

RWANDA

2017

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- GDP growth slowed to 6.0% in 2016 and headline inflation rose sharply to 7.2%, the highest level since 2012.
- Rwanda remains peaceful and stable and preparation for the August 2017 presidential elections have commenced, with the constitution amended to address presidential term limits.
- Macroeconomic stability and an increasingly attractive investment climate are creating a favourable environment for business start-ups, entrepreneurs and other private sector actors.

Overview

Real gross domestic product (GDP) growth is estimated to have slowed down to 6.0% in 2016 due to weak external demand and tight monetary policy from 6.9% in 2015 but it is projected to bounce back to 6.2% in 2017 as conditions improve.

Headline inflation increased to an annual average of 7.2% in 2016 from 2.5% in 2015 due to a combination of poor harvests and some limited pass-through effects from foreign exchange rate depreciation. This was the highest level in 20 years and beyond the target ceiling of 5.0% set by the National Bank of Rwanda (NBR). Improved food supply in the new agricultural season and a tight monetary policy are expected to reverse the rise in prices and bring down headline inflation to an average of 5.5% in 2017.

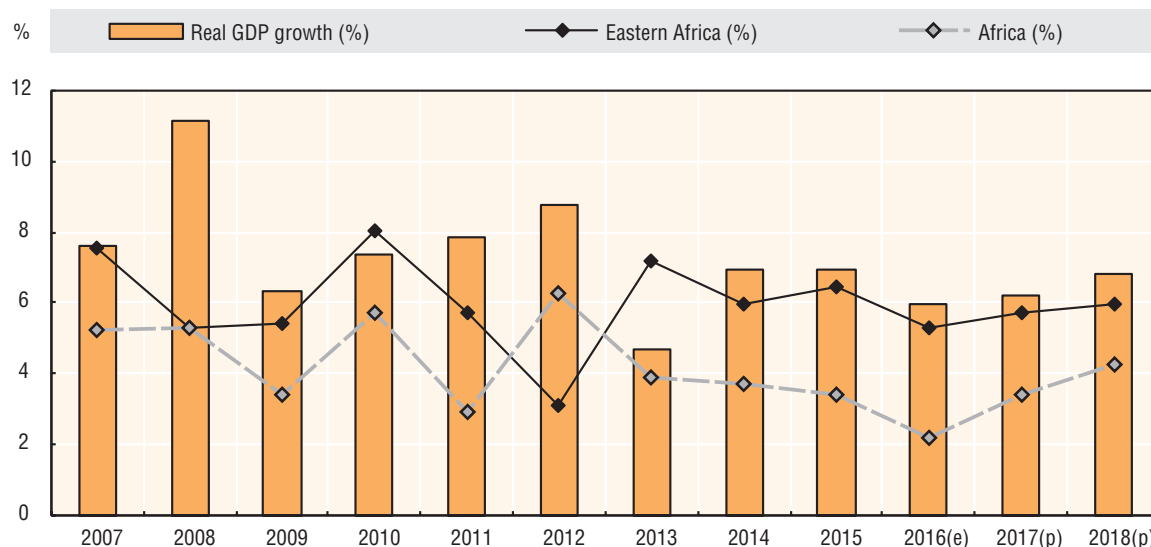
The current account deficit is expected to have widened to 13.2% in 2016 from 13.1% of GDP in 2015. This is largely due to the current drought, which has made food imports necessary and the purchase of two aircrafts by RwandAir. The deficit is expected to increase in the medium term, despite an increase in export diversification.

The fiscal deficit is estimated to have decreased to 3.2% of GDP in 2016 from 5.3% of GDP in 2015 before increasing to 5% in the fiscal year 2017/18. This is due to fiscal containment measures aimed at minimising the impact of external shocks from a decline in aid and export receipts.

With a stable macroeconomic environment and an increasingly attractive investment climate, Rwanda is creating a favourable environment for business start-ups, entrepreneurs and other private sector actors. It has embedded entrepreneurship development into its policy frameworks, such as its employment policy in 2007, small and medium-sized enterprises (SMEs) policy in 2010 and Private Sector Development Strategy (PSDS) in 2013. However, structural challenges continue to constrain the potential of SMEs. These challenges include access to affordable credit, business management, closing the skills gap and integrating the promotion of SMEs with broader efforts, such as urbanisation, infrastructural development and regional integration.



Figure 1. Real GDP growth



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

Table 1. Macroeconomic indicators

	2015	2016(e)	2017(p)	2018(p)
Real GDP growth	6.9	6.0	6.2	6.8
Real GDP per capital growth	4.6	3.6	3.9	4.5
CPI inflation	2.5	7.2	5.5	5.0
Budget balance % GDP	-5.3	-3.2	-5.0	-6.3
Current account % GDP	-13.1	-13.2	-13.6	-13.7

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

Recent developments and prospects

Real GDP growth slowed to 6.9% in 2015 from 7.0% in 2014, but it was stronger than the 4.7% recorded in 2013. The services and agriculture sectors, which together accounted for 79.3% of GDP, led growth in 2015, expanding by 7.0% and 5.0% respectively. Growth in the services sector, which made up 49.1% of GDP, was driven by trade, transport and real estate activities, benefiting from significant growth in private sector credit to the economy. High value added sectors such as ICT and financial services grew moderately and made a minimal contribution to GDP growth. The agriculture sector accounted for the second largest share of GDP in 2015 at 30.2% and increased by 5.0%. This increase was driven by crops such as maize, cassavas, Irish potatoes, bananas, beans, sorghum and rice. Nevertheless, this growth was lower than the average of 5.5% recorded over the last 15 years and was due to crop failure associated with drought and the effects of the El Niño weather phenomenon. Export crops – especially coffee and tea – and livestock grew 13.0% in 2015, compared to average growth of 6.5% for the period 2000-15. Despite this they only made up 2.0% of GDP.

The industrial sector, which accounts for 14.0% of GDP, grew strongly by 7.0% in 2015, compared to 5.8% in 2014. The growth in the industrial sector was driven by construction, which was boosted by the government's investments in public infrastructure and now makes up 52.0% of industrial sector output. Construction activities mainly consist of buildings, transport infrastructure and



civil engineering projects. Several construction projects, including the Kigali Convention Centre, the Radisson Blue Hotel and the Marriott Hotel, were completed in 2015 and contributed to the robust growth in the construction sector.

Production in the mining sector contracted by 9.0% in 2015; weighed down by the international commodity price shocks. Its contribution to GDP dropped from 2.0% in 2014 to 1.7% in 2015.

The external sector in 2015 weakened due to the double shock from low global commodity prices and a reduction in aid flows. Lower commodity prices for coltan, castorite and wolfram reduced mineral receipts by 72.0% from USD 203.0 million in 2014 to USD 117.8 million in 2015. Total exports free on board (FOB) declined from USD 723.01 million (9.2% of GDP) to USD 683.6 million (8.4% of GDP) on account of a reduction in mineral export receipts during the same period. The share of mineral receipts in total exports declined from 28% of the total export value in 2014 to 17.2% of total export receipts in 2015.

Total FOB imports declined from USD 2.0 billion (25.2% of GDP) in 2014 to 1.9 billion (23.6% of GDP) in 2015, largely as a result of lower imports in energy and intermediate products. The sustained reduction in international oil prices lowered the cost of energy imports, while the winding down of key investment projects such as the Kigali Convention Centre and the Marriott hotel reduced intermediate imports, particularly construction materials. The trade deficit has as a result narrowed from USD 1.26 billion (15.8% of GDP) in 2014 to 1.2 USD billion (15.2% of GDP) in 2015. Tourism is emerging as an important source of foreign exchange, and its receipts remained stable at 3.9% of GDP in 2014 and 2015, while remittances decreased from 2.3% of GDP in 2014 to 1.9% of GDP in 2015.

The current account deficit widened from 12.2% of GDP in 2014 to 13.1% of GDP in 2015 as aid flows (i.e. official transfers) significantly declined from 7.4% of GDP to 6.1% of GDP during the same period. Foreign direct investment (FDI) increased from 3.9% of GDP in 2014 to 4.2% in 2015, far exceeding the Economic Development and Poverty Reduction Strategy II (EDPRS II) target of 3.5%, increasing from 1.7% of GDP in 2011. ICT, finance and insurance, tourism and mining are the leading sectors for FDI flows.

Rwanda's large current account deficit is a result of relatively higher import demand and a decline in exports, as well as a decline in aid flows and a 7.5% depreciation of the Rwandan franc against the US dollar between December 2014 and December 2015. This depreciation accelerated on a year-on-year basis to 9.6% in October 2016. External reserves were used to mitigate its effects and meet foreign exchange demand. This led to a decline in gross external reserves from 3.9 months of imports in 2014 to 3.4 months of imports in 2015. The government secured USD 204 million in a standby credit facility in 2016 from the IMF to act as a temporary measure to supplement the external reserves and deflate the impact of low foreign exchange availability.

The economic outlook remains positive, with a real GDP growth projection of 6.0% in 2016, albeit lower than the 6.9% recorded for 2015. The slower growth projection in 2016 is a result of slow growth in agriculture due to the recent drought and a contraction in mining activities owing to a declining price for minerals. Construction sector growth will be modest following the completion of several investment projects. Growth is projected to recover to 6.2% in 2017, buoyed by the recovery in agriculture. The service sector is also expected to bolster growth, mainly because of recent investments in tourism. Expansion in the industrial sector will be modest as falling aid inflows have necessitated a reduction in public investment projects. The key downside risks to the outlook are a high dependence on aid, unfavourable weather conditions and sustained low commodity prices, coupled with uncertainties associated with the forthcoming election.



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

	2011	2015
Agriculture, forestry, fishing and hunting	34.6	34.5
of which fishing	0.4	0.4
Mining and quarrying	2.1	1.5
of which oil
Manufacturing	5.7	5.1
Electricity, gas and water	0.7	0.7
Construction	7.0	7.7
Wholesale and retail trade; Repair of vehicles; Household goods; Restaurants and hotels	16.2	15.1
of which hotels and restaurants	2.8	2.2
Transport, storage and communication	5.6	5.9
Finance, real estate and business services	16.4	15.1
Public administration and defence	3.2	3.5
Other services	8.6	10.9
Gross domestic product at basic prices / factor cost	100.0	100.0

Source: Data from domestic authorities.

Macroeconomic policy

Fiscal policy

Fiscal policy remains focused on fiscal consolidation. The government's Fiscal Consolidation Strategy (FCS) emphasises cutting non-priority outlays, reducing domestic financing, and increasing public revenue mobilisation.

The government implemented a tight fiscal policy in 2015/16 aimed at mitigating the effects of the decline in aid and export receipts on the balance of payment position. To offset the pressure of excess foreign exchange demand on external reserves, the government reduced capital expenditure in sectors with higher import content, such as the energy and transport sectors. The capital budget was reduced from 13.7% of GDP in 2014/15 to 11.7% of GDP in 2015/16 and is projected to rise back up to 13.0% of GDP in 2016/17.

The recurrent budget was slightly raised from 14.9% of GDP in 2014/15 to 15.0% of GDP in 2015/16 to accommodate an increase in wages and salaries for recently promoted civil servants and safeguard priority expenditure. Reflecting an adjustment in domestic capital spending, total expenditure and net lending as a share of GDP decreased from 25.3% of GDP in 2014/15 to 25.0% of GDP in 2015/16.

Tax policy measures remained focused on increasing domestic tax revenue to offset declining grants. The government implemented several measures to increase domestic revenue. These include an increased rollout of electronic billing machines to increase value added tax (VAT) collection and revision of the investment code to eliminate unproductive exemptions. The Rwanda Revenue Authority (RRA) has also increased its efforts in the recovery of tax arrears. Along with other East African Community (EAC) member states, Rwanda has introduced an import levy to help to finance infrastructure projects. Tax revenue has increased from 15.5% of GDP in 2014/15 to 16.2% of GDP in 2015/16. Medium-term tax policy reforms in agriculture, mining and property taxes are planned in 2016/17 to sustain an increase in domestic tax revenue.

The successful implementation of these measures is expected to grow the tax base and bring the tax-to-GDP ratio closer to the EAC target of 25.0% over the medium term. These fiscal containment measures contributed to a reduction in the fiscal deficit from 5.3% of GDP in 2014/15 to 3.2% of GDP in 2015/16. Key indicators on domestic arrears, recurrent spending, the public sector



wage bill and the ratio of domestic borrowing continue to signal fiscal sustainability. The stock of domestic arrears slightly increased from 0.1% of GDP in 2014/15 to 0.4% of GDP in 2015/16, and the public sector wage bill rose from 3.6% of GDP to 3.9% of GDP over the same period. The ratio of domestic borrowing was 0.7% of GDP in 2015/16, compared to 2.6% of GDP in 2014/15, while the share of the budget financed by domestic revenue consequently increased from 52.0% in 2011/12 to 66.0% in 2015/16. The most fundamental challenge to achieving fiscal sustainability is the high dependence on aid and a low tax base.

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

	2007/08	2012/13	2013/14	2014/15	2015/16(e)	2016/17(p)	2017/18(p)
Total revenue and grants	22.1	23.6	26.0	25.3	25.0	25.1	24.4
Tax revenue	11.6	14.0	14.8	15.5	16.2	16.0	16.0
Grants	9.7	7.8	9.2	7.5	6.1	6.5	5.9
Total expenditure and net lending (a)	22.3	28.6	30.0	30.6	28.2	30.1	30.8
Current expenditure	14.9	13.6	15.2	15.3	15.0	15.6	15.9
Excluding interest	14.3	12.9	14.3	14.5	14.1	14.6	14.9
Wages and salaries	3.3	3.6	3.6	3.6	3.9	3.8	3.8
Interest	0.6	0.7	0.8	0.8	0.9	0.9	0.9
Capital expenditure	8.0	12.1	13.8	13.7	11.7	13.0	13.4
Primary balance	0.4	-4.4	-3.1	-4.5	-2.3	-4.1	-5.4
Overall balance	-0.1	-5.0	-4.0	-5.3	-3.2	-5.0	-6.3

Note: a. Only major items are reported.

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

Monetary policy

The monetary policy in 2015/16 aimed at addressing imbalances brought on by external shocks, maintaining low and stable inflation and promoting adequate growth in private sector credit.

The mismatch between high demand for foreign exchange and its limited availability due to the decline in external flows from aid and exports led to a significant drawdown in external reserves from 3.9 months of imports in 2014 to 3.4 months in 2015. To prevent a further decline in external reserves, the NBR implemented a flexible exchange rate regime to allow the local currency to adjust freely to changes in demand and supply for foreign exchange. This is consistent with the exchange rate corridor framework, which was adopted in 2010 to promote greater exchange rate flexibility. The floating of the Rwandan franc (RWF) led it to depreciate by 9.3% in November 2015 when compared to November 2016. The International Monetary Fund (IMF) approved a USD 204 million Standby Credit Facility (SCF) to mitigate the impact of the external shocks by boosting external reserves. Whereas the free float contributed to a moderate rate of depreciation of the Rwandan Franc on the one hand, on the other hand it prevented the severity of a further decline in external reserves in the balance of payments. The NBR indicated its willingness to continue to allow greater exchange rate flexibility to restore international reserves to 3.8 months by the end of 2016.

Monetary policy was also consistent with inflation objectives and private sector credit growth. In the midst of external shocks, the NBR kept its Key Repo Rate (KRR) unchanged at 6.5% in August 2016 to support banking sector lending to the economy. The KRR was last reduced from 7.0% to 6.5% in June 2014. Private sector credit increased by 30.1% from RWF 896.4 billion (roughly USD 1.1 billion) in 2015 to RWF 1.2 trillion in 2016 and contributed to a stronger real GDP growth of 6.9% in 2015. Headline inflation increased from an annual average of 2.5% in 2015 to 7.4% in October 2016 due to increased prices for fresh foods as a result of drought and to a lesser extent higher import prices following the recent depreciation of the RWF. Inflation is estimated to have slowed down, with improved yields in a new agricultural season. The NBR has begun to tighten

monetary policy by reducing the growth of broad money (i.e. the money supply). This policy measure has reduced inflation to an average of 7.2 in 2016. With a tightened monetary policy, private sector credit growth is projected to slow down to 13.8% in 2016 before recovering to 16.5% in 2017.

The NBR also continued to improve the management of liquidity within the current monetary policy framework to ensure that money market rates are more aligned to the Key Policy Rate (KPR) and develop the interbank market. T-bills, repos and interbank interest rates increased to 7.3%, 3.6% and 5.9% in June 2016 from 6.8%, 2.4% and 3.7% in December 2015 respectively. This is in line with the broad trend of the KRR at 6.5%. This movement in interest rates represents an important step in preparation for the use of the interest rate as the key operational tool for monetary policy.

In addition to monetary policy, the government has prioritised a number of measures to diversify the structure of the economy over the medium term, producing goods currently imported, increasing export earnings and reducing the reliance on aid.

Economic co-operation, regional integration and trade

Regional integration is perceived by the government of Rwanda as a vehicle for overcoming the development constraints related to being landlocked and a small market, with inadequate supply of energy and human capital. Rwanda is actively engaged in the Common Market for Eastern and Southern Africa (COMESA) and EAC. Rwanda also has assented to the COMESA-EAC-SADC (CES) tripartite free trade area agreement, whose objective is to promote deeper economic integration to facilitate strong trade performance and economic growth in Africa. In the context of recent developments in business interests in Central Africa, Rwanda was officially readmitted to the Economic Community of Central African States (ECCAS) in 2015.

It also continues to play a leadership role in fast tracking the implementation of key commitments under the northern corridor framework. These include: i) the use of national identification cards as travel documents for EAC residents, launched in February 2014; ii) a single tourist visa to facilitate movement of tourists across Kenya, Rwanda and Uganda, inaugurated in April 2014; and iii) the Single Customs Territory (SCT) along the northern corridor from Mombasa through Nairobi and Kampala to Kigali, operationalised in July 2014. Others include the joint mobilisation of resources for transformative regional infrastructure projects, such as the northern corridor railway and the operationalisation of the One Network Voice and Short Messaging Service (SMS) to ease communication and trade. A search and rescue air service agreement has also been adopted to enhance aviation services. Active engagement between Rwanda and the EAC partner states has led to an increase in the volume of trade between Rwanda and the EAC to USD 592.9 million in 2015 from USD 540.4 million in 2013. Rwanda's major exports to the community include coffee, tea, vegetables and non-alloy steel, while imports consist of consumer goods and construction materials.

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

	2008	2013	2014	2015	2016(e)	2017(p)	2018(p)
Trade balance	-13.6	-14.9	-16.0	-15.2	-15.0	-16.4	-17.2
Exports of goods (f.o.b.)	5.6	8.2	9.2	8.4	8.1	8.2	8.2
Imports of goods (f.o.b.)	19.2	23.1	25.2	23.6	23.1	24.6	25.5
Services	-2.1	-1.6	-2.3	-2.0	-1.6	-0.3	0.4
Factor income	-0.7	-1.8	-2.0	-2.4	-3.1	-2.4	-2.3
Current transfers	10.8	11.2	8.1	6.4	6.5	5.6	5.5
Current account balance	-5.6	-7.1	-12.2	-13.1	-13.2	-13.6	-13.7

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



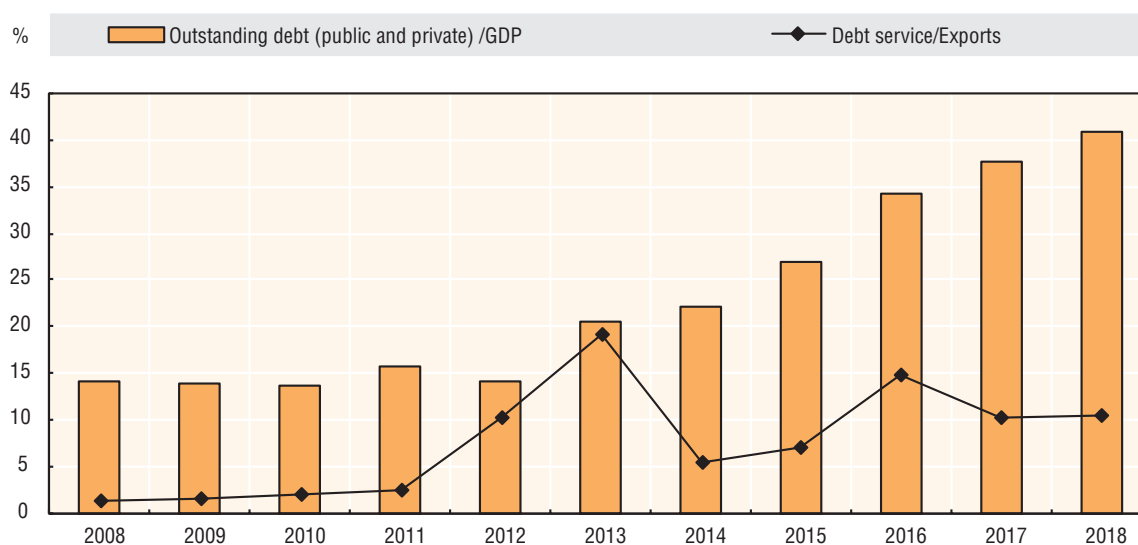
Debt policy

Total public and publicly guaranteed debt increased to USD 2.8 billion (33.6% of GDP) in June 2016 from USD 2.5 billion (32.5% of GDP) in June 2015. The share of external debt in total public debt increased by 1.4 percentage points to 72.4% during the same period. Public external debt has risen due to new borrowing to purchase two planes for RwandAir. The share of concessional loans in external debt rose to 74.2 % in June 2016 from 73.3% in June 2015. The World Bank /IMF debt sustainability analysis in June 2016 shows that Rwanda's debt has remained sustainable, with a low risk of debt distress. The main source of vulnerability is the narrow export base and the recent decline in global commodity prices, which has reduced export receipts.

The stress test done as part of the Debt Sustainability Analysis (DSA) in 2016 shows that debt burden indicators remain below the policy dependent thresholds under the baseline scenario until 2023. This is when temporary breaches of the respective thresholds of the debt service-to-revenue and the debt service-to-exports ratios begin to appear as the 2013 USD 400 million eurobond reaches maturity.

The external debt burden is expected to improve over time as a result of export diversification through the implementation of the export promotion strategy and import substitution efforts, such as the Made-in-Rwanda Campaign. In addition; Rwanda's capacity to repay its debt obligations is gradually increasing, with growth in tourism following the completion of the Kigali Convention Centre and other high-end hotels.

Figure 2. Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source : IMF (WEO & Article IV).

Economic and political governance

Private sector

According to the World Bank report *Doing Business 2017*, Rwanda improved three positions to 56 out of 190 economies in 2016 from 59 out of 190 economies in 2015 and emerged the second most improved economy in SSA. Rwanda is also recognised as the most consistent business reformer in

Africa over the last decade, having implemented a total of 147 reforms since 2005. These reforms are consistent with Rwanda's aspiration to be a private sector-led middle-income economy.

The reforms have led to a number of outcomes. For example, starting a limited liability company in 2006 required 9 procedures, 18 days and 235.5% of per capita income in associated fees. The same process in 2016 required 5 procedures, a maximum of 4 days and cost 48.5% of per capita income. Similarly, registering property is now fast, efficient and cost-effective compared to 2011. The *Doing Business* report indicates that registering property required 3 procedures and took 12 days in 2016, compared to 4 procedures and 55 days in 2011.

The main impediments to private sector competitiveness include infrastructure bottlenecks – particularly inadequate water and energy supplies – and skills deficits, which continue to raise the cost of doing business. The government adopted a Private Sector Development Strategy (PSDS) in June 2013 and its five-year Implementation Plan (IP) in February 2015 to provide a co-ordinated approach to addressing bottlenecks to private sector development.

Financial sector

Rwanda's financial sector comprises 16 banks, 491 micro finance institutions and Savings and Credit Cooperatives (SACCOs) and 54 non-bank financial institutions. The sector is dominated by the banks, which account for 66.9% of the total assets of the entire industry, followed by the pension sector with 19.0% and the insurance sector with 10.9%. The core measures of financial stability in banks slightly weakened in 2016 due to the relative slowdown in the economy, but the quality of risk management remains satisfactory. The Capital Adequacy Ratio (CAR) for banks and microfinance slightly declined to 23.3% in June 2016, compared to 24.3% in June 2015. However, it was higher than the prudential requirement of 15.0%. The ratio of liquid assets to total assets declined from 49.5% to 42.3% during the same period and remains significantly higher than the minimum prudential liquidity ratio of 20.0%.

Non-Performing Loans (NPLs) relative to total loans increased to 7.0% in June 2016 from 5.9% in June 2015 due to large exposures of NPLs in the agriculture sector (a 14.0% ratio of NPLs to gross loans) and exceeded the prudential minimum level of 5.0%. Both the Return on Assets (ROA) and Return on Equity (ROE) declined to 2.0% and 9.0% respectively in June 2016 from 2.4% and 13.1% in June 2015. The decline in profitability indicators was largely due to a substantial increase in operating expenses and slow economic growth. The NBR has adopted new analytical tools, such as the Cihak framework, to increase the rigour of analysing risks to financial sector stability and reinforced its supervisory roles to identify risks in a timely manner and mitigate them.

Financial deepening increased. For example, the ratio of private sector credit to GDP increased to 20.7% in June 2016 from 14.1% in 2013. The ratio of broad money (M2) to GDP also increased to 25.6% in June 2016 from 19.1% during the same period. Financial inclusion has increased, with the share of the adult population with access to formal and informal financial products increasing to 89.0% in 2016 from 72.0% in 2012. However, financial exclusion is highest among women: 65.0% of adult women are financially excluded, compared to 25% of men.

Public sector management, institutions and reforms

Public sector management has continued to improve, while new reforms were implemented to improve service delivery. The government implemented an electronic case management system in the judiciary, which has simplified the process for tracking court files. The process for obtaining popular basic services provided by various government agencies, such as birth certificates, driving licences, certificates of criminal liability and marriage certificates, were also automated. Processing for these services is done electronically via a government portal, which acts as one-stop centre for applications, payments and processing the required services. This reform reduced the administrative costs related to processing the services manually. The system



is fast and efficient while minimising any incentives for corruption by eliminating direct contact between the client and service provider. The share of the population satisfied with service delivery in Rwanda's governance score card improved to 72.9% in 2015/16 from 72.0% in 2014/15. Transparency International's Corruption Perception Index ranked Rwanda 55 out of 175 countries in 2015, putting it among the top five countries in Africa in terms of fighting corruption.

Natural resource management and environment

Rwanda's commitment to ecosystem restoration is articulated in the Green Growth and Climate Resilience Strategy (GGCRS), which was developed in 2011. The key objectives of the GGCRS are to sustainably harness agriculture, services and industry to create jobs and reduce poverty. The development of green infrastructure, including harnessing renewable energy sources, is also a key priority for the GGCRS.

Several strides have been made in protecting the environment. For example, in 2015 Rwanda developed its own Intended Nationally Determined Contributions (INDCs), confirming the country's commitment to reducing greenhouse gas (GHG) emissions. Rwanda hosted the 28th Meeting of the Parties (MOP 28) to the Montreal protocol in October 2016, in which 197 countries agreed on the Kigali Amendment to the Montreal Protocol. In the protocol developed countries committed to start phasing out hydrofluorocarbons (HFCs) by 2019. Developing countries also made a commitment to start phasing them out by 2024-26, with a complete halt in 2028.

Rwanda has set January 2017 as its baseline year to phase out HFCs ahead of other developing countries, reflecting its strong commitment to reducing greenhouse gases. The Kigali Amendment is expected to contribute to a reduction in global warming and thereby limit temperature increases to 1.5 degrees Celsius. In recognition of Rwanda's outstanding contribution to fighting climate change and environmental degradation, President Kagame received the 2016 Champion of the Earth award from the United Nations Environment Programme (UNEP) in recognition of outstanding environmental policy leadership.

Political context

Rwanda had peaceful local government elections at the cell and village levels in 2016. Preparations for the 2017 presidential elections are underway. The constitution was amended through a national referendum in December 2015, making the incumbent president eligible to stand for election beyond 2017. Rwanda's ranking in the Ibrahim Index of African Governance (IIAG) improved to 9/54 (score of 62.3; 100 = best) in 2016 from 11/54 (60.7) in 2015, which is better than the East Africa (44.9) and continental (50.0) averages. Rwanda ranks higher than the African average on safety and rule of law, sustainable economic opportunity and human development but lags behind in participation and human rights. The key risk to the political stability of Rwanda is civil unrest in neighbouring Burundi and the eastern Democratic Republic of Congo (DRC). Rwanda is actively participating in regional peace initiatives as part of the International Conference of the Great Lakes Region (ICGLR) and the African Union (AU). These efforts are expected to generate lasting solutions to the instability and insecurity in the African Great Lakes Region.

Social context and human development

Building human resources

Rwanda has made steady progress in developing its human capital. This progress is reflected in its ranking in the Human Development Index (HDI) of the United Nations Development Programme (UNDP). With an HDI 0.483, Rwanda shared the rank of 163 out of 188 countries in 2015 with Uganda. It has made steady progress in all aspects of human development.



Rwanda witnessed significant improvement in outcomes at early stages of learning following its effective implementation of the Education Sector Strategic Plan (ESSP) covering the period 2013/14 to 2017/18. It achieved all the targets for universal primary education. Progress has also been made in Early Childhood Development (ECD), with the pre-primary gross enrolment rate increasing to 20.2% in 2015 from 10% in 2010, but it remains slightly short of the EDPRS II target of 24.0% in 2015. Between 2000 and 2015 primary enrolment increased from 72.6% to 96.8% and the primary completion rate from 22.0% to 78.6% during the same period. The literacy rate for 15- to 24-year-olds increased to 78.8% in 2015 from 57.2% in 2000, according to the 2015 Millennium Development Goals (MDGs) report. Rwanda also invested in higher levels of education and skills development. Accordingly, the net attendance rates for secondary school increased to 23.0% in 2013/14 from 17.8% in 2010/11. Attendance at tertiary institutions increased to 3.0% from 1.7% during the same period. The share of Technical and Vocational Education and Training (TVET) enrolment as a percentage of enrolment in the upper secondary system increased to 42.0 % from 38.0% in 2015. The share of men in TVET was 58.0% in 2015, while women made up 42.0%.

In the health sector, Rwanda achieved all the MDGs targets related to improving maternal and child health care except those related to stunting and malaria. The government has taken a series of measures to improve nutrition among children under five by implementing the National Strategic Plan (2014-18). As a result, the proportion of underweight children declined to 9.0% in 2014 from 11.0% in 2010, while wasting, as measured by weight for height, declined to 2.0% from 5.0% during the same period. Stunting, as measured by height for age, declined to 38.0% in 2014 from 44.0% in 2010, but the rate remains significantly higher than the world health target of 12.2%. The main cause for high rates of malnutrition is poverty and limited knowledge, especially with respect to the types of nutritious foods that should be given to children.

Poverty reduction, social protection and labour

Rwanda's poverty reduction efforts are anchored on long-term and medium-term strategies. It has also put in place a monitoring mechanism for poverty, with namely the Integrated Household Living Condition Survey (EICV) and the Demographic and Health Survey (DHS). Based on the EICV 4 (2013/2014), Rwanda has had remarkable success in reducing poverty since the turn of the century, bringing down the poverty headcount to 44.9% in 2010/11 and 39.1% in 2014 from as high as 78.0% in 1995. Extreme poverty dropped to 16.3% in 2013/14 from 24.1% in 2010/11. Nevertheless, with a 30.2% share of the population in poverty, it missed the MDG 1 target by a slight margin. However, it has to be noted that Rwanda took close to 1 million Rwandese out of the poverty between 2006 and 2011, while from 2011 to 2014 over 650 000 Rwandese were lifted out of poverty. Poverty has declined consistently in rural areas, while urban poverty increased to 34.8% in 2005/06 from 28.0% in 2000/01, subsequently going back up to 30.0% in 2010/11. Rwanda has also reduced income inequality substantially. The Gini coefficient, which is a measure of income inequality, dropped to 0.448 in 2013/14 from 0.507 in 2000/01. Poverty has declined rapidly in recent years on the back of the rapidly growing economy and economic activities in agriculture and services. According to the 2014 *African Development Report* of the African Development Bank (AfDB), several factors contributed to such a rapid reduction in poverty: peace and political stability, high and sustained real GDP growth and sound macroeconomic management, as well as improved social services. The Rwandan government is strengthening its efforts to create jobs through education, skills and entrepreneurship development to further reduce poverty to the target of 30.0% by 2018 and 20.0% by 2020. It also intends to strengthen social protection programmes and poverty graduation processes.

Rwanda has been implementing a social protections programme since 2007, targeting the poor and vulnerable. These programmes have been complementary to the growth-enhancing efforts under the EDPRS II. One of these programmes, the 2020 Umurenge Programme (VUP), is an integrated local development programme to accelerate poverty eradication, rural growth, and social protection. VUP invests in assets, livelihoods and sustainable economic, social and



environmental development, targeting households. There are also agricultural subsidies and the Genocide Survivors Assistance Fund (FARG). According to the government, the VUP played a major role in reducing poverty nationwide. While the government recognises the results of the social protection programmes, it intends to do a comprehensive evaluation of them in 2016 to address the challenges they face. In particular, it aims to explore how social protection programmes could be closely linked to other interventions to unleash the productive capacities of the people so as to maximise productivity and generate a multiplier effect.

Gender equity

Rwanda places significant emphasis on gender-balanced development. It has a dedicated national gender policy and has mainstreamed gender into its sector policies. Progress has been significant. Gender parity has been achieved for enrolment at the primary and secondary levels, with a ratio of girls to boys of 1.03 in primary schools and 1.12 in secondary schools. Rwanda also has the highest female majority in parliament in the world, with 64% women in 2015. However, gender gaps are significant at higher education levels: women constitute 44% of tertiary enrolment and 33% of those in other public institutions. The barriers to higher completion rates include early marriage, lack of separate toilets, demands on girls to help their mothers in the search of wood and water and a lack of access to sanitary pads in teen years.

Women are also overrepresented in unpaid work and face higher a level of unemployment. The share of women in wage employment in the non-agricultural sector was a low 27.3% in 2014, compared to the MDG target of 50.0%. The main challenges include access to productive resources, including land and credit. The government aims to achieve gender equality in upper secondary, TVET and tertiary education while complementing it with programmes to support women entrepreneurship to achieve gender equality in the country.

Thematic analysis: Entrepreneurship and industrialisation in Rwanda

Rwanda has a vision of achieving middle-income status by 2020 and has been implementing its long-term strategy through medium-term plans since 2000. It has undertaken far reaching reforms since the 1990s. Over time, it has come to be recognised as the fastest growing economy in Africa, with an average real growth rate of 6.9% per annum in 2015. Industry, which accounts for close to 14.0% of the GDP, grew by an average of 7.0% in 2015, while manufacturing, which accounts for about 34.0% of the industrial sector, grew by 5.5% in the same period. The Rwandan manufacturing sector is largely dominated by SMEs, which comprise 98.7% of both formal and informal businesses and 41.0% of all private sector employment. Construction accounts for 51.0% of the industrial sector and continues to post the fastest growth rate, while mining and quarrying account for 10.0% and electricity and water account for 5.0% of the industrial sector.

Rwanda has a sizable share of its population engaged in agriculture, while non-farm self-employed work only accounted for 11.2% in 2013/2014, down from 12.0% in 2011. Non-farm self-employed workers' contribution to new employment opportunities is growing steadily – over 22% from 2006 to 2011. The largest number of entrepreneurs is young people with limited education and residing in urban areas. Rwanda created around 122 000 off-farm jobs per annum from 2006 to 2014, less than the government's ambitious target of over 200 000 annually set out in EDPRS II.

Rwanda has developed sophisticated legal and policy frameworks to guide its industrialisation process, which are anchored on its vision of boosting the industrial sector's contribution to 26% of GDP. The sector had limited contribution to employment, close to 7% in 2014. The 2011 industrial policy aimed to boost domestic production, export competitiveness and create an enabling environment for industrial growth while targeting the ICT and agroindustry sectors specifically. The implementation of the industrial policy and strategy is co-ordinated by the Ministry of Trade



and Industry. The Rwanda Development Board has played a major role in advancing policy reforms aimed at creating a competitive investment climate for the private sector since its creation in 2009 as a one-stop shop supporting private sector development through investment and export promotion. Recently, like its neighbours, Rwanda has started developing Special Economic Zones (SEZs) as an economic policy tool that can potentially promote private investment, industry and export growth, starting in Kigali. The government intends to build the SEZs across all regions of the country.

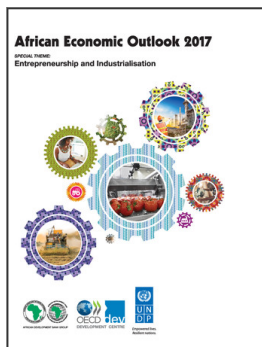
Rwanda has no dedicated policy on entrepreneurship development, but several of its policy frameworks mentioned above have embedded it. While the 2007 employment policy does recognise it as priority area, the 2010 SMEs policy aims to promote the culture of entrepreneurship through: introducing entrepreneurship training in schools and TVET curriculums; providing courses to out-of-school or vulnerable groups; establishing a national young enterprise programme, with annual competitions; implementing a mentoring programme for young people starting businesses via the Business Development Services (BDS) centres; and using role models. The SME policy is implemented by the Ministry of Trade and Industry in collaboration with the Ministry of Education (MINEDUC) and the Workforce Development Authority (WDA).

In addition, the Private Sector Development Strategy (PSDS), which was adopted in June 2013, reaffirms the government's commitment to private sector development. Specifically, it aims to promote entrepreneurship development, target an increase in the number of new businesses, grow existing ones by creating an enabling environment for small, informal and micro-enterprises, develop a mentoring and counselling facility, expand business plan competition, and develop and deepen business linkages through a vendor development programme. Furthermore, the government has put in place a National Employment Program (NEP) from 2014-18, which has consolidated all previous actions, taking into account lessons from the implementation of previous employment programmes in Rwanda and other countries. The policy as well as the programme encourages youth and women. NEP implementation is decentralised at the district level and operationalised through the entrepreneurship and business development unit within the structure of the district and the district *Kora Wigire* centre.

Rwanda is well recognised for making steady progress in creating a conducive investment climate by successfully implementing reforms aimed at minimising regulatory hurdles for business start-ups, guiding and mentoring entrepreneurs through the start-up administrative process, as well as building entrepreneurs' confidence in the regulatory environment. Rwanda also promoted access to finance to entrepreneurs through innovative mechanisms. As a result, it is ranked second in Africa in the World Bank report *Doing Business 2017*, and it has maintained such a position over the last few years. Also, net inflow of foreign direct investment (FDI) increased more than 30 times in Rwanda between 2005 and 2015. The critical success factors for the achievements include: a strong commitment to reform shown by Rwanda's leaders and its citizens, the development of structures for building a foundation for private sector development and effective co-ordination of government-wide reform efforts. For example, in implementing the regulatory reforms that will ease doing business, the government involves not only public institutions and development partners but also private sector actors. Moreover, it kept an open communication channel for entrepreneurs, civil society and other stakeholders to contribute to the process.

Notwithstanding the progress made so far, Rwanda should continue to promote entrepreneurship development by addressing the structural challenges constraining SMEs, such as access to credit, business management and the skills gap. It should also include the promotion of SMEs with broader efforts such as urbanisation, infrastructure development and regional integration. Lastly, it should continue on the steady path of reform to maintain a favourable business environment.





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