RWANDA

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- **Real GDP grew by an average of 6.9% during the first three quarters of 2015, in line with the 7.0% target for 2015. It is projected to decrease to 6.8% this year before going back up to 7.2% in 2017.**
- **The indicators for rule of law, political rights and civil liberties, participation and inclusiveness, and safety and security have all improved.**
- **With urbanisation an emerging priority, measures are being implemented to position Kigali as a centre for investment and business growth. There is also a focus on promoting balanced and transformative urbanisation through the development of secondary cities.**

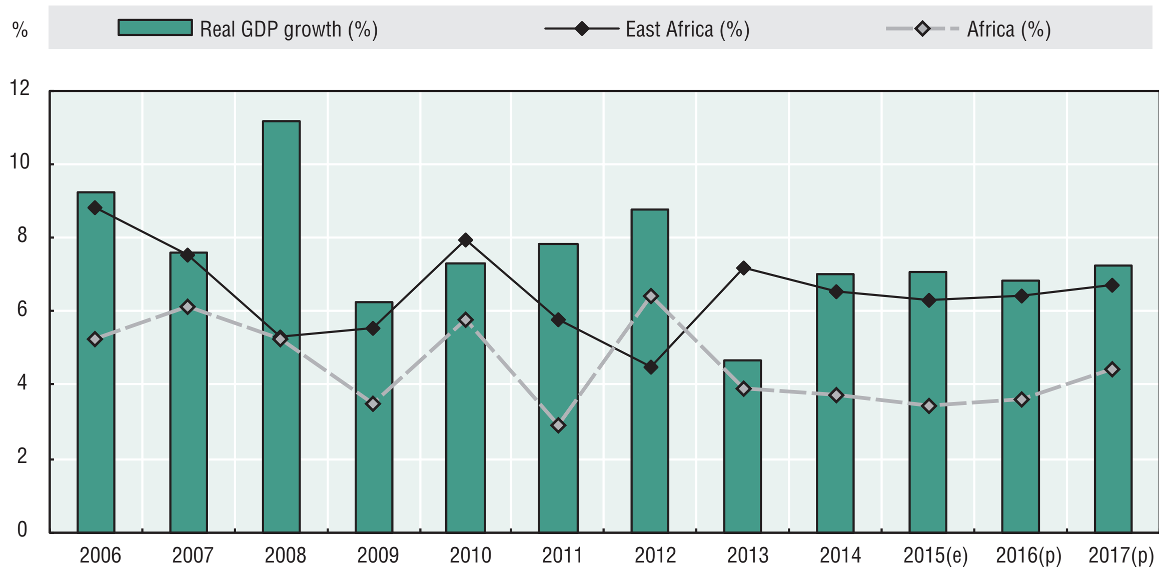
Overview

Real GDP grew by an average of 6.9% in the first three quarters of 2015, lower than the 7.2% average recorded during the same period in 2014. However, the 6.9% rate is in line with the 7.0% target for 2015. The services and industry sectors led the expansion during this period. Growth in the agriculture sector, however, was moderate in part due to fluctuations in weather conditions. For 2016 and 2017, sustained investments to address energy and transport infrastructure constraints, continued progression in industry and a recovery in services are expected to lead growth. Agriculture is projected to grow at a moderate rate.

Headline inflation is projected to remain below the central bank's medium-term target in 2016 and 2017. Inflationary pressures are expected to remain subdued due to low fuel and food prices. Strong demand for capital, intermediate goods and fuel products is projected to persist in the short to medium term in line with the public investment programme. Current account deficits are expected to remain high in the near term as export receipts continue to account for only 25% of imports.

Rwanda's urban population accounted for 28.0% of its total population in 2014, which is lower than the sub-Saharan Africa (SSA) and global averages of 37.0% and 53.0% respectively. However, the 5.9% annual urbanisation rate exceeds the averages of 4.2% and 2.1% for SSA and the world respectively. This calls for an integrated urban/rural development approach to ensure sustainability and to link urban development objectives with other goals, notably socio-economic transformation. Implementation of the Urbanization and Rural Settlement Strategy (2013-18) is underway. This strategy focuses on two objectives. The first objective is to enhance Kigali's development and provide urban planning and management support to the districts. The second objective relates to the creation of balanced urbanisation for economic inclusion and transformation. In this regard, six secondary cities are at various levels of development, the goal being to transform budding trade and transport centres into regional growth poles. Achieving these objectives is expected to increase the urbanisation rate to 35.0% by 2020.

Figure 1. **Real GDP growth**



Source: AfDB, Statistics Department AEO. Estimates (e); projections (p).

Table 1. **Macroeconomic development**

	2014	2015(e)	2016(p)	2017(p)
Real GDP growth	7.0	7.1	6.8	7.2
Real GDP per capita growth	4.6	4.7	4.5	4.9
CPI inflation	2.4	2.5	3.0	3.0
Budget balance % GDP	-4.0	-5.0	-4.9	-5.6
Current account % GDP	-11.8	-12.3	-11.9	-11.4

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Recent developments and prospects

Real GDP grew by an average of 6.9% during the first three quarters of 2015, which is lower than the 7.2% recorded for the same period in 2014. Growth during the first three quarters of 2015 was led by the services and industry sectors, which increased by 7.3% and 7.0% respectively. While the services sector remains the leading driver, its growth rate was lower than the 9.7% recorded during the same period in 2014. Trade, transport and information and communication propelled the services sector, which accounts for the largest share of GDP (see Table 2). The expansion in financial and health services also contributed to the sector's growth. Credit to the private sector increased by an estimated 24.6% in 2015, compared to 19.6% in 2014. This also helped boost the services sector.

Agricultural growth remained moderate, with fluctuations in weather conditions mitigating the contribution of productivity-enhancing investments. The sector's growth rate of 5.0% in the first three quarters of 2015 was lower than the 5.3% for the same period in 2014. Food and export crops remain the primary contributors to the expansion of agriculture. Growth for export crops has been driven by increased tea and coffee production, as well as good prices for tea. The Strategic Plan for the Transformation of Agriculture (2013-18) is being implemented to improve agricultural productivity.

Grouped together, manufacturing, energy, construction and mining grew by 7.0% in the first nine months of 2015, one percentage point higher than their 2014 rate. Manufacturing, electricity production and construction all progressed, offsetting the slowdown in mining. Rising domestic demand for food, beverages and tobacco products continues to drive growth in manufacturing. Investments in energy infrastructure have been the leading drivers of growth in electricity production and construction. The mining sector was affected by reduced production and prices for the three key exports, cassiterite, coltan and wolfram. Consequently, the contribution of these three minerals to total formal exports decreased from 34.3% (USD 190 million) during the first 11 months of 2014 to 21.1% (USD 107.8 million) in 2015.

Formal exports (Free on Board – FOB) decreased by 7.9% to USD 511.1 million in the first eleven months of 2015. This is in part due to a 20.7% reduction in the main exports, coffee, tea and minerals. Mineral exports were affected by lower production and decreased international prices. Earnings from tea, however, grew by 44.3% due to increased production and favourable prices. Earnings from increased coffee production, on the other hand, were offset by lower coffee prices. Principal exports accounted for 47.8% of total formal exports in the first eleven months of 2015, compared to 55.5% in 2014.

Formal imports (Cost, Insurance, and Freight – CIF) in the first eleven months of 2015 decreased 2.6% to USD 2.1 billion due to lower imports of industrial products, energy and lubricants. The reduction in imports of industrial products (e.g. food, paper, textiles, wood and chemicals) is partly due to growth in domestic manufacturing of similar products. The steady decrease in international oil prices reduced the cost of imports in energy and lubricants. As a result, the trade deficit decreased 0.9% to USD 1.6 billion in the first eleven months of 2015.

Tourism and remittances are Rwanda's major foreign exchange earners. Tourism earnings maintained a steady rise, growing from USD 293.6 million and USD 303.7 million in 2013 and 2014 respectively to an estimated USD 317.8 million in 2015. However, remittance inflows decreased from USD 174.9 million in 2014 to an estimated USD 161.7 million in 2015, the same level as in 2013.

The current account deficit – including transfers – remains high due to the persistent trade, services and income account deficits. In addition, current public transfers have continued to decrease in part due to the increased use of project support as opposed to budgetary disbursements (see Table 4).

The overall balance of payments deficit decreased from 1.9% of GDP in 2014 to an estimated 1.2% in 2015. This is due to a higher balance on the capital and financial account following an increase in foreign direct investment (FDI), as well as project and budgetary loans. FDI increased an estimated USD 59.3 million to USD 327 million in 2015, reflecting steady growth in FDI since 2011. Gross official reserves decreased from USD 985.3 million in 2014 to an estimated USD 879.6 million in 2015, leading to a reduction in import (CIF) cover from 4.4 to 3.7 months. This is due to the reduction in mineral export earnings.

The major downside risks to the economic outlook include the reduction in prices and global demand for commodities and the negative impact of weather fluctuations on agriculture productivity. A revised National Export Strategy was adopted in 2015 to promote export growth and diversification. In addition, several measures including irrigation are being implemented under the Strategic Plan for the Transformation of Agriculture (2013-18) to reduce the agriculture sector's reliance on rainfall. These reforms are expected to mitigate these two risks. Furthermore, investments in infrastructure, notably in energy, are expected to support growth in manufacturing, energy, construction and mining and also reduce the costs of doing business. This will catalyse these sectors and overall economic growth. Real GDP is projected to grow 6.8% and 7.2% in 2016 and 2017 respectively.

Table 2. **GDP by sector (percentage of GDP at current prices)**

	2010	2014
Agriculture, forestry, fishing and hunting	34.7	35.0
of which fishing	0.4	0.4
Mining and quarrying	1.1	1.9
of which oil	…	…
Manufacturing	5.8	5.1
Electricity, gas and water	0.7	0.7
Construction	6.2	7.5
Wholesale and retail trade; Repair of vehicles household goods; Restaurants and hotels	16.6	15.5
of which hotels and restaurants	3.0	2.3
Transport, storage and communication	5.7	5.8
Finance, real estate and business services	17.6	14.8
Public administration and defence	3.1	3.6
Other services	8.5	10.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

The medium-term fiscal policy stance reflects the Fiscal Consolidation Strategy (FCS), whose implementation commenced in 2010. The FCS aims to prioritise public spending, improve revenue mobilisation and reduce borrowing from the domestic financial markets to facilitate growth in credit to the private sector.

The public expenditure policy acts as a key vehicle for delivering the Economic Development and Poverty Reduction Strategy-2 (EDPRS-2) 2013-18 objectives. The key objectives are addressing the binding infrastructure constraints to achieve the broader goals of improving productivity and growth in exports and jobs for economic transformation. Implementation of fiscal policy was constrained by reduced grants (see Table 3). Recurrent spending was higher than planned, but capital spending was lower due to implementation delays related to contract management, especially for energy and transport projects.

Public revenue mobilisation continues to improve. However, the tax-to-GDP ratio (see Table 3) remains below the East African Community (EAC) 25% target. Low growth in excisable products and slower uptake of electronic billing machines (EBM) affected collection of excise taxes and VAT. Reduced grants and weak domestic revenue performance contributed to a rise in the fiscal deficit (cash basis) in 2014/15. The fiscal deficit was financed by concessional external debt and borrowing from the domestic financial markets.

Revenue-enhancing measures are being implemented to support public revenue growth and reduce dependency on aid. These efforts comprise introduction of levies on fuel and imports to fund road maintenance and infrastructure and the sustained rollout and enforcement of the use of EBMs. Medium-term tax policy reforms in agriculture, mining and property taxes are also planned. Successful implementation of these measures is expected to grow the tax base and bring the tax-to-GDP ratio closer to the EAC target of 25% over the medium term.

Indicators such as trends in domestic arrears and recurrent spending signal sustained fiscal stability. Two key fiscal policy challenges remain: high aid dependence and problems with project and contract management. These continue to hold back the implementation of infrastructure projects and consequently affect the execution of the budget. However, the programmed revenue-enhancing measures will increase the share of the budget financed by domestic resources from the current level of 60%. Furthermore, on-going improvements such as the submission of quarterly progress reports for strategic projects to the cabinet are expected to improve project implementation.

Table 3. **Public finances (percentage of GDP at current prices)**

	2006/2007	2011/2012	2012/2013	2013/2014	2014/2015(e)	2015/2016(p)	2016/2017(p)
Total revenue and grants	**25.0**	**25.3**	**23.2**	**26.0**	**25.4**	**24.5**	**23.9**
Tax revenue	12.6	13.4	13.7	14.9	15.5	15.2	15.3
Grants	11.7	11.0	7.7	9.2	7.5	7.1	6.5
Total expenditure and net lending (a)	**26.0**	**26.5**	**28.5**	**30.0**	**30.4**	**29.4**	**29.5**
Current expenditure	16.6	14.9	13.4	15.1	14.9	14.4	14.6
Excluding interest	16.0	14.5	12.8	14.3	14.1	13.6	13.8
Wages and salaries	3.9	3.5	3.6	3.7	3.7	3.7	3.8
Interest	0.6	0.4	0.6	0.8	0.8	0.8	0.9
Capital expenditure	9.9	11.6	12.9	13.9	13.8	13.2	13.5
Primary balance	**-0.4**	**-0.8**	**-4.7**	**-3.2**	**-4.2**	**-4.1**	**-4.7**
Overall balance	**-1.0**	**-1.2**	**-5.3**	**-4.0**	**-5.0**	**-4.9**	**-5.6**

Note : a. Only major items are reported.
Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Monetary policy

The primary objective of the 2015 monetary policy stance was to ensure low and stable inflation while supporting adequate growth in private sector credit to consolidate the economic recovery. Consequently, the central bank's key policy rate, the Key Repo Rate (KRR), was maintained at 6.5% in 2015, a rate that has been held since June 2014. The KRR will remain unchanged at 6.5% until the end of the first quarter of 2016.

Implementation of measures to improve the monetary policy transmission mechanism continued in 2015. These measures aimed at strengthening the linkage between monetary policy, financial markets and the real economy. For instance, the quarterly longer-term issuance programme for 2015 was published in January 2015 and four Treasury Bonds were successfully issued. The issuance programme also aims to develop the capital markets and mobilise infrastructure funding.

The central bank continues to work with commercial banks to increase interbank transactions, including through strengthening their capacity in the interbank market. These measures and the accommodative monetary policy stance have driven a reduction in money market interest rates. Although stable, lending rates remain high at over 17%, in part due to high overhead costs for commercial banks and information asymmetry, which limits bargaining power for individual borrowers.

Increased prices for food and non-alcoholic beverages and utilities contributed to a rise in inflationary pressures. Annual headline inflation increased from 0.7% in November 2014 to 4.8% in November 2015 but remains below the 5.0% medium-term target. Annual core inflation decreased from 2.9% to 2.3% over the same period. Credit to the private sector grew by 24.6% in 2015, compared to 19.6% in 2014.

The central bank's exchange rate corridor framework, implemented since 2010, has supported more exchange rate flexibility, reduced foreign exchange market pressures and ensured international reserves of at least four months of imports. Furthermore, foreign exchange risk exposure for banks is now aligned with practices in other EAC member states. Whereas the Rwandan franc (RWF) depreciated by 7.3% against the US dollar (USD) in the year to December 2015, compared to 3.7% in the year to December 2014, the RWF appreciated by 4.1% against the euro and several regional currencies. This suggests the RWF's depreciation against the USD is largely due to the latter's global strengthening.

Economic co-operation, regional integration and trade

Rwanda is a member of several regional economic communities, notably the EAC, the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community for the Countries of the Great Lakes (ECGLC). Rwanda is also a signatory to the COMESA-EAC-Southern Africa Development Community (SADC) Tripartite Free Trade Area (TFTA) agreement. The share of Rwanda's formal exports to the EAC grew from 17.4% in 2013 to 17.8% in 2014, with the share of formal imports increased from 20.0% to 21.5%. Coffee, tea, vegetables and non-alloy steel are Rwanda's major exports to the EAC, while imports include consumer goods and construction materials. The Rwanda Integrated Payment Processing System (RIPPS) is linked with the payment systems for COMESA and EAC. This financial integration is expected to increase regional trade and further deepen regional integration.

Formal exports (FOB) decreased 7.9% to USD 511.1 million by November 2015, and formal imports (CIF) declined by 2.6%, contributing to a lower trade deficit (see Table 4). Fewer receipts from the major exports of coffee and minerals due to lower international prices led to the reduction in exports. The decline in international oil prices and the steady rise in the domestic production of industrial products such as food, paper, textiles, wood and chemicals contributed to the drop in imports. Deficits on the trade, services and income accounts led to a negative current account balance, even after taking into consideration official transfers in 2015 (see Table 4).

Rwanda is working with several other eastern African countries to implement commitments under the Northern Corridor Integration Projects (NCIP) framework. Several NCIP milestones have been achieved, including the adoption of a single customs territory along the northern corridor from Mombasa to Nairobi and Kampala to Kigali and the joint mobilisation of resources for strategic projects such as the northern corridor railway.

Table 4. **Current account (percentage of GDP at current prices)**

	2007	2012	2013	2014	2015(e)	2016(p)	2017(p)
Trade balance	-11.1	-18.8	-16.4	-18.0	-16.1	-15.9	-17.4
Exports of goods (f.o.b.)	4.7	7.0	8.2	7.3	6.9	6.8	6.8
Imports of goods (f.o.b.)	15.8	25.7	24.6	25.3	23.0	22.7	24.2
Services	-3.3	-1.3	-1.6	-1.0	-1.5	-1.4	-1.3
Factor income	-0.5	-1.3	-1.8	-2.3	-2.7	-2.9	-2.8
Current transfers	12.2	10.1	12.4	9.5	8.1	8.4	10.1
Current account balance	**-2.6**	**-11.3**	**-7.4**	**-11.8**	**-12.3**	**-11.9**	**-11.4**

Source: Data from domestic authorities; estimates (e) and projections (p) based on authors' calculations.

Debt policy

The Medium Term Debt Strategy (MTDS) ensures that the government's public financing plan and payment obligations are cost effective and underpinned by prudent risk assessments to support capital market development and ensure debt sustainability. The capacity of the Debt Management Unit is being strengthened to support these objectives. This will also ensure investment projects are aligned with available financing and implementation capacities. As a result, the risk of debt distress remains low. Moreover, the non-concessional borrowing ceiling was increased in 2015 from USD 250 million to USD 500 million to accommodate investments in energy, transport and water.

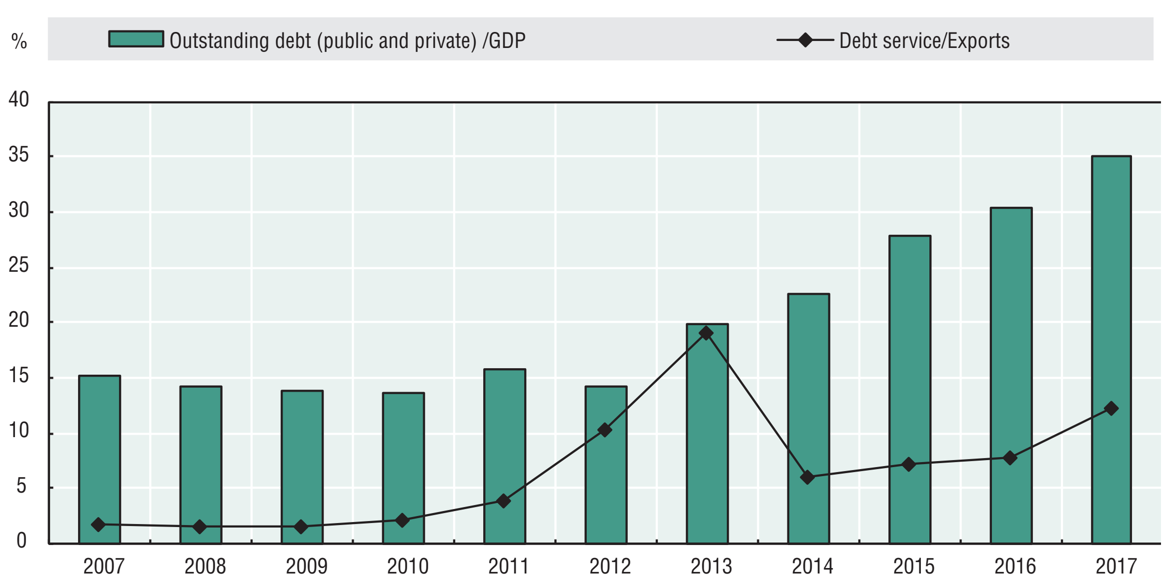
Total public and publicly guaranteed (PPG) debt (external and domestic) increased from USD 2.4 billion (30.6% of GDP) in 2014 to an estimated USD 2.9 billion (34.9% of GDP) in 2015. This was due to increased disbursement of concessional loans by multilateral partners. External public debt also increased from USD 1.8 billion in 2014 (75.6% of total debt) to USD 2.2 billion in 2015 (74.8% of total debt). Multilateral partners accounted for the largest share of external debt, at 45.4% and 48.4% in 2014 and 2015 respectively.

Public debt burden indicators continue to project debt sustainability. The present value (PV) of PPG external debt-to-exports ratio increased from 93.6% in 2014 to an estimated 120.7% in 2015. However, these values remain below the 200.0% threshold. Although the PV of the total public debt-to-GDP ratio grew from 14.6% in 2014 to 18.2% in 2015, it is still below the sustainable threshold of 50.0%. The PV of public debt service-to-revenue ratio increased from 5.3% in 2014 to 6.4%% in 2015, but is also below the sustainable threshold of 22.0%. Furthermore, whereas the PV of external debt service-to-exports ratio edged up from 5.8% in 2014 to 6.8% in 2015, it is still lower than the 25.0% sustainable threshold (see Figure 2).

The debt sustainability stress tests project public debt sustainability, even with the onset of shocks. These include increased debt service – for instance as would be the case following a rise in Rwanda's ten-year bond yield – and lower commodity prices, with a subsequent reduction in export earnings. The appreciation of the US dollar against major currencies is also a key risk.

However, reducing the risks to debt sustainability, especially with respect to the repayment of the eurobond in 2023, necessitates promoting export growth and consolidating public revenue mobilisation. The second National Export Strategy was adopted in 2015 and includes strategic interventions to increase exports, such as upgrading firms' capacities to access export markets and establishing an export-growth financing facility. The revenue-enhancing measures discussed under "Fiscal policy" above are also projected to support increased debt sustainability.

Figure 2. **Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)**



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

Rwanda's ranking in the World Bank report *Doing Business 2016* dropped from 55 out of 189 countries in 2014 to 62 out of 189 countries in 2015. However, Rwanda is now the second most competitive country in sub-Saharan Africa as a result of the sustained implementation of business regulatory reforms. In 2015, progress was made in 6 out of 10 business regulatory areas measured by the report, compared to 3 out of 10 in 2014.

Notable improvements were made in registering property and getting credit. Three major reforms have been implemented since 2008 to improve efficiency in property registration. These include: replacing the 6% registration fee with a flat rate, elimination of the tax clearance certificate and the adoption of a web-based land administration information system to ease the processing of land transactions. Obtaining credit has been facilitated by improvements in the credit information system, which was introduced in 2004. In particular, commercial banks and other financial institutions can submit data to the credit bureau electronically. Moreover, the credit bureau is synchronised with the central bank's credit registry, and a credit scoring service was introduced in 2015. Finally, the secured transactions systems have been strengthened with the inclusion of a wide range of assets for use as collateral.

Nevertheless, these improvements in the business regulatory environment need to be translated into a reduced cost of doing business to improve Rwanda's competiveness. This will require addressing the key challenges to private sector development, which consist of the high cost of energy and transport, as well as a gap and mismatch in skills. Poor business planning and management are also an impediment, particularly for the micro, small and medium enterprises, which constitute over 98% of the private sector. A five-year implementation plan for the Private Sector Development Strategy was adopted in 2015 to address these bottlenecks.

Financial sector

Banking accounts for the largest share of the financial sector at 66.9% as of June 2015, a reduction of about six percentage points when compared to 2010. Commercial banks constitute 81.8% of the banking sector's assets. Although concentrated, competition in the banking sector has improved. In June 2015, the three largest banking institutions accounted for 42.0% of loans, 48.0% of deposits and 45.0% of total assets, compared to 52.0%, 58.0% and 54.0% respectively in 2010. Insurance and microfinance accounted for 9.7% and 6.3% of financial sector assets in June 2015. Pensions constituted 63.9% of the total assets of non-banking financial institutions and 17.1% of the financial sector's assets.

The financial sector remains sound and profitable. The Capital Adequacy Ratios (CARs) for banks and microfinance in September 2015 were 24.2% and 31.2% respectively, which is higher than the regulatory 15.0%. The insurance sector's liquidity ratio stood at 312.0% in June 2015, higher than the prudential 150.0%. The corresponding CARs at year-end 2014 were 24.2% and 33.2%, and the liquidity ratio for insurance at end-December 2014 was 305.0%. Return on Assets (ROA) and Return on Equity (ROE) stood at 2.3% and 12.7% respectively for the banking sector in September 2015. The microfinance sector registered ROA and ROE of 3.5% and 11.2% respectively. The ROA for the insurance sector stood at 9.0% in September 2015, exceeding the prudential 4.0%, but the ROE of 12.0% was lower than the 16.0% prudential benchmark as a result of the low profitability of private insurers.

Financial sector depth is steadily increasing but remains low. Domestic credit provided by the banking sector increased from 15.9% of GDP in 2012 to 19.4% in 2014 but is below the 76.1% average for sub-Saharan Africa.

The government and central bank have implemented measures to develop the capital market and enhance its role in mobilising financing and also extend the yield curve to longer term maturities. For instance, the government's long-term quarterly debt issuance programme, introduced in 2014, was also implemented in 2015. Government bonds of 3, 5, 7 and 10 years are currently being traded on the bond market.

Public sector management, institutions and reform

A public service reform and restructuring exercise was implemented in the fiscal year (FY) 2014/15 and involved redeployment and re-assignment of staff to ensure the right skills mix is in place to deliver on the second Economic Development and Poverty Reduction Strategy (EDPRS-2) objectives. While it is still early to quantify the contribution of the civil service restructuring exercise, this reform is expected to contribute to further improvements in public service delivery and operational efficiency.

Starting in FY 2015/16, the annual performance contract process was refined with the introduction of joint performance contracts in seven priority areas. This is aimed at exploiting the underlying sectoral complementarities and ensuring sustained progress is achieved across all seven areas to meet the EDPRS-2 objectives. The priority areas include: agriculture, energy, exports, job creation, urbanisation and rural settlement, social protection and service delivery. The joint performance contracts cut across central and local government agencies, and their design was informed by extensive consultations with the private sector.

The creation of the Water and Sanitation Corporation Ltd. as part of the institutional reforms undertaken in 2014 to improve efficiency in the water sector has reduced the time taken to obtain a water connection from 30 to 15 days. In addition, the cost (RWF 445 200 or USD 600) of obtaining a water connection has been eliminated.

Rwanda's ranking in the 2014 Transparency International Corruption Perceptions Index (CPI) decreased to 55 out of 175 countries from 49 out of 177 countries in 2013. Despite this, it is still among the top five countries on the continent. Rwanda maintained its ranking in the Ibrahim Index of African Governance (IIAG) at 11 out of 54 countries in 2013 and 2014.

Natural resource management and environment

A well-developed regulatory framework for environmental protection, climate change and sustainable natural resource management is in place. This framework consists of regulations which guide the implementation of Environmental Impact Assessments (EIAs), land registration and the expropriation of privately owned resources in the event of a public necessity. The list of programmes that must be subjected to a Strategic Environmental Assessment (SEA) was finalised in 2014, and SEAs for the agriculture and energy sectors have been completed.

Environmental management is mainstreamed in EDPRS-2, which also takes into account the nexus between environmental sustainability and poverty. Namely, given that over 70% of the population is employed in the agriculture sector, sustainable agriculture practices in the use of natural resources such as land and water have the potential to contribute to required reductions in poverty. Publication of Rwanda's Intended Nationally Determined Contributions (INDCs) in 2015 confirmed the government's commitment to reducing greenhouse gas emissions. The Green Growth and Climate Resilience Strategy (GGCRS), adopted in 2011 to guide Rwanda's transition towards a climate resilient and low carbon economy, is costed to facilitate planning and resource mobilisation.

The government is working with its partners to mobilise resources from climate investment funds. For instance, the African Development Bank (AfDB) is co-ordinating the Sustainable Energy for All initiative (SE4All) for Rwanda and has supported the preparation of its 2030 SE4All Action

Agenda. Under the Sustainable Energy Fund for Africa, the AfDB is supporting the government to prepare a green mini-grid pilot project in rural areas.

Political context

Rwanda's 2014 governance scorecard indicates progress since 2012 in promoting rule of law, political rights and civil liberties, participation and inclusiveness, and safety and security. This progress is due to the various initiatives that are in place to increase citizen-oriented service delivery and promote dialogue with the citizenry on issues related to the country's development and governance. Key among these is the national leadership dialogue, which provides a platform for self-assessment by leaders on progress made in achieving the EDPRS-2 and Vision 2020 targets. It also allows the public and civil society organisations to voice their feedback on the key development priorities.

In a December 2015 national referendum, 98% of the population voted in favour of constitutional amendments regarding, among other things, presidential term limits. Election observers noted that the national referendum was orderly.

Inclusive governance, facilitated by the aforementioned political structure, has contributed to the establishment of a strong social contract. For instance, the share of citizens satisfied with the quality of service delivery at the local government level stood at 71.1%, slightly short of the 73.5% target. In addition, the country's ranking in the category of public trust in politicians in the Global Competitiveness Index (GCI) was 8 out of 140 in 2015 and higher than the 10 out of 144 rating in 2014. The GCI ranking on transparency of government policymaking was 9 out of 140 in 2015, slightly lower than the 8 out of 144 ranking for 2014.

Social context and human development

Building human resources

The Education Sector Strategic Plan (ESSP) for 2013/14-2017/18 supports the implementation of EDPRS-2 by ensuring the delivery of universal and relevant high-quality education across all levels. Technical and Vocational Education and Training (TVET) is a major component of the ESSP, and emphasis is placed on aligning the skills supply with labour market demands.

The ESSP has contributed to improvements in education infrastructure and facilitated measures to improve education quality. Over 1 600 new classrooms were constructed in 2014/15 to support the transition from nine years of free basic education to 12 years of basic education. In addition, 19 new secondary and 59 TVET schools were constructed and equipped. To support improvements in education quality, over 650 teachers in schools providing 12 years of basic education were trained on science applications. The merger of seven public universities into a single university system – University of Rwanda – has been completed and is expected to improve co-ordination, governance and capacity, thereby enhancing tertiary education quality.

Access to education shows steady progress. The 2013/14 Household Living Conditions Survey (EICV-4) reports that the share of individuals aged six years and above that have ever attended school increased from 83.2% in 2010/11 to 86.1% in 2013/14. The net attendance rates for primary and secondary school stood at 87.9% and 23.0% respectively in 2013/14, compared to 89.6% and 17.8% respectively in 2010/11. Attendance at tertiary institutions increased from 1.7% to 3.0%.

The 2015 Demographic Health Survey (DHS) confirms that the third Health Sector Strategic Plan (2013-17) is positively contributing to several healthcare outcomes. The share of deliveries in health facilities increased from 69.0% in 2010 to 91.0% in 2015, higher than the 86.0% EDPRS-2 target. In addition, 93.0% of children between 12-23 months were vaccinated in 2015, compared to 90.0% in 2010. As a result, Rwanda has achieved all the health related Millennium Development

Goals (MDGs) except the one on stunting. The proportion of children under the age of five that is stunted decreased from 42.6% to 38.0% between 2000 and 2015, a rate higher than the 24.5% MDG target. The malaria burden continues to decrease, with the share of cases requiring hospitalisation due to malaria decreasing from 8.5% in 2013 to 8.1% in 2014. HIV prevalence remains low at 3.0%. Access to health insurance increased from 68.8% in 2010/11 to 70.0% in 2013/14, contributing to these improved health outcomes.

Poverty reduction, social protection and labour

EICV-4 indicates that poverty has gone down from 44.9% in 2010/11 to 39.1% in 2013/14, with extreme poverty decreasing from 24.1% to 16.3%. EICV-4 urban/rural poverty data are not yet available. However, EICV-3 (2010/11) data indicate while poverty rates in rural areas decreased by 13.2 percentage points between 2005/06 and 2010/11, the poverty rates in rural areas (61.9% in 2005/06 and 48.7% in 2010/11) were twice as high compared to urban areas (28.5% in 2005/06 and 22.1% in 2010/11). The government's target is to reduce poverty to below 30.0% by 2018. Poverty measurement is supported by various tools, including the biennial EICVs, DHSs and administrative data. The semi-annual joint sector reviews also aid expenditure tracking and budget implementation. These tools are expected to inform swift policy decisions and underlying reforms to enhance the economic wellbeing of the majority of the population.

Public spending is consistent with EDPRS-2, namely its objectives to accelerate the transformation to shared and sustainable growth. In line with the EDPRS-2 objectives, the budget emphasises investments in infrastructure and human development to increase economic competitiveness and foster the creation of the target 200 000 off-farm jobs per year. The share of the budget allocated to the productive sectors of energy, transport, agriculture and water remained at a stable 24% of the budget in 2014/15 and 2015/16, with the allocation to health and education also averaging 24%. Targeted operations in social protection, agriculture and youth employment are being implemented to ensure economic growth benefits the majority of the population. Furthermore, EDPRS-2 identifies urbanisation as a major contributor to local economic development, and six secondary cities have been selected across the country for prioritised investments in economic and other enabling infrastructure. These cities are expected facilitate the transformation of local economic centres into regional growth poles.

The Vision Umurenge Program (VUP), which has been implemented since 2008, is among the main social safety net programmes. VUP is designed to benefit a cross section of the population through its various programmes, which aim to ensure a minimum level of income to support basic consumption. VUP's components include a public works programme for able-bodied citizens and direct transfers for households that are not able to participate in public works. Access to social protection has increased. The number of eligible individuals benefiting from social protection increased from 497 000 in 2011/12 to 816 113 in 2014/15, higher than the targeted 807 000. The government plans further increases in VUP access in 2015/16.

Gender equality

Implementation of the Girl's Education Policy, which draws from the National Gender Policy, has contributed to improvements in girls' enrolment, retention and transition from lower to higher education levels. For instance, the MDG targets for gender equality in primary and secondary education have been exceeded. The maternal mortality MDG target has also been surpassed, confirming increased access to reproductive healthcare. In politics, the 2013 parliamentary elections yielded a 64% female majority, compared to the 56% achieved in the 2008 elections.

Some disparities in gender equality in employment exist. The share of women in off-farm employment grew from 18.1% in 2010/11 to 27.3% in 2013/14, but this is still short of the 50.0% MDG target. Furthermore, women accounted for only 36.3% of the private sector workforce in 2014.

A number of interventions are being implemented to enhance equitable access to economic activities. For example, 53 033 female-headed and 58 890 male-headed households benefited from the VUP public works employment in 2014/15, which is higher than the 49 419 female-headed and 54 891 male-headed households in 2013/14. The government's flagship National Employment Program has various skills, entrepreneurship and business development programmes that specifically target youth, women and other disadvantaged groups. In addition, the Business Development Fund provides credit enhancements of up to 75% for eligible loans to women. The Land Administration and Information System reports that the share of registered land held by women in 2015 was 24%, with 62% of the registered land owned jointly by men and women, indicating that women had land rights in 86% of all registered land.

Thematic analysis: Sustainable cities and structural transformation

Rwanda's urban population accounted for 28.0% of the total population in 2014, which is lower than the SSA and global averages of 37.0% and 53.0% respectively. However, the 5.9% annual growth rate for the urban population exceeds the averages of 4.2% and 2.1% for SSA and the world respectively. An estimated 50.0% of all urban inhabitants are found in the capital city Kigali, which has a population of about 1 million. Addressing rapid and unplanned urbanisation and its associated challenges, such as inadequate housing and related services, social tensions and environmental degradation, requires a holistic urban and rural settlement development approach that ensures sustainability. This facilitates the alignment of the urban development objectives with the overarching goal of structural transformation for socio-economic inclusion.

Consequently, the government has identified sustainable urbanisation as a major pathway to achieving the economy's transformation to shared and sustainable prosperity. This is also expected to contribute to the country's 2020 middle-income goal. EDPRS-2, a medium-term framework for implementing Vision 2020, lays out plan for urbanisation and rural settlement to support the objective of increasing the quality of life of all Rwandans through accelerated and sustainable local economic growth and development.

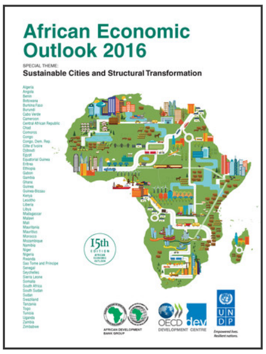
The Ministry of Local Government and the Ministry of Infrastructure are leading the implementation of the Urbanization and Rural Settlement Sector Strategic Plan (URSSSP) 2012/13-2017/18. This institutional setup enforces the extensive legal, regulatory and policy framework, which consists of laws governing urban planning and human habitation, as well as policies on urbanisation, human settlement and affordable housing. The URSSSP aims to ensure that human settlements and urbanisation are sustainably managed to support economic development that benefits the majority of Rwandans. The URSSSP's dual objectives consist of establishing a framework for the development of robust urban and rural settlements, which integrate all development sectors. The second objective relates to the improvement of urban infrastructure and other services to bolster economic activity and support the development of secondary cities.

The approach to urbanisation in Rwanda focuses on two broad priorities. First, it supports the City of Kigali (CoK) and the districts in promoting sustainable urban development. This is expected to be achieved by supporting the development of urban planning aids such as masterplans, programmes and projects that facilitate sustainable urbanisation. The second priority is related to balanced urbanisation. In this regard, the government has identified six secondary cities to serve as regional growth poles.

Under the first priority, several reforms have been implemented to improve the business regulatory environment in Kigali. For instance, CoK established a One-Stop Centre (OSC) in 2010 to consolidate all processes related to construction permits and subsequently created an electronic platform in 2011 to further ease the approval of these permits. As a result, construction permits are now issued in less than 30 days. CoK has also prioritised the development of infrastructure and related services to attract investment and incubate and grow business start-ups. Each of the 30 districts now has an OSC in charge of inspection, land administration and management, construction permits and infrastructure management.

Regarding the second priority, six secondary cities have been selected in Rubavu, Musanze, Nyagatare, Muhanga, Huye and Rusizi. The development of secondary cities aims to contribute to three objectives: to transform emerging urban centres which currently serve as transport transit areas or border towns into regional growth drivers, create gainful economic opportunities in localities other than CoK to foster inclusive growth and harness the already existing economic potential in the secondary cities. For instance, the designated cities are either located in proximity to major transport corridors or are border towns with DRC Congo and Burundi, both of which are among Rwanda's key trading partners. It is expected that the development of these six cities will catalyse local economic development and transform the cities into regional growth poles. Important steps have been made towards the realisation of the secondary cities. For instance, the urbanisation policy and regulatory frameworks have been harmonised following the adoption by the cabinet in 2014/15 of the National Housing Policy and the ministerial order determining urban planning and building regulations. In addition, the government has earmarked resources in its budget to develop infrastructure in the secondary cities and is mobilising additional funding from development partners.

Urbanisation is gradually becoming a major vehicle for ensuring sustainable cities and as a pathway to socio-economic transformation. The successful implementation of the aforementioned initiatives is expected to increase the share of the urban population in the total population to 35% by 2020.



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