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Africa Meeting Summary

Rwanda's Foundations for the Future: Growth, Business and Development

Hon Claver Gatete

Minister of Finance and Economic Planning, Republic of Rwanda

Chair: Alex Vines OBE

Chatham House

20 May 2013

INTRODUCTION

This document is a summary of a meeting held at Chatham House on 20 May 2013 with the Minister of Finance and Economic Planning of Rwanda, Hon Claver Gatete.

Rwanda is an integral actor within the Great Lakes regional economy. The country's political stability and efforts to improve economic management have led to rapid economic growth and increasing interest from international investors.

Hon Claver Gatele discussed the foundations of this economic transformation and how Rwanda can harness current opportunities to sustain growth and development to the benefit of Rwandans and the region.

The speaker’s presentation was on the record, but the question and answer session that followed was held under that Chatham House Rule. The rule stipulates that ‘When a meeting, or part thereof, is held under the Chatham House Rule, participants are free to use the information received, but neither the identity nor the affiliation of the speaker(s), nor that of any other participant, may be revealed’. The four graphs used in the summary are taken from the speaker’s presentation slides.

The following summary is intended to serve as an *aide-mémoire* for those who took part and to provide a general summary of discussions for those who did not.

HON CLAVER GATETE

The minister started his presentation by highlighting the key achievements of the Rwandan economy in the last two decades. There has been rapid economic growth and a reduction in poverty; the government has maintained a low level of public debt; and there is a comprehensive programme of investment in energy, agriculture, ICT and tourism. This, he pointed out, was the result of a market friendly policy environment, which is characterized by political stability, the rule of law, and zero tolerance on corruption. The result is an economy which is in the process of rapid economic growth, and which is resilient to external shocks.

The minister emphasized this point by stating that in 2008 Rwanda was unaffected by the global financial crisis; nor was it affected by the Arab uprisings that began in December 2010. In fact, the minister highlighted that in 2008 Rwanda recorded GDP growth of 8%.

This level of growth has been sustained in Rwanda in recent years. The minister presented macro-economic results in what he described as 'Rwanda's Development Hat-trick'. He said that the foundation of this success is economic growth and macroeconomic stability.

First, GDP per capita has risen rapidly in recent years (Figure 1). In 2002 GDP per capita was $206, and by 2012 this figure had risen to $644, an increase of 312%. Yet this has not resulted in inflationary pressure, owing to the government's successful management of the economy (Figure 2).

Secondly, the sustained economic growth has lifted more than 1 million people out of poverty. In 1995 77% of the Rwandan population were living below the poverty line. By 2011, this figure had been reduced to 44.9%.

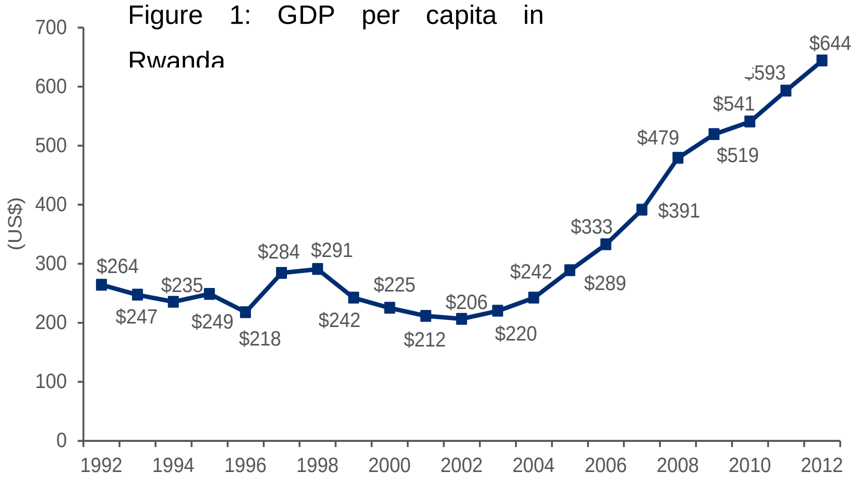
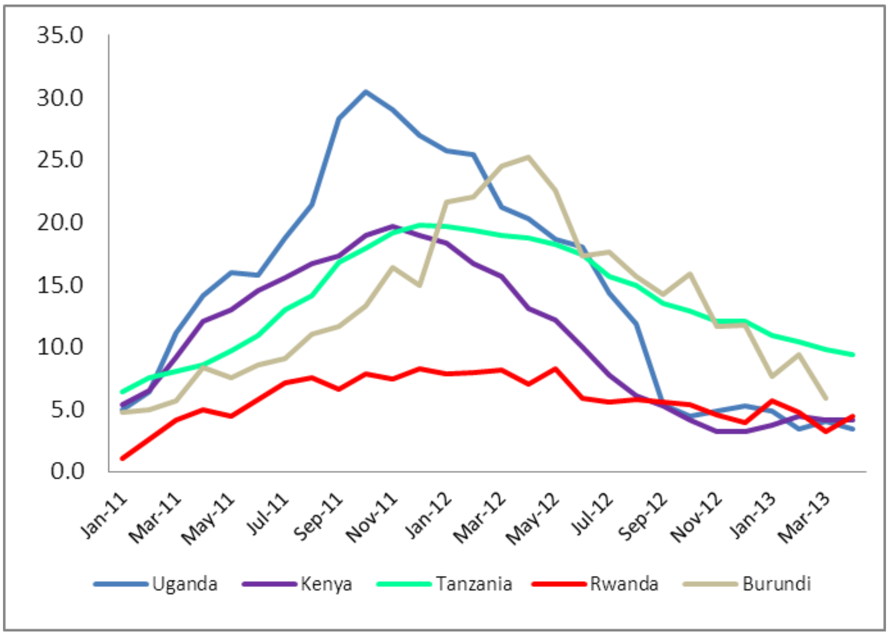


Figure 1: GDP per capita in Rwanda

Figure 2: Comparative inflation across East Africa



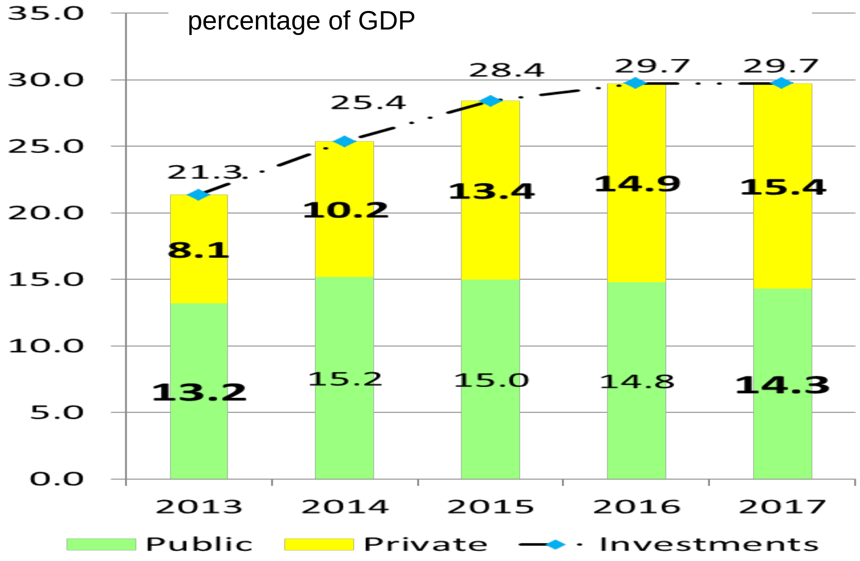
Thirdly, the minister spoke about the real benefits of these growth and poverty reduction figures, which are public health and financial inclusion. Maternal mortality rates are falling, and life expectancy in the country is increasing. The minister said that Rwandans are living longer because Rwanda is the only country in the region with public health provision for over 90% of the population. The result of this, the minister said, is that life expectancy had risen from 49 years in 2002 to 55 years in 2012. The minister highlighted three other indicators: literacy rates among 15–24-year-olds have increased from 48% in 2000 to 84% in 2012; mobile phone ownership has risen from 6% in 2006 to 53.1% in 2012; and financial inclusion has increased from 48% in 2000 to 72% in 2012. This is significant as financial inclusion represents a shift into the formal economy, and formal economic activity. Finance is of paramount importance for small and medium-sized enterprises (SMEs) and for consumers.

This 'development hat-trick' is a result of economic growth, which is underpinned by good governance. The minister stated that good governance was the foundation of many other aspects of the Rwandan economy which made it attractive to investment an international business. Kigali is a green city with regionally relatively low crime; it was the winner of the 2008 Habitat Award for urban areas, and it is rated second in the world for women to walk alone at night. The minister attributed all of these successes to the political stability and policy of zero tolerance on corruption that Rwanda has followed.

He pointed out that the World Bank ranks Rwanda higher than China, India, Kenya and other regional countries for political stability. This is built upon home-grown initiatives ensuring effective development delivery, and popular ownership.

The 'Next Big Step' for the Rwandan economy is the acceleration of economic transformation and structural changes through the promotion of the service sector. The minister stated that between 2001 and 2012 there had been a switch towards a dominant service sector. The increase in the size of the service sector has meant an increase in the relative size of the private sector. The minister forecast that by 2017 private-sector investment will be greater than public-sector investment (Figure 3).

Figure 3: Investment as a percentage of GDP



The minister said that he was focusing on five areas:

1 *Economic transformation, building on the sectoral shift towards service industries, and investment in infrastructure*. One of the reasons for the success of the service sector in Rwanda has been the level of investment in transport and communication infrastructure. The entire country has broadband internet coverage, and there is a move towards total 4G mobile coverage, the minister said. The advancement of mobile technology is allowing people to benefit from mobile banking and financial services that are unavailable elsewhere in the region, including cutting-edge visa mobile payment systems. These investments in infrastructure are already paying dividends. These communication systems do not just benefit private business, they also benefit hospitals, schools and government administration.

2. *Urbanization, both in terms of rural to urban migration, and in trying to link rural and urban communities economically.* The minister stated that efforts are being made to develop urban centres beyond Kigali. This is in tandem with efforts to link urban centres with the rural economy.

3. *Development of the rural economy*. This is related to the third point. Agriculture requires investment and development, but also links to urban areas for markets, and jobs for surplus labour.

4. *Youth empowerment.* This is dependent upon skills development and productivity. The minister stated that education in Rwanda is good, and at the top end there are many people with postgraduate qualifications, but below this level there is a need for a broad, diversified skills base. At the moment skilled labourers, such as electricians and technicians, are coming in from outside Rwanda, showing that there needs to be domestic investment in these areas so that these jobs can be done by Rwandans.

5. *The need to address the balance-of-payments deficit*.

Figure 4: External balance on goods and services (%GDP)

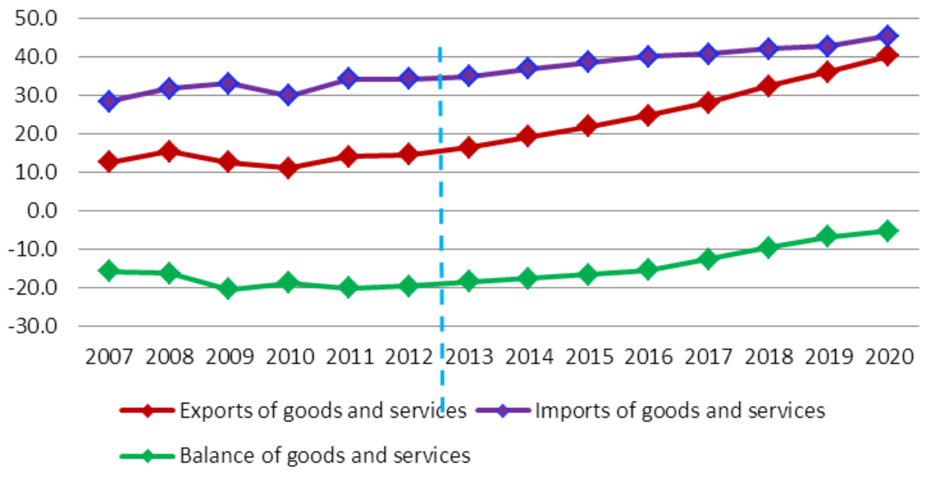


Figure 4 shows that in 2012 there was a deficit in the trade in goods and services in Rwanda equal to 20% of GDP, but the minister forecasts that this will diminish and that the target for 2020 is to achieve a deficit of under 5% of GDP.

With these five areas of focus for economic development in mind, the minister argued that more innovative sources of financing are required. He stated that finance is the key to economic growth and development, and emphasized the important role it has to play in Rwanda's continued development.

Public finance continues to come from domestic resources, export receipts and budget grans, as well as concessional multilateral loans, and bilateral investment. It is also increasingly coming from non-traditional sources, such as sovereign funds, a government portfolio which catalyses private investment in priority sectors and reaches out to other emerging economies, for example borrowing money from Exim banks in China, India, and South Korea. The latest source of public financing has come though the much publicized government bond. In April 2013 Rwanda sold $400 million in dollar-denominated 10-year bonds at an annual yield of 6.875% and a bid-to-cover ratio of nearly 10, demonstrating the enormous demand and appetite for investment in Rwanda.

Another source of public finance is the civil fund. The minister said that, given the low level of natural resources in Rwanda and unlike other economies in the region, the government cannot rely on resource export receipts. Instead, it has created a civil fund from tax revenue. By the end of 2013 there will be $100 million in the fund, which the government will invest in productive areas.

The minister listed private financial flows into Rwanda as foreign direct investment (FDI), portfolio flow, and capital markets, with investment coming from equity funds, venture capitalists, private pension funds, unit trusts, investment banks and lines of credit from the international financial institutions.

With regard to capital markets, the minister stated that there was a need to further develop commodity and stock markets to greater effect in Rwanda.[1] This could optimize investment from pension funds, for example. The minister said that managers from the UK were required to oversee the market in the development phase.

The minister claimed that opportunities for investment in Rwanda are never-ending, with opportunities in infrastructure, tourism and in government bonds.

He concluded by reiterating three main points, and stating the role of the international community in each. The international community should invest in Rwanda, and likewise Rwanda must recognize the need to attract investment in a competitive market. This investment can be direct investment in capital markets or in infrastructure. The international community has a role to play in contributing ideas to improve service delivery, and in bridging the skills gap.

[1] The Rwanda Stock Exchange was created in 2005.

Finally, the international community and Rwandans themselves have a role in image-building: making known the real image and values of Rwanda.

DISCUSSION

The discussion took place under the Chatham House rule and the views expressed here are those of the participants and do not necessarily represent those of the speaker or Chatham House, its staff, associates, or council. The following is meant as a summary of some of the key points expressed in the discussion.

Financial stability

Rwanda has put in place legislation and regulation to ensure financial stability. Commercial banks, insurance companies and pension funds are all supervised by the government.

Within the Central Bank, there is a stability committee alongside the Monetary Policy Committee. This stability committee works in parallel to the government regulation, to ensure stability, by foreseeing shocks and preventing crashes.

Rwanda abides by very tight regulation, and institutions exceed what is required of them. The regulation Rwanda has imposed upon itself is tighter and more risk-averse than the Basel III regulation. Rwandan banks have an overall capital adequacy ratio of 24%, well above the 15% required by the regulation, which in turn is above the Basel III requirement. Rwandan banks have an overall liquidity ratio of 29%, which again is a demonstration of the resilience of the country's financial sector. The regulatory environment is commonly seen to be among the top 10 in the world.

Broadening financial inclusion brings money into the system, and means that monetary policy works more effectively. Risks are minimized and dealt with more easily.

Efforts are being made to move towards cross-border listings with Uganda.

SMEs

Small and medium-sized enterprises are critical for economic development. They facilitate the transfer of wealth and economic activity from the top to the bottom.

Part of promoting SMEs is to provide the correct finance for them; thus there is a requirement for big banks servicing the growing service sector, and for cooperatives and Micro Finance Initiatives (MFIs) to serve ordinary people and SMEs.

SMEs provide training and skills development for women and young people. This is important as women are more likely to pay back loans, with a default rate close to zero. SMEs also provide valuable vocational training.

The capital market will serve SMEs, and the commodity exchange will benefit producers of maize and other crops.

Trade

The Great Lakes region has a population of around 135 million. This offers obvious potential. To benefit from this concentration of people there is a need for the region to move together on enabling trade and cooperation.

Infrastructure is a priority for trade. Discussions are currently taking place on improving railways and roads throughout the region.

Tariff barriers are being brought down through the East African Customs Union. Now there is a need to address non-tariff barriers. This has been done in some areas with the removal of road blocks to great effect.

The provision of energy and electrical power supplies requires regional cooperation.

The Democratic Republic of the Congo

The DRC is in the Great Lakes Economic Community free trade area, along with Rwanda and Burundi.

There is much trade between Rwanda and the DRC, and Rwanda is putting in place infrastructure to enable this. Both countries are also developing mechanisms to make sure that cross-border trade is conducted properly.

The two countries are interdependent. Rwanda cannot close the border to the eastern DRC as the latter is dependent on Rwanda for food. Women from Bukavu and Goma cross the border to purchase food and other goods.

Many Congolese people enter Rwanda in order to travel on elsewhere, and to conduct business. Many Congolese businesses keep their money in Rwanda because a money transfer in Rwanda takes two hours, whereas in the DRC it takes two-and-a-half weeks. This happens on the proviso that local laws are obeyed: irrespective of where you come from, local legislation applies.

AID

The recent cut in aid was a shock to Rwanda, but the Rwandan economy is becoming increasingly resilient to shocks.

In the long run the impact on GDP from the cut in aid has been covered by increased exports and investment, including FDI. Since the cut in aid the private sector has grown by 34%.

The crucial challenge was faced in the short run. Following the cut in aid people lost confidence in the economy and the franc, and started buying dollars. The central bank had to borrow vast sums in order to restore stability.

There is some resentment of the fact that the Rwandan mechanism for using aid was ranked number one internationally for transparency and use of funds. Yet despite this, aid for an unrelated issue was cut, demonstrating that it is used to pursue alternative agendas.