RWANDA

2015

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RWANDA

- **Real GDP growth increased from 4.7% in 2013 to 7.0% in 2014, exceeding the programmed 6.0% and is projected to rise to 7.5% in both 2015 and 2016.**
- **Twenty years after the Rwandan Genocide, the country has become a development success story and unity and reconciliation have been consolidated, strengthening good governance in the medium term.**
- **Efforts to promote spatial inclusion are bearing fruit, with the share of rural households living in integrated and economically viable planned settlements increasing from 37.5% in 2012 to 53.0% in 2013/14.**

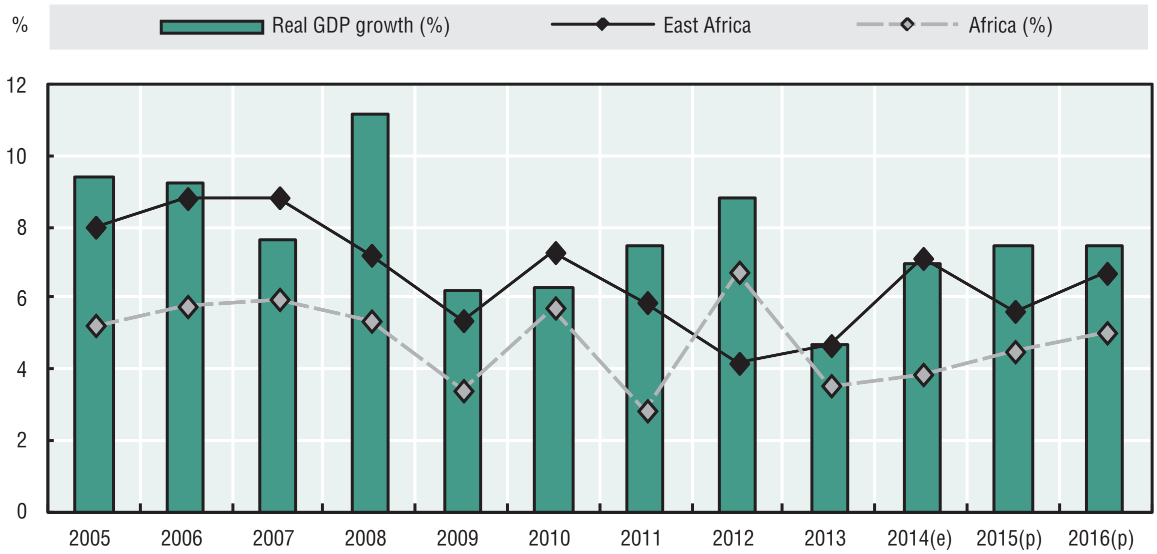
Overview

Real GDP grew by 7.0% in 2014, higher than the initially projected 6.0% and the 4.7% recorded in 2013. Growth in industry slowed as a result of a downturn in mining, manufacturing and construction. Public and private investments and a recovery in agriculture and services are expected to continue driving growth in the short and medium term. A public investment programme in transport and energy infrastructure has been prioritised to ease transport and energy bottlenecks and bolster economic growth.

Headline inflation is projected to converge around the central bank's medium-term 5% target in 2015 and 2016. Lower food and fuel prices are expected to continue contributing to the subdued inflationary pressures. The demand for capital, intermediate goods and fuel products to support the public investment programme is expected to remain strong in the short to medium term. Current account deficits are projected to persist in the near term as export earnings accounted for only 25% of imports in both 2013 and 2014.

Rwanda is predominantly rural, with 83.0% of the 10.5 million Rwandans living in rural areas. Nationally, 26.9% of household output is sold, but over 70.0% of the population is still engaged in subsistence farming. The Economic Development and Poverty Reduction Strategy 2 (EDPRS 2) 2013-18 calls for expanding targeted economic zones and transforming Rwanda's logistics system to strategically grow and promote exports. Other measures include the Kivu-Belt Tourism Master Plan. Progress has been made promoting spatial inclusion, with the share of rural households living in integrated and economically viable planned settlements increasing from 37.5% in 2012 to 53.0% in 2013/14.

Figure 1. **Real GDP growth**



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

Table 1. **Macroeconomic development**

	2013	2014(e)	2015(p)	2016(p)
Real GDP growth	4.7	7.0	7.5	7.5
Real GDP per capita growth	2.0	4.3	4.8	4.9
CPI inflation	4.2	2.0	3.8	5.0
Budget balance % GDP	-5.2	-4.3	-5.2	-3.6
Current account % GDP	-7.1	-11.8	-11.1	-8.9

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

Recent developments and prospects

Real GDP was 7.0% in 2014 compared to 4.7% in 2013. The services and agriculture sectors led growth during this period, growing at 9.0% and 5.0% respectively. Trade, transport and information and communication were the leading growth drivers in the services sector, which accounts for the largest share of GDP (see Table 2). Recovery in private sector credit growth supported the expansion in the services sector in general and trade and transport in particular. Information and communication benefited from IHS Holding Ltd.'s USD 100 million purchase of MTN's Rwandan telecommunication towers in the first half of 2014.

The agriculture sector benefited from good weather and productivity-enhancing investments, to grow by 5.0% in 2014, up from 3.0% in 2013. Livestock and livestock products, as well as food crops, were the leading contributors to agriculture sector growth. Export crops posted lower growth due to the reduction in coffee production and tea prices. Sustained investments in areas such as irrigation, cash crop development – which aims to increase coffee, tea and horticulture acreage – post-harvest management and agro processing are expected to improve agricultural productivity.

Industry sector growth at 6.0% in 2014 was lower than the 9.0% posted in 2013 due to slower growth in mining, manufacturing, and construction. However, mining, quarrying, electricity production and construction continued to lead industry growth in 2014. Measures to improve efficiency in the mining sector were implemented and are expected to support growth in the medium term. Partnerships between investors and mining cooperatives to improve access to modern technology and the installation of mining and processing machines by 18 of Rwanda's 237 mining companies contributed to higher mineral recovery rates. These improvements in part offset the reduction in prices for Rwanda's principle mineral exports of cassiterite, coltan and wolfram. The 10.4% average reduction in prices for these three minerals in 2014 when compared to 2013 reduced their contribution to total formal exports to 33.9% (USD 203.3 million) from 39.4% (USD 225.7 million). Electricity production and construction benefitted from public and private investments in energy generation, including the 28MW Nyabarongo hydroelectric project and other micro-hydro plants. Investment in the 25MW KivuWatt methane-to-power project and the 15MW Gishoma peat-to-power plant continued and both are expected to be commissioned in 2015.

Formal exports (Free-on-Board) increased by 4.7% to USD 599.8 million in 2014. The strong growth in re-exports – which comprise transit goods destined for other countries in the region – and exports such as agriculture products, intermediate and manufactured goods was weakened by negative growth in earnings from tea, coltan and wolfram due to lower prices. Tea, coltan and wolfram accounted for 55.4% of the main exports in 2014, which in turn accounted for 55.2% of total exports. The corresponding shares in 2013 were 61.8% and 62.1% respectively.

Formal imports (Cost, Insurance, Freight) in 2014 increased 6.8% to USD 2.4 billion, with reduced imports in energy and lubricants being offset by growth in consumer, capital and intermediary goods. Lower international oil prices reduced the cost of imports in energy and lubricants, while expansion in the construction sub-sector and an improved economic outlook contributed to growth in capital and intermediary goods imports. As a result, the trade deficit rose 7.5% to USD 1.8 billion in 2014.

Tourism and remittances remain strong foreign exchange earners. Tourism earnings have continued to grow, increasing from USD 281.8 million in 2012 to USD 293.6 million in 2013 and to an estimated USD 303.7 million in 2014. Remittance inflows recovered in 2014, increasing to an estimated USD 174.9 million from USD 161.8 million in 2013, but they remain below the USD 175.3 million recorded in 2012.

Increased deficits in the services and income accounts and a reduction in current transfers caused the current account deficit – including official transfers – to increase in 2014 (see Table 4).

The overall balance of payments decreased from a surplus of 3.9% of GDP in 2013 to an estimated deficit of 3.2% in 2014. This is due to a reduction in the capital and financial account balance in part due to a decrease in public sector capital, reflecting the delayed implementation of strategic energy, road transport and service sector investments. Foreign Direct Investments rose an estimated USD 9 million to USD 159 million in 2014, indicating a recovery to 2012 levels. Gross official reserves, including SDR allocations, decreased from USD 1.1 billion in 2013 to an estimated USD 986.1 million in 2014, leading to a reduction in import cover from 5.2 months to 4.9 months.

The economic outlook remains positive. Improved weather conditions and sustained investments in agriculture are expected to drive further growth in the agriculture sector. Measures such as the submission of quarterly progress reports to the Cabinet of Rwanda for infrastructure projects are expected to improve project implementation, contributing to a reduction in the infrastructure-related costs of doing business. This is projected to improve growth prospects. However, two key downside risks remain. First, Rwanda's agriculture remains vulnerable to weather fluctuations. Second, weaknesses in the global economy and the reduction in commodity prices, particularly for tea and minerals, will negatively affect export earnings. Sustained investments in the agriculture sector, including in areas such as irrigation, and ongoing efforts to diversify and grow the export base will mitigate these downside risks. Real GDP growth is projected to increase from 7.0%in 2014 to 7.5% in 2015 and 7.5% in 2016.

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

	2009	2014
Agriculture, forestry, fishing & hunting	36.2	35.0
of which fishing	0.4	0.4
Mining and quarrying	0.8	1.9
of which oil	...	...
Manufacturing	5.6	5.1
Electricity, gas and water	0.6	0.7
Construction	6.0	7.5
Wholesale & retail trade; repair of vehicles household goods; Restaurants and hotels	16.3	15.5
of which hotels and restaurants	3.0	2.3
Transport, storage and communication	5.5	5.8
Finance, real estate and business services	18.0	14.8
Public administration and defence	2.8	3.6
Other services	8.2	10.1
Gross domestic product at basic prices / factor cost	**100.0**	**100.0**

Source: Data from domestic authorities

Macroeconomic policy

Fiscal policy

The Fiscal Consolidation Strategy (FCS), which has been implemented since 2010, continues to guide the medium term fiscal stance. The medium-term fiscal policy objectives include expenditure prioritisation and enhancing public revenue mobilisation while reducing borrowing from the domestic financial markets to ensure adequate growth in credit to the private sector.

Public expenditures are a key vehicle for achieving the EDPRS 2 objectives, which include improving the quality of infrastructure and sustaining improvements in human development. As a result, total expenditure and net lending, as well as recurrent and capital spending, increased in line with the FCS in 2013/14 compared to 2012/13 (see Table 3).

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

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Total revenue and grants	**24.0**	**23.6**	**25.4**	**23.5**	**26.0**	**25.1**	**23.6**
Tax revenue	12.2	12.5	13.5	13.9	14.8	15.9	17.0
Grants	10.8	10.4	11.1	7.8	9.2	7.4	4.7
Total expenditure and net lending (a)	**24.6**	**27.1**	**26.6**	**28.5**	**30.0**	**30.2**	**27.1**
Current expenditure	16.4	14.9	14.9	13.5	15.2	14.1	13.5
Excluding interest	15.9	14.5	14.5	12.8	14.4	13.3	12.8
Wages and salaries	4.0	2.5	3.5	3.6	3.7	3.7	3.7
Interest	0.5	0.4	0.4	0.7	0.8	0.8	0.7
Capital expenditure	7.6	12.6	11.7	12.1	13.9	14.0	12.6
Primary balance	**-0.1**	**-3.1**	**-1.1**	**-4.5**	**-3.5**	**-4.4**	**-2.9**
Overall balance	**-0.6**	**-3.5**	**-1.5**	**-5.2**	**-4.3**	**-5.2**	**-3.6**

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

However, while recurrent spending in 2014 was in line with the targets, capital spending was less than programmed due to delays in implementing foreign-financed projects in energy, roads and the service sector.

The revenue mobilisation effort has improved, with the sustained implementation of various revenue-enhancing measures, including electronic tax filing and payment and the rollout of electronic sales registers (ESRs) for VAT payers. The tax/ GDP ratio increased (see Table 3) but was lower than the 15.3% target, in part due to the slowdown in real GDP growth from 4.7% in 2013 to 7.0% in 2014. Growth in revenues and the lower-than-programmed capital spending yielded a fiscal deficit (cash basis) in 2014, which was about 1 percentage point lower than initially projected. The fiscal deficit was financed by concessional budget and project loans, proceeds from the eurobond and borrowing from the domestic financial markets.

Further growth in revenue is projected in the medium term, underpinned by continued improvements in tax administration, including through the rollout of ESRs and strengthening tax policy for agriculture, mining and property taxes. These measures are expected to expand the tax base and increase the tax/GDP ratio closer to the East African Community (EAC) target of 25% in the medium term.

Trends in domestic arrears and recurrent spending point to continued fiscal stability. The main fiscal policy challenges revolve around the high dependence on aid and implementing capital projects, which affects the budget execution rates. The aforementioned revenue-enhancing measures will support a reduction in aid dependence. In addition, measures including the submission of quarterly progress reports to the cabinet for strategic projects have been put in place to improve project implementation.

Monetary policy

The 2014 monetary policy stance was aimed at supporting the economic recovery, rebuilding the international reserve buffers and supporting growth in private sector credit. Reflecting the subdued inflationary pressures and the need to increase private sector credit growth, the central bank reduced its key policy rate, the Key Repo Rate (KRR), from 7.0% to 6.5% in June 2014. The central bank signalled its intentions to maintain the current monetary policy stance by keeping the KRR unchanged at 6.5% for the first quarter of 2015.

Measures to improve the monetary policy transmission mechanism were implemented to enhance the linkage between monetary policy, financial markets and the real economy. In particular, the central bank published its quarterly longer term issuance programme in January 2014 and three Treasury Bonds and an IFC local currency bond were successfully issued.

The central bank has put in place a framework to enhance interbank transactions and is working with commercial banks to strengthen the latters' capacity in the interbank market. These measures, along with the reduction in the KRR, contributed to a drop in interest rates. The interbank interest rate decreased from 5.6% in January 2014 to 4.7% in December 2014, leading to stability in lending and deposit rates.

The strong monetary policy framework and lower fuel and food prices have contributed to a reduction in inflationary pressures. Annual headline inflation decreased from 4.2% in December 2013 to 2.1% in December 2014 and remains below the 5.0% medium-term target. Annual core inflation also decreased from 3.8% to 2.9% over the same period. Private sector credit growth increased from 11.1% in 2013 to 19.6% in 2014, 3.5 percentage points higher than initially projected.

The central bank continues to implement the exchange rate corridor framework, which was adopted in 2010 to promote greater exchange rate flexibility. This flexibility aims to reduce the build-up of pressures in the foreign exchange market and ensure international reserves of at least four months of imports. Moreover, foreign exchange risk exposure for banks has been aligned with practices in other EAC partner states. As a result of the sound exchange rate policy, the Rwandan franc depreciated by 3.7% in December 2014, compared to 5.8% in the same period in 2013.

Economic co-operation, regional integration and trade

Rwanda is a member of various economic communities, including the EAC, the Common Market for Eastern and Southern Africa (COMESA) and the Economic Community for the Countries of the Great Lakes (CEPGL). Rwanda's trade with the EAC remains strong. The share of Rwanda's formal exports to the EAC remained stable at 22% in 2013 and 2014, with the share of formal imports also unchanged at 23%. Rwanda's major exports to the EAC are coffee, tea, vegetables and non-alloy steel, while imports include consumer goods and construction materials.

Growth in exports in 2014 was 4.7%, higher than the initially projected 1.1% but less than the 6.8% recorded for imports, leading to sustained trade deficits (see Table 4). However, import growth was lower than the initially projected 13.7% in part due to lower oil prices. Reduced commodity prices, particularly for tea and coltan, the leading mineral export, contributed to the weak export growth. A high trade deficit, rising deficits on the services and income accounts and a reduction in current transfers all resulted in a higher current account deficit, including official transfers in 2014 (see Table 4).

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

	2006	2011	2012	2013	2014(e)	2015(p)	2016(p)
Trade balance	-9.8	-17.4	-19.1	-15.3	-17.6	-15.5	-12.9
Exports of goods (f.o.b.)	4.7	7.2	8.2	9.3	9.1	8.9	8.6
Imports of goods (f.o.b.)	14.5	24.6	27.2	24.6	26.7	24.4	21.5
Services	-4.3	-3.0	-1.3	-1.6	-1.7	-1.7	-0.9
Factor income	-0.9	-0.8	-1	-1.5	-1.8	-1.9	-1.6
Current transfers	10.5	13.7	10.0	11.3	9.4	8.0	6.5
Current account balance	**-4.5**	**-7.5**	**-11.4**	**-7.1**	**-11.8**	**-11.1**	**-8.9**

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

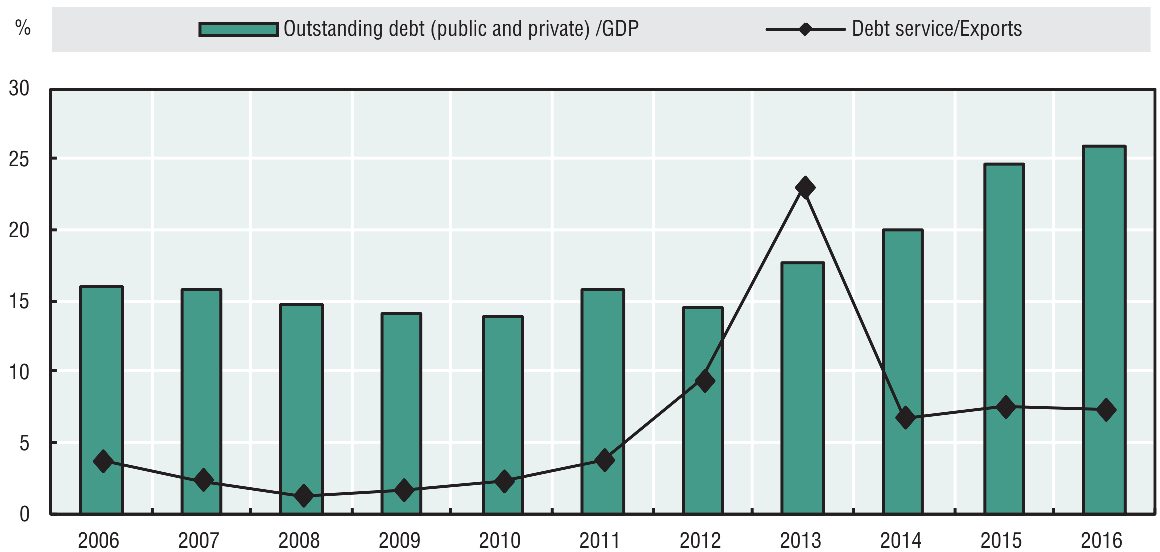
The 2014 EAC Common Market Scorecard reveals that Rwanda is making progress in implementing various provisions of the common market. For instance, this scorecard ranks Rwanda as the second easiest country to move capital in in the EAC after Kenya, with 15 of the 20 capital operations covered by the EAC Common Market Protocol being unrestricted in Rwanda compared to 17 in Kenya.

Progress has also been made in implementing the commitments under the Northern Corridor Tripartite Agreements (NCTA) between Kenya, Rwanda and Uganda to ease the movement of persons. Rwanda has implemented all three of its regional commitments under the NCTA, including the use of national identification cards as travel documents for EAC residents, the single tourist visa and the single customs territory along the northern corridor.

Debt policy

The risk of debt distress remains low. Total debt (external and domestic) stood at USD 2.4 billion at end-2014 (31% of GDP), compared to USD 2.1 billion in 2013 (27.4% of GDP) and USD 1.6 billion in 2012 (22.6% of GDP). This upturn was in part due to increased disbursement of concessional loans by multilateral partners. External debt is estimated at USD 1.6 billion in 2013 (77.1% of total debt) and USD 1.8 billion in 2014 (76.0% of total debt). Multilateral partners accounted for the largest share of external debt, at 58.6% and 60.4% in 2013 and 2014 respectively. Debt management capacity is expected to improve following the establishment of a debt management unit in July 2014.

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)

Public debt burden indicators do not project debt servicing difficulties. The present value of external debt-to-exports ratio increased from 108.7%in 2012 to 144.1%in 2013 and is estimated to have decreased to 93.6%in 2014, below the 200.0% threshold. The total public debt-to-GDP ratio grew between 2012 and 2014 but remains below the sustainable threshold of 50.0%. The public debt service-to-revenue ratio increased from 4.5% in 2012 to 20.6% in 2013 but decreased to an estimated 5.3% in 2014, below the 22.0% sustainable threshold. The debt service-to-exports ratio also decreased between 2013 and 2014 (see Figure 2).

The DSA stress tests reveal that public debt remains sustainable in the midst of shocks, such as increases in debt service, as would be the case for instance with an increase in Rwanda's ten-year bond yield and appreciation of the US dollar against major currencies. However, reducing the risks to debt sustainability in particular in light of the 2023 eurobond repayment will require the strengthening of revenue mobilisation and export promotion. The 2011 National Export Strategy is currently being revised to identify strategic interventions to grow and diversify the export base. The successful implementation of the revenue-enhancing measures discussed under *Fiscal policy* above is expected to also reduce the risks to debt sustainability.

Economic and political governance

Private sector

The World Bank report, *Doing Business 2015,* shows that Rwanda is the third easiest place to do business in Africa in spite of ranking 46 out of 189 countries in 2014 and 32 out of 189 countries in 2013.

Moreover, *Doing Business 2015* indicates that reforms implemented by Rwanda during the past ten years have yielded several gains, including an estimated USD 5 million in cost savings for the private sector, investments of USD 45 million and an estimated 15 000 jobs. The impact of these reforms on business entry is evident. For instance, starting a limited liability company in 2006 required nine procedures, 18 days and 235.5% of per capita income in associated fees. In 2014, the same process required eight procedures, a maximum of 6.5 days and cost 52.3% of per capita income.

These improvements are underpinned by better business licensing and construction permits. The processes related to construction permits, applications for environmental impact assessments and connections to utilities have been consolidated and can also be completed online. Business registration costs of RWF 15 000 (USD 22) have been eliminated with online registration.

Study fees and security deposits associated with completing a new electricity connection have been waived and charges for electricity connections within 1 km of the national grid have been eliminated. The time taken to complete an electricity connection has been reduced from 30 days in 2013 to 15 days in 2014 for companies and to a maximum of two days for individuals. The fees associated with obtaining a freehold land title (RWF 743 200, or USD 1 062) have also been eliminated.

Financial sector

The commercial banks accounted for 66.6% of total financial sector assets in 2014, which is six percentage points lower than in 2010. Microfinance accounted for 5.9% of financial sector assets in 2014, with the non-bank financial sector accounting for 27.5% (pensions and insurance made up 17.7% and 9.8% of this respectively). The banking sector remains concentrated, but competition has improved. The three largest banks accounted for 45.0% of loans, 47.0% of deposits and 46.0% of total assets in 2014 compared to 50.0%, 50.5% and 48.7% respectively in 2012.

The financial sector remains sound and profitable. The Capital Adequacy Ratios (CARs) for banks and microfinance at end-December 2014 stood at 24.2% and 33.2% respectively, above the regulatory 15.0%. The liquidity ratio for insurance was 305.0%, higher than the prudential 150.0%. The corresponding CARs at end-December 2013 were 23.1% and 33.4%, and the liquidity ratio for insurance at year-end 2013 was 312.0%. The Return on Assets (ROA) and Return on Equity (ROE) were 1.9% and 10.8% respectively for the banking sector at end-December 2014, compared to 1.5% and 7.4% respectively at end-December 2013. Microfinance recorded ROA and ROE of 2.6% and 8.0% respectively at end-September 2014, with insurance registering ROA and ROE of 8.3% and 11.0% respectively. Banking sector asset quality also improved, with the non-performing loans ratio decreasing from 6.9% at end-December 2013 to 6.0% at end-December 2014.

Financial sector depth has increased. For instance, the private sector credit-to-GDP ratio increased from 15.6% in 2012 to 15.7% in 2013 and is estimated at 16.3% in 2014. The GDP share of total financial assets increased from 45.0% in June 2013 to 50.9% in June 2014.

The capital market is emerging as a key financial vehicle following the implementation of measures to support resource mobilisation. For instance, the government successfully implemented a long-term debt issuance programme in 2014 to support capital market development and mobilise infrastructure funding. Moreover, guidelines for the issuance of municipal bonds were published in May 2014.

The Rwanda Integrated Payments Processing System is fully operational and was successfully integrated with the East African Payments System on 3 December 2014 to provide real-time gross systems and multi-currency options for transactions in the EAC region.

Public sector management, institutions and reform

Reforms to improve the implementation of strategic projects were introduced in 2014. These included the appointment of a minister of state for finance in charge of economic planning and implementing strategic projects and the establishment of a public investment committee of permanent secretaries to review and approve all public projects. These measures are expected to facilitate the execution of public projects.

A public service reform covering 62 public institutions was implemented to improve efficiency and operational effectiveness. As of 29 September 2014, 55 central government institutions had completed the requisite staff redeployment and placement. The former Energy, Water and Sanitation Authority was restructured into two companies in July 2014: Rwanda Energy Group Ltd. and Water and Sanitation Corporation Ltd. These new corporations are now operational, and it is expected they will improve efficiency in the energy and water and sanitation sectors.

Although Rwanda's ranking on the Transparency International (TI) Corruption Perceptions Index (CPI) decreased from 49 out of 177 countries in 2013 to 55 out of 175 countries in 2014, Rwanda still ranks ahead of its EAC peers and is the fifth least corrupt country in Africa.

Natural resource management and environment

A strong institutional framework for environmental protection, addressing climate change and the sustainable utilisation of natural resources is in place. This framework guides the implementation of environmental policy and other related policies, such as water resource and land management, plus environmental health. Environmental impact assessment guidelines for various activities, including in industry and agriculture, have been developed and published. The application of Strategic Environmental Assessments (SEAs) is currently underway, starting with the agriculture sector. Legislation that will make SEAs compulsory for all sectors is currently being prepared.

The Green Growth and Climate Resilience Strategy (GGCRS) 2011-17 contains strategic approaches and activities to guide the development of sustainable infrastructure, including for renewable energy. A Fund for Environment and Climate Change (FONERWA) is operational and aims to finance projects that contribute to the country's green economy objectives. In fiscal year 2013/14, 18 projects were approved for financing by FONERWA. This was five more than targeted and amounted to a total commitment of RWF 19 billion (USD 28.5 million). The approved projects cut across diverse areas, including conservation and rehabilitation of natural resources and renewable energy. For example, 18 of Rwanda's 237 mining companies purchased mining and processing machines to increase the mineral recovery rate while ensuring environmental sustainability.

Political context

On 7 April 2014, the country commemorated the 20th anniversary of the Rwandan Genocide. In the past two decades, Rwanda has emerged as a development success story. Real GDP growth has averaged above 8.5% over the last 15 years, leading to a reduction in the poverty headcount ratio from higher than 60.0% in 2000 to 44.9% in 2010/11. Over 1 million people graduated from poverty between 2006 and 2011. Unity and reconciliation have been consolidated by the adjudication of more than 2 million genocide cases by the traditional Gacaca community court system. Moreover, significant business regulatory reforms have seen Rwanda rank as the third easiest country to do business in in Africa.

Progress has also been made in restoring law and order and improving governance. The most recent elections were held in September 2013 for parliamentary representatives and were declared free and fair by international observers. The Rwanda Patriotic Front is the leading political party in parliament, with 40 of the 53 directly elected seats. The Social Democratic and Liberal Parties account for the remainder of the seats. Rwanda has the highest share of women parliamentarians in the world at 64%.

These economic and political improvements have strengthened the social contract. For instance, the country's ranking in the category of public trust in politicians in the Global

Competitiveness Index (GCI) was 10 out of 144 countries in 2014, slightly lower than the 8 out of 148 rating in 2013. The GCI ranking on transparency of government policymaking remained stable at 8 out of 144 and 8 out of 148 for 2014 and 2013 respectively.

Social context and human development

Building human resources

The Education Sector Strategic Plan (ESSP) 2013/14-2017/18 is in line with the EDPRS 2 goals and vision in as such as it focuses on achieving high-quality universal basic education while emphasising access and equity across all education levels. Technical Vocational Education and Training is emphasised particularly by ensuring that supply matches labour market needs.

Implementation of the ESSP yielded several results in 2013/14. Education infrastructure was expanded to increase access to education, with the construction of 2 000 new classrooms for twelve-year basic education. The targeted secondary school pupil to qualified teacher ratio of 32:1 was achieved in 2013/14. Moreover, the transition rate from lower secondary to upper secondary school increased from 94.0% in 2012 to 95.3% in the same period, well above the targeted 85.0%.

However, some education sector targets were not met, in part due to data mismatch. The 2013/14 targets and corresponding baselines were established in 2012, while the Population and Housing Census (PHC) data that are used to evaluate performance against these targets became available Q1 2014. The pupil to qualified teacher ratio in primary school increased from 62:1 in 2012 to 63:1 in 2013/14, higher than the ESSP target of 58:1. The transition rate from primary to lower secondary was 74.4% in 2013/14, below the target 86.8% and the 84.9% recorded in 2012. The primary completion rate also decreased from 72.7% in 2012 to 69.0% in 2013/14, again below the targeted 74.0%.

The Gross Enrolment Rate (GER) for primary school increased from 123.2% in 2012 to 138.5% in 2013, indicating that all children of primary school-age are in school. The GER for lower secondary and upper secondary increased from 49.2% and 27.1% respectively in 2012 to 49.8% and 32.6% respectively in 2013.

Progress has been made expanding heath facilities to increase access to health services. The number of health facilities – including District Hospitals (DH) and Referral Hospitals (RH) – under accreditation increased to 42 in 2013/14, exceeding the target of 13 facilities. Standards and norms to guide health care provision were also developed, disseminated and communicated to all RHs, DHs and private hospitals.

Expansion and standardisation of healthcare provision has resulted in numerous healthcare outcomes. The proportion of deliveries in health facilities increased from 63.0% in 2012 to 90.5% in 2013/14, above the 86.0% target. The 2012 PHC indicates progress in reducing infant and under-five mortality from 50 per 1 000 live births and 76 per 1 000 children respectively in 2010 to 48.6 per 1 000 and 72.3 per 1 000 respectively in 2012. Ministry of Health data show a reduction in the share of malaria admission cases in hospitals from 12.7% in 2012 to 8.5% in 2013.

Poverty reduction, social protection and labour

The fourth Household Living Conditions Survey (EICV4) is underway, and the findings are expected in 2015. EICV3, conducted in 2010/11, revealed significant reductions in the poverty headcount, from 56.7% in 2005/06 to 44.9% in 2010/11, and a reduction in income inequality as measured by the Gini coefficient, from 0.52 to 0.49. Extreme poverty decreased by 11.7 percentage points to 35.8%. However, EICV3 indicated that while poverty rates in rural areas had reduced by 13.2 percentage points between 2005/06 and 2010/11, the poverty rates in rural areas were twice as high compared to urban areas. EDPRS 2 targets a poverty headcount of less than 30.0%

by 2018. EICVs are being conducted every three years to inform evidence-based policy making, including in such areas as improving economic livelihoods for the poor and Other Vulnerable Groups (OVGs). Moreover, bi-annual joint sector reviews provide a framework for tracking public spending and budget execution rates at programme and sub-programme level.

The sectoral allocations are aligned with the EDPRS 2 objectives of improving physical infrastructure and human development to generate inclusive and shared growth. Allocations to the social sectors of education and health increased from 24.4% of the budget in 2013/14 to 26.6% in 2014/15. The completion of some infrastructure projects and increased private sector investments, particularly in energy, contributed to a reduction in the budget share of agriculture, energy, transport and water and sanitation from 30.3% to 24.5%. A National Strategy for Community Development and Local Economic Development (NSCD & LED) 2013-18 is being implemented to address the high poverty rates in rural communities relative to urban areas. In line with the NSCD & LED objectives of creating vibrant local economies, the share of rural households living in integrated and economically viable planned settlements increased from 37.5% in 2012 to 53.0% in 2013/14, above the 51.0% target.

The flagship Vision Umurenge Program (VUP), which has been in place since 2008 under EDPRS 1 (2008-12), is one of the key programmes targeting the poor and OVGs. VUP aims at ensuring that the poor and OVGs have a basic level of income. It has several components, including public works programmes and direct cash transfers. In 2013/14, 6.4% of the total budget was allocated to social protection programmes, which is 23.9% higher than in 2012/13. As a result, 715 959 eligible people benefited from a social protection programme in 2013/14, which is higher than the 600 413 in 2012/13 and the target of 676 600. Public works programmes are now being implemented in 180 out of the 416 sectors (administrative units), as targeted for 2013/14, and the plan is to increase coverage to 240 sectors by 2015/16.

Gender equality

Gender equality in primary and secondary education has been achieved and gross enrolment rates in 2013 were higher for girls compared to boys, except in upper secondary school. The primary school completion rates were also higher for girls than for boys. In politics, women comprised 64% of members of parliament in 2013, which is higher than the 56% majority registered in 2008.

Several programmes have been implemented to increase gender equality in accessing economic activities. For instance, 49 419 female-headed households and 54 891 male-headed households received public works employment under the VUP in 2013/14. The *Hanga Umurimo* (job creation) programme, launched in 2011, had trained over 3 900 entrepreneurs by June 2014, with close to 50.0% of these being women. In 2013, 143 SMEs, 42.0% of which are owned by women, received funding amounting to USD 2.8 million. In 2013, the share of land parcels held by single women was 9.8%, while married couples held 83.0%, indicating that women had land rights in 91.0% of all the registered land parcels under the Land Tenure Regularization Program.

The 2012 PHC indicates that there are minimal disparities in gender equality in employment. The employment-to-population ratios for females and males aged 16 years and above were 68% and 71% respectively in 2012. However, 82% of all employed women work in agriculture, compared to 66% of men. A programme to increase access to finance for women and youth is being implemented as part of the initiatives aimed at increasing non-farm employment for women.

Thematic analysis: Regional development and spatial inclusion

Rwanda's population is estimated at 10.5 million people. The country is still largely rural, with 83.0% of Rwandans living in the countryside. Fifty percent of Rwandans are under 19 and 3.0% of the population is aged 65 and above. The mean age is 22.7, and 34.0% of the urban population is aged between 20 and 34, compared to 24.0% in rural areas. Rwanda's rural communities are characterised by some key differences. For instance, large commercial farmers co-exist with smallholder farmers, especially in the eastern part of the country. Nationally, 26.9% of household output is sold, but over 70.0% of the population is still engaged in subsistence farming.

Rwanda's population density is one of the highest in Africa, with 415 inhabitants per square kilometre. Eastern Province has the lowest average population density (275), while Northern Province (528) and Kigali (1 556) are the most densely populated. The difference in population density across provinces is in part due to internal migration.

During the colonial era, Rwandans migrated significantly to neighbouring countries, pursuing economic opportunities in the mining industry in Katanga region of the Democratic Republic of Congo (DRC) and plantations in Uganda and Tanzania. After 1959, a number of Rwandans migrated to Eastern Province to escape ethnic violence. The *paysannat* (1954) and *villages-pilotes* (1977) policies attempted to address population pressure. The former consisted of planning rural settlements and housing by regrouping rural populations along the main access roads in order to efficiently utilise land. The latter complemented the former by focusing on rural settlements in regrouped habitats, such as in the current Eastern Province. However, both policies were not successful as population growth and resulting pressures on land and other social services continued to increase.

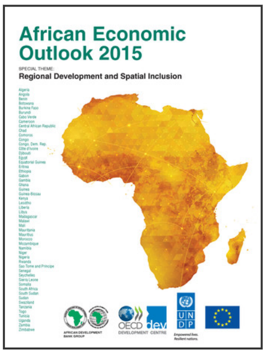
In the early 1990s, migration to urban areas was in part driven by political insecurity. However, after the 1994 genocide, migration and spatial mobility were largely associated with rapid economic growth and the availability of opportunities and land in Kigali and Eastern Province respectively.

EDPRS 2 articulates various approaches to stimulating investments in priority sectors across the country. These actions, which are at various stages of implementation, include: *i)* the expansion of targeted economic zones, in particular the Kigali Special Economic Zone (SEZ) and four provincial industrial parks in Huye, Rusizi, Nyabihu and Bugesera (one in each of the four rural provinces); *ii)* the transformation of Rwanda's logistics system to strategically grow and promote exports and re-exports to the region, particularly to Burundi and eastern DRC; *iii)* the implementation of the Kivu-Belt Tourism Master Plan to diversify Rwanda's tourism sector (Kivu-Belt is a strategic economic corridor around Lake Kivu); and iv) the development of six secondary or satellite cities in Huye, Muhanga, Musanze, Nyagatare, Rubavu and Rusizi to serve as growth poles and centres of non-farm economic activity.

Public spending is also deployed to foster spatial inclusion. For instance, the total tax revenue share of intergovernmental transfers increased from 37.0% in 2012/13 to 39.5% in 2013/14. Moreover, the transfer formula contains an equalisation mechanism to compensate for disparities in fiscal capacities and needs across local governments.

The NSCD & LED is being implemented and provides a co-ordinated, inclusive and systematic approach to spatial inclusion. As discussed under *Poverty Reduction, Social Protection and Labour*, the NSCD & LED has contributed to the development of vibrant eco-systems, with potential for fostering human development and attracting investments.

The growth in the share of rural households living in integrated and economically viable planned settlements is in line with the EDPRS 2 objective of increasing the country's urbanisation rate from the current 18% to 35% by 2020. However, growth in the urban population will exacerbate pressure on land, settlements, infrastructure and economic resources. Thus, urban planning, including a focus on social and economic infrastructure, is a key imperative. Moreover, the high population density will require pragmatic solutions to ensure efficient and optimal utilisation of natural resources, including land.



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