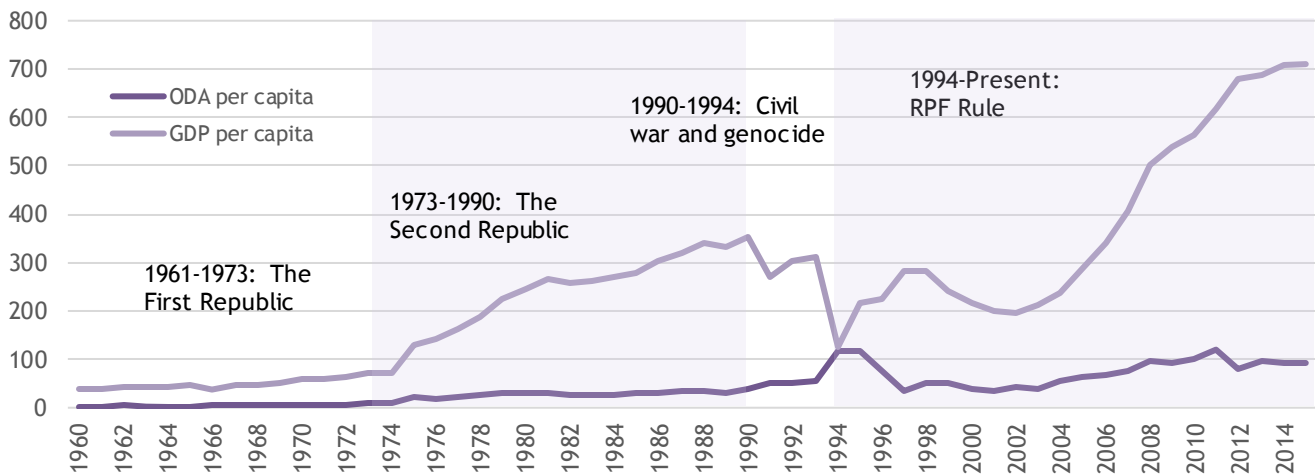




1. Economic Context in Rwanda

Rwanda is a small land-locked country of 11.61 million people in the Great Lakes Region of Africa (World Bank, 2017d). It is the most densely populated country in Africa (Rashidghalam, 2017). With a 2016 GDP per capita of \$703, the World Bank classifies Rwanda as a Low Income Country entitled to IDA support (World Bank, 2017e). The World Bank also classifies Rwanda as a Heavily Indebted Poor Country (HIPC) due, in part, to the high levels of public debt that remain despite the use of traditional debt relief mechanisms (World Bank, 2016). The service sector makes up just over half of GDP while the agricultural sector makes up just under a third (World Bank, 2017c).

Figure 1. Net GDP and net ODA per capita (current USD), Rwanda, 1960-2015



Source: World Bank Open Data, 2016

Growth in Rwanda’s economy under the Second Republic (Figure 1) is attributed to favorable weather leading to strong agricultural production (Kimonyo, 2016; Uvin, 1998), and also to high prices for tea and coffee, Rwanda’s two largest exports (Kimonyo, 2016; Prunier, 1995). During this time, the government improved services in urban areas, and the contribution of subsistence agriculture to GDP dropped from 80% to 48% (Prunier, 1995).

The literature suggests several factors that led to the economic crisis that preceded the 1994 genocide, including droughts in 1984 and 1989, and a drop in the prices of coffee, tea, and tin (Kimonyo, 2016; Prunier,

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1995). Ansoms (2005) cites poor economic policy and governance as additional contributing factors. Kimonyo (2016) estimates that poor nutrition (partly a result of poor harvests) in conjunction with rising physical violence and the AIDS epidemic caused a nearly 20-year decrease in life expectancy over the course of six years from 1984 to 1990. The situation became worse with the outbreak of civil war in 1990 (Prunier, 1995). In 1991, the Rwandan government signed a World Bank structural adjustment program (SAP) agreement to improve the economic situation, but according to Uvin (1998), it was unsuccessful due to an unstable political situation, the beginning of the civil war, and the failure of the government to successfully implement the SAP reforms. Chossudovsky (1996), on the other hand, argues that the SAP's requirement that Rwanda devalue its currency by 50% had the opposite effect that the World Bank intended by collapsing real earnings and increasing inflation.

The Rwandan genocide began after the assassination of President Habyarimana in April of 1994, and by July of that year over 800,000 people lost their lives (Kimonyo, 2016). In the wake of the genocide, Rwanda experienced a sharp drop in GDP and a spike in humanitarian aid from the UN and international NGOs (World Bank, 2017a; Hayman, 2006) (Figure 1). These organizations primarily provided assistance to refugee camps both inside Rwanda and along its borders (Hayman, 2006).

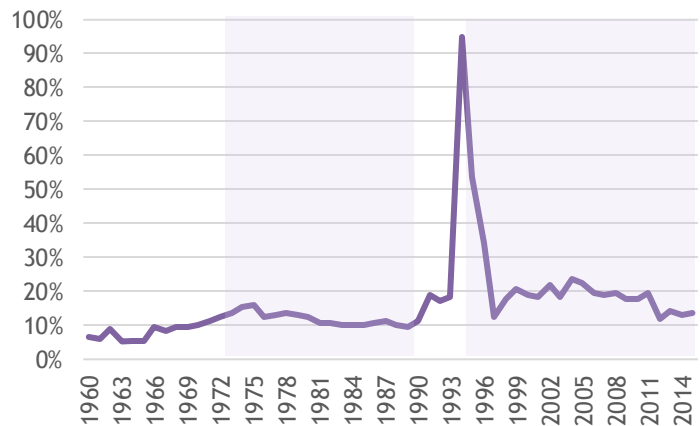
Following the rise to power of the Rwandan Patriotic Front (RPF) in 1994, Rwanda experienced a brief economic recovery before contracting again in the early 2000s (Ansoms, 2005). While GDP per capita in Rwanda more than tripled from 2003-2015 (Figure 1) and agriculture as a proportion of GDP dropped (World Bank, 2017a), poverty is still widespread in rural areas. Depending on the measure, between 73 percent (National Institute of Statistics of Rwanda, 2014) and 90 percent (Rashidghalam, 2017) of the population still practices subsistence agriculture.

2. Performance along Measures of Self-Sufficiency in Rwanda

Both the academic literature and donor reports find that the Rwandan economy is highly dependent on aid—in 2011 more than half of the government budget came from aid (OECD, 2011). During the Second Republic, net ODA hovered just above 10 percent of GNI (Figure 2). During and after the Rwandan genocide, net ODA spiked to over 90 percent of GNI due to a significant influx of humanitarian aid (Hayman, 2009a) and attendant drop in GNI (Figures 1 and 2).

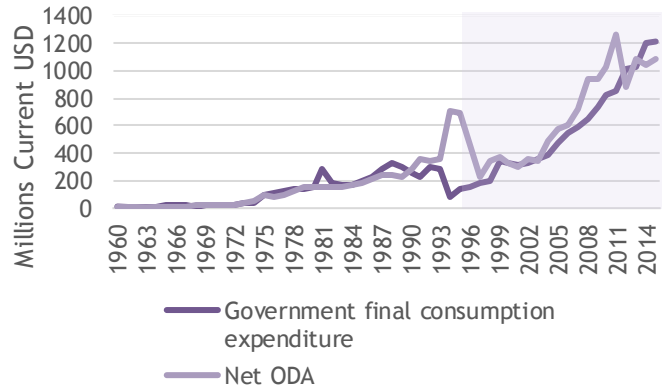
From 1997 to 2011 net ODA remained relatively constant around 20 percent of GNI, though it has begun to decline in recent years (Figure 2) due to GNI rising more quickly than ODA. (For context, average net ODA as a percent of GNI for Sub-

Figure 2. Net ODA as percentage of GNI, Rwanda, 1960-2015



Source: World Bank Open Data, 2016

Figure 3. Government final consumption expenditure and net ODA, Rwanda, 1960-2015, in current USD in millions



Source: World Bank Open Data; 2016, OECD Statistics, 2017

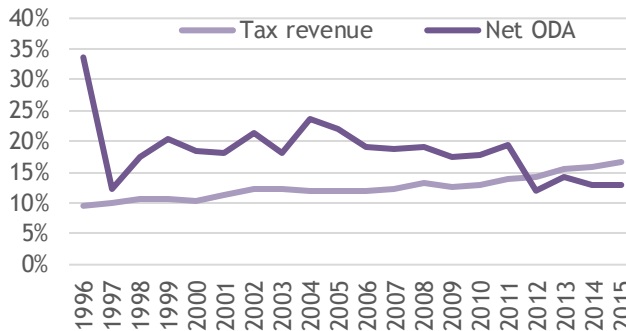
Saharan African countries is 8.7 percent.) Net ODA has increased significantly over the last decade along with government expenditures (Figure 3). In 2015, net ODA comprised 80 percent of the central government expenses in Rwanda, which is a higher percentage than all other HIPC countries for which there were data, except Malawi at roughly 88 percent (World Bank, 2017a).

Rwandan tax revenues have steadily increased over the last decade as a percentage of GDP (Figure 4).

However, according to Hayman (2009b) there is little opportunity to expand the already small tax base in the short- or medium-term. Rwanda issued its first treasury bonds in 2008 and has continued to issue bonds of various tenures (between two and ten years) since then. The total value of treasury bonds sold since 2008 was roughly 257 million USD in April of 2017 (National Bank of Rwanda, 2017).

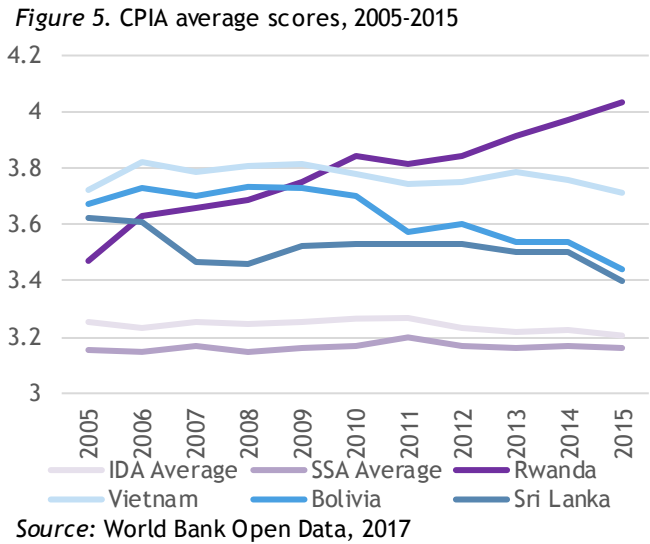
In spite of continued dependence on aid, Rwanda is relatively independent in terms of policy, scoring high on OECD, World Bank, and CPIA metrics of ownership over development priorities (Hasselskog et al., 2016; OECD, 2011; Zorbas 2011; Hayman 2009a; Hayman 2009b; World Bank 2005a). Reports from the OECD (2011) and World Bank (2005a) rank Rwanda high on the metrics of ownership and creating development frameworks and policies. According to the World Bank’s 2005 report on the Comprehensive Development Framework, Rwanda ranks higher than 93 percent of all countries included across metrics of “long-term holistic vision”, and higher than 96 percent of all countries included across metrics of “country ownership”. Hasselskog et al. (2016) report that the Rwandan government and donors describe the process of receiving aid as one where Rwandan officials create development policy isolated from donors and then propose to specific donors potential projects that they might be interested in funding. Notably, Rwanda leadership has made controversial policy choices—such as forcing certain groups to resettle or suspending democratic processes—which some donors object to, while maintaining access to aid (Hasselskog et al., 2016; Whitfield & Fraser, 2010). Both Hasselskog et al. (2016) and Hayman (2009a) note that the Rwandan government maintains more control over general aid policies in particular sectors, such as justice or refugees, over which it might disagree with donors, but allows for more donor input in the specifics of less controversial areas, like environmental, health, or education matters.

Figure 4. Tax revenue and net ODA as percentage of GDP, Rwanda, 1996-2015



Source: World Bank Open Data, 2016, OECD Statistics, 2017

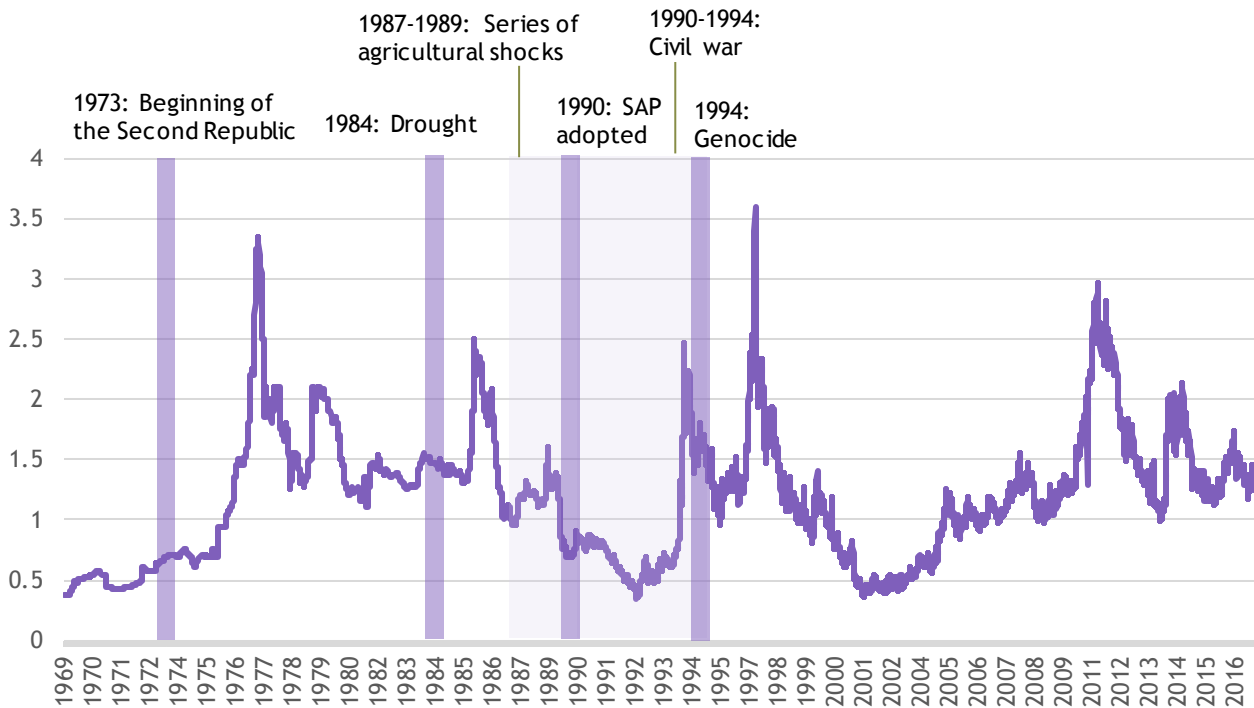
Rwanda also scores well on the Country Policy and Institutional Assessment (CPIA), which ranks countries based on indicators including institutional capacity, fiscal policy, social equity, and Portfolio Performance Rating (World Bank 2017b). Rwanda’s CPIA rating since 2005 has steadily increased across almost all categories, particularly in the areas of business regulatory environment, debt policy, environmental sustainability policy, and gender equality (World Bank, 2017b). In addition, Rwanda’s average CPIA score has remained well above the averages for all IDA countries and for Sub-Saharan Africa as a whole over the last decade, even surpassing the most recent IDA graduates (Vietnam, Bolivia, and Sri Lanka) in the last five years (*Figure 5*).



### 3. Drivers and Barriers to Self-Sufficiency in Rwanda

During the Second Republic (1973-1990), both aid and GNI in Rwanda began to increase (*Figure 1*). The first half of President Habyarimana’s rule was marked by relative stability, though several authors note continued forms of ethnic discrimination, such as imposing quotas for Tutsis in universities and in public service (Kimonyo, 2016; Uvin, 1998; Prunier, 1995). According to Uvin (1998), the leadership used the appearance of stability and the government’s claimed focus on economic development to woo international donors. The country’s dependence on foreign aid grew steadily until it became “one of the most aided countries in the world” (Uvin, 1998, p. 40). The country experienced several shocks in the 1980s, including two droughts in 1984 and 1989, high rainfall in 1987, plant disease in 1988, and the decline of world coffee, tea and tin prices (Kimonyo, 2017; Ansoms, 2005; Uvin, 1998; Prunier 1995). The literature (Kimonyo, 2017; Ansoms, 2005; Uvin, 1998; Prunier 1995) cites these factors, particularly the drop in coffee prices (*Figure 6*), as the main contributors to the subsequent economic crisis as declining revenues and increased borrowing weakened the government.

Figure 6. Worldwide coffee prices, 1969-2017, dollars per pound

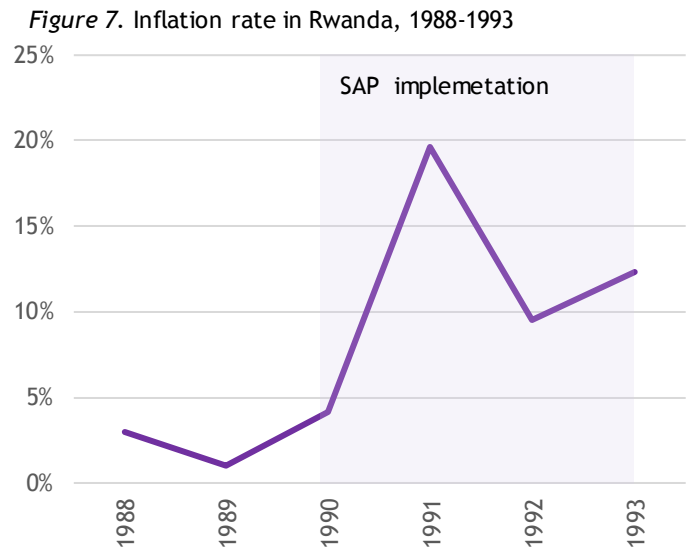


Source: World Bank Climate Change Knowledge Portal; Macro Trends: Coffee Prices; Kimonyo, 2017; Ansoms, 2005; Uvin, 1998; Prunier 1995

Both Kimonyo (2016) and Uvin (1998) suggest that the new aid flows entering Rwanda during the Second Republic (1973-1990) had little impact on development goals. By the end of the 1980s, Rwanda had the highest concentration of foreign experts per square mile in continental Africa (Hassen, 1989), but Kimonyo (2016) suggests that the work of technical assistants was disconnected from the Rwandan people, and projects would generally fail when the foreigners left. According to Uvin (1998), the Second Republic regime used aid from international donors to legitimize its rule and fund capacity-building programs for the elite, which had little effect on poverty alleviation. Uvin (1998) further reports that aid agencies misrepresented and ignored growing ethnic tensions and racist policies while touting Rwanda as a success on the basis of the strength of its institutions and political stability.

There is debate in the literature about the role of aid during the Second Republic (1973-1990) in relation to the economic crisis, the civil war, and the genocide. Kimonyo (2017) and Uvin (1998) argue that aid was unsuccessful in preventing the economic crisis. Uvin goes so far as to claim that aid contributed to the structural violence leading up to the genocide. He claims “aid financed much of the machinery of exclusion, inequality, and humiliation; provided it with legitimacy and support; and sometimes directly contributed to it” (Uvin, 1998, p. 231). By contrast, Kimonyo claims that the widespread aid projects “were actually islands of efficiency, the impact of which declined after the expatriates had left and their investments dried up” (2017, p.64).

The Rwandan civil war began in 1990, the same year the government signed a Structural Adjustment Program (SAP) agreement (Storey, 1999; Uvin, 1998). In November the national currency, the Rwandan franc, lost roughly 40 percent of its value almost overnight, leading to a sharp rise in inflation (Figure 7). The SAP included measures to reduce government expenditures, tighten monetary policy, remove price controls, introduce fees for social services, eliminate protectionist import restrictions, privatize some state-owned companies, and implement a social safety net (Storey, 1999, pp. 47-48). However, the SAP reforms are viewed by several sources as unsuccessful and even contributing factors in the subsequent collapse of the Second Republic government and the following genocide (Storey, 1999; Storey 2001; Chossudovsky 1996; Uvin, 1998; Prunier, 1995). Andersen (2000) argues that the SAP measures and the efforts to democratize the political system created dissonant effects that played a role in the political destabilization.



Source: World Bank Open Data; Storey 2001

In the immediate aftermath of the 1994 genocide, aid flooded into the country with ODA reaching over 90% of GNI (Figure 2). In 1996 and 1997 42% of aid went to emergency relief, and 15% was primarily debt relief from the debts incurred by the previous regime; very little was given directly to the government of Rwanda (Hayman, 2006). Ansoms (2005) claims that Rwanda experienced a faster recovery than normally would be experienced with such a relatively short civil war (Collier, 1999) due to a combination of aid and a strong policy environment. However Ansoms (2005) also attributes the subsequent drop in GDP in 2003 to the fragility of aid-funded growth.

Today the government of Rwanda receives around twice as much aid as a percentage of GNI as the Second Republic did (Figure 2). Unlike the Second Republic where much of the aid went toward funding technical assistance (Kimonyo 2017; Uvin; 1998), aid in modern Rwanda is increasingly in the form of general budget support or money given directly to the government (Hayman 2009a; Hayman 2006), with almost 50% of the government’s budget coming from this form of aid (Zorbas, 2011). While the Second Republic was required to devalue its currency as a part of the SAP, (Chossudovsky, 1996) the current government of Rwanda is cited as being able to maintain ownership over policies in spite of donor disagreement (Hasselskog et al., 2016; Zorbas 2011; Hayman 2009a).

There is some debate in the literature as to why Rwanda is currently able to maintain ownership of its policy goals despite relying on considerable amounts of aid. Both Zorbas (2011), and Hayman (2007a) argue that the Rwandan government is uniquely successful in maintaining ownership of its policy priorities by using genocidal guilt and donor-friendly language, support in donor countries for the Rwandan ruling party as a liberation movement, and a non-cohesive vision between various donors. Zorbas (2011) notes that while Rwanda maintains ownership of most of its domestic policies, when it was openly contemplating military intervention in the Democratic Republic of Congo, the UK withdrew 25% of its general budget support and relations normalized quickly. However, Zorbas (2011) makes it clear that this is the exception not the rule.

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