

Executive Summary: Rwanda Country Strategy Note

The Economic and Political Country Context

Since the 1994 genocide, Rwanda has made remarkable progress towards building a resilient and inclusive economy. Per capita incomes have more than tripled; extreme poverty has more than halved and mortality rates for mothers and children have significantly declined. At the core of Rwanda's success has been the government's commitment to setting a strategic development agenda with an implementation plan attached, prioritizing evidence-based policy and building effective institutions. The economy has also seen increased dynamism with stronger growth contributions from the manufacturing and services sectors.

Over the past decade, economic growth has remained robust at an average of 7.6%. However, barriers to growth persist, and momentum, particularly around productivity and export growth, has slowed. In addition, recent growth has not translated into sustained reductions in the poverty rate; between 2014 and 2017, poverty went down by only around one percentage point from 39.2 percent to 38.2 percent, significantly lower than the 5-percentage point reduction between 2011 and 2014.

The onset of the COVID-19 pandemic, the associated policy response, and the unfolding global recession have had a serious impact on Rwanda's economy: economic growth is projected to slow to 2 percent in 2020, a huge drop from 9.4 percent in 2019. The services sector is projected to grow by just 1% in 2020, travel of tourists and others to Rwanda has fallen by 70%, and the agricultural sector has faced reduced demand from local markets and reduced revenue from international markets due to low international prices of export crops. The industrial sector has also suffered because of postponed foreign investment.

In August 2020, Rwanda's infection rate from COVID-19 was among the lowest in the world. The country ranked 179th in the world in terms of cases per million people. However, risks remain high because of weaknesses in the health system, widespread informal movement of people, and overcrowding especially in some unplanned settlements in central Kigali.

Under its overarching Vision 2050, the Government of Rwanda has outlined an ambitious development agenda for the next 4 years under its flagship National Strategy for Transformation (NST1), which sets economic, social, and governance priorities for the period 2017-2024. The NST1 articulated many objectives central to IGC's thematic interests, including:

- a. To create 214,000 decent and productive jobs annually.
- b. Increase sustainable urbanization from 18.4 percent in 2017 to 35 percent by 2024.
- c. Promote industrialization and attain a structural shift in the export base to high-value goods and services with the aim of growing exports by double digits annually.
- d. Increase domestic savings and position Rwanda as a hub for financial services.
- e. Increase the productivity of agriculture and livestock, and sustainably manage the environment and natural resources.
- f. Enhance the demographic dividend through Improved access to quality education
- g. Strengthen capacity, service delivery and accountability of public institutions.

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Country Programme

Overview

The IGC Rwanda program was established in November 2010 and has since delivered research and policy advice within priority areas identified by the Government of Rwanda. The team is comprised of a Country Director, Richard Newfarmer, Lead Academic, Lauren Falcao Bergquist, Junior Programme Officer, Adia Umulisa, and three Country Economists, Derek Apell (Firms, Energy), Jonathan Bower (Cities and Infrastructure, Economic Governance), and Anna Twum (Economic Governance, Trade and Productivity).

IGC Rwanda: Recent Work and Impact

In Phase 2, the Rwanda team made significant research contributions around domestic revenue mobilization, trade and industrial policy, raising agricultural productivity for inclusive growth, improving educational outcomes and unlocking the economic potential of urbanization, including on housing, planning and municipal finance.

Economic Governance: Tax Policy and Administration

IGC Rwanda's engagements on tax policy and tax administration have been undertaken in close partnership with the Ministry of Finance and the Rwanda Revenue Authority (RRA) under the leadership of the former Commissioner General Richard Tusabe. Work on tax policy has ranged from analysing the revenue consequences of a possible flat tax to analysing the effects of tax incentives on investment and exports. On tax administration, IGC's work has helped to improve the capacity of RRA to implement and enforce tax legislation with the goal of increasing tax revenues. IGC's work in tax administration has revolved around two main research initiatives: i) improving VAT compliance by leveraging consumer incentives and innovative audit strategies and ii) evaluating the impact of Electronic Billing Machines (EBM) and leveraging EBM data to further inform policy. In both initiatives, IGC has delved into the associated challenges, taken stock of international best practices and put forward actionable recommendations.

Trade and Productivity: Review of the Common External Tariff

Over the Phase 2 period, IGC Rwanda has put together an impressive portfolio of research and engagements around the Common External Tariff (CET), the tariff structure governing imports tariffs for goods flowing into the East African Community (EAC) (of which Rwanda is a member). The CET has important implications for competitiveness of Rwandan industry as well as the welfare of citizens. IGC commissioned studies looking at the economic impact of the CET which highlighted pertinent issues with the existing structure. After the EAC announced that it would start a review of the CET, IGC revamped our engagement with a note synthesising our existing research with a set of policy considerations and recommendations for how Rwanda could strengthen its negotiating position. This led to an invitation for IGC to sit on the task force set up to negotiate the new CET where we provide technical assistance and policy advice. One of our main contributions was a project that customised the Tariff Reform Impact Simulation Tool (TRIST), a World Bank tool to measure the potential revenue, employment and production impacts of changes in tariff policy. Additionally, IGC has shaped

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dialogue around industrial policy with a high-level industrial policy conference in 2018 and follow-up engagement through reviews of draft services, export and industrial policies.

Future Drivers of Growth: Cities and Trade

The Government of Rwanda and the World Bank jointly produced an ambitious study of Rwandan problems and prospects, titled *Rwanda: Future Drivers of Growth*. It contains chapters on six drivers of economic growth, and the IGC participated as co-authors of two. The Kigali Master Plan explicitly responds to some of the issues raised, and it subsequently provided a framework for many meetings of the Kigali Master Plan Technical Advisory Group, and later became a policy brief requested by the Chief Economist at MINECOFIN.

Agriculture: Coffee value addition

Following a request from the head of National Agricultural Exports Board (NAEB), an IGC project analysed the constraints to achieving increased value-addition in Rwanda's coffee industry. The study found that although five in six mills were operational, they utilized only half of their processing capacity on average. The study cited the main reason as access to finance compounded by low managerial capacity and adverse competition for raw materials. Additionally, weak market linkages prevented adequate quality control and traceability, which would otherwise raise the value of coffee exports.

An IGC survey of coffee washing stations found that although five in six mills were operational, they utilized only half of their processing capacity on average. The study cited the main reason as access to finance compounded by low managerial capacity and adverse competition for raw materials. Additionally, weak market linkages prevented adequate quality control and traceability, which would otherwise raise the value of coffee exports. Following a presentation of these results at a workshop in 2015, the government structured interventions in the 2015 coffee strategy to address the constraints identified by the study. Coffee washing has increased substantially.

IGC Rwanda: Outlook

Under the **Economic Governance** theme, domestic revenue mobilisation will continue to be a priority with a focus on improving VAT compliance. The Rwanda Revenue Authority (RRA) is targeting a 1.5 percentage point increase in the tax to GDP ratio by 2025 against the backdrop of low VAT efficiency and the impact of the COVID-19 pandemic. Greater effort is needed to improve VAT collection. IGC's expertise on tax administration and policy will be an asset.

Public financial management, with a focus on how the government can better align public expenditures with its development priorities will be a priority area. In the short term the government will have to focus on managing expenditures incurred to support its COVID-19 economic recovery strategy. In the medium to long term, the government will need to maintain its focus on addressing structural and systemic challenges and strengthening capacity around public expenditure management and analysis. Relatedly, work on evaluating the current structuring and implementation of Public Private Partnerships (PPPs) and recommend ways

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in which the government can leverage PPPs for infrastructure and healthcare financing under a competitive and transparent scheme.

The team will continue to partner with the Ministry of Education and Rwanda Education Board in supporting service delivery of education in a way that uses the scarce resources in the sector efficiently and builds the skill capacity of the labour force, identified by the Future Drivers of Growth study as one of the most critical elements.

The **Trade and Productivity** theme will focus on export growth and productivity. Research will focus on how the government can increase export growth and diversification with the goal of sustaining double-digit annual export growth. A key part of this will involve continued support on the CET as well as preliminary research on how the government can strategically position itself to take advantage of the AfCFTA. The pandemic has had consequences on global and regional value chains; IGC's extensive work in this area will prove valuable in guiding the government on how to adapt to shifting supply chains and export market opportunities. Other possible areas for IGC research include cross border markets, transport and logistics (electronic commerce platforms, cargo tracking systems) product standards and certification as well as information asymmetries in export markets.

Under the **Cities and Infrastructure** theme the team will aim to optimise the capacity of urban planning and investment to enhance sustainable urban economic growth, job creation and accessibility, by conducting research that will underpin the creation and implementation of various Master Plans that will be put in place or updated during the Phase 3 period, as well as analysing the urban wage premium and the urban informal economy. The team will also conduct research on how to maximise the economic impact and minimise the environmental impact of infrastructure, and how to finance it sustainably. We will aim to assist in the improvement of upgrading of unplanned settlements, inclusive urban service delivery to households and the availability of low cost housing, by investigating a range of practical means to expand the formal housing market, and strategies to enhance services such as waste management and sanitation. Finally, we will conduct research that aims to enhance municipal revenue and support improved resource allocation and governance.

Our research on the **Energy** theme will continue to support Rwanda's ambitious goal to expand electricity access to 100% of Rwandan by 2025. Rwanda's electrification programme will comprise of main grid power (50%), standalone solar systems (31%) and off-grid systems (19%). Under the power sector, we will focus on informing reforms that enhance long-term fiscal sustainability of public investments. Our research on standalone solar aim to guide a cost-effective rollout of planned government subsidies to rural communities.

Country Team's Inclusive Growth Strategy

Within the Governance theme, our work on tax policy will be indirectly progressive by focusing on improving collections from urban consumers as well as reducing scope for evasion. In the Trade and Productivity theme, the Rwanda programme will cover topics related to fostering structural transformation as a means to create high productivity jobs and welfare improvement through manufacturing and services. Within the rural economy, the programme will look at constraints to technology adoption and productivity growth in agriculture. The barriers to market participation and shift from subsistence to market-oriented agriculture. The team will

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also continue to examine opportunities for quality upgrading within agricultural value chains. Another area of support will be on expanding export market opportunities for SMEs and MSMEs which are not only important sources of livelihoods for women but also offer opportunities for the growing youth population.

Under the Cities and Infrastructure theme, inclusivity themes include how to reduce the cost of housing, inclusive urban service provision, unplanned settlement upgrading, the economic status of those in unplanned settlements after COVID-19 and the urban wage premium and consumption premium for rural-urban migrants; the latter two themes can be disaggregated by gender.

Partnerships, Policy Engagements and collaborations:

IGC Rwanda's success in informing policy is partly due to the high value the Government of Rwanda places on economic analysis for policy making. Key government counterparts include for the **Economic Governance theme**: Ministry of Finance and Economic Planning (MINECOFIN), National Bank of Rwanda (BNR), Rwanda Revenue Authority (RRA), Rwanda Social Security Board (RSSB) and Ministry of Education (MINEDUC); for the **Trade and Productivity** theme Ministry of Trade and Commerce (MINICOM), National Industrial Research and Development Agency (NIRDA), Rwanda Development Board (RDB), Ministry of Agriculture (MINAGRI), National Agriculture Export Board (NAEB), Rwanda Agriculture Board (RAB) and Rwanda Mining Board (RMB); for the **Cities and Infrastructure** theme, Ministry of Infrastructure (MININFRA), C(CoK), Rwanda Housing Authority (RHA), Rwanda Environmental Management Agency (REMA) and MINECOFIN; and for the **Energy** theme we worked with MININFRA. Less frequent but nonetheless important interactions with the Office of the President (OTP), the Prime Minister's Office (PMO) and the National Institute of Statistics (NISR).

Theme	Relevant Stakeholders and Partners
Economic Governance	Rwanda Revenue Authority (RRA), Ministry of Finance and Economic Planning (MINECOFIN), National Bank of Rwanda (BNR), Ministry of Education (MINEDUC), Rwanda Social Security Board (RSSB)
Trade and Productivity	Ministry of Trade and Commerce (MINICOM), Rwanda Development Board (RDB), Ministry of Agriculture (MINAGRI), National Industrial Research and Development Agency (NIRDA), NAEB, Rwanda Housing Authority (RHA), Rwanda Environmental Management Agency (REMA)
Cities and Infrastructure	Ministry of Infrastructure (MININFRA), City of Kigali (CoK), Ministry of Finance and Economic Planning (MINECOFIN), Rwanda Housing Authority (RHA), Rwanda Environmental Management Agency (REMA)
Energy	Ministry of Infrastructure (MININFRA)

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Country Covid-19 Strategy: Response and Recovery

Response Strategy

The COVID-19 pandemic, the associated policy response, and the unfolding global recession have had a serious impact on Rwanda's economy: economic growth is projected to slow to 2 percent in 2020, a huge drop from 9.4 percent in 2019. The services sector is projected to grow just 1%, travel of tourists and others to Rwanda has fallen 70%, and the agricultural sector has faced reduced demand from local markets and reduced revenue from international markets due to low international prices of export crops. The industrial sector has also suffered because of postponed foreign investment. Preliminary results from a simulation by Van der Mensbrugge et al (2021) involving a supply shock to both African and non-African countries, increase in global trade costs, reduction in tourism, reduced demand for face-to-face services, and disruptions to domestic food supply, predict a real GDP reduction of almost 8 percent from baseline projections, making Rwanda one of the hardest hit countries on the continent. The simulations predict that private consumption and imports will fall by around 12 percent, and that unemployment will increase by 5 percent.

The IGC Rwanda team has already provided substantive support to policy makers when it comes to the COVID-19 pandemic. The team has provided expert feedback on the Government's Economic Recovery Plan, guidance on the likely productivity implications of working from home, the cost of wage support to moto-taxi riders and other jobs that were vulnerable during the lockdown, a paper on urban overcrowding locations which may also be pandemic risk hotspots, a dashboard of high-frequency data using electronic billing machine data to track the economy in collaboration with National Bank of Rwanda, a situational analysis of the coffee sector, and recommendations on the best practices of incentivising mineral exploration as a means to catalyse the economic recovery post-COVID 19.

The pandemic and the subsequent recession have made the medium-term issues highlighted in the Country Strategy Note more urgent: raising domestic savings to diminish reliance on ODA as recovery takes hold, creating jobs and improving worker productivity, increasing exports through increases in firm productivity, and making cities a driver of growth. Energy issues, less urgent in an era of cheap oil, remain salient for environmental reasons and cut across these other areas.

Recovery Strategy

The COVID-19 crisis has elevated the importance of timely accurate data in the fight against the health and economic crisis. The Rwanda programme will continue to work in partnership with its government clients to produce innovative research around the economic implications of the pandemic for the country.

- Within the Economic Governance Theme, the team will partner with multiple government agencies to integrate administrative data sources to track high-frequency economic indicators.
- Within the Trade and Productivity Theme, the team will collaborate with the Ministry of Agriculture to strengthen the use of phone survey methods for data collection. IGC will also support the government with policy recommendations around export promotion to

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keep pace with changes to trade networks and market. Boosting firm level productivity will be critical to Rwanda's recovery effort; higher productivity will spur higher levels of competitiveness, stronger domestic and international trade performance and generate higher paying jobs.

- Within the Cities and Infrastructure theme, the team will work with the Rwanda Revenue Authority to integrate mass property valuation into property tax administration, work with MININFRA to track the economic impacts of air pollution mitigation measures, work with Rwanda Biomedical Centre to track the status of urban overcrowding and its significance in relation to pandemic risk, attempt to track the impact of COVID-19 on unplanned settlements and urban commercial real estate markets, and study the economics of building materials including patterns of trade and prices during the pandemic.

The team also intends to work with its network of academic and policy experts on generating long-gestating projects that respond to policy problems in partnership with other grant-making institutions. It will also leverage its own capabilities by identifying pro-bono analysis that can be commissioned, and leveraging its country staff, unique data, and access to policy makers to interest self-financed PIs on projects.