IGC International Growth Centre

IGC Growth Forum
Summary

Kigali Serena Hotel, 6 February 2012

IGC Growth Forum 2012 was held at the Kigali Serena on 6th February 2012, presenting work from international experts on issues core to future economic growth in Rwanda. The event featured four international speakers - Professor Paul Collier (Oxford University), Professor Ricardo Hausmann (Harvard University), Professor Garth Frazer (University of Toronto) and Klaus Deininger (World Bank) – with senior members of Government moderating discussion and providing responses from the perspective of relevant government institutions. The event and was well attended by senior policy makers, development partners and members of the private sector.

Richard Newfarmer, Amb. Gatete and Hon. Musoni at the opening ceremony

Opening Remarks

Richard Newfarmer, the IGC Country Director highlighted the work of the International Growth Centre in Rwanda and introduced the topic of discussion – overcoming aid dependency through trade policy, careful investment and raising agricultural productivity. Hon. James Musoni, Minister of Local Government, officially opened the forum, highlighting the need for Rwanda to generate home grown solutions to its problems and welcomed the opportunity the forum would provide for open debate and discussion on solving some of the problems on the path toward middle income status.

Professor Collier on "Aid dependency: how can Rwanda move toward self-sustained growth in coming years?"

Professor Collier's presentation was centred on two primary strands of thought. First, Rwanda needs to understand its sources of money and the associated disciplines they bring with them rather than worrying about overcoming aid dependency. He discussed the various sources of funding and the respective disciplines that come with them, ranging from money from natural resources(total freedom), to foreign aid which often comes with interference in policy. He argued that rather than ridding itself of influence from funders, Rwanda should try to direct their influence towards disciplining the use of the money.

Domestic taxes carry the advantage of creating a relationship between state and citizens where the latter can hold the

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government accountable for its actions. In addition, the government has a direct interest in growing the economy since it benefits directly through higher tax receipts. Other sources of funding discussed included commercial borrowing, public risk bearing capital (IFC, FMO etc), PPPs, FDI and domestic savings. Professor Collier stressed the importance of caution in dealing with PPPs, revisiting a theme from Growth Forum 2011. PPPs frequently involve problems of corruption and breach of contract – which can make them an expensive source of finance. The conclusion from this strand of the presentation was “the better the money is used, the more you should use it”.

Professor Collier responding to the presentation from Professor Hausmann.

Linking to the importance of how money is used, Professor Collier’s second major strand of thought related to connectedness. At present, Rwanda is a small isolated economy and for Rwanda to transform into a middle income economy, breaking into new activities which have economies of scale is crucial. No small isolated economy in the world has managed to achieve middle income status. This transformation happens when one stops growing current activities and moves into the production of more complex and inter-connected goods. Radically lowering transport costs and building the necessary road, rail and air links that facilitate the growth of an integrated economy is crucial in this transformation. This theme links closely with the work presented by Professor Ricardo Hausmann, as discussed below.

“Rwanda’s position for the EAC common external tariff renegotiations in 2012.” - Professor Garth Frazer

Professor Frazer presented results from his IGC- funded research that assesses the introduction of the EAC common external tariff (CET) and develops a set of priorities for tariff negotiations with the aims of poverty reduction and removing barriers to export growth. Professor Frazer found that the price changes in key products, driven by the CET, caused a 4% reduction in the real income of low-income households in Rwanda. In terms of living standards, this essentially reverses the gains of a full year of solid economic growth. This is due primarily to the products on the Sensitive Items (SI) list which are subject to a tariff rates of up to 100 percent. The SI list was responsible for an increase in tariffs on agricultural products of 380%. Since the consumption baskets of low-income households are generally very similar at the aggregate level across the EAC, it is likely that poor households across the EAC states would benefit from tariff reduction on SI list products.

Professor Frazer found that reductions in the import tariffs on inputs under the move to the CET had a significant positive impact on Rwanda’s exports – it is plausible that this extends to domestic production too although this is something that would require further study. His findings suggest that a further 5 percentage point reduction in tariffs would likely result in a 5 to 10 percent increase in exports, mainly through lowered costs of imported inputs. There has also been an increase in employment over the period, although much like the case of domestic production Professor Frazer did not find evidence that the increase can be purely attributed to the CET.

Professor Frazer asking a question.

Professor Frazer recommended capping sensitive tariff lines at a maximum of 25% and working to limit the number of goods in this category. Further reductions in the tariff rates applied to each category of goods would also be worthy longer term goals.

“Increasing agriculture productivity: Getting the most out of land titling” - Klaus Deininger

Land titling has important implications for poverty reduction and gender in Rwanda. Eighty-five percent of the bottom income quartile are in the agriculture sector, which means that agricultural growth has the highest impact on poverty reduction. In addition, 46 percent of spouses are key agricultural decision-makers but their rights are limited with only 4 percent inheriting land. Deininger’s findings showed that there are both pro-poor and pro-female outcomes from land titling in Rwanda due to reduced perceived risk of land loss; increased investment especially by female headed households; and enhanced co-ownership by women. The titling has also brought some clarity on inheritance for boys and girls. Deininger stressed that there are significant opportunities to build on the already-impressive results to get the most gain from the work that has already been done.

Klaus Deininger presenting his session.

The discussant to the session, Dr. Emmanuel Nkurunziza, drew attention to the fact that the land titling programme has been achieved at unprecedented cost. Nkurunziza echoed Deininger’s challenge regarding the gains that this programme might yet yield for Rwanda.

“Firm capabilities: Rwanda’s trade performance and policies to create export dynamism.”- Professor Ricardo Hausmann

Rwanda has seen the fastest decade of growth since independence and has outperformed most other African nations with an average GDP per capita growth of 4.7% between 2000-2010. However, exports per capita is still unexpectedly low and FDI has shown limited dynamism. Professor Hausmann argued that richer nations have more productive knowledge, make more products and make complex products. Rwanda at present makes simple products, with its exports characterised by only a very small number of particularly simple products (coffee, tea, minerals) . In order to make the transformation into a middle income country, Rwanda needs move into the production of complex products. This way of thinking is closely related to the concept of connectedness explained by Professor Collier with reference to Rwanda’s place in the regional and global economy.

According to Professor Hausmann, Rwanda should aim to expand its production into areas that (1) are already closely related to existing capabilities, and (2) are closer to a large number of other areas that Rwanda might expand into in the future. He identified two potential sectors for expansion based on these criteria: food processing and construction materials.

Professor Hausmann responding to a question while the Minister of Finance looks on.

Professor Hausmann also emphasized the importance of investment promotion in attracting FDI. The distinguishing factor for successful investment promotion is to be pro-active in chasing potential investors and addressing the specific barriers that prevent them from investing in the country. Investors should be thought about as partners, and the government as having a stake in their business through the future benefits of tax receipts among others. Rather than offering tax incentives (which weaken the stake that government has in future profits) or generic Special Economic Zones, the government should aim to find ways to increase the productivity of investments – creating value for both the investor and Rwanda.

The IGC in Rwanda

The IGC’s Rwanda country office was established in November 2010, and the core team includes Country Director, Richard Newfarmer, Lead Economist Mans Soderbom and Country Economists Jonathan Argent and Michele Savini. The IGC’s activities in support of government programmes focus on four core thematic areas: trade and diversification; agriculture; infrastructure; and finance.

About the International Growth Centre

The IGC offers independent advice on economic growth to governments of developing countries. Based at the London School of Economics and in partnership with Oxford University, the IGC is initiated and funded by the UK Department for International Development (DFID).

The IGC has active country programmes in Bangladesh, Ethiopia, Ghana, India, Pakistan, Sierra Leone, Tanzania, Mozambique, Zambia and Rwanda and supports over seventy individual research projects on issues of governance, human capital, agriculture, infrastructure, trade, firm capability, state capacity, macroeconomics and political economy.

The IGC is directed by a Steering Group consisting of an Executive Director in collaboration with two Academic Directors, one from LSE (Robin Burgess) and one from Oxford University (Paul Collier). The Steering Group also includes Chang-Tai Hsieh from the University of Chicago, Timothy Besley at LSE and Tony Venables at Oxford University.

The organisational structure of the IGC spans a London hub, country offices in partner countries, a group of 10 research programmes with participation from academics in world-class institutions, a network of policy stakeholders in the developing world and a range of public, civil society and private sector partners.

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