belgian king and underwent some of the worst human rights abuses of any colony. Joseph Mobutu ruled for 32 years following a U.S.-backed takeover in 1965, and corruption was unprecedented by his authoritarian government. Mobutu was overthrown by Laurent Kabila in 1997, backed by the Rwandan government. Kabila implemented disastrous economic policies and blocked attempts at reaching a peace agreement. When he was assassinated in 2001, his son, 32-year-old Joseph Kabila, became president, appointed many respected technocrats in government, and supported a peace process. An all-party government was due to take power in 2003 in preparation for multiparty elections.

The economy had experienced several decades of economic decline. Copper, once the mainstay of the economy, had fallen 18-fold since the 1980s and accounted for only $42 million of exports. The country produced coffee, palm oil, cotton, cocoa, rubber, and tobacco. Despite excellent conditions, agricultural production had been in steady decline, and the country was a net importer of food. On the positive side, diamond mining and crude-oil extraction had grown rapidly, reaching $462 million and $2,001 million in 2001, respectively. Many foreign banks (French, Belgian, South African, U.S.) were active in the DRC. With the ongoing conflict, there had been a collapse in the education and public health systems.

Appendix B Privatizations of Government Enterprise, 1997–2003

Privatized			Planned Privatizations		Liquidations	
Company	**Sector**	**Year**	**Company**	**Sector**	**Company**	**Sector**
Kabuye Sugar Works	Agriculture	1997	9 Tea Factories	Agriculture	Oprovia[b]	Agriculture
Ovibar (beverages)	Industry	1998	3 Rice Processing Factories	Agriculture	Sodepara[c]	Agriculture
National Printing House	Industry	1998	Lake Kivu Fishery, Kibuye	Agriculture	Soproriz[d]	Agriculture
Ruhengeri Lime Project	Mining	1998	Kigembe Fishery	Agriculture	Sopab (animal feeds factory)	Agriculture
19 petrol stations	Energy	1998	Gishwati Dairy	Agriculture	Rwanda International Transport Corp.	Transportation
Kibuye Guest House	Tourism	1998	CNPE Kabuye (pig farming)	Agriculture	Air Rwanda	Transportation
Regina Hotel	Tourism	1998	CNPE Cyangugu	Agriculture	Rwanda Savings Fund	Finance
Lake Kivu Fisheries, Gisenyi	Fishing	1998	Wisumo sawmill	Agriculture		
Nyagatare Dairy	Agriculture	1998	Rubirizi National Hatchery	Agriculture		
Rubirizi Dairy	Agriculture	1998	Imprisco (school printing company)	Industry		
Nyabugogo tannery	Agriculture	1998	Bralirwa brewery (beer and soft drinks)	Industry		
Nyabugogo slaughterhouse	Agriculture	1998	Mining concessions to be put on sale	Mining		
King Fayçal Hospital (private & public)	Health	1998	Rwandatel (national fixed line carrier)	Telecom		
Boucherie-Charcuterie de Kigali (butcher)	Services	1999	Onatracom (national transport company)	Transportation		
Gikondo Coffee Factory (washing station)	Agriculture	1999	Ituze Tourist Lodge	Hotel		
Nkora Coffee Factory (washing station)	Agriculture	1999	Bacar (bank)	Finance		
Sorwal (matchsticks)	Industry	2000	Bank of Kigali	Finance		
Kinigi Tourist Resort	Tourism	2000	Rwanda Commercial Bank	Finance		
Lake Kivu Fisheries, Cyangugu	Fishing	2000	Rwanda Development Bank	Finance		
Rwanda Pyrethrum Authority	Agriculture	2000	SONARWA (insurance)	Finance		
Tabarwanda (cigarettes)	Industry	2001	MAGERWA (warehouses)	Other		
Karuruma Foundry	Mining	2001				
Kiyovu Hotel	Tourism	2001				
Diplomates Hotel	Tourism	2001				
Izuba Hotel	Tourism	2001				
Lake Ihema Fishery	Fishing	2001				
Sonafruits (juice production factory)	Agriculture	2001				
Gatare Flour Mill	Agriculture	2001				
CNPE[a] Ruhengeri	Agriculture	2001				
Several Oprovia[b] Branches Sold	Services	2001				
Ruliba Brick Works	Industry	2002				
Mukamira Maize Processing Factory	Agriculture	2002				
CNPE[a] Kabuye (Rabbit & Poultry)	Agriculture	2002				
Masaka Coffee Factory (washing station)	Agriculture	2002				
Electrogaz (private management contract)	Energy	2003				
Akagera Hotel	Tourism	2003				
Kamatsira Sawmill	Forestry	2003				

Source: Government of Rwanda, Privatization Secretariat; Author's research.

[a]National Center for Small Livestock branch.

[b]National Office for the Development and Marketing of Food and Animal Products.

[c]Company for the Promotion and Marketing of Agricultural and Animal Products.

[d]Rwandan-Chinese company for the promotion of rice.

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