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Country presentation

by

THE GOVERNMENT OF RWANDA

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ACTION PROGRAMME FOR THE DEVELOPMENT OF RWANDA

2001-2010

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Table of Contents

I. Introduction.....	1
II. Rwanda,s Economy in the 1990s.....	3
Factors that Enhanced Rwanda’s Development in the 1990s.....	3
Macroeconomic Reforms.....	3
Structural Reforms.....	4
Institutional Framework for Good Governance.....	5
Support by Development Partners.....	7
Factors that Constrained Rwanda’s Development in the 1990s...	7
III. Programme of Action: 2001-2010.....	11
Short-Term Challenges.....	12
Medium-Term Challenges.....	12
Long-Term Challenges.....	12
Macroeconomic Stability and Economic Growth	13
Domestic Resource Mobilisation.....	14
Debt Management.....	14
Trade Liberalisation and Regional Integration.....	16
Building an Enabling Environment.....	17
Economic Policy Framework.....	18
Promoting Gender Equality.....	19
Enabling Poor Household to Increase their Incomes.....	20
Land use and ownership.....	20
Recapitalising rural households; savings, micro finance etc.....	20
Natural assets and environmental degradation.....	21
Investing in rural transport and market infrastructure.....	21
Rural and low income urban energy.....	22
Research and extension services for agriculture and livestock.....	23
Food security.....	23
Promoting off-farm employment.....	24
Improving the quality of life.....	24
Housing and resettlement.....	24
Education	25
Functional adult literacy	26
Health	26
HIV/AIDS	27
Water and sanitation.....	28
Reproductive health and population issues.....	28
Security: policing and the judicial system.....	29
Addressing the Special Needs of Vulnerable/Disadvantaged Groups.....	30
Victims of Genocide.....	30
Widows, Orphans, Disabled and Prisoners’ Families.....	30
Diversification of the Rwandan Economy.....	31
Export Promotion and Development.....	31
Information and Communications Technology.....	33
Building a Competitive Skilled Labour Force.....	33

ACTION PROGRAMME FOR THE DEVELOPMENT OF RWANDA 2001-2010

I. INTRODUCTION

1. Rwanda is a landlocked country with a population of 8.1 million in 1999, with a high population growth rate of 2.9% per annum and population density of 305 people per sq. km. About 65% of households are estimated to live below the poverty line. It is generally an agrarian economy and evidently agriculture sector contributes 91% of employment, 41% of GDP and 72% of exports. A part from yet unexploited natural gas in Lake Kivu, Rwanda is poorly endowed with mineral resources. Within the agriculture sector, the major activity is in food crop production for basically subsistence, while production for exports (coffee and tea) is only modest. The service sector contributes about 39% of GDP and roughly employs 6.5% of the working population. Within this sector, wholesale and retail trade as well as public administration account for about 50% of services. The industrial sector makes up 20% of GDP and employs slightly less than 2% of the working population. Manufacturing constitutes the most important source of industrial activity, accounting for almost 12% of GDP whilst construction accounts for 8.1% of GDP.

2. There was considerable growth of the economy immediately after the genocide as a result of post-genocide recovery. Real GDP, which declined by 50 percent in 1994, rebounded by 34 percent in 1995 and 16 percent in 1996, and continued its rapid expansion growing by 13 percent in 1997 and 10 percent in 1998. The preceding collapse made attainment of rapid growth possible in the immediate aftermath of the 1994 events due mainly to the huge inflow of emergency and humanitarian aid. Since then, growth has slowed to about 5.9 percent in 1999 and 2000. The recent slowdown is partly due to declining volume of investment. Climatic conditions and terms of trade shocks may have also played a role, negatively affecting revenues from agricultural production.

3. Rwanda's external debt and debt service is unsustainably high and could further delay rebuilding of social and physical infrastructure damaged during the 1994 conflict. At end-1999, total external public debt outstanding amounted to about US \$1.3billion, representing close to 65 percent of GDP. The debt service to exports ratio peaked at about 40 percent in 1999. The NPV of debt-to-exports ratio reached about 520 percent at end-1999, after which it is projected to decline gradually to 460 percent at end-2010 and around 260 per cent in 2019. This level of indebtedness is unsustainable by international standards. The target NPV of debt-to-exports ratio is estimated at 150%.

4. Rwanda's social indicators are weak. Health indicators are poor and there are exceptionally low levels of secondary and tertiary enrolment. Life expectancy of 49 years; high drop out rate at 16.8 %; infant mortality rate of 131 per thousand; maternal mortality rate of 810 per 100,000. The deterioration in health indicators is due mainly to the high level of malnutrition, the prevalence of malaria and AIDS. The low incomes of the population aggravate poor access to social services.

5. The Rwandan economy today is faced with a plethora of challenges that need urgent attention. The socio-economic problems facing Rwanda, are of two forms: (i) those which are structural and date back several decades (ii) and those inherent to the 1994 genocide, superimposed on pre-existing underlying problems and fractures. It is therefore necessary to consider both the special case of Rwanda, which calls for continued short-term interventions to address emergency needs, and long-term perspective guided by sustainable development objectives.

6. The main structural challenges faced by Rwanda date back over the last 30 years and have resulted in a high incidence and depth of poverty. Some of these challenges include low agricultural productivity; famine and cyclical droughts; low human resource development; limited employment opportunities; high population density and growth; high transport costs and environmental degradation. These microeconomic problems give rise to the following macroeconomic difficulties: structural trade deficit; high vulnerability to terms of trade shocks due to heavy dependence on two export crops - coffee and tea; structural imbalance between government revenues and expenditures; negative savings; and low level of private investment.

7. Genocide added to and created specific problems which include: destruction of economic and social infrastructure and the productive apparatus undermining confidence of the population, multiplying the number of vulnerable people, and eroding an already weak human resource base. It also affected the demographic structure, resulting in increased numbers of women headed households and minor headed households; high incidence of traumatising; high prison population; large numbers of internally displaced persons who lack shelter; increased incidence of poverty due to widespread loss of capital stock and labour; weakened social networks; and created an acute need for political development to achieve rapid reconciliation and forge a new sense of national identity.

8. As a post-conflict country, Rwanda must also confront the challenges of a sound trade-off between short-term emergency measures necessary for rehabilitation, reconstruction of destroyed social and physical infrastructure, and key to the national reconciliation process and political stability needed for growth, and the medium- to long-term measures, in its path and progress towards its long term vision. Policy recommendations and actions are presented in the programme of action for Rwanda presented in part two of this document.

9. The remainder of this document is divided into two parts. Part II presents the performance in socio-economic development in Rwanda over the 1990s. Part III provides policies for Rwanda's Programme of Action for Growth and Poverty Reduction in a phased manner.

II. RWANDA'S ECONOMY IN THE 1990s

10. Rwanda has made significant progress along an ambitious path of reconstruction, national reconciliation, and economic reform since the genocide of 1994. Rwanda is making the transition from responding to emergencies to ensuring sustainable development. The transition from emergency to sustainable development in Rwanda is proving to be complex and not always a linear process. But steady progress is being made. The major objectives of the transition program have been focused on laying the foundation onto which national reconciliation, sustainable economic growth, human resource development, and the improvements of the standard of living of the Rwandans. Macroeconomic and structural reforms, improvements in justice and political governance, sustainable reintegration of the population, poverty reduction, and transformation of the economy based on liberal, market-based economy, with reduced but more efficient role for the state are the key programs.

11. Following the genocide in 1994, the immediate priorities were to restore peace, resettle displaced people and returned refugees, promote national reconciliation and revamp the economy. In the *emergency phase (1995-97)* over one million internally displaced persons and over two million returned refugees were resettled and the country's economic, administrative, and social institutions were rehabilitated. In 1997, Rwanda embarked on an ambitious program of transition from conflict and emergency to peace and sustainable development. The overall objectives of the transition programs are to lay the basis for national reconciliation, sustainable economic growth, human resource development and the improvement of the standard of living of all Rwandans. The key components are macroeconomic and structural reforms, justice and political governance; sustainable reintegration of the population; poverty reduction and transformation of the economy are at the heart of this programme. Given Rwanda's circumstances and recent history that transition is complex. In June 1998, the Government adopted an economic reform program elaborated in a policy framework paper (PFP), prepared in collaboration with the staffs of the World Bank and the IMF. The program has received strong support from multilateral institutions and some bilateral donors. The performance of this programme so far can be judged as satisfactory. Rwanda successfully implemented the second- year PRGF. However in order to consolidate progress and the success of the programme, it is necessary to buttress it with adequate financing and institutional capacity. The program for the future aims at consolidating macroeconomic stability while first initiating progress toward a sustainable reduction in the underlying macroeconomic imbalances. Second, taking clear steps toward poverty reduction.

Factors that Enhanced Rwanda's Development in the 1990s

12. Rwanda's development in the 1990s was influenced by several internal and external factors, but of particular importance, are the macroeconomic, structural and institutional reforms that government has embarked upon.

Macroeconomic Reforms

13. In the first phase; from 1995 to 1997, macroeconomic policy reforms concentrated on reviving economic activity, restoring macroeconomic stability and rebuilding the capacity for macroeconomic and budget management. The central bank and the Ministry of Finance and Economic Planning were rapidly made operational, although their capacity remained weak. Real GDP grew by 34% in 1995 and by over 10% during each of the next two years. Inflation

slowed from 64% in 1994 to 9% in 1996, but increased in 1997 as drought and over one million returning refugees caused temporary food shortages. Despite some slippages in meeting agreed targets for revenue and expenditure, the primary fiscal position was almost in balance.

14. Despite capacity constraints and slowness in decision-making process, there was significant progress in implementation structural measures (see Box 2). Rwanda's trade and exchange rate regimes were liberalized, as the exchange rate was allowed to be market-determined, the surrender requirements for coffee and tea export receipts were eliminated, and maximum tariff rates were reduced from 100% to 40%. As a result, Rwanda's trade restrictiveness index fell from 8 ("restrictive") in 1995 to 3 ("restrictive open" in early 1998). In March 1996, the National Assembly passed a law that provided the legal and institutional framework for the privatisation of state-owned enterprises (about 70 in total). Despite an announced policy to build a leaner civil service, the number of civil servants increased sharply from 1995 to 1997 as new hires, many of who were unqualified, replaced civil servants and teachers lost in the genocide.

15. In the second phase, 1998-2000, the macroeconomic objectives in the reform program included average annual real GDP growth of 7 to 8%, inflation below 5%, an external current account deficit (excluding official transfers) of about 18% of GDP, gross official reserves maintained at a level slightly above 6 months of imports, and an increase in the revenue-to-GDP of 0.5 percentage point per year. The key measures for increasing revenue included improved tax administration by the Rwanda Revenue Authority (RRA) (established at end-1997 with technical and financial support from the UK), an increase in the turnover tax from 10% to 15%, increases in exercise tax rates, and the progressive elimination of tax and import duty exemptions. In the event, macroeconomic and financial developments were broadly in line with program targets, but revenue performance collection fell significantly short of the target, in part because of factors beyond the government's control (including unanticipated declines in import volumes), but also due to delays in implementation agreed policies. Budget and treasury management has continued to improve, including through the implementation of a flash reporting system that monitors on a monthly basis the budget execution, and the domestic arrears problem was largely resolved. In response to the revenue shortfalls, the government implemented significant expenditure reductions in both 1998 and 1999 (and with the mid-2000 budget review), but could not avoid the resort to large domestic bank financing in late 1999.

Structural Reforms

16. Structural reforms focused on opening up the economy and enhancing the economic and regulatory environment for private sector activity (Annex 3). Rwanda continued to pursue trade liberalisation, further reducing the maximum tariff rate from 40 to 25 eliminating the coffee export tax in early 1999, and further simplified and liberalized foreign exchange regulations. To promote private sector development, the government simplified business licensing requirements, revised the labour code to remove restrictions on the movement of labour investment and employment of females and established the Rwanda Investment Promotion Agency (RIPA) to facilitate investment and business development. In April 2000, the government submitted legislation to the National Assembly to abolish the state-controlled Chamber of Commerce. Henceforth, the Rwanda Private Sector Federation, formed in December 1999 as an apex independent body of various private sector organisations, will represent private sector interests in its dialogue with the government.

17. In 1995-97, the key areas of reforms were in the trade and exchange regimes, the fiscal area, the financial sector, and privatisation. External tariffs were progressively reduced and a new 25-15-5-0% tariff structure became effective on January 1, 1999. Exchange regulations were streamlined and further liberalised in 1998. In December 1998, Rwanda accepted the obligations of Article VIII of the IMF's Articles of Agreement, thereby formalizing the de facto convertibility of the Rwanda franc for current account transactions. In the financial sector, in addition to liberalizing interest rates and the adoption of a central bank law that gave the National Bank of Rwanda (BNR) independence in monetary policy, a new commercial banking law that provides for effective prudential regulation of commercial banks was adopted in April 1999. The implementation of the privatisation program was accelerated in 1998. In February 1998, the Investment Promotion Act became effective; the law established a one-stop centre to promote private investment, exports, and enterprise development. With a view to increasing rural cash incomes and enhancing market-based activities in the rural areas, the coffee export tax was abolished in early 1999 and the producer price for tea increased by 37%. The emphasis of the reform of public administration has been to reorganize and strengthen the capacity of the civil service, closely monitor and control recruitment and the payroll and rationalize the functions of the civil service.

18. The fiscal situation continued to improve, mostly through improved tax and customs administration and tax reforms. Government revenues as a percentage of GDP rose from 6.8% in 1995 to 10.3% in 1997. In 1998, it rose slightly to 10.4% which was lower than expected and was due to a combination of exogenous factors: 20% drop in receipts from import duties from a combination of reduction in tariffs and a fall in import values. Total expenditure as a proportion of GDP declined from 19.5% in 1997 to 18.6% in 1998, as a result of cuts in expenditures due to shortfalls in revenues and external aid. Continuing concerns about security, as well as internal and external debt servicing, reduced resources available for essential social and economic services. Despite regional security challenges, defence expenditure as a proportion of GDP continued to decline i.e. from 5.3% in 1996 to 3.6% in 1998 and, in the revised budget, to only 3.5%. The government is committed to reducing it, subject to continued improvements in the security conditions in the region and the need to reintegrate ex-FAR soldiers into the army¹.

Institutional Framework for Good Governance

19. The Government of National Unity has provided a bold vision for the future, restored social stability, re-established peace and security, and put in place mechanisms for effective governance. This has been done through various mechanisms including:

(i) The overall development of Rwanda is predicated upon regional stability in general and Rwanda's security in particular. The Government of Rwanda remains committed to a diplomatic solution to this conflict. Sustained efforts by the international community are required to enable Rwanda and other countries in the region to make the transition from conflict to peace. Stability in the region will result in an end to population displacements and also enable government to include the displaced into the development process.

(ii) Following the successful implementation of local elections at the grassroots level in March 1999, representative and elected grassroots leaders are in place at the cell and sector levels. Further elections are planned at the commune level early 2001. This has promoted popular participation through decentralised democratic structures.

¹ About 10,000 ex-FAR soldiers were integrated into the national army in 1998.

(iii) The Human Rights Commission was established in March 1999. Over the past year, it has formulated a human rights programme in the context of Rwanda that focuses on protection and promotion of human rights and capacity building for the commission itself. It has just published its first report.

(iv) The Unity and Reconciliation Commission has passed a one-year mark, having begun its operations in March 1999. Since March 1999, the Commission has undertaken various activities and actions in pursuit of its mandate. In particular, it conducted a series of popular consultations in all the communes in the country. Unity and Reconciliation is the basis for the durable peace, security, human rights, poverty reduction and sustainable development.

(v) In late-1999, a Commission on Legal and Constitutional Affairs was established to consult with the population and propose the constitutional arrangements for a democratic Society.

(vi) The Government is giving priority to capacity building for the justice system, and has set up national civilian police to replace the paramilitary gendarmerie in public security and maintenance of law and order.

(vii) In 1999 cabinet approved a bill permitting the use of traditional methods of justice (*gacaca*) to clear the bulk of the cases of genocide suspects. This involves community-level councils adjudicating cases and allowing the guilty to serve most of the balance of their sentences by community service. The *Gacaca* system is designed to accelerate the adjudication of the cases of the many of the detained genocide suspects.

(ix) To promote accountability and transparency, the Government established the Office of the Auditor General in 1999, which is an independent public institution. The transparency of budget preparation and execution is being improved through the adoption of the organic budget law and the regulatory framework for public accounts. Furthermore, with technical assistance the Government is in the process of introducing a medium-term expenditure framework, which aims at progressively introducing program-based medium term expenditure (MTEF) budgeting for linking expenditures to monitorable outputs.

(x) The Government has initiated decentralisation of state management as a policy to enhance effectiveness and efficiency in service delivery and to improve government responsiveness to the needs of the people. Decentralisation will make more participation in decision-making at all levels of government possible and also create greater accountability and transparency. The law establishing decentralisation is under discussion in parliament. The implementation of the policy will be incremental, bearing in mind the need to match requirements with resources. Parts of the budget have been decentralised to the prefectures. The commune will become the most important local administrative unit; funding may be earmarked for spending at this level, building on the existing work and resources of Commune Development Committees.

(xi) The Government has supported the empowerment of the civil society, freedom of expression and association and freedom of the Press. Social networks of NGOs, community based organisations, women in development, and youth operate freely.

Support by Development Partners

20. **Emergency and humanitarian assistance:** In the years after the genocide, donors stepped into a vacuum. Since 1994, about US\$2 billion has been provided for humanitarian assistance to the vulnerable population, including the refugees in the camps, and for resettlements, rehabilitation and reconstruction of Rwanda.

21. **Transition from Emergency to Sustainable Development:** In the aftermath of the genocide, the donor community responded positively in the rehabilitation of the country. But as the country enters the sustainable development and poverty reduction phase it is becoming increasingly apparent that our hope cannot be based on external aid alone. Besides, even if the national budget were well managed and well distributed, it could not fully address our development problems. We must therefore look to ways of mobilising additional resources at the domestic level over and above external assistance. Mobilisation of domestic resources is currently low and hence the heavy reliance on FDI and declining ODA flows.

22. **Aid and Financial Flows:** With increasing globalisation, Foreign Direct Investment (FDI) in sub-Saharan Africa rose sharply from US\$834 million in 1990 to US\$ 5.2 billion in 1999. During the same period, Official Development Assistance (ODA) declined from 10.7 % of GNP (i.e. per capita of US\$ 40) to 5% of GNP (i.e. per capita of US\$ 26). FDI flows are increasingly replacing ODA flows as the main source of resource flows to sub-Saharan Africa; for Rwanda, this means that the country cannot continue to rely indefinitely on ODA flows, which in 1999 were estimated at US\$ 156 million (i.e. 7.6 % of GDP) for its development. The country must therefore create and maintain a good environment as well as an institutional framework that is conducive to private sector activity and thereby benefits from the FDI flows.

Factors that Constrained Rwanda's Development in the 1990s

23. Rwanda's economic performance in the 1990s has been greatly affected by the civil war and the subsequent genocide, and the violent conflicts in the Great Lakes sub-region. It is estimated that about 3.8 million people were displaced, of which about two million, including government officials and members of the defeated army and the *interahamwe militias* who masterminded the genocide, fled to refugee camps in the Democratic Republic of Congo (DRC) and Tanzania. Moreover, about 800,000 old caseload refugees returned to Rwanda from neighbouring countries². The genocide and civil war damaged social and economic infrastructure and economic activity declined by about 50 %. The 1990s conflict in Rwanda was exceptional in its depth of destruction of human capital and the damage to social capital and institutions.

24. Rwanda also faces structural bottlenecks and problems created by the genocide that have slowed down economic progress. These structural bottlenecks include:

- Low agricultural productivity. This aggravated by the failure of past agricultural policies, in particular the failure to make the transition in the early 1980s from an extensive low productivity and low value agriculture to an intensive high value farming. Before 1994, Rwanda's economy was characterised by a very high share of subsistence production and

² Old caseload refugees are the Rwandese refugees from the conflict of the 1950s, 1960s and 1970s and their descendants. These exiles returned to Rwanda in massive numbers in 1994 and 1995. New caseload refugees are those who left Rwanda in 1994.

a high proportion of people living in rural areas. Technology was relatively stagnant and soil yields were declining, partly because of a policy of self-sufficiency that inhibited technical change.

- Famine and cyclical droughts. Rwanda has suffered major famines since 1902. Cyclical droughts persist and result in acute food shortages and widespread hunger in certain parts of the country on a frequent basis.
- Low human resource development. The educational policy produced exceptionally low rates of secondary and tertiary enrolment, which has become a severe constraint on the development of the economy.
- Rising unemployment. High level of unskilled and jobless youth in both urban and rural areas coupled with limited job opportunities for the skilled.
- High population density and growth. Our population levels are unusually high for a small country, which depends so heavily on the use of the land for production. Moreover, this population continues to grow rapidly, making the need to develop and transform the economy particularly urgent.
- High transport costs constrain the participation in International trade. Our international trade is heavily dependent on land transport through two main corridors each with its specific set of problems. With the imposition of axle weight limits in neighbouring countries, increased operational costs have increased import costs. Internal transport costs also pose a major constraint, partly because of the decapitalisation of the transport sector and the poor conditions of feeder roads.
- There is evidence of environmental degradation. Forest resources suffered from the devastation of years of war coupled with increased use as a source of fuel. Since the end of the events in 1994, there have been no consistent reforestation policies and action plans. Reforestation is needed both for environmental protection and as a source of income generating activity. Other environmental problems include the stressed water resources, and the chronic decline in soil fertility and the increasing erosion and exploitation of the fragile ecosystems of the marshlands.

These microeconomic problems give rise to the following macroeconomic difficulties:

- Structural trade deficit, reflecting a low and narrow export base. Rwanda exports an average of US\$ 16 per capita compared to an average of US\$ 100 in Sub-Saharan Africa. Two export crops; tea and coffee account for almost 80% of exported goods. As a result, the country is dependent on external aid flows for both balance of payments and budgetary support.
- The heavy dependence on two export crops makes the country vulnerable to external price shocks. For instance, Rwanda's earnings from coffee exports fell from \$45 million in 1997 to \$26 million in 1999 despite an increase in the volume, because the price fell by more than half.
- Structural imbalance between Government revenues and expenditures. Rwanda has a narrow revenue base with domestic tax and non-tax collection averaging 8.7% of GDP in the period 1995-1997 compared to an average of 17.7% of GDP in Sub-Saharan Africa. Rwanda's fiscal deficit (excluding grants) averaged 10.8% of GDP over the period 1995–

1999 compared to 6.6% for Sub-Saharan Africa. Overall external funding averaged 8.4% of GDP in the period 1995-1997 compared to an average of 2.4% of GDP in the rest of Sub-Saharan Africa. In the post war period 98% of capital expenditure has been funded by external donor assistance.

- Savings are negative. Overall savings in 1998 were -1.2 percent of GDP compared to +7.7 percent for Sub-Saharan Africa (excluding South Africa and Nigeria).
- The level of private investment is also low, at 8 percent of GDP in 1999. While some investments by smallholders may be omitted from the national accounts, the evidence is that there has been disinvestment in the rural sector since the early 1990s; stocks of animals are lower, coffee trees have been cut down or grown old, and there has been a reduction of anti-erosion activities in some areas. Declining Foreign Direct Investment especially following the genocide has exacerbated low levels of investment.

25. **Legacy of the genocide.** We continue to live with the consequences of the 1994 genocide, which profoundly affected the lives of everyone in Rwanda. The specific problems caused by genocide include the following:

- The demographic structure of the whole population has changed. We have a shortage of adult males (compounded by the prison population) and a high share of orphans. In 1996, 34% of households were headed by women and 21% by female widows (Enquete Socio-Demographique, 1996).
- A particularly distressed group is child-headed households; there were estimated to be more than 85,000 such households after the war but the numbers have fallen since because other households have adopted some of these children.
- About 130,000 people are in prison awaiting trial for genocide-related crimes. This imposes a large economic burden both on the state and on their households.
- The experience of violence traumatised a high proportion of the population. The National Trauma Survey in 1995-6 found that 96% of children had witnessed violence, 80% had experienced death in the family, 69% had witnessed death or injury, 31% had witnessed rape or sexual assault, and 91% had believed they would die. Episodes of irrational and violent crime still occur, and sometimes reflect the trauma involved in the events of 1994. In some cases traumatised household heads are unable to provide for their families hence the additional pressure on communities to provide safety nets.
- A culture of passive obedience leaves people open to political and sectarian manipulation; the decentralisation now occurring is giving people a chance to experience a culture of open debate in which ideas are debated rather than passively accepted. The recent election of local leaders at grassroots levels provides the opportunity for participation in decision-making and implementation of community based programmes.
- The geographical spread of the population has changed; some areas such as Umutara and Kibungo have a much higher density of population than before.

- Many people lack shelter. Since 1994, development partners and NGOs have constructed about 177,000 houses, but this still leaves about 250,000 households under plastic sheeting, 62,000 in badly damaged properties, and 60,000 in properties that they are occupying illegally.
- Rural farmers have lost capital stock and labour. The Household Food Economy Analyses by Save the Children Fund have found dramatic reductions in households' holdings of livestock and small animals in almost every part of the country.
- The physical capital stock of private businesses and the public sector have been damaged.
- Networks of social links, for instance between rural and urban areas, have been affected, dampening the prospects of internal commerce.
- The prevalence of HIV has increased dramatically. The prevalence is 11.1% nationally and 10.8% in urban areas, compared to a rate of 1.3% in rural areas in 1996.
- Human resources were depleted by the genocide and hence are acutely in short supply.
- Since 1994, we have confronted recurrent threats from external forces such as the 1997 insurgency, which had to be neutralised in order to achieve security within the country's borders.
- There is an acute need for political development to achieve rapid reconciliation and forge a new sense of national identity and strengthen social cohesion.
- Since 1994, the government of Rwanda with assistance from the donor community has been working to address some of these problems. However their scope remains significant and their costs for the Rwandan economy high. In particular, the destruction of human and physical capital in the rural areas.

III. PROGRAMME OF ACTION: 2001-2010

26. The process of designing a long-term Action Plan for Rwanda is predicated on the overriding objective of reducing poverty and maintenance of sustainable economic growth in the country. In this framework, the Action Plan will aim at transforming the Rwandan economy into a modern, stakeholder economy in which agents in all sectors can participate in economic growth. This implies a number of conditions:

- (i) The creation of an enabling environment for sustainable development is a prerequisite for a post-conflict country like Rwanda
- (ii) The economy requires structural transformation, including human resources development, modernization of agriculture and development of industries in which Rwanda has a comparative advantage
- (iii) The growth prospects for Rwanda need to be explored both in the medium and long term
- (iv) The poor must be able to participate in the process of growth and long-term sustainable development and particularly vulnerable groups need to be provided with sustainable livelihoods.

27. In the light of the above conditions, the long-term development objectives, strategies and goals of Rwanda for the next ten years are set out in the Vision 2020 document. The Poverty Reduction Strategy is prepared in the context of Rwanda's long-term vision. The achievement of these objectives and goals is expected to usher Rwanda into the comity of nations whose material well-being and standard of living is very much improved. In order to achieve these goals, the medium- and long-term vision of the country must aim at achieving the following:

- Good governance, democratisation, national unity and reconciliation, political stability and security, and creating an economy of stakeholders; and elimination of all forms of human misery and inequality and poverty;
- Modernization of the rural economy by intensification, diversification and market development in order to reduce widespread poverty and inequality and development of the secondary sector geared towards satisfying the mass consumption of goods of the nascent market fuelled by a change in the primary sector;
- Human resource development, improving access and quality at all levels of education and health, capacity building, enhancing non-formal education, improvement of nutritional requirements and preventing the spread of HIV/AIDS pandemic; and improving the level of human resources and physical, economic and social infrastructure that is necessary to cope with the requirements of the modern state and development goals;
- Promotion of sustainable macroeconomic stability and structural transformation of the economy, creation of an enabling environment for private sector development while strengthening the capability of the state, promotion of privatisation, and decentralisation of functions and de-concentration of activities;
- Active promotion of a skill-intensive services sector and the development of knowledge-based information and communications technologies;
- Promotion of regional economic integration and co-operation and development of the requisite economic infrastructure for facilitating and improving access to the ocean ports; and

- Reducing progressively Rwanda's dependence on external resources through the promotion and diversification of the export sector and the effective mobilization and efficient use of domestic resources as well as the creation of enabling environment for both local and foreign investment.

28. The long-term vision for Rwanda will be realized by creating an open and liberal market economy, founded on competition, initiative and creativity, that employs science and technology in deriving maximum productivity from the use of all human and natural resources and in optimising the rate of economic and social development, with due regard to the protection of the environment and to equity in the distribution of benefits of development.

Short-Term Challenges

29. In the immediate term, the Government of Rwanda (GOR) recognizes that successful transition from the 1994 genocide events requires attainment of the following objectives namely:

In the immediate short term the priorities are the following:

- (i) Policies to increase incomes, employment, labour productivity and rural recapitalisation in all its components. This includes extension services, provision of rural credit and financial services, and support to micro and small-scale enterprises.
- (ii) Actions to improve the quality of life of the poor and stabilise lives of the populations in the new settlements (*imidugudu*) by ensuring access to primary health care, primary education, water and sanitation, energy and housing.
- (iii) Addressing the problems of vulnerable groups in rural and urban areas on a sustainable basis, replacing transfers with sustainable livelihoods and establishing safety nets.
- (iv) Creation of training and employment opportunities for the unskilled young and empowerment of the skilled youth to engage in income generating activities.

Medium-Term Challenges

30. Over the medium-term, it will be essential to diversify the economy and to raise the rate of productive investment in the country. The program of diversification will require identifying new potential areas with a comparative advantage where Rwandese entrepreneurs can successfully compete in international markets. The target growth rate of GDP of 8 percent for the next fifteen years can be expected to achieve sustained growth and poverty reduction. Provided this growth is equitably distributed, it will generate the resources necessary to improve the quality of life of all people in Rwanda. To achieve these objectives obviously requires a high level of investment of at least an ICOR of 4.4 percent. The need to raise domestic savings therefore cannot be over-emphasised as a one way of spurring productive investment growth in the medium- and long-term.

Long-Term Challenges

31. Under conditions of a stable and conducive macroeconomic environment, which is essential to attract foreign direct investment and spur economic growth, a strategy focusing on

developing, a diversified, competitive high-value export production is the key. To achieve this, it is imperative to develop a highly skilled, well-motivated labour force trained especially in science, technology and managerial skills.

32. Furthermore, there is need for a reliable, adequate, low-cost countrywide infrastructure, particularly, in the key areas of communications, transport, energy and water, which can stimulate private sector growth and encourage export development. Of critical importance is the expansion of the service sector including (finance, banking, insurance, tourism, telecommunications) and second-generation service sectors such as data processing and information technology.

33. It will be important to design a comprehensive plan for the integration of Rwanda's economy into the regional and global markets. In this context, it will be crucial to enhance the competitiveness of the domestic goods through innovation, creativity, in a favourable environment. To achieve the above objectives, the new vision for the country should depart from previous national policy statements in the following ways:

- (i) The programme should be human-centred. In this context, medium and long-term objectives should be designed to promote the, welfare, socio-economic development and unity and reconciliation, whilst also ensuring that the process of achieving this is democratic, participatory, consultative and promotes consensus among all key stakeholders; and
- (ii) The approach should be comprehensive, embracing social, economic, environmental and spatial aspects of development in an integrated manner.

34. The main areas of action identified by the Government of Rwanda include maintenance of macroeconomic stability and creating growth, building an enabling environment, implementing clear sectoral policies for poverty reduction and growth and diversification of the economy.

Macroeconomic Stability and Economic Growth

35. The main elements of the medium term macroeconomic program are to: (i) achieve annual average real GDP growth rate of at least 6 percent a year; (ii) keep inflation at below 5 percent a year; (iii) gradually reduce the current account deficit (excluding official transfers) from 16.8 percent of GDP in 2000 to about 10.7 percent in 2004; (iv) maintain the level of gross official reserves at a level of at least 6 months of imports; (v) increase the ratio of revenue to GDP by half a percentage point per year; and (vi) maintain-assuming HIPC relief-debt at sustainable levels as defined by the net present value of debt to exports ratio of 150 percent.

Domestic Resource Mobilisation

Revenue Mobilisation

36. The objective is to increase tax collection from 9.7 percent of GDP as at the end of 1999 to 11 percent of GDP by the year 2001. The strategy is for Rwanda Revenue Authority (RRA) to enhance tax collection and strengthen tax administration.

Strategies and Policy Actions

37. These will include: (i) enlarging the tax base of goods and services on consumption while at the same time reducing tax on savings; (ii) encouraging financial institutions to introduce policies and other attractive incentives that attract savings; and (iii) Government should devise means of encouraging public saving. (i) preparing the public accounts for 2000 with the revised budget classification (end-June 2001); (ii) completing the audits of 1999 accounts of ministries (end June 2001); (iii) develop plans to reform the judiciary; (iv) revising the RRA's plan outlining improvements to be made in tax administration (end December 2000); (v) eliminating temporary import surcharge (introduced in mid-1999); (vi) elimination of tariffs on intra-regional trade, consistent with Cross-Border Initiative; and (vii) review 4 percent Magerwa tax.

Debt Management

38. Rwanda's external debt and debt service is unsustainably high and could further delay rebuilding of social and physical infrastructure damaged during the 1994 conflict. At end-1999, total external debt outstanding was estimated at US\$ 1.3 billion, representing close to 65 percent of GDP. The debt service to exports to exports ratio peaked at 40 percent in 1999. The NPV of debt to exports ratio reached about 520 percent in the same period, after which it is expected to decline gradually to 460 percent at end-2010 and around 260 percent in 2019.

39. The enhanced HIPC Initiative is designed to help reduce the stock of debt owed the multilateral institutions. Rwanda qualifies for debt relief under this initiative, and is expected to reach the decision point some time in December 2000. Preliminary estimates suggest that annual cash flow savings from this relief would be about US\$ 20 -30 million a year from 20001 to 2010, which is equivalent to 1.5 percent of GDP. The HIPC debt relief is expected to put the country's external finances on a sustainable level and also free some resources into anti-poverty spending.

40. The management of the external debt units in the Ministry of Finance and economic Planning and the NBR will be strengthened in order to ensure the timely production of adequate external debt statistics.

<p>Policy Actions</p> <p>Excises</p> <p>(i) Submit to parliament revised law to subject excisable goods (beer, soft drinks, wine/liquor, cigarettes, petroleum products-gasoline and diesel) to VAT while reducing the excise rate so as to keep the overall rate of domestic taxation unchanged; and to increase the excise rate on mineral and soda water to that on soft drinks;</p> <p>(ii) Implement tax stamps for beer and cigarettes</p> <p>VAT</p> <ul style="list-style-type: none"> • Implement adequate refunding system including by: (i) strictly adhering to one month delay for refunding claims owed by the RRA; (ii) implementing any exemption for diplomats and investors; reporting VAT revenue net of refunds owed by RRA; (iv) eliminate VAT exemption from the investment code. <p>Other Measures</p> <ul style="list-style-type: none"> • Strengthen and formalize link between Revenue Protection Service and Customs Department. 	
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41. Specifically, the government will monitor its external debt through a *committee*, including representatives of the Ministry of Finance and Economic Planning and the NBR, whose functions will be to reconcile debt figures, review the debt situation, and provide regular updates to relevant government agencies. To ensure that the burden is accurately assessed, the management of external debt is being strengthened. Projections of the future debt levels have been developed for the country in collaboration with the IMF and with UNCTAD-UNDP debt management support.

42. To overcome the deficiencies in many areas of Rwanda's macroeconomic, financial and social database, emphasis will be put on the quality and timeliness of statistics through regular household surveys; the coverage of balance of payments statistics; the consistency and timeliness of the monetary survey; and the quality of national accounts and price statistics. The Government has already undertaken an urban and rural household surveys and is planning a National census with donor support in 2001.

Trade Liberalisation and Regional Integration

43. Since 1994 Rwanda has embarked on a comprehensive liberalisation of its foreign trade regime and adhered to the regional integration targets under the Cross-Border Initiative (CBI) and the Common Market for Eastern and Southern Africa (COMESA). In this framework, tariff rates have been significantly reduced and export and non-tariff barriers have been eliminated. Rwanda has also made significant advances in regional integration and has been invited to join the Commission for East African community and is expected to become a member of this organisation in the near future.

44. The major policy concerns related to the revenue impact of the current trade reforms remain especially in view of the fact that the value of imports has not improved significantly as originally envisaged. It is important to note that trade liberalisation will require some

restructuring of domestic industry, which was previously protected. In a small relatively open landlocked economy, rather than talk of protection, the right approach is on a case-by-case basis, selective intervention, limited in time and which does not impede competition. A number of criteria will have to be considered: (i) export orientation; (ii) level of local raw materials input; (iii) employment generated directly and indirectly; (iv) level of value added; and (v) taxes paid. The time frame for intervention will be determined on industry case-by-case basis. The Government also recognizes that domestic firms can become internationally competitive only if they are supported by reliable and competitively priced utilities.

45. Rwanda faces significant natural barriers to trade as a landlocked country. Thus, beyond the liberalisation of trade in goods and movements of factors of production, the development of trade-related infrastructure is essential for regional integration and co-operation. In addition, the further enhancement of intra-regional trade will require improvements in the institutional environment for the private sector, including through the effective implementation of the new investment code, a further liberalisation of the exchange regime, and simplification of procedures for customs declaration and setting up of new businesses.

Building an Enabling Environment

46. For a post conflict country it is imperative that particular attention is paid to creating an enabling environment through strengthening of institutions so as to facilitate sustainable socio-economic development.

Regional Framework

47. The ongoing violent conflicts in the Great Lakes region have posed difficult challenges for Rwanda's reconciliation and development processes. In this vein, the government of Rwanda is committed to peaceful settlement of the conflict as is embedded in the Lusaka Ceasefire Agreement.

48. As of the regional co-operation agenda, the government is also committed to share the benefits deriving from a larger market of goods and services as a one way of attacking poverty and enhancing sustained economic growth and development. In this connection, Rwanda is actively involved in major regional economic integration initiatives including COMESA and has also applied to join the East African Community.

Framework for Good Governance

49. The Government of National Unity has provided a bold vision for the future, restored social and economic stability, re-established peace and security, and put in place mechanisms for effective governance. This has been done through various mechanisms including:

(i) conducting local elections in March 1999; (ii) establishment of the Human Rights commission in March 1999; (iii) establishment of the Unity and Reconciliation Commission in March 1999; (iv) establishment of a Commission on Legal and Constitutional Affairs; (v) forming of the National Police; (vi) establishment of the auditor General's office; (vii) initiation of a decentralised management system; (viii) initiation of the use of traditional methods of justice, *Gacaca*, to clear the bulk of the cases of genocide suspects; and (ix) empowerment of the civil society and women, by allowing for freedom of expression and freedom of the press and association.

Legal and Prudential Framework: Property Rights and Contracts

50. The government's first priority in this framework is to ensure that Rwandese have secure access to basic assets like land, housing and livestock. To achieve this, the government is currently reviewing the existing Land Act to ensure that it can enhance security of tenure and property rights are protected while at the same time optimising the productive use of land as a resource. This strategy is expected to spur private sector development.

Physical Security: Law and Order

51. Security is one of the priority areas for Rwandese. Long lasting security will necessitate the establishment of effective law and order enforcement structures, in the form of a well financed National Police Force. There is also need to strengthen local community policing to reinforce the work of the national police force.

Economic Policy Framework

52. *Private Sector Development.* The government is committed to enhancing the role of the private sector in the growth process and to continue to deepen and broaden major economic and institutional reforms; promote exports, and improve the competitiveness of the economy.

53. *Privatisation and Regulation.* The pace of privatisation process already will have to be accelerated. The guiding principle will be to enhance the quality of the privatisation process. Concentration will initially be focused on the privatisation of tea factories and plantations and the two public utilities – Rwandatel and Electrogaz. In this connection, a multi-sectoral regulatory agency will be established to regulate their activities.

54. *Investment Promotion.* The government has established the Rwanda Investment Promotions Agency to promote Rwanda as investment destination. The state-owned Chamber of Commerce has been replaced with an independent private sector federation to effectively establish the needs of businesses.

55. *Human Resource Development.* It is well known fact that weak human resources and institutional capacity were exacerbated by the 1994 genocide. As a result capacity building and rehabilitation of institutions of higher learning and professional education have received much attention. The Kigali Institute of Education, Kigali Institute of Science and Technology and Kigali Health Institute are intended to meet partly the needs of the labour market. The government is also committed to establishing a Human Resource Development Agency to develop, co-ordinate and monitor the implementation of the national human resource strategy.

56. *Civil Service Reform.* In the aftermath of the 1994 genocide, many senior and qualified staff was killed, while others fled the country. Consequently, the civil service was bloated with large numbers of unqualified staff. As a way of streamlining the civil service, the government has since 1998 undertaken a civil service reform program aimed at: (i) retrenching unqualified staff; (ii) removing of ghost workers; (iii) regularisation and reinsertion of qualified staff, and (iv) recruitment of new qualified staff. However problems still exist in the civil service.

57. To address these problems, the government will implement measures in the course of 2000 and 2001 to rationalise and streamline the functions and employment within the civil service, implement the new ministerial cadre organiques and undertaking job classification and grading. In parallel, the government will hold consultations with the civil society and its partners on the reform of public administration, consistent with its long-term vision and in line with its strategies for poverty reduction and human resources development. This will form the basis of future civil service reforms.

Infrastructure

58. *Transport.* The government has over the past four years instituted a policy and an institutional framework for the accelerated development of the road sub-sector. In particular, a Road Fund has enacted and the capacity of the Directorate of Roads has been strengthened.

59. *Energy.* The government is promoting a policy which encourages private sector provision and distribution. Plans are under to restructure Electrogaz in 2001 and the development of natural gas resources in the near future as a way of poverty reduction and encouraging private sector growth.

60. *Water and Sanitation.* The government intends to encourage strong community participation in rural water delivery. In urban areas, the restructuring of Electrogaz will help improve services. In the area of urban sanitation, there is need to build the institutional capacity of the urban administrations.

61. *Telecommunications.* The government intends to privatise Rwandatel in the year 2001.

Restoring and Protecting the Environment

62. The government is in the process of a preparing an National Environment Action Plan. The key policy areas include: protection of water resources, forests, and soils.

Promoting Gender Equality

63. Women in Rwanda constitute the majority in the total population and are an important resource especially in the agricultural sector. In recognition of their contribution to national output, the government as a matter of priority, aims to integrate them in all areas of economic activity by redressing the critical barriers that prevent them from participating in productive activities. In this vein, the government has already put in place a legal framework, which recognises women's rights. A matrimonial code has been revised that offers a choice of property regimes and land registration.

Sectoral Policies for Poverty Reduction and Sustained Growth

64. The main sectoral policies are presented under three main headings: increasing the incomes of the poor; improving the quality of life; and addressing the needs of the most disadvantaged and vulnerable groups. Policy actions are categorised into three broad areas: short-term, medium-term and long-term measures.

Enabling Poor Households to Increase Their Incomes

Land use and ownership

Challenges:

65. Land is the most important asset for most Rwandese households and will remain important for many years to come. The population movements following the genocide have led to a number of new cases of insecurity of land tenure. This included conflicts over existing plots after population displacement, the temporary nature of new land allocations involving returnees, and the halting of previous projects, which allocated communal marshland to the population. Lack of land tenure security hinders long-term investment in the land necessary for higher productivity. In order to promote economic growth and equity, we need to provide secure tenure to people to enable them to invest in their land and use it as productively as possible, while enabling those who wish to do so to sell their land and use the money for other productive activities. We are also committed to ensuring that land is used productively and sustainably by establishing clear guidelines for land use.

Policy Actions

66. **Short term:** (i) the government is currently preparing a land policy and formulating a draft land act. Provision within the law should ensure security and legal status of tenure; (ii) the government will implement legislation to remove the statutory discrimination against women's right to own land, and to allow different options for the apportionment of property on marriage including the joint ownership of assets; (iii) adopt the land law. **Medium term:** (i) pass the land law and implement the law so as to enable people invest in their land. (ii) sensitisation of land users on the land law and ensure appropriate documentation of ownership and land use.

Long-term: Land use intensification.

Recapitalising Rural Households; Savings, Micro Finance and Restocking

Challenges

67. The war resulted in massive decapitalisation of the rural sector, in which livestock and houses were destroyed. Most rural capital has traditionally been held in the form of livestock, used both as a store of wealth and a source of organic fertiliser for cultivation. Rural households also need to invest in inputs – improved seeds, manure, chemical fertiliser and pesticides. These short-term investments are central to the recovery of the Rwandese rural economy.

Policy Actions:

68. **Short term:** (i) government will avoid taxing goods that are used as capital assets by the poor, including agricultural inputs; (ii) support including matching grants will be considered for assets where there are positive externalities and where a one-off subsidy would not involve a long-run expenditure commitment. (iii) Banques Populaires will be supported in its restructuring process so as to enhance its role in domestic savings mobilisation and credit provision.

69. **Medium term:**(i) savings mobilisation and promotion of seasonal loans (ii) Rural credit institutions will be encouraged to do the following: focus on seasonal loans as a first priority, and move gradually into long-term investment loans; develop business with farmers groups, women associations and other community organisations, producer co-operatives, which foster investment activities within and outside agriculture.

Natural Assets and Environmental Degradation

Challenges

70. We face four major environmental challenges. First, water resources need to be conserved and better managed. Secondly, the fertility of our soil has been declining sharply for the last fifteen years and soil erosion is progressing. Thirdly, there has -been extensive deforestation in a number of places. Fourthly, biodiversity is a resource under pressure. In the marshes, water, soil, and biodiversity are all potentially at risk if cultivation is not well managed.

Policy actions

71. **Short term:** (i) well-maintained traditional structures for water harvesting (gravity – led and earth-built) and terracing on the hillsides will be restored and promoted. Secure land rights are needed to provide the necessary incentives; community initiatives will play a central role; (ii) soil fertility management including the use of organic and inorganic fertiliser will be further promoted; (iii) a clear plan for marshland management will be developed, incorporating both technical inputs and efforts to resolve the land tenure issues and user rights of marshlands; (iv) where marshes are already under cultivation, small scale drainage and irrigation infrastructure will be put in place. (v) Government has this year launched a programme of afforestation under which 65,000 hectares of forests are to be planted. About 80% of the costs are to be covered by *umuganda* (community labour).

Medium term: (i) Agro forestry is being promoted; (ii) there is a need to review the policy on individual planting and harvesting of trees (iii) community management of forests, and the adoption of innovative energy-efficient cooking technology adaptable to our habitat, will be promoted to ensure that the newly planted forests are sustainable.

Long term: Rwanda will seek resources for the preservation of rare species, which are of value to the whole world, under the Global Environment Facility. Biodiversity in the forests, including the gorillas in the Volcanic Park and the plant species in the marshes, will require protective action.

Investing in Rural Transport and Market Infrastructure

Challenges

72. Currently, rural producers find it difficult to market their output, for a number of reasons: the decapitalised transport sector, the poor condition or absence of roads, the shortage of links between producers and traders, but our terrain makes transport costs significant even over some small distances. Some roads and bridges are in poor conditions, both because of inadequate maintenance and because of the effects of some humanitarian transport in the post-genocide period.

Policy Actions

73. **Short term:** (i) the Road Fund is responsible for maintenance, funded through the budget and also by a direct levy on fuel. Some of the Road Fund's spending goes to the communes to support labour-intensive forms of maintenance; (ii) Community participation in infrastructure maintenance will be encouraged through the Commune Development Committees (CDCs) (iii) Promote the use of bicycles and donkeys. Traditional means of transport for example the wooden scooter widely used in Ruhengeri and Gisenyi (*Igitogotogo*) and also used in Gikongoro (*Igicugudu*) and Gitarama (*Ikimahuro*) will be upgraded by the technical department of KIST; (iv) we intend to improve the availability of local trade infrastructure to enable people to market their crops.

Medium term: (i) we will develop and implement a national road investment programme to prioritise major rehabilitation and upgrading projects (ii) farmers' groups will be encouraged to organise marketing and contact traders. This can be enhanced through the creation of market information systems and Agribusiness centres. USAID has funded a study on the possibility of setting up an Agricultural Market Information system of Rwanda, which would track daily prices for the four major local markets – Kigali, Ruhengeri, Gisenyi and Butare - in addition to tracking international export prices. **Long term:** the road-rail link through Ishaka will be further developed and the feasibility of a railway to Kigali will be explored.

Rural and Low-Income Urban Energy

Challenges

74. Most of the energy consumed by the poor is currently in the form of fuel wood. This form of power needs to be conserved by community forest schemes and the promotion of other easily adaptable forms of energy. Limited access to energy constrains the lives of poor households in two main ways. First, the shortage of fuel wood imposes time and financial costs on poor households, putting a particular burden on households, which are short of labour, and making it harder for children to attend school. In parts of Umutara, fuel wood is apparently selling at RWF 700 for a bundle, which will serve a family for one day, imposing a very serious financial cost on poor households. Secondly, poor access to energy impedes the development of non-agricultural activities and agro processing at all levels, compromising the prospects of economic diversification.

Policy Actions

75. **Short term:** We will promote cheap energy sources and use, for instance improved stoves, kerosene, biogas in public institutions including schools and prisons, and solar energy, as appropriate. **Medium term:** We will consider subsidising some rural electrification; this may include public or private provision. The small size of our country, high population density, and the location of some villages very close to electricity lines, may make this option feasible.

Research and Extension Services for Agriculture and Livestock

Challenges

76. The agricultural research system was very badly weakened during the genocide. Agricultural extension services based at the level of the communes need to be strengthened through training of extension workers and increase in resources.

Policy Actions

77. **Short term:** options for making the extension service reach farmers effectively will be explored. (i) Government provision of the necessary infrastructure will be strengthened (ii) we will encourage public/private partnership for input supply.

Medium term: (i) adaptive research and participatory extension systems will be encouraged. So as to ensure adequacy and speed up the diffusion of new technologies, the research and extension systems need to be integrated and opened to effective participation from beneficiary farmers; (ii) farmers' associations and specialised local organisations will be strengthened to enable them to work with extension and research systems so as to enhance the delivery of research and extension services to communities; (iii) extension should promote the use of both organic and inorganic fertiliser; increased use of improved seeds; (v) promotion of alternative high-value small holder crops; (vi) better processing and storage needs to be developed; (vii) the capacity of the Institute des Sciences Agronomiques du Rwanda will be strengthened (ISAR).

Long term: the private sector will be encouraged to participate. There is a need to strengthen the capacities within the current extension services system to integrate farmer organisations and private sector operators in the design and implementation of technology dissemination policies.

Food Security

Challenges

78. There have been numerous and repeated incidences of famine and hunger in Rwanda. These are periods of marked economic decline and stripping away of any accumulated capital realised during the inter-famine periods, not to mention the loss of lives. Deteriorating food security remains a major challenge facing Rwanda, which continues to import large quantities of basic foodstuffs. The highest proportion of this is in food aid. The food balance situation remains precarious with an estimated deficit of 158,000-tonnes/-cereal equivalent projected for 1999. Whilst food crop production improved somewhat in the northwestern region largely on account of better security, the spectre of drought and famine became a real possibility elsewhere in the country as a result of harsh climatic conditions. The real challenge is how to create the minimum level of incomes and entitlements of the people in the regions that are persistently affected, like Bugesera, so as to prevent starvation.

Policy Actions

79. **Short to medium term:** (i) through policies to promote agricultural revitalisation and rural recapitalisation both farm and off-farm household incomes can be increased so as to

increase the purchasing power of households. This includes extension services, provision of rural credit, and support to micro and small-scale enterprises. (ii) in the short term government will promote the use of traditional storage systems at household level, the use of improved storage facilities at either prefecture or zone level, and encourage communal storage through farmers' associations, co-operatives, etc. **Medium term:** there is scope for mobilisation of communities to grow selected food crops that can be stored so as to develop household food reserves. **Long term:** we need to facilitate a Grain-Reserve-Fund at communal level which enables communities to have access to revolving credit for purchase of food during the harvest and for establishment and management of storage facilities.

Promoting Off-Farm Employment

Challenges

80. Rwanda faces high youth unemployment rates. The number of unskilled young people is estimated at 1 million and their ranks rise by some 100,000 per annum. There is also evidence of high under employment in rural areas and increasing unemployment in the urban areas. Poverty alleviation can be best achieved by raising productivity of the resources owned by poor people, primarily labour. Given the high rate of population density and growth, it will be necessary to complement the efforts to raise labour productivity (through a higher rate of intensification and faster commercialisation of production) with efforts to raise off-farm employment.

Policy Actions

81. **Short term:** (i) actions to improve the skills of the unemployed youth include their integration into formal and non formal employment through artisan skills development, and the setting up and equipping community service centres (carpentry, masonry, motor mechanics, plumbing, electricity, tailoring, shoe repairs etc.) to promote self employment; (ii) high labour intensive public and private works programmes will also be developed and encouraged e.g. low cost housing schemes using local raw materials, maintenance of feeder roads etc. Seasonal projects are likely to be appropriate. **Short to medium term:** an AGETIP initiative is being designed in Rwanda as a tool to provide infrastructure using labour-intensive methods at lower costs than conventional methods. **Long term:** set up a system for manpower planning so as to ensure the matching of skills with job opportunities in the labour market.

Improving the Quality of Life

Housing and Resettlement

Challenges

82. Since 1995, Rwanda has experienced massive refugee and returnee movements with far reaching consequences. This has been coupled with internal displacement of people resulting in increased vulnerability of segments of the population. The number of people that have been resettled is close to 3.5 million. Despite this achievement, there are still many Rwandese without proper housing. There are estimated to be 250,000 households living under plastic sheeting, 62,000 in damaged houses, and 60,000 in illegally occupied properties. We need as a matter of urgency to find ways of assisting these households.

Policy Actions

83. **Short term:** (i) in 1995 the government initiated a resettlement programme (*imidugudu*), which involved the construction of integrated settlements for returnees, and people who had been displaced. It is believed that the *imidugudu* will fulfil more than merely the creation of new communities. The fact that people would be concentrated, living in defined areas, would make it easier and more efficient to provide social and economic services; (ii) experience has shown that the participatory approach to *imidugudu* needs to be strengthened so as to involve the beneficiaries in decision-making on issues like the site selection, house design, and distance from their fields.

Medium term: (i) we need to integrate the delivery of public services with the new pattern of settlement, to ensure that the new settlements have access to basic public services; (ii) given the considerable costs of rehousing, we will be seeking to identify cost-effective forms of rehousing and exploring the sharing of costs with beneficiaries, although the poverty of the people who need housing makes extensive cost-sharing difficult.

Long term: as a long-term policy, it is envisaged that the *imidugudu* would help to reduce dependence on subsistence agriculture by allowing for more rational distribution and use of land. As well as creating opportunities for off farm income generation will give the increased social per capita resulting from the population concentration in these settlements.

Education

Challenges

84. Rwandan education suffers from poor quality. Raising quality of education is fundamental. The government is committed to making basic education available to the whole population. Our objective is to achieve universal primary education by the end of 2010. This requires increased funding for primary education. At the same time, Rwanda has exceptionally low levels of secondary and tertiary enrolment. At the higher levels of education, it is hoped that over time students can bear more of the costs, partly through a loan scheme. The social rates of return on higher education indicate the need to invest in tertiary training to fill the gap left by genocide and provide the capacity needed to carry forward Rwanda's development challenge.

Policy Actions

85. **Short term:** (i) **Primary education.** Support systems for example Parent teachers associations and Commune development committees (CDCs) will be strengthened to be put in place to objectives the UPE objectives and improve quality. In particular community based schools and increased resources to non-wage costs are required; (ii) the direct poverty-reducing effects of secondary education can be maximised by targeting bursaries at poor rural based students, rather than across-the-board subsidies. Targeting is desirable both for equity reasons and because it allows a higher enrolment rate to be achieved, since the better-off are more able to finance their children's secondary education; (iii) **Tertiary education.** Private sector participation has started in the tertiary sector and fee-paying places at some institutions, such as KIST, are currently oversubscribed, suggesting that cost-recovery is compatible with expanded enrolment. However, there will be a need to support the ablest students from poor

backgrounds, for both efficiency and equity reasons. **Medium term: *Science and Technology***. The Government is encouraging the promotion of teaching of Science and technology at all levels and the promotion of practical and industrial training. The Government plans to establish one science-focused secondary school in each region.

Medium to long term: *Vocational education and technical skills training*. The Government intends to strengthen technical and vocational institutions at the second cycle of education in line with the needs of the labour market. The Private sector will be involved in provision of vocational training including the instructional policies, the design of the curriculum and the financing of training;

Functional Adult Literacy

Challenges

86. This is a crucial area of the educational system, which needs serious attention. Functional adult literacy is increasingly recognised as a valuable intervention. In Rwanda's case, it can play the following specific roles: empowering people to take community responsibilities; promoting reflection on peace and reconciliation; helping rural producers identify modern inputs in the market, so that they know what they are buying; encouraging men and women to become more informed about family planning.

Policy Actions

Short term: (i) a national strategy for functional adult literacy is being developed; (ii) it will be important to reflect our national objectives of peace, reconciliation, technological development in the curriculum. A number of NGOs and community based organisations are interested in the area and a diversity of approaches is being adopted; (iii) adult literacy programmes will be linked to support programs for income generation activities and other programs like family planning. **Medium term:** it may be possible to link adult literacy programmes to the establishment of Internet kiosks, so that people who have acquired literacy can use it in everyday life. For instance, even poor rural households could benefit if farmers' groups were to have email contact with traders and with market information so that they can bargain more effectively. Public-private cooperation could be very rewarding in this area.

Health

Challenges

87. The four main challenges faced in the curative health sector are: the limited skilled human resources; ensuring quality at all levels of health care services; and financing priority healthcare spending: and making the system accessible to all Rwandese people including the poorest. In the preventive health sector, it is crucial to act fast to reduce the prevalence of AIDS, malaria and other infectious diseases.

88. Public expenditure on health has increased from 2.9% in 1996 to 4.2% of the national budget in 1999. Between 1998 and 1999 the increase was by about 35%. Nonetheless these efforts are thwarted by the immense needs and cost of providing healthcare affordable to the poor. While healthcare norms recommend a transition towards 1 health centre per 20,000 inhabitants, there are many centres that cover more than 30,000 inhabitants, and in certain

districts, a large proportion of the population lives more than 1.5 hours walk from a health centre. The health centres also have a low occupancy rate. The use of the health system is low and has fallen in the last few years, partly because of the costs of healthcare and due to lack of full information on services offered. In the face of a significant drop in external resources there is a stronger need for community contributions, for instance by pre-payment medical schemes.

89. Pre-payment schemes have been introduced in partnership with USAID on a Pilot basis in three health districts – Kabgayi in Gitarama (22,000 families); Byumba (49, 000 families); and Kabutare in Butare (18,000 families) An annual fee of RWF 2500 for a family of not more than 7 persons is paid for healthcare provided at the health centres. The communities through focus group discussions on affordability of services suggested the fee. Local authorities and management committees of the health centres manage the scheme. The funds enable the health centres to purchase drugs from CAMERWA. Take-up rates of about 10% have been achieved in the first year; those households, which have bought the insurance, have greatly increased their use of the health system.

Policy Actions

90. **Short term:** (i) we will continue to improve the running of the existing system by training health workers. In 1997 the Government set up the Kigali Health Institute to provide training to health workers; (ii) we are trying to increase the accessibility of the system to the poor by strengthening the management of the health *animators*, who are volunteers working with management of the health centres for community health outreach. **Medium term:** (i) we will continue to strengthen of the decentralised health management system to ensure quality primary health coverage for the entire country; (ii) for preventive health care, we have started the process of developing action plans and will implement programs in partnership with private and NGO health providers to fight the leading causes of mortality and morbidity, particularly malaria, HIV/AIDS, and malnutrition.

HIV/AIDS

Challenges

91. About 11% of the population over 12 years in Rwanda is estimated to be HIV/AIDS infected. The Government is committed to intensifying the fight against HIV/AIDS which is a major development constraint and which has the capacity to neutralise Rwanda's long-term development strategy based on human resources.

Policy Actions

92. **Short term:** (i) the Government with donor support has prepared a multi-sectoral strategy and action plan for 1999 – 2001 for a renewed fight against HIV/AIDS. Key areas for action in line with the multi-sectoral approach include the treatment of other sexually transmitted diseases, prevention of mother/child transmission of HIV/AIDS, counselling and improved availability of condoms. The Government will update the HIV/AIDS strategy and action plan in 2001; (ii) the Government will mobilise cultural, religious and civic leaders to strengthen Information, education and Communication (IEC) activities, counselling, and care and support for persons infected with HIV/AIDS as well as AIDS orphans; (iii) we will target at-risk groups for particular attention for preventive information campaigns. Young people,

sex workers; and people whose work involves frequent travel such as truck drivers and some public servants need particular attention. **Medium term:** domestic and external resources that are mobilised for HIV/AIDS prevention and control activities will be used to ensure the financing of the national strategic Plan for the medium term programme (1999-2001) for HIV/AIDS and STDs in Rwanda. This plan of action is the existing framework to coordinate and initiate multi-sectoral interventions for prevention and control of the pandemic.

Water and Sanitation

Challenges

93. In rural areas, access to potable water fell from 64 percent in 1984 to about 50 percent in 1996. Currently about a third of water supply infrastructure does not function and poorer families cannot afford user fees for potable water. About 80 percent of rural households have latrines, but there are no latrines in marketplaces, in 80 percent of primary schools, and 40 percent of health centres. In urban areas, about 40 percent of the population have piped water. The state-owned enterprise, Electrogaz, that manages urban water supply is in financial difficulty and meets only half of the demand for water. There is no solid waste disposal system in the urban areas.

Policy Actions

94. **Short term:** (i) we are promoting strong community participation in management and maintenance of rural water supply; (ii) for urban sanitation, the priority is to build the institutional capacity of urban administrations to effectively manage sanitation services.

Medium term: (i) we have estimated the costs of rehabilitating and maintaining the existing rural water supply. Once rehabilitated community mechanisms will be put in place to ensure that the structures are maintained; (ii) in urban areas the restructuring/privatisation of Electrogaz will help to improve services (iii) an across the board full cost recovery may not always be practical, considering the low incomes of the rural population and the positive consequences of public health from consumption of good quality water. Subsidy for rehabilitation will be appropriate, with some community contribution to ensure that there is a real demand; (iv) there is also a need for some new investment in some areas; for instance, some *imidugudu* are located a long way from water supply. **Medium to Long-term:** A system of progressive user fees and cross-subsidy (high income areas to pay full cost) will be designed and adopted.

Reproductive Health and Population Issues

Challenges

95. **High rates of population growth, fertility and dependency.** Rwanda 's Population is estimated at 8.1 million people. This represents a four-fold increase since 1950, when the population stood at 2 million. Rwanda has always had a high population growth rate estimated at 2.9% and a high population density of 305 people per square Km.. This high growth rate is linked to a decline in under-five mortality, and a continued high fertility rate, currently estimated at 6.5 children per woman. The high fertility rate is linked to several factors: a traditional (socio-economic) preference for large families, with children considered a source of family wealth and social security; the inadequate access to family planning programs. The genocide and its aftermath have contributed further factors, including a loss of

professionals trained in reproductive health, and the emergence of a “fatalistic” sense in many Rwandans, with a desire for more children to replace family losses. Rwanda’s high fertility rates combined with a youthful population structure (49% of Rwandans are less than 15 years of age), means that demographic momentum alone will ensure a high population growth rate for at least the next two decades. The current dependency ratio is estimated at 110%.

96. **Reproductive health issues.** Rwanda has high levels of infant and maternal mortality (130 per 1,000 births and 810 per 100,000 births, respectively). Access to reproductive health services, including family planning, pre-and post-natal care, and the diagnosis and treatment of STDs, is limited. One apparent consequence of the genocide has been the marked reduction in the contraceptive prevalence rate, from over 21% before 1994, to an estimated 7% in 1996. The situation has probably been exacerbated by the post-1994 loss of professionals trained in reproductive health and the marked information-gap concerning the actual needs for reproductive services and education.

Policy Actions

97. **Short term:** (i) strengthening the effectiveness of family planning programs they will be more closely linked with other reproductive health services; (ii) Government in partnership with community organisations and some NGOs, is promoting low risk maternity through sensitisation of women, pre-natal care and promotion of professionally assisted childbirths; (iii) promote family planning services that take into account the desires of women to space and limit births, provide basic quality of services and acceptability of methods, while retaining a strong focus on informed choice; (iv) Improve access to affordable services and information, broaden the choice of methods; (v) functional adult literacy programmes to encourage informed discussion about family planning. **Medium term:** incentive and disincentive packages will be considered, such as the restriction of free education and subsidised health care to a certain number of children per family.

Security: Policing and the Judicial System

Challenges

98. We cannot put our history behind us until all Rwandese feel secure from physical threat. We have made immense progress in this area, with the end of the insurgence in the Northwest and the stability of the rest of the country. The police force has been reorganised as a civilian force but remains seriously under financed. However, there are still incidents of violence often associated with the traumas that people experienced in the mid-1990s, and there is also a problem of theft in some poor drought-affected areas. The effects of genocide still heavily overburden the legal system. Domestic violence is a problem, which contributes to children leaving home.

Policy Actions

99. **Short term:** (i) develop effective mechanisms to ensure that the police are accountable to the communities they serve; (ii) Seek cost-effective ways of dealing with minor crime at the community level; (iii) we will seek ways of dealing with crime by children through the appropriate community centres. **Medium term:** (i) we will design a cost-effective structure for the police that reflect the available resources while delivering effective

community policing; (ii) continue to sensitise men and women on the problem of domestic violence with a view to eliminating it.

Addressing the Special Needs of Vulnerable or Disadvantaged Groups

100. Many of the relevant actions for these groups will be mainstreamed in other sectoral strategies, including micro finance and the targeted delivery of public services. In dealing with vulnerable groups the government aims at policy actions that are sustainable rather than assistance through transfers. In the case of vulnerable groups, one important way of addressing their poverty is through improved delivery of social services. In this regard programmes and projects undertaken by the Administration of the Victims of Genocide Fund (e.g. shelter, education, and micro-finance) and other resources from NGOs and donors have to be made sustainable and better mainstreamed into the existing sectoral strategies.

Victims of Genocide

Challenges

101. Victims of genocide are in many cases very poor, including large numbers of widows and orphans. They also have special needs; in many cases they had suffered terrible physical and psychological harm, and had lost their families, reducing their access to social networks and increasing their vulnerability. Many had also lost their property or felt too insecure to return to the places where they had formerly lived. The challenge faced is how best to create sustainable livelihoods for this section of our population.

Policy Actions

102. **Short term:** There is need to establish accountable and transparent management of the victims of Genocide Fund (VGF) established by the Government in 1997, and financed from the recurrent budget. The Government by law allocates 5% of all revenues to the Fund. **Medium term:** We encourage contributions from communities, NGOs and donors.

Widows, Orphans, Disabled and Prisoners' Families

Challenges

103. In addition to the widows and orphans who are victims of genocide, there are many widows and orphans for other reasons, including AIDS; Also, there are more than 100,000 households whose head is in prison, and there is a significant number of child-headed households. These groups are generally more vulnerable. In particular, most of these households face a shortage of labour, which constrains their ability to raise incomes and care for their children. The experience of the Victims of Genocide Fund, of the Department of Social Affairs, and of the many NGOs involved, can be used to design interventions to help these groups.

Policy Actions

104. **Short term** (i) the legal reforms intended to strengthen women's property rights need to be actively publicised and promoted; (ii) clear allocation of responsibility is needed to protect the welfare of orphans. Local authorities need to be sensitised to their responsibility

for this; (iii) to encourage the enrolment of orphans in schools, they are exempted primary school fees and often accepted without uniform. Headmasters and communities will be encouraged to find imaginative ways to promote enrolment, perhaps including tolerating partial attendance when a child has unavoidable domestic duties, or organising child care at the community level so that children with siblings are free to attend schools. **Short to medium term** (i) exemptions apply to health fees but the implementation varies across facilities; (ii) widows' groups have been proactive in organising themselves and strengthening their social capital; (iii) we will promote awareness of the problems of the disabled and encourage community-based solutions. All public services should be accessible to disabled people wherever possible and equipment for the disabled needs to be subsidised, as part of the health system.

Diversification of the Rwandan Economy

105. Given the high population density and landlocked position, we need to develop competitive advantage in products which are not bulky and which require human resources rather than land. This means identifying new areas where Rwandese entrepreneurs can successfully compete in international markets. The following areas have potential for expansion in the medium to long term.

Export Promotion and Development

106. Rwanda's export receipts (goods and non-factor services) only constituting 5 percent of GDP and covering only 20 percent of its imports while is of great concern to the Government in ensuring macroeconomic stability. The external imbalance at 17-20 percent of GDP, covered by external grants and concessional borrowing, is unsustainable. With a high external debt burden (the ratio of present value of external debt to exports stands at 520 percent after traditional debt relief), the scope of external borrowing, even on highly concessional terms is limited. A rapid expansion of labour-intensive export production is needed to reduce dependence on external aid, to underpin economic growth.

107. Some of the major objectives of this sub-sector include: (i) to promote export-led growth and comply with the Cross-Border Initiative (CBI); (ii) to produce, process, market coffee and tea efficiently; (iii) to improve the level and quality of both traditional and non-traditional export crops; and (iv) to reduce the balance of trade deficit.

Strategies and Policy Actions

108. The Government's medium-term strategy for export development is to revive traditional exports, encourage foreign and domestic investment in high-value added export production and reduce international transport costs. The Government has already initiated substantial reforms in the tea and coffee sectors to increase production and enhance rural incomes. In this connection, the producer price of tea was increased by 37 percent in February 1999. The privatisation of tea factories and estates managed by OCIR-Thè was completed end-1999.

109. Furthermore, a new regulatory framework for the tea sector, including a revision of the legal mandate regulating, promoting and monitoring the performance of the tea sector is under way. To revamp the coffee sector, the export tax on coffee was eliminated in the early part of 1999, removing a hindrance to growth and investment in the sector. It is envisioned that

reforms under way to turn the Coffee Board into an industry-based organization, with its mandate limited to regulation, monitoring and promotion, including research and possibly the provision of extension services. The Government will also continue to encourage the formation of farmer's associations to facilitate communication with farmers, enhance the distribution and adoption of improved seedling and other inputs to remote regions.

110. Rwanda has also a good potential for non-traditional exports, including manufactures for regional markets, and high-value horticulture. The Government recognizes that diversification of exports will require sustained efforts to create a friendly environment for private investment, particularly foreign direct investment. In this connection, the establishment of the Rwanda Investment Promotions Agency (RIPA) to promote and facilitate investment, exports, and business development is envisaged to give a boost to the sector.

111. To achieve this objective, the institutional framework under which promotion agencies such as, RIPA operate, should be designed and implemented with a view to increasing their day to day operations and enhance sustainability. As a first step, in the short-term, the Government should carry out a study that will come up with practical policy recommendations on how export support services can be streamlined and made more effective. The study will also recommend an appropriate institutional framework, assess capacity building requirements, the legal framework, and the fiscal discipline.

112. The eventual acceptance of Rwanda into the East African Co-operation Council comprising Kenya, Tanzania, and Uganda will accelerate the integration of Rwanda into the larger East Africa/ COMESA regional markets. Efforts to increase Rwanda's competitive position vis-à-vis those of the regional countries will be a positive step in the right direction.

113. Given the limitations in the size of the domestic market and the benefits deriving from regional economic integration and co-operation, since 1994, the government has been committed to a comprehensive liberalization of its foreign trade regime and a serious effort in adhering to the regional integration targets under the Cross-Border Initiative (CBI) and COMESA. Notwithstanding the progress made so far in this direction, the integration effort will be enhanced by (i) enhancing the private sector's access to marketing networks and information to tap new market opportunities and larger markets in the sub-region; (ii) providing the private sector with the necessary financial resources such as export finance as well as improving the efficiency of distribution channels; (iii) ensuring that the private sector has access to a well-trained labour force with requisite industrial and management skills and habits; (iv) providing the private sector with the critical statistical data on market links and opportunities, diversified sources of finance and marketing instruments, and the human and technological resources, all of which reduce transaction costs and enhance competitiveness; (v) harmonizing trade, monetary, taxation, insurance, and investment policies as well as create a robust, unrestrictive and effective regulatory frameworks to reduce economic uncertainty; and (vi) redefining the role of government in economic activity and encouraging economic liberalization and the privatisation of state-owned enterprises. In this framework, one cannot overemphasize the importance of government's commitment to macroeconomic stability, expanding and maintaining the physical infrastructure, enhancing the competitiveness of local industries by, for instance, providing them with the necessary incentives, and extending the political commitment at all levels.

114. Rwanda can overcome its natural geographic and resource constraints by playing the role of regional entreport and a regional centre for service industry. There is one niche that

can be developed relatively quickly. Rwanda, given a skilled bilingual population can aim at being a centre of tele-data processing. This is within reach if sufficient efforts go into human resource development, science, technology, management, bilingualism and an open liberal policy in the utility sector. There is also considerable potential for becoming a regional hub for financial services.

115. Information and Communications Technology: The role that information and communication technologies (ICT) could play in socio-economic development has been recognised worldwide. Communications in and of themselves promote economic growth and alleviate poverty. Rwanda is developing its policy framework for the longer-term vision for the country (Vision 2020) at the same time that its ICT policy and plan are being developed. This provides Rwanda a unique opportunity to integrate the two processes and develop an integrated ICT-led development approach to addressing the socio-economic challenges facing the country.

- (i) Government is encouraging the establishment of a regional IT institute in Rwanda.
- (ii) Private sector companies are encouraged to take advantage of the liberalised environment to set up Internet kiosks.
- (iii) Government will explore ways in which contracts for IT development in the public sector can be allocated to the Rwandese private sector in order to help establish a critical mass of private sector expertise in the country.
- (iv) ICTs will be used to support the transmission of information throughout the public sector and the economy as a whole; for instance, agricultural market information centres in rural areas, and web sites, which medical staff could visit.
- (v) Rwandatel has been extending services to rural areas. The availability of wireless technology will make the extension of telecommunications services to rural areas more feasible.

116. Natural Gas: Government is elaborating a project to develop on a limited scale, the natural gas deposits in Lake Kivu. It encourages private sector participation in this project. Up to 45 billion cu. m of the methane total volume of 55 billion cu. m can be economically exploited. This quantity represents about 25 million tons oil equivalent. **Tourism:** The endowment of the beautiful scenery and mountain gorillas can be exploited. Marketing will be important, as Rwanda's international image is still recovering from the genocide. Tourism was in the past the largest export earner after tea and coffee.

117. Building a Competitive Skilled Labour Force: It is recognised that Rwanda's prosperity in the future will come from new insights, high quality human capital, and attitudes and actions that embrace competitiveness, and innovation. Rwanda must strive to create a competitive edge out of its two advantages of human resources and bilingualism. Rwanda can transform its population into a highly skilled bilingual force through human resource development. The development of human resources can form a basis for a service economy based on skills in science, technology and management. Vocational and technical education, which offers skills for specific lines of employment, will be promoted. This form of education needs to be closely linked to the market. This will require public/private sector cooperation in the design, management and financing of vocational and technical education. The envisaged Human resource Development agency, a public/private agency is to be created to foster human resources development at all levels in Rwanda.

Institutional Framework for Preparing and Implementing the Action Plan

118. An institutional framework for preparing the Action Plan with all its stakeholders has been established so as to improve the monitoring and co-ordination of the program. Two consultants have been hired to prepare the Action Plan and their work will be supervised by the following departments in the Ministry of Finance and Economic Planning: CEPEX (Executive Secretary); Macroeconomics: Director; Social Sector Advisor; and the National Coordinator for the Poverty Reduction.

119. The Action Plan is expected to be within the Medium-Term Expenditure Framework for Rwanda, which currently covers the expenditure programs of all ministries for the period 2001-2003. Thus, as from 2001, the budgeting process will be replaced by the MTEF system. However, it is anticipated that the Plan will allow a period of three years for the development of the MTEF processes so that the MTEF for 2003-2005 will be the first to embody the full set of techniques to be introduced through the Pan of Action. The major objective of an MTEF is to ensure that all of the resources available to the government are directed towards meeting the development priorities of the nation. One of the key aspects of this Plan will ensure that poverty-reducing programs are integrated properly in a sustainable manner. All ministries have participated in the process of identifying their areas of priority.

120. Consultations will also be made with donors on how best to maximise the collaboration of the formulation and implementation of a coherent poverty reduction and growth strategy as well as identifying key financing.

121. The development of the MTEF Pan of Action has involved six stages:

- Internal review of the results of the August 1999 MTEF workshop and of the initial response to the innovations introduced in the preparation of the 2000 budget;
- Initial consideration of the broad options available in the design of an MTEF, including an assessment of issues of sequencing and phasing and ensuring programs in place will have a strong poverty-reducing element as being pro-sustainable economic growth;
- A diagnostic review of the current strengths and weaknesses of the public expenditure management;
- Development of a coherent set of actions to address the weaknesses, following the principles of the MTEF;
- Presentation of a summary version of the Plan of Action to a workshop involving Secretary Generals, Préfets and Directors of the Ministry of Finance and economic Planning;
- Incorporation of comments received at this workshop into a formal Plan of Action.

122. The MTEF process involves defining clear indicators of inputs and outputs for all areas of public expenditure. The Budget Department of MINECOFIN will continue to work with all other line ministries to develop a set of output measures and the monitoring of poverty outcomes will be coordinated by the Poverty Observatoire under the National Programme for Poverty Reduction. This unit is developing a set of measures of poverty in Rwanda, which will be regularly monitored, in addition to commissioning studies on poverty in Rwanda. The Strategic Planning Department in the MINECOFIN hand in hand with other responsible departments will continue to work on and improve the Vision 2020 document, which is a long term Action Plan for the country. It will be important to note that the Poverty Reduction Strategy Paper will be prepared in the context of Rwanda's long term Vision 2020

document articulating the key major aspirations of Rwanda's people through a consultative process including (all government ministries, the parliament, civil society, NGOs, the private sector, and donors). Decentralised units and local administrations will be the centre of transformation, playing key roles in planning, management, monitoring, evaluation and advocacy. The implementation of the long term Action Plan will engender the strengthening of the community-level decision taking and implementation capacity, using the already existing mechanism of the Commune Development Committees (CDCs) and planning units at prefectural levels. The CDCs will serve as a first stage in developing participatory mechanisms to help communities identify and achieve their priorities. The CDCs will also play a leading role in establishing community feedback mechanisms for monitoring the implementation of the Action Plan.

Annex 1

Rwanda: Social and Poverty Indicators		
Rwanda: Basic Data		
Area	26,388 square kilometres	
Population (total)	8.1 million	
Population growth rate (1999)	2.9	
GDP per capita (1999)	237	
Social and Poverty Indicators	Rwanda	SSA average
Life expectancy at birth (years)	49	51
Literacy, % of population aged 15+	48	43
Combined first-second-third level gross enrolment ratio (%)	43	44
Gross primary enrolment (%)	88	77
Gross secondary enrolment (%)	10	27
Gross tertiary enrolment (%)	1	3
Access to safe water (% of population)	44	45
Access to health care (% of population)	81	37
Infant mortality rate (per 1,000 live births)	131	91

Source: Ministry of Finance and Economic Planning, 'Rwanda Development Indicators', 1999 and 2000

Annex 2

Macroeconomic and Structural Reforms 1995-99

Revenue: Adoption of fiscal measures (increase in turnover tax to 15% in 1998, increase in excise tax and subjecting public enterprises to income tax in 1999) and the establishment of the autonomous RRA at end-1997, with technical and financial support from the UK-Department for International Development.

Expenditure management: Establishment of monitoring system; improvement in budget processes; establishment of Central Project and External Financing Bureau (CEPEX) to improve the coordination of investment projects within the Ministry of Finance at end-1998; initiation of the Medium-Term Expenditure Framework (MTEF).

Social sector budget allocation: Since 1998, budget allocation to the social sectors have been raising rapidly in real terms. These allocations are now protected from budget cuts.

Economic governance: A National Tender Board was created to oversee procurement. An independent Office of the Auditor General was established.

Civil service reform: A civil service census was carried out in late 1998 providing the basis for rationalization of civil service. This facilitated the removal of ghost workers (over 7,000) and unqualified employees (about 3,000), and the regularization of the status of employees, largely returned refugees-teachers. In early 1999, fringe benefits were monetized, and civil service salaries, which had dropped by over one-half since 1993, were increased by over 40% on average.

Public enterprise reform: The law providing the legal framework for the privatisation of public enterprises was passed in 1996. Since 1996, [25] enterprises have been sold, [11] offered for sale, and [5] brought under liquidation. The remainder includes 9 tea factories and 2 large public utilities.

Central Bank and monetary policy: A revised central bank statute giving the National Bank of Rwanda (BNR) independence in conducting monetary policy was adopted in mid-1997. At end-1998, treasury bill auctions were introduced, giving the BNR an indirect instrument for controlling monetary aggregates and influencing interest rates.

Financial sector reform: A new banking law, promulgated in August 1999, provides for the effective prudential regulation of commercial banks. Key prudential and other regulations provided under the law were issued in late 1999 and in 2000. Comprehensive audits of all five commercial banks were carried out in 1999, providing the basis for the restructuring of these banks to comply with the new prudential regulations.

Social security system: The Caisse Sociale du Rwanda (CSR) was audited and an actuarial study performed. A large part of government debt to the CSR was consolidated.

Regulatory framework for private sector development: The National Assembly adopted the Rwanda Investment Promotion Act in 1999 and a new labour code was submitted to the National Assembly in 1999. The government controlled Chamber of Commerce was replaced by an independent Private Sector Federation in late 1999.

Gender: An amendment to the civil code giving women the rights to inherit and own property was promulgated in late 1999. A comprehensive study of the constraints to the development of women has been completed and will provide the basis for further actions to enhance the role of women.

Trade liberalization: The maximum tariff rate in three steps, from 100% before 1995 to 25% from early 1999, and the number of non-zero tariff bands reduced from 40 to 3. As a result, the trade restrictiveness index fell from 8 in 1995-97 to 2 by mid-2000. The coffee export tax was eliminated in early 1999.

Exchange regime: A fully liberalized and marked-determined exchange rate system has been adopted, foreign exchange bureaux licensed, and current account restrictions abolished. The obligations under Article VIII of the IMF's Articles of Agreements were accepted at end-1998.

Domestic prices and marketing: Price controls have been eliminated for all but a handful of commodities: cement, electricity, water, and telecommunications. A flexible petroleum pricing mechanism was implemented. Existing laws are being revised to reflect the policy of price liberalization and provide a transparent framework for government interventions where necessary.

Demobilization: Since end-1997, the government has demobilized a total of almost 10,000 soldiers in two rounds; at end-1997 and at end-1998. In addition, about 10,000 ex-FAR (ex-soldiers of the former government) have been incorporated into the national army since early 1998.

Annex 3

Rwanda: Indicators of Structural Reforms				
Indicator	1993	1996	1998	1999
Non-zero trade tariff range	(10-100)	(10, 20, 40, 60)	(10, 20, 40)	(5, 15, 25)
Average tariff rate	34.8	31.9	18.1	11.3
Trade restrictiveness index	10	8	3	2
Surrender requirements for proceeds of tea and coffee exports	100	50	0	0
Civil service employment	42,027	34,882	37,353	37,694
Government wage bill in percent of GDP	5.7	4.4	5.1	4.6
Regulatory reform				
Number of public enterprises privatised	0	-	-	25