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FY2014-2018  
**COUNTRY PARTNERSHIP STRATEGY  
FOR RWANDA**



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Photo: World Bank

## Executive Summary

**1** Rwanda's progress has been rapid in recent years, building on a two-decade-long turnaround which has been remarkable in both its pace and breadth. A highly strategic approach to development has galvanized domestic and external resources around nationally-defined goals and delivered high rates of economic growth, a significant decline in poverty, a reduction in inequality and progress in nearly all developmental outcomes. Rwanda has done extremely well to reap the post-conflict dividend, and now it is time to focus on challenging second-generation economic reforms of export diversification, structural transformation, regional integration and financial sector deepening. Alongside this economic transformation, the Government will need to boost the incomes of the poorest to maintain the gains in poverty reduction and oversee the social and institutional transitions that come with rapid economic change. This strategy sets out how the combined World Bank Group resources can best help Rwanda achieve its poverty reduction and shared prosperity goals.

### Poverty reduction and shared prosperity

**2** Efforts in reducing both poverty and inequality—from high starting points—have been impressive. The poverty headcount dropped, with the share of population living below the national poverty line falling from 59 percent in the early 2000s to 45 percent in 2011. In Kigali, home to 10 percent of Rwanda's population, the incidence of poverty decreased from 22.7 percent in 2001 to 16.8 percent in 2011. Starting from a much higher base, the rest of the country experienced a 15 percentage point drop in poverty. The poverty gap ratio, which takes into account the distance separating the poor from the poverty line, dropped by almost 10 percentage points, from 24.4 percent in 2001 to 14.8 percent in 2011. This implies that those who still live below the poverty line are now closer to it than they were in 2001, which bodes well for future poverty reduction. Inequality, as measured by the Gini coefficient, fell from 0.52 to 0.49.

**3** Though growth was strong throughout the last decade, it is only in the last five years that there has been an effective translation into poverty reduction. The first half of the decade (2001-2006) was characterized by high growth in Kigali and low, pro-rich growth in the rest of the country, leading to an increase in inequality and modest poverty reduction. The second half of the decade (2006-2011) experienced higher overall growth, mainly concentrated in rural areas, and recorded an exceptionally strong growth rate for the poor, in particular the extremely poor. The net result is a decade of strong growth and poverty reduction during which welfare gains were realized at each point in the distribution and were relatively higher for the poor. The agriculture sector has seen household-level agricultural production more than double between 2001 and 2011, accounting for 35 percent of the national's reduction in poverty.

#### Government's visions and aspirations

**4** The Government's medium term vision and targets are set out in a series of sectoral, locality-specific and overarching strategic development plans. The medium term goals are set out in the second Economic Development and Poverty Reduction Strategy (EDPRS 2), which aims to accelerate private sector-led growth and further reduce poverty, including extreme poverty. It seeks to do so while reducing aid-dependency and increasing self-reliance. The four thematic areas are: (i) *economic transformation*, to achieve high and sustained growth and restructure the economy towards services and industry, (ii) *rural development*, to bring the national poverty rate below 30 percent, (iii) *productivity and youth employment*, to ensure growth and

transformation are supported by appropriate skills, and (iv) *accountable governance*, to improve service delivery and increase citizen participation in and satisfaction with delivery of development. These thematic areas are supported by eight foundational issues which are long-term ongoing priorities and seven cross-cutting issues.<sup>1</sup>

**5** The Government has set demanding targets across the four thematic areas. These include targets for economic growth, reduction of poverty and extreme poverty, increases in the installed electricity capacity, promotion of exports, shifts towards a more urbanized population, enhancements in access to infrastructure, improvements in the quality of the labor force, creation of jobs and SMEs and improved quality of public services. Though some targets are very ambitious, the direction established by the results framework of the EDPRS 2 accords strongly with Bank Group and IMF assessments of the priority challenges. Taken together, the targets represent a highly ambitious agenda for inclusive growth over the coming years.

**6** Projections show that poverty targets, though demanding, are attainable—but only if past patterns of growth in consumption and reduction in inequality are repeated in the future. Growth alone is unlikely to reduce poverty sufficiently, and therefore a balanced approach that emphasizes rapid growth for the lowest two quintiles of the population will be crucial. While the vision for the future emphasizes the need for off-farm employment to be created for an increasingly urbanized population, an anchor in agricultural productivity and rural development will remain important to achieve this balance.

<sup>1</sup> The foundational issue areas are macroeconomic stability, demographics, food security, basic education, primary health care, rule of law, PFM, and decentralization; cross cutting issue areas are capacity building, environment, gender, regional integration, HIV/AIDS and non-communicable diseases (NCDs), disaster management, and social inclusion.

**7** Accelerating growth and creating jobs through the intensification and deepening of the private sector lies at the heart of the development challenge and implies significant action at policy and investment levels. The imperative for job creation is extremely strong; the total non-farm labor force increased from 442,000 in 2001 to 1.4 million in 2011. About 100,000 formal and informal jobs are currently created per year, which is only half the annual growth needed to maximize benefits from the demographic dividend.

**8** Despite the very strong performance with respect to the investment climate, multiple challenges remain. The private sector is relatively small and weak, and geography, low productivity and high energy costs make Rwanda expensive for enterprises dependent on sea ports or energy-intensive processes. The domestic market is relatively limited and expanding trade has been hampered by cross-border tensions and inefficiencies. Enterprise surveys—and feedback from the private sector during the consultations for this CPS—confirm key challenges, highlighting access to finance and availability of land as the most severe constraints, followed by infrastructure (electricity and transport) and labor skills. Other issues relate to the arbitrary, uncertain and unpredictable way in which certain areas of regulation are enforced.

### Strategic options

**9** The resources of the WBG are modest relative to the financing needs of the EDPRS. Selectivity in using IDA and close collaboration with IFC and MIGA are critical in delivering the maximum impact with these limited funds. The CPS identifies a set of principles used in defining future areas of engagement in

Rwanda, comprising: (i) alignment with the twin goals of growth and poverty reduction; (ii) comparative advantage relative to other donors; (iii) opportunity to maximise internal WBG synergies and present a coherent ‘one Bank Group’ approach; (iv) client demand; (v) risk especially with respect to capacity constraints both on the side of Government and the WBG. Based on this approach, the CPS identifies selected priorities for WBG support within three main themes.

**10** The first theme has as its objective: *‘accelerating economic growth that is private-sector driven and job-creating’*. This includes IDA investments and analytical work in energy (to tackle high costs and low reliability which are major barriers to enterprise development) and urban development (to enable the Government’s industrial strategy and also help reduce poverty which is lower in urban areas). It envisages active investment by IFC in the financial sector, supported by analytical work by both IFC and the World Bank. IFC also foresees direct investments in the private sector by IFC, alongside potential MIGA guarantees. Both IFC and the WB will engage in policy and analytical work in private sector development, leveraging of public-private partnerships (PPPs) and investment climate work.

**11** The second theme is: *‘improving the productivity and incomes of the poor through rural development and social protection’*. With 80 percent of the labor force dependent on agriculture, this sector is key to increasing incomes. This needs investments in agricultural productivity (partly because of limited scope for expanding cultivable land area), nutrition (to combat child malnutrition in

rural areas), rural roads and IFC investments in horticulture, agribusiness and microfinance. In social protection, IDA will support an expansion of Rwanda's social protection system, notably the flagship Vision Umurenge Program. Support will also help strengthen core service delivery and the effective management and harmonization of Rwanda's social protection system. There will be additional investments for specific vulnerable groups (for example, demobilized ex-combatants or victims of gender-based violence).

**12** The third theme comprises: *'Supporting accountable governance through public-financial management and decentralization'*. This supports the Government's objective of decentralising decision-making and making Government more open and participatory in its processes. This will include likely IDA investment in PFM, fiscal decentralization, statistical systems and open data. A team is currently considering the viability of a Program for Results operation that would drive results in areas of public financial management, fiscal decentralization, statistical capacity and open data.

**13** Working across these themes is the need to invest in and promote greater regional integration. Rwanda's size and location will mean that stronger integration with regional economies will be vital for further growth. There are two elements to this. The first relates to the need to expand markets for potential investors, to the need to turn "land-locked" into "land-linked" in the interests of competitiveness. Countries of the region represent potential markets for exports, managers of transport corridors and facilitators of cross-border trade. As such regional integration is as foundational to the future growth path as having a sound domestic investment climate. Secondly, regional

integration and cross-border investments will hopefully bring with it greater political stability and security in the region.

**14** Rwanda has expressed its interest in a number of cross-border investments in the Great Lakes region to make use of regional IDA resources. These include the financing of hydropower generation on the borders with DRC and Burundi and improved transport connections. IFC and MIGA stand ready to engage in such projects where a private sector role exists (e.g., the Rusizi 3 Power Generation project). Some of IFC's Rwanda-based clients already serve both the domestic market and those of neighboring countries, particularly eastern DRC. Looking East, Rwanda has expressed interest in a number of projects that could provide faster access to the sea or more reliable access to affordable energy.

#### Delivering for results

**15** IDA allocations for the CPS period remain indicative at this stage. The working assumption is that allocations will be similar to those in the past, perhaps a little higher in recognition of the improving CPIA score and the switch from a mix of grants and credits to credits only. As such, IDA may commit approximately US\$200-250 million a year during IDA17, likely spread across three investment operations, two PforR operations and one series of three DPOs. In addition, regional IDA should be leveraged for some priority investments.

**16** Budget support has been a highly effective instrument for the delivery of predictable, flexible financing to a reform-minded government who spent the resources well. But fluctuations in aid flows have to be managed carefully, and this CPS anticipates

different combinations of instruments that offer some flexibility in the financing that is delivered. This CPS proposes less emphasis on development policy lending. The Government has requested more of the IDA17 allocation in the form of program for results (PforR) operations. While the previous CAS disbursed 66 percent in the form of budget support, this CPS is likely to disburse the same proportion as a mix of PforR and Development Policy Operations.

**17** IFC has ten deals outstanding in Rwanda with committed volume of US\$38 million. They envisage that their investments will rise to US\$120m by the end of the strategy period, the bulk of which would be in the financial sector. IFC expects to engage in the financial sector through a local currency credit line, a local currency bond issue and supporting the establishment of a microfinance bank. In the infrastructure sector they have identified likely support to the Rusizi III power generation project, Lake Kivu methane extraction projects and Kigali Bulk Water Supply. With respect to manufacturing, IFC is considering investment for a mix-use commercial building in Kigali. IFC's Advisory Services portfolio has been highly valued and regularly received acknowledgement for innovation and impact through the IFC awards schemes. The Rwanda Entrepreneurship Development Program, the Rwanda Investment Climate Program and the Efficient Security Markets Initiative (ESMID) have been particularly useful.

**18** MIGA currently has two active projects (KivuWatt and Bakhresa Grain Milling) in Rwanda (total gross exposure of \$110 million). MIGA is open for business across all of its Political Risk Insurance product lines, including Transfer Restriction, Expropriation, Breach of Contract and War and Civil Disturbance, as well as the Non-Honoring of Sovereign Obligations.

### Managing risks

**19** Risks to growth and poverty reduction arise from variable climatic conditions, and the private sector response to government reforms. Stepping up measures to make agriculture more climate-resilient, for instance through the construction of irrigation facilities and terracing which the Bank is supporting, will be critical. Support for the private sector is targeted at taking advantage of a better business environment. External risks relate to the pace of regional integration and the potential for regional conflict, more-rapid-than expected tapering of donor inflows, and a prolonged slump in the global economy. The CPS seeks to mitigate the risks on the regional integration side through regional projects, the exposure to fluctuations in aid flows through the choice of instruments and the aid dependence through measures to improve domestic revenues.