

Economic Transformation in Africa: A case of Rwanda

Dickson Malunda, PhD

Institute of Policy Analysis and Research (IPAR) 2012

Rwanda

Definition: Economic Transformation

- Economic transformation is a process involving increases in productivity, technological capability, economic diversification, and international competitiveness that support rapid, sustained and shared growth in employment and incomes of the population over time
- Study motivated by the slow pace of the observed high economic growth in translating into meaningful economic transformation that comes with more jobs and improved incomes of people in Sub-Saharan Africa.
- The studies aim at bringing the subject of structural economic transformation back onto the policy agenda in Africa policy makers.

Economic Policy :Pre-genocide Period (1961-1994)

- Rwanda had an administered economy, which imposed severe restrictions on trade and foreign exchange transactions and a fixed exchange rate regime(1961-1990).
- By the early 1990s the average tariff rate was 34.8 percent, with 5 different tariffs ranging from 0-60 percent. Every import and every importer was subject to a quota, and all import operations were subject to a license authorizing external currency disbursement
- Exporters had to repatriate currency generated by the sale of exports as a legal requirement.
- Export licenses were authorized only by the *Banque Nationale du Rwanda* (BNR). More importantly, all export earnings were transferred to and managed by the BNR.
 - Likewise, BNR had to give prior approval for certain invisible transactions including medical care, tourist trips and study abroad, with purchases of currencies from the BNR to finance these invisible transactions subject to ceilings.
- The period from 1991 until 1994 corresponds to the beginning of the removal of restrictions on trade and foreign exchange transactions, and the gradual revival of a market economy

Post-genocide Economic Policy Reforms

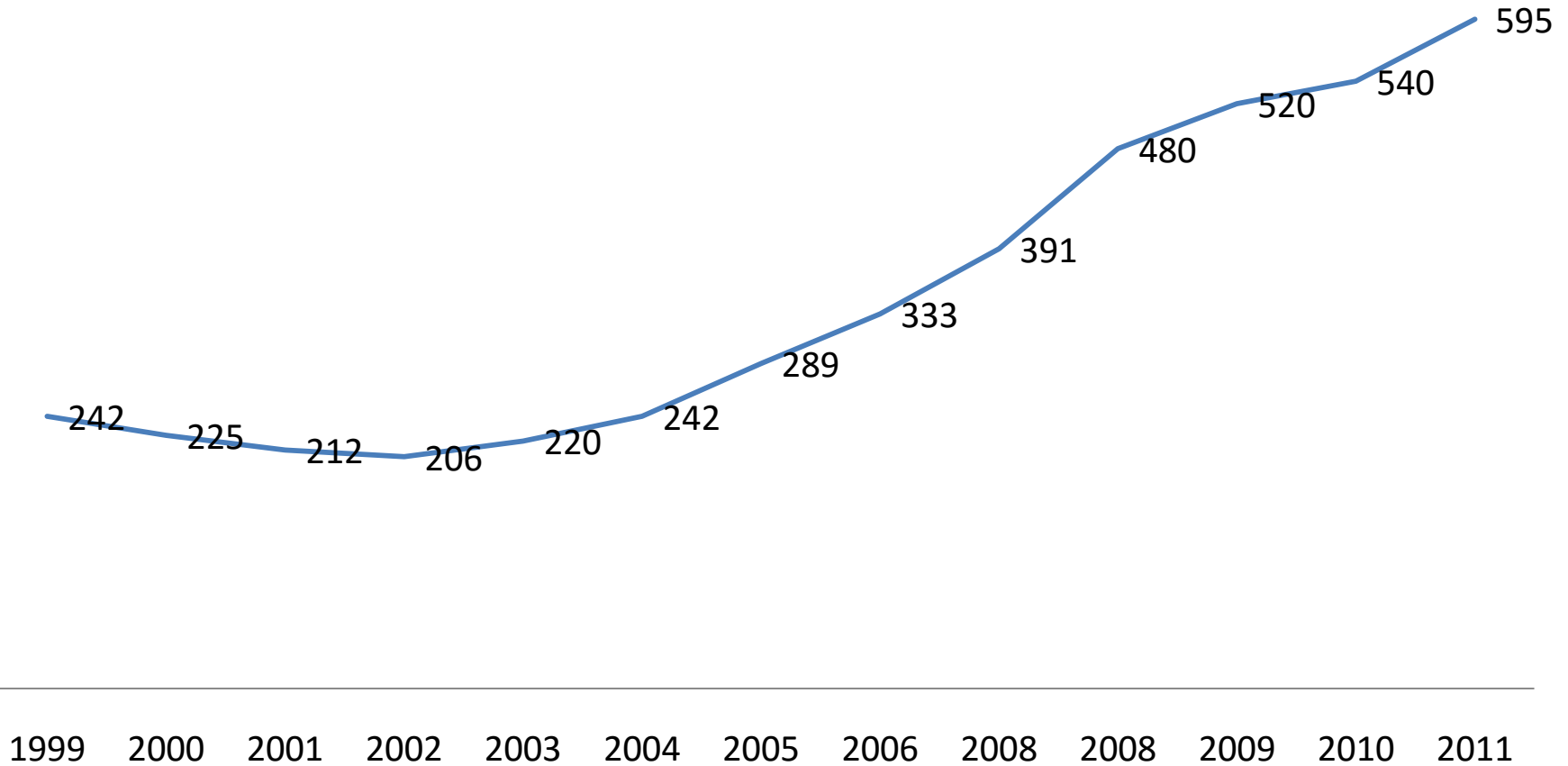
- Rwanda embraced a market economy characterized by continuation of trade reforms and a liberalization of the monetary and financial regimes.
- Tariffs were reduced considerably with the average rate decreasing to 18 percent, and there remained four tariff bands with a maximum of up to 30 percent by 2003.
 - This is a significant reform when compared with an average tariff rate of 34.8 percent, with 5 different tariffs ranging from 0-60 percent prior to 1994.
- Liberalization of the monetary and financial sector led to the adoption of new currency exchange regulations, the creation of new private commercial banks, and the privatization of state-owned banks
- Imports, exports and services were liberalized, and some of the previous restrictions on capital flows were either reduced or eliminated.
 - The latter included the transfer of capital and revenues related to foreign direct investment (FDI), and the allowance of free withdrawal from foreign exchange accounts in commercial banks

Post-genocide Economic Policy Reforms continued

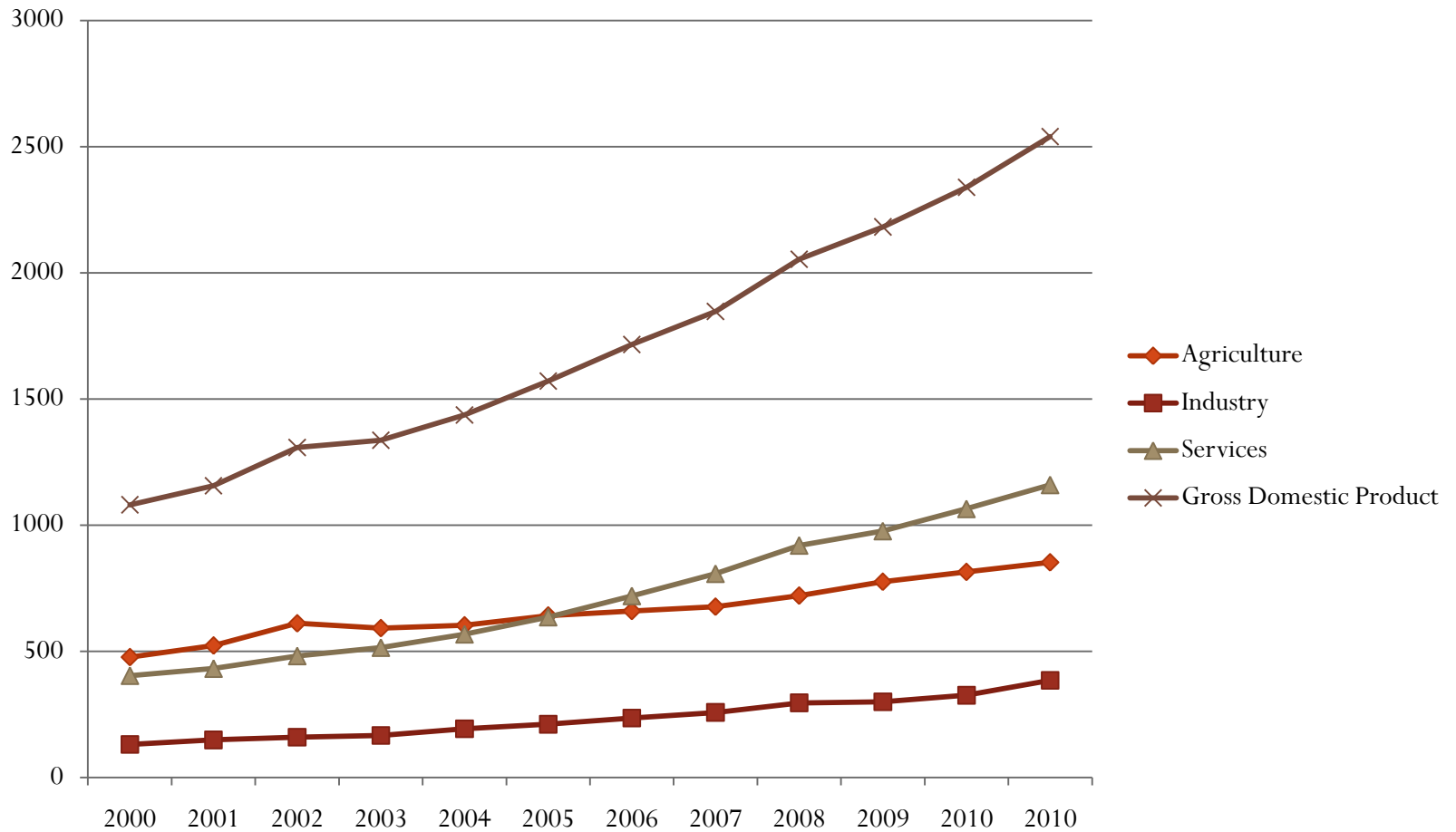
- Flexible exchange rates were also introduced. During the period 1995 to 2003, the commitment of the government to trade, financial, and exchange reform was much more credible and stable.
- Prices began to reflect real cost and value, rather than the arbitrary levels established by the government. Economic resources could thus be allocated much more effectively as firms adjusted their productive capacities and subsequently improved the overall competitiveness of the Rwandese economy.
- At the same time Rwanda was the recipient of substantial aid from the World Bank and other entities. Although diminishing returns to aid may exist over the long run, in the case of Rwanda the post-1994 aid has had a much greater, and long-lasting impact (Collier, 2004).

MACRO-ECONOMIC INDICATORS

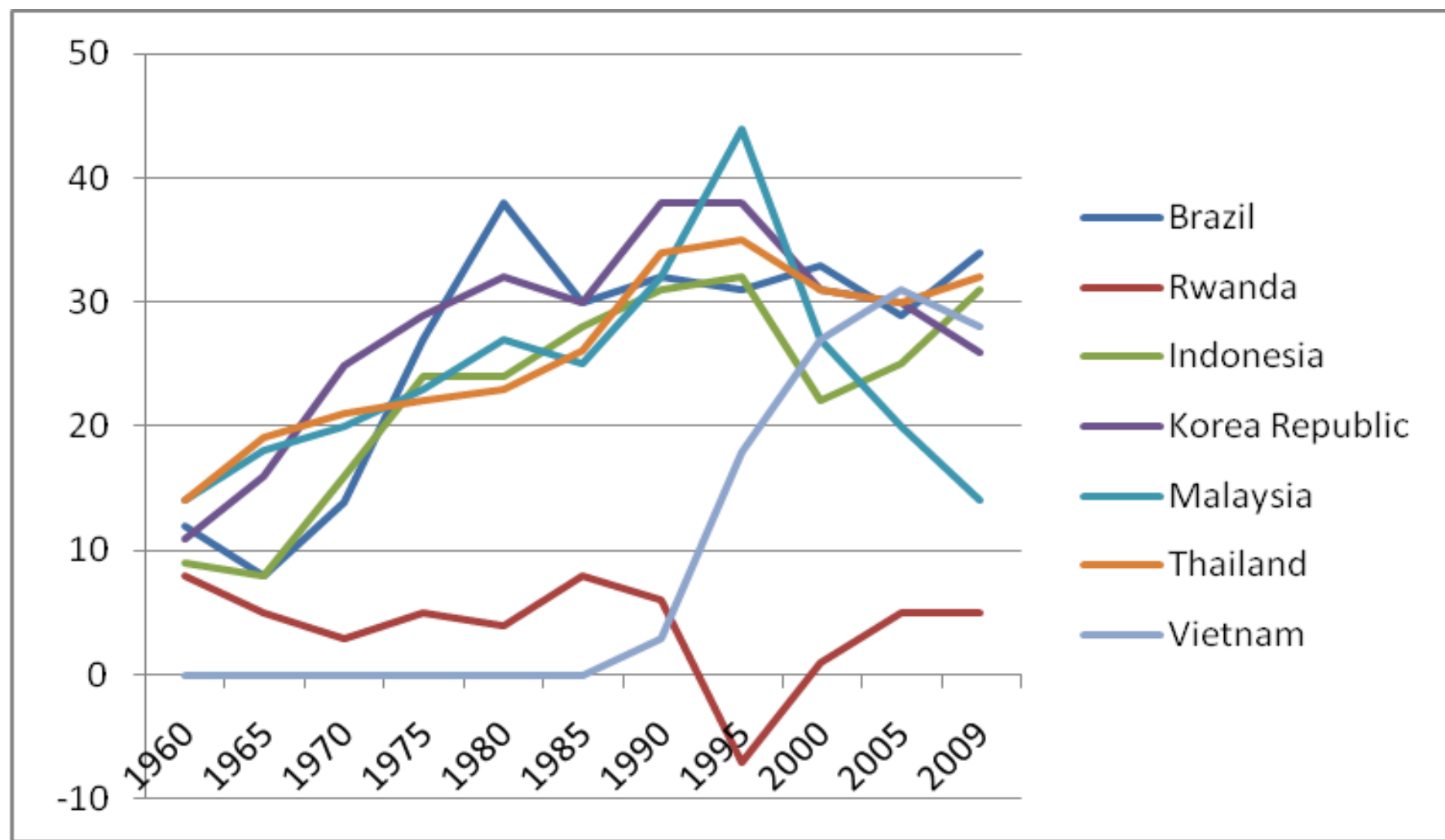
Rwanda Growth: GDP/capita US\$(1999-2011)



Gross Domestic Product by Kind of Activity at Constant 2006 Prices



Savings: Comparing Rwanda's Gross Domestic Savings (%GDP) with Comparator Countries



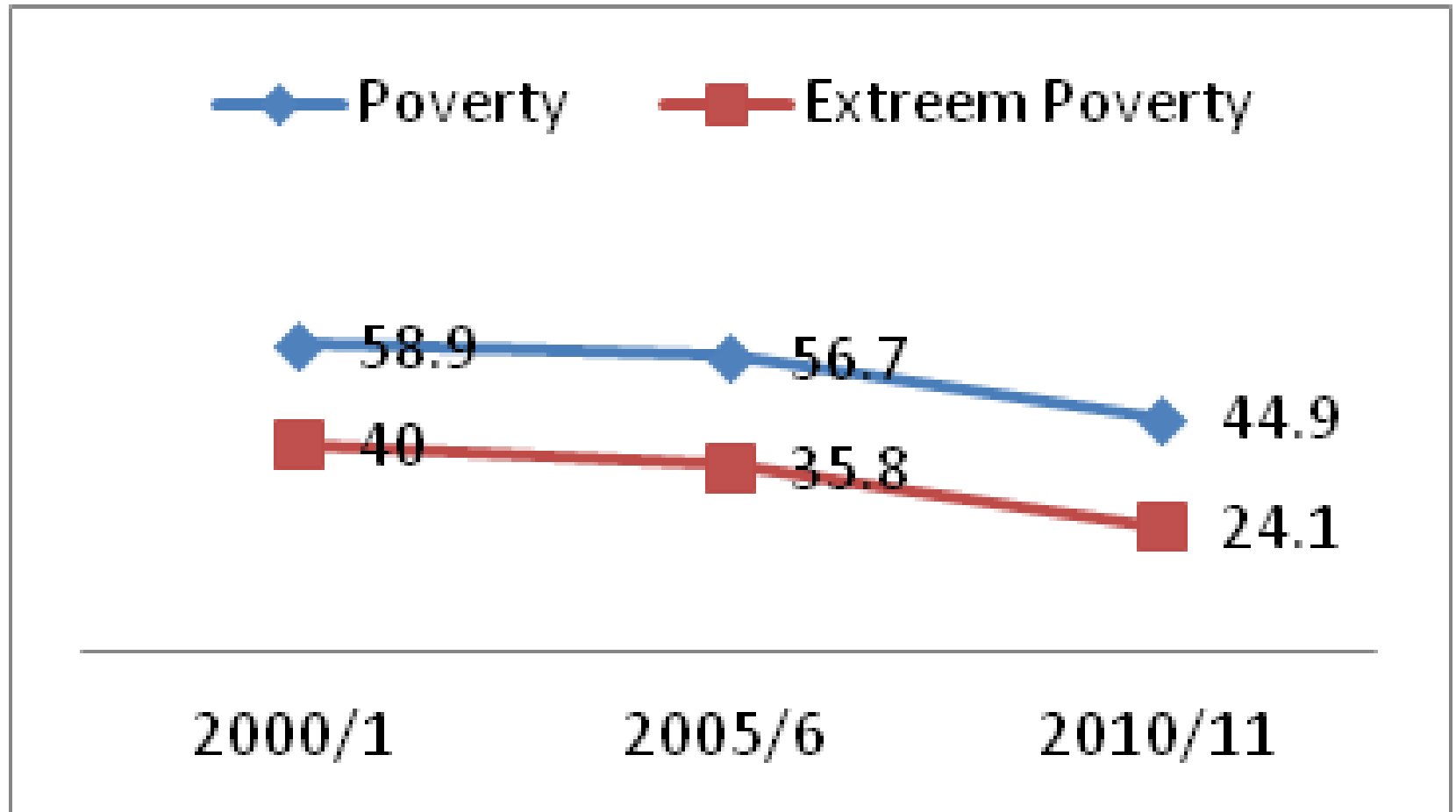
Evidence of Emerging Economic Transformation in Rwanda

- Poverty reduction over time
- Development of the non-agricultural sectors of the economy has clearly begun
- There is an incipient structural shift in the mode of production away from low-productivity subsistence farming to a higher degree of market-orientation and more use of agric. inputs
 - Substantial increases in production and yields in recent years are evidence of the high dividends of this structural change..
- Significant increase in private sector investment following the introduction of a revised tax code and implementation of the doing business reforms since 2005

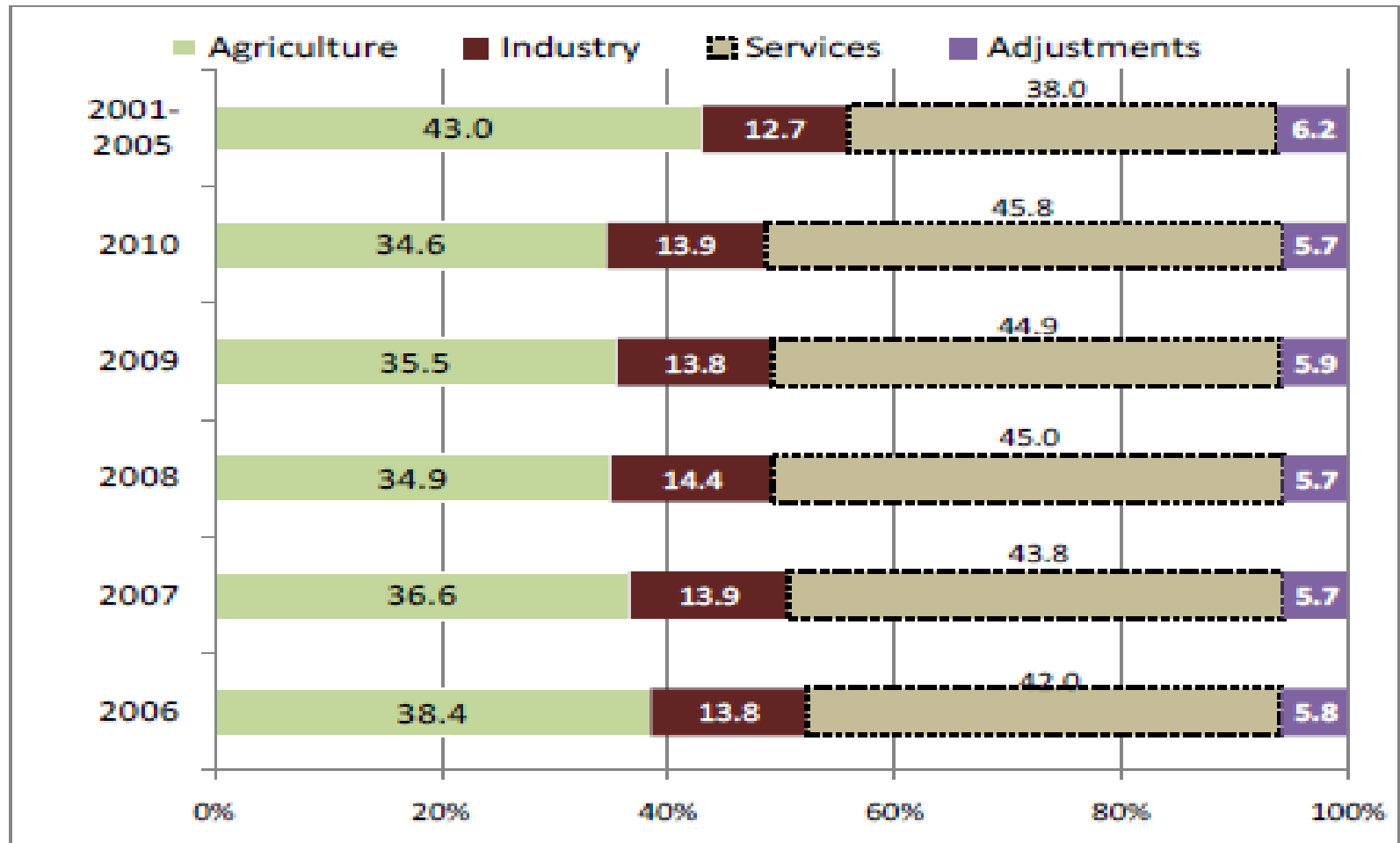
Evidence of Emerging Economic Transformation in Rwanda continued

- **Governance**

Significant Poverty Reduction over time

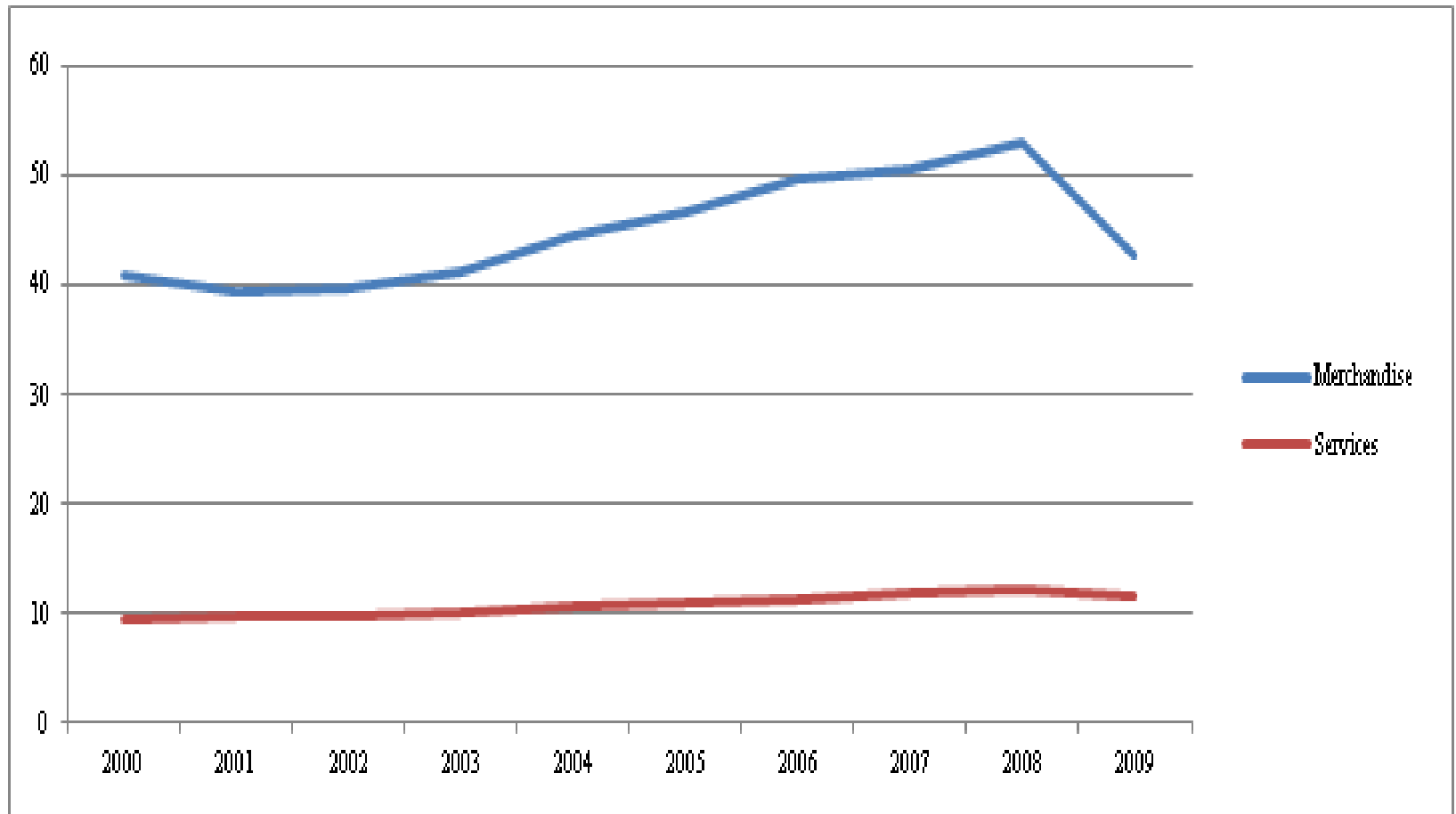


Development of the non-agricultural sectors of the economy has clearly begun



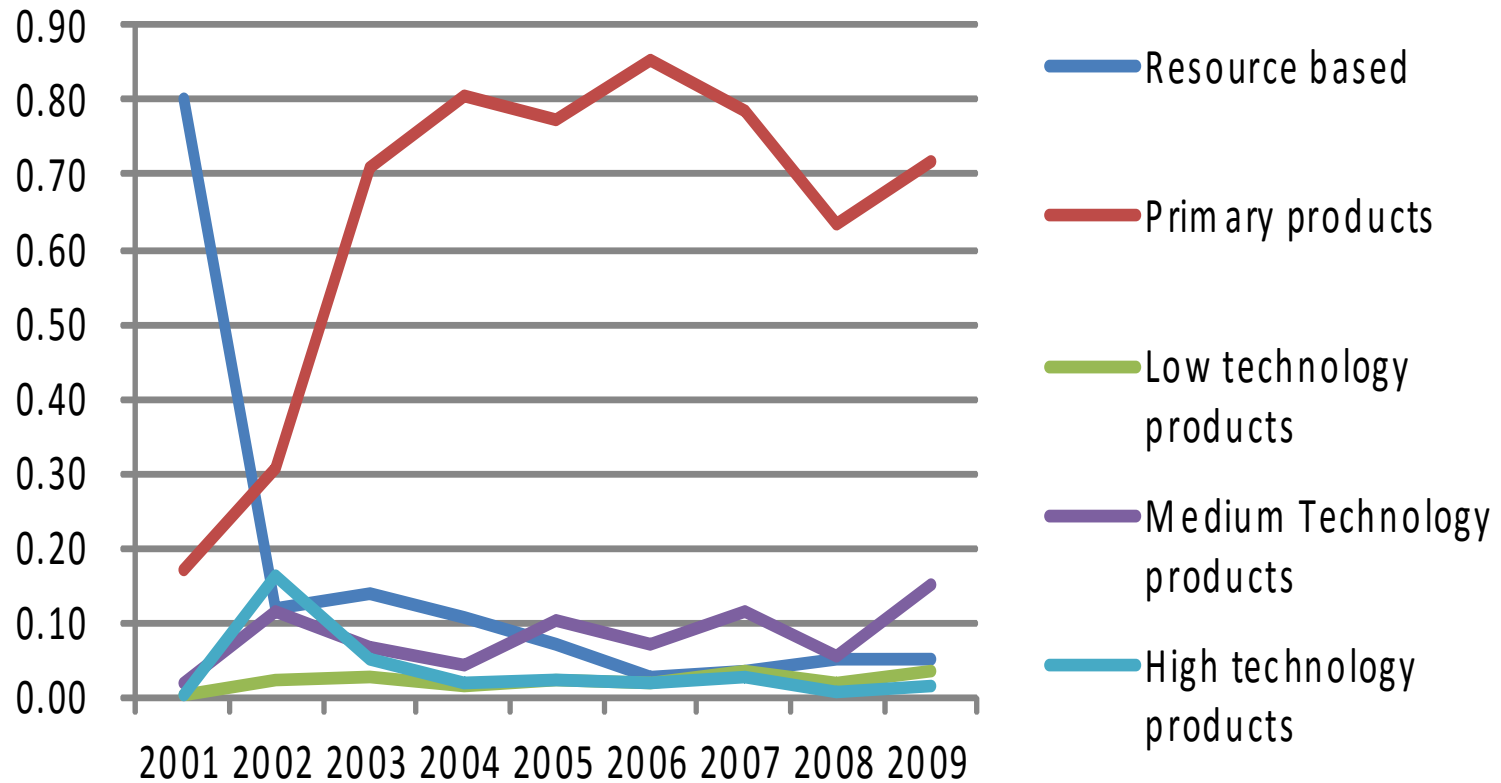
Source: NISR

Trade: Merchandised Trade and Trade in Services as Per Cent GDP 2000-2009



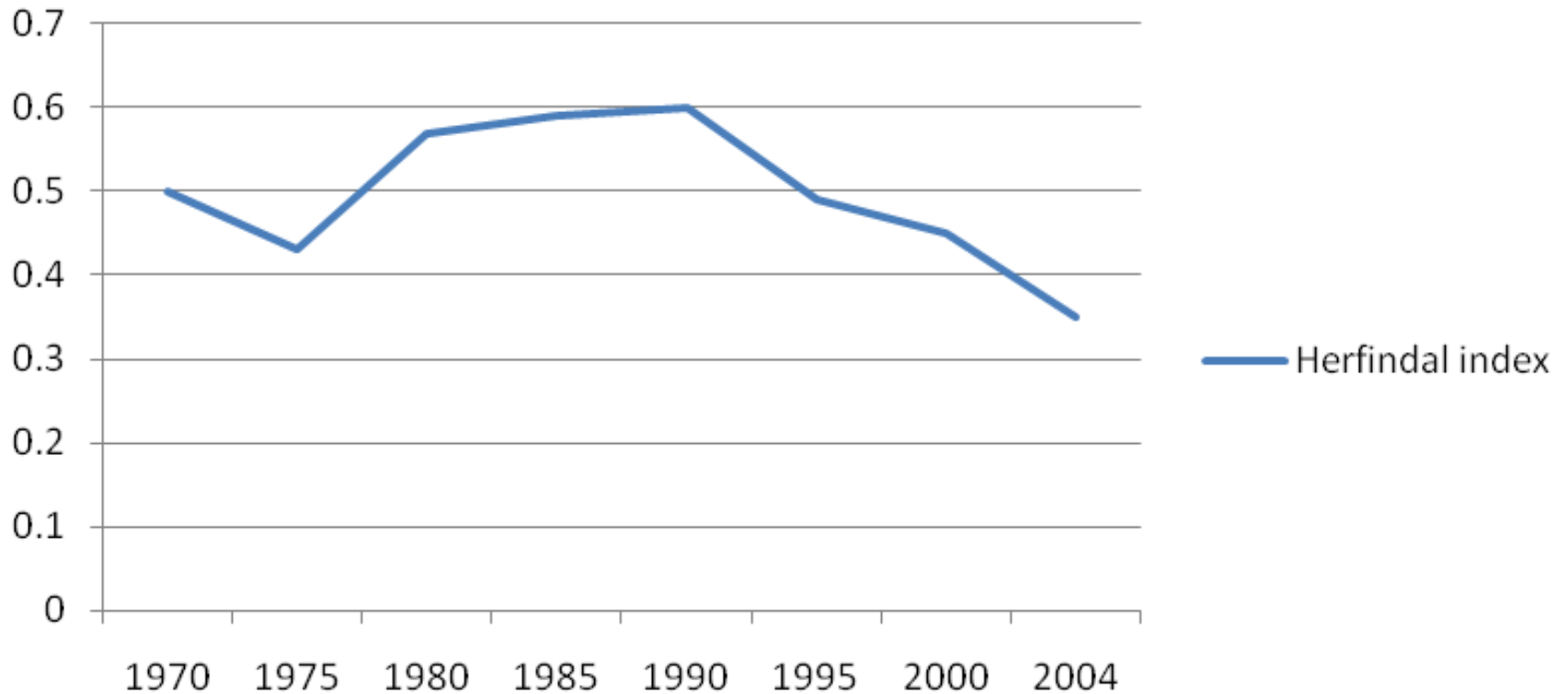
Exports and Imports

Technological sophistication of Rwanda's Trade products

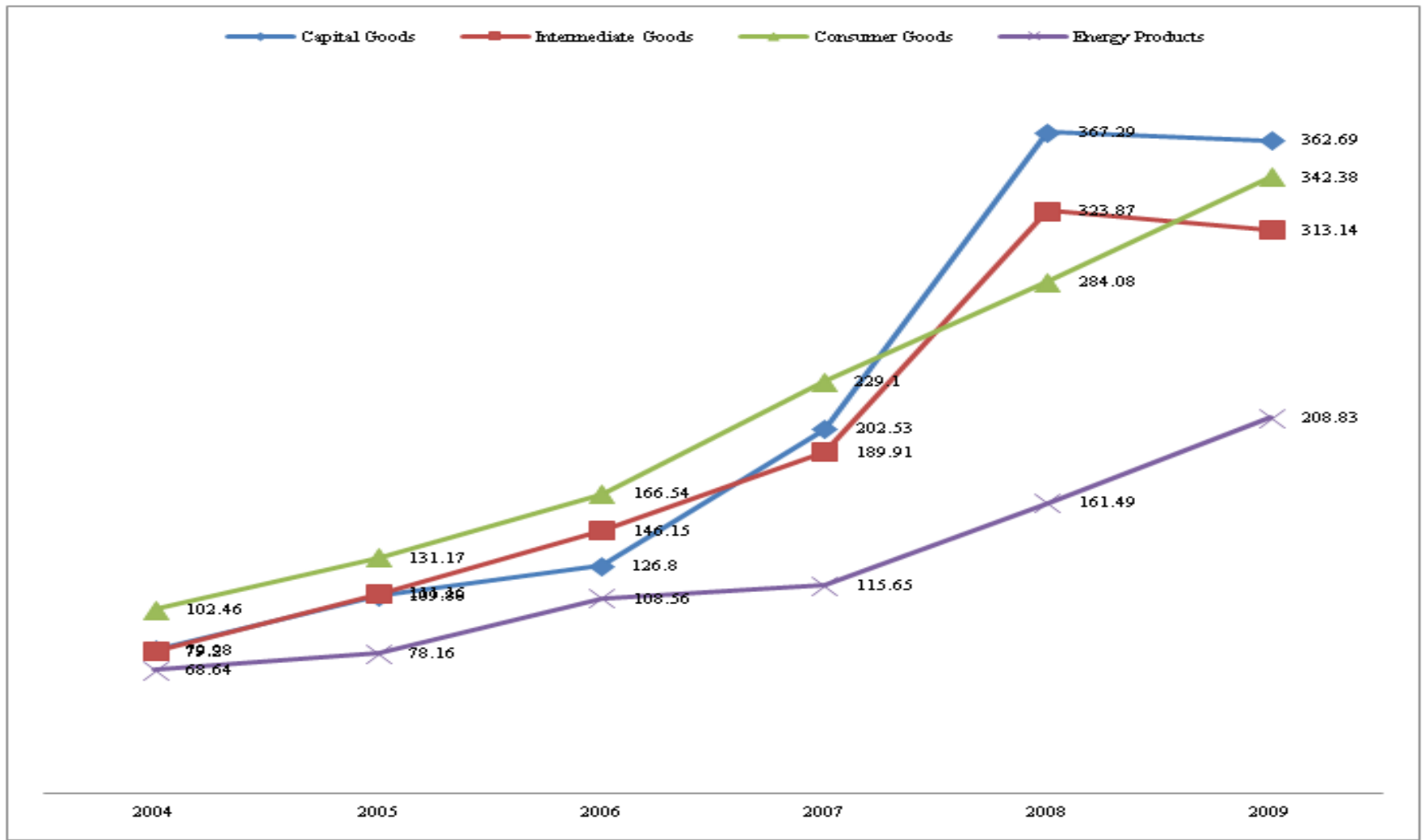


Export diversification over time

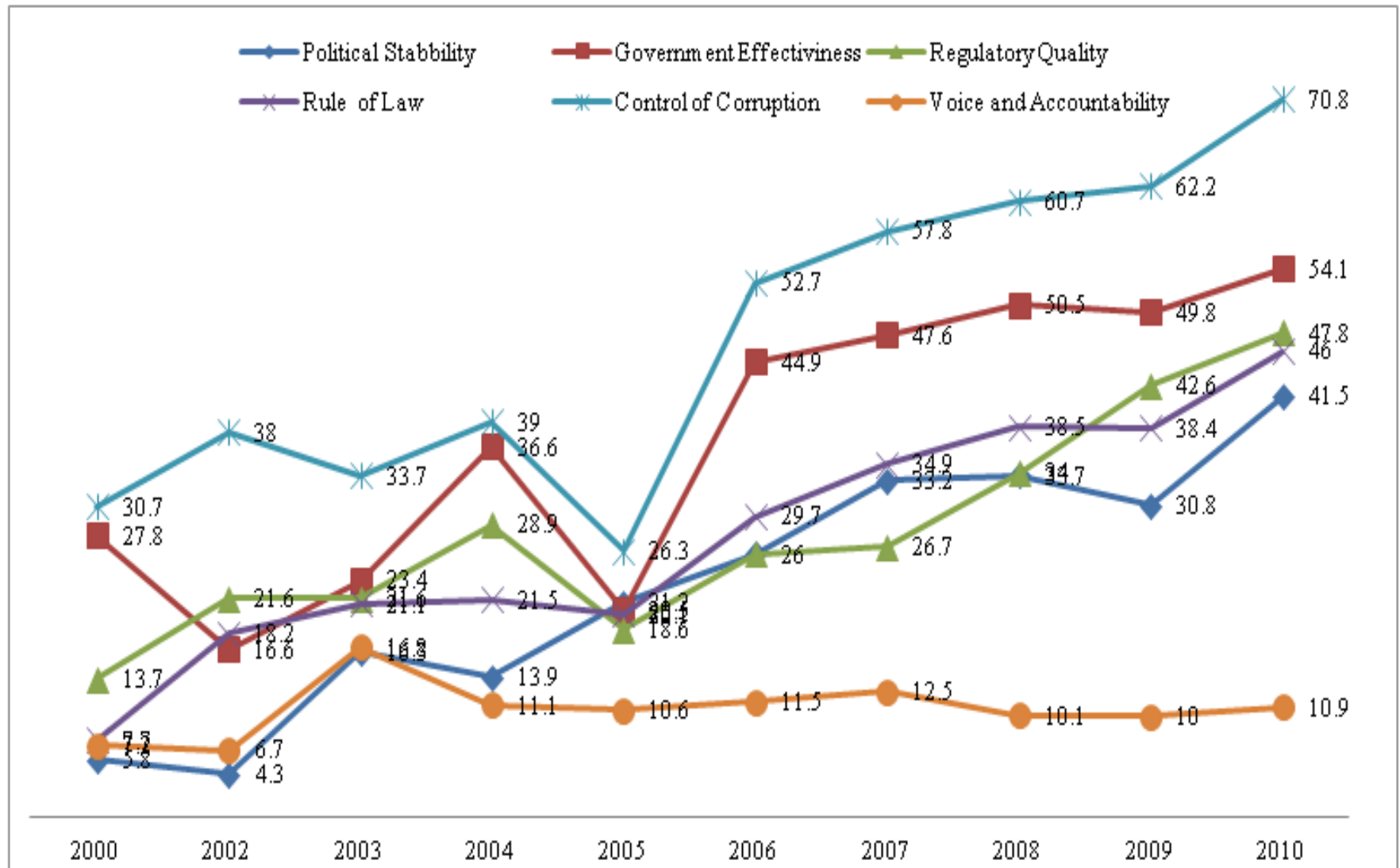
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Growth in Imports (Million USD : Trade deficit)



Good Governance



Sectors with Prospects for Further Economic Transformation

- **Tourism**
- **ICT and Business Outsourcing**
- **Export promotion**
- **Mining**
- **Value addition in agricultural sector**
- **Construction**
- **Import substitution of construction materials like cement**
- **Strategic trade to serve Burundi and DRC**

Recommendations

- **Joined-up thinking in investment promotion and investment after-care activities;**
- **Increasing the value of existing exports**
- **Diversify into new exports including trading in tasks**
- **Deepen regional integration and international trade in order to facilitate and increase exports.**
- **Increase the level and quality of investment in productive sectors**
- **Capturing gaps in domestic market with local production**
- **Deepening the integration of Rwanda's export sector and the overall economy**



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