HOW SUCCESSFUL IS THE RWANDAN PRSP? RECENT EVOLUTIONS OF GROWTH, POVERTY AND INEQUALITY

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This paper looks at the achievements of the first Rwanda Poverty Reduction Strategy (PRSP). It examines the recent evolutions of growth, poverty and inequality to assess up to which extent PRSP policies have been truly pro-poor. It further argues which lessons can be learned for new poverty-reducing policies, such as the Economic Development and Poverty Reduction Strategy (EDPRS - PRSP2).

Cet article analyse les réalisations du premier Document Stratégique de Réduction de la Pauvreté (DSRP) du Rwanda. Il examine les évolutions récentes au niveau de la croissance, la pauvreté, et l'inégalité pour évaluer à quel degré les politiques du DSRP ont effectivement eu un effet 'pro-pauvre'. Ensuite, il argumente quelles leçons l'on devrait tirer pour des nouvelles politiques de réduction de la pauvreté, comme la Stratégie de Développement Economique et de Réduction de la Pauvreté (DSRP2).

INTRODUCTION

At the dawn of the new millennium, the international community committed itself to the realization of the "millennium development goals", placing the fight against poverty as top priority on the international and local agendas of both donors and recipient countries. Around the same time, the International Financial Institutions (IFIs) launched the "Poverty Reduction Strategy" program (PRSP), presented as a country-led and comprehensive strategic plan to fight poverty. With about fifty countries arrived at the implementation phase of the PRSP, this new program has become the basic framework for development strategies.

Rwanda entered the PRSP process in 2000, first with the elaboration of an interim PRSP, then transformed into a final PRSP-1 document that was endorsed by the IFIs in 2002. The PRSP policy built upon the government's "Vision 2020" (2000), and was implemented from 2002 until 2005. The joint staff assessments of the IMF largely appraised the Rwandan policy document as well as the PRS progress reports describing the policy's implementation process (IMF, 2004A 2005A, 2006A). Early 2006, the Rwandan government started to elaborate a follow-up PRSP policy, which will become the Economic Development and Poverty Reduction Strategy" (EDPRS / PRSP-2). This document is to be finalized in 2007 and implemented in the five years to follow.

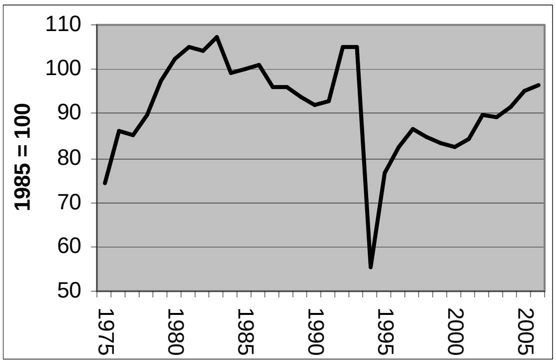
At the end of the implementation period of the first PRSP, the Rwandan experience allows us to propose preliminary conclusions with regard to the results of this strategy. In more detail: up to which extent has Rwanda met the three main challenges it faced over the previous years (2001-2006), as formulated by Ansoms [2005]. Has economic growth been sustainable and self-reliant? Has growth led to substantial and sustainable poverty reduction? And has the country been able to escape the vicious circle of increasing inequality? This paper uses very recent data (end 2006) to analyse the progress made in all three areas. Based on this, it then argues how pro-poor PRSP policies really were. Finally, the paper looks into which lessons can be learned for new poverty-reducing policies, such as the Economic Development and Poverty Reduction Strategy (EDPRS - PRSP2).

HAS GROWTH BEEN SUSTAINABLE AND SELF-RELIANT?

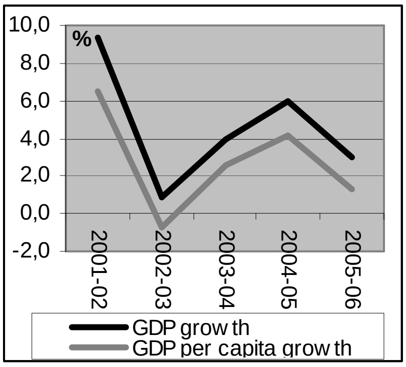
The first PRSP identified economic growth as the essential condition for poverty reduction. Overall, growth projections aimed for in the PRSP policy were challengingly ambitious. Ideal percentages of around 4-5% per capita growth were set as a target over the next 15 to 20 years. They imply a 7-8% overall real growth (GoR, 2000), and have been slightly moderated towards growth projections between 6 and 7% for the PRSP-1 implementation period 2002-2005 (GoR, 2002). Also in subsequent PRS progress reports and IMF statistical documents, growth projections were typically set at around 6%.

Such ambitions seemed realistic given the positive image of Rwanda's post-war economic recovery. After an initial post-war boom, average annual growth between 1996 and 2001 remained high at 8.56%. However, this average is upgraded due to exceptional growth figures in the first years, moderated a few years later. Looking at the larger picture, it took until 2000 to reach GDP per head levels comparable to before the war, and the economy has still not reached its performance of the early 1980s. Moreover, Rwanda has benefited from substantial aid funds, largely exceeding the sub-Saharan average. It seems likely that the aid-factor and resulting capital inflows at least partly explain Rwanda's economic recovery (Ansoms, 2005).

Graph 1: Evolution of GDP per capita



Graph 2: Growth rates 2001-2006



Source: World Bank, 2006.

The major questions to be answered now is whether growth has been sustainable and self-reliant over the last six years – the PRSP policy implementation phase. Whether or not growth has been self-reliant is difficult to say. Rwanda is still extremely reliant upon aid money. In 2004, aid funds represented 53$ per head, almost 50% more than the Sub-Saharan average (World Bank, 2006). To answer the second question, growth has indeed been sustained, but clearly failed to comply with projections of around 6%. Average annual growth between 2001 and 2006 only amounts to 4.6%, which represents 2.7% in per capita terms (IMF: 2005B, 2006B). In several years, economic performance fell far below the target (2002-03, 2005-06) (see graph 2). This trend indicates that the first PRSP has not been able to achieve high and stable growth. Rwanda's economy is still extremely vulnerable to its structural limitations, being confronted with a combination of overpopulation, resource scarcity and a limited potential for economic diversification away from subsistence agriculture. Also for the coming years, overall growth targets are lowered from originally 6% to IMF projections between 4 and 4.5%. This would temper per capita growth to a quite modest 2.1 – 2.6%[1], far below the 4 to 5% per capita growth portrayed as ideal in the first PRSP document.

HAS GROWTH LED TO POVERTY REDUCTION?

A second main issue is then to determine how growth has been translated into poverty reduction. This can be roughly done by comparing the Rwandan growth elasticity of poverty with cross-country averages. The average growth elasticity of poverty is estimated to be within the interval -2 and –3. This means that a positive economic growth rate of 1% leads to a 2% - 3% decrease of poverty, measured as the percentage of poor living below the poverty line of 1$ PPP per head (Ravallion and Chen, 1997; World Bank, 2000; Ravallion, 2001; Adams, 2004).

In comparison with those cross-country averages, the growth elasticity of poverty for Rwanda's post-conflict period was problematic: an elasticity of -0.37 for the period 1994-2000 indicated that each percentage of economic growth only led to a 0.37% decrease in poverty incidence (Ansoms, 2005). These calculations were based on a poverty line of 1$ PPP per head per day. However, to compare poverty incidence for 2001 and 2006, we use a different poverty line[2], equivalent to 175 frw per adult equivalent per day for 2001 prices, and 250 frw per adult equivalent per day for 2006 prices. Based on this line, incidence of poverty has decreased from 60.3% to 56.9% over the last six years (GoR, 2006A). Overall, this results in a growth elasticity of poverty of -0.40. We could thus conclude that the pro-poor character of Rwandan economic growth is still extremely low, and this despite the implementation of the PRSP policies.

Moreover, poverty incidence is measured in percentage terms and hides the evolutions in absolute numbers. Given the high population growth of 3,5% per year, the absolute number of people living in poverty has increased from 4.8 to 5.4 million people over the period 2001-2006 (GoR, 2006A). These data show the importance to look beyond relative figures.

A second approach to measure the impact of growth on poverty reduction is to look at the elasticity of connection between the income of the poor and the mean income. Several sources situate this elasticity at around -1; this implies that the incomes of the poor rise or fall at the same speed as the average revenue. (Roemer and Gugerty, 1997; Gallup et al, 1999; Dollar and Kraay, 2002; Foster and Szekely, 2002).

[1] Per capita growth rate based on overall GDP growth rate and continued population growth of around 1.9 % (2001-2005 average)

[2] The incidence of poverty, using the poverty line of 1$ PPP per head per day is not yet available for 2006.

Ansoms (2005) could only estimate the elasticity for the period 1985-2001, due to a lack of data on the distribution of consumption in between those years. Overall, income decreased during this period, but disproportionately affected the poor, who saw their incomes decline with 4.6% for each average income loss of 1%.

As highlighted by Ravallion (2001), there is again an important difference between distributions evaluated in relative and absolute terms. With an elasticity of connection of 1, relative distribution between rich and poor is assumed to remain constant but the absolute gap between rich and poor increases in a phase of growth. This means that if the relative distribution of consumption had remained equal in Rwanda between 2001 and 2006, the absolute gap between the poorest and richest quintile would widen. More concretely, the richest quintile would get an additional amount equal to 8.5% of the average expenditure of the poorest quintile in 2001 (measured in adult equivalent scale) for each percentage of growth. Exact distribution data are still unavailable for 2006. However, a first examination of the Lorenz curve (displayed in GoR, 2006A) indicates that the elasticity of connection is below 1 for all quintiles except for the richest. This implies that the poor have profited less from growth in comparison with the richest quintile, both in relative and in absolute terms.

We could conclude that overall, the translation of growth into poverty reduction has been extremely low in comparison with cross-country evidence. The period 2001-2006 thus perfectly illustrates the limitations of a growth-reliant strategy for poverty reduction in Rwanda.

HAS INEQUALITY STOPPED TO INCREASE?

The impact of growth on poverty depends largely upon initial inequality levels: Adams (2004) found for example lower poverty elasticity rates for countries with higher inequality (Gini > 40.0). Rwanda seems to be a perfect illustration of this. By 2001, inequality had become a stringent problem with a Gini of 0.47, which hugely contrasts with the situation of the mid 1980s when Rwanda qualified as a low-inequality country (with a Gini of 0.289). Moreover, inequality has even further increased over the period 2001-2006 as the Gini reached 0.51. A preliminary report of the Rwandan Government that discusses evolutions over this time period, admits : “Because growth over this period has been accompanied by increasing inequality, this has reduced its impact on the reduction of poverty levels”. (GoR, 2006A: 7)

The rising levels of inequality are mainly due to an increasing gap between poor and rich in the rural setting, while urban inequality and the rural-urban gap decreased. The reduction of urban inequality can be explained by several policy measures that prevent or discourage the poor to live in the capital city. Rwanda is for example blamed for forcibly removing street children from the streets of Kigali, gathering them in detention centres in or outside the city (BBC, 2004: HRW, 2006). But poor categories are also in less forceful ways discouraged to live in Kigali city. Durand-Lasserve (2005) for example illustrates how current formalised urban land and housing policies insert a bias against poorer groups and as a result increase the number of expropriations and evictions. He states: “At present, restrictive planning and development standards are directly responsible for the exclusion of 75 to 80% of households from legal access to land and housing.” Evictions of these households can be deemed necessary both for public and private needs. The city itself displaces households to engage in urban renewal projects and infrastructure works. But also private investors can take the initiative to develop a particular site occupied by informal settlements with an approval of the City Hall." (Durand-Lasserve, 2005: 10) Moreover, the arrangements for compensation are limited (for the 42.7% dwelling owners) or non-existing (for the 47.2% tenants) while resettlement alternatives are scarce. Therefore, households tend to move out of Kigali to smaller centres. As a result, the average wealth of inhabitants of Kigali increases and the gap between rich and poor narrows in the city.

Somewhat more surprising is the decrease in rural-urban disparities. There are two hypotheses that could explain this phenomenon. A first tendency, linked to the decentralisation policy, is for educated civil servants at lower levels to move to local centres in the countryside and occupy a post in the local administration that has become more elaborate and has received increased decision power. A second, more weighting factor is the tendency for the land and agricultural policy (see GoR, 2005, 2004A, 2004B, 2004C) to enhance the opportunities for larger-scale farmers to become active entrepreneurs in a professionalised and modernized agricultural sector. These measures go at the expense of small-scale subsistence farmers and tend to increase the gap between the rural rich and poor. (Ansoms, 2007) A derived effect is that the rural-urban differential in Gini coefficients has decreased between 2001 and 2006.

The observation of an increased gap in the rural setting, comparing 2006 with 2001, is a first translation of the fact that agricultural growth mostly sticks into the hands of the already better-off. Indeed, the translation of agricultural growth into poverty incidence reduction has been extremely low over this period. The growth elasticity of poverty of the agricultural sector (see table 1) is measured as the ratio between the log average annual change in poverty and the log average annual change in primary GDP per capita (see Christiaensen and Demery, 2006). For Rwanda, considering the period between 2001 and 2006, this elasticity is extremely low at –0.84[3]. This figure is not so much different from the growth elasticity of poverty for the secondary (-0.52) and tertiary (-0.61) sectors. For this calculation, we have used poverty incidence based on the national poverty line, not based on the 1$ PPP per day line. Therefore, it is difficult to compare this elasticity of the agricultural sector with the SSA average of –6.22 and the already low Rwandan elasticity of –2.17 for the period 1994-2000 (based on 1$ PPP poverty line). Nonetheless, it is clear that the pro-poor character of agricultural growth is limited.

Table 1: Growth elasticity of poverty and participation effect for different sectors

	GDP share (%) (1)*			Growth elasticity of poverty (2)**			Participation effect (1) x (2)**		
	Agr.	Ind.	Ser.	Agr.	Ind.	Ser.	Agr.	Ind.	Ser.
SSA, low-income	32	23	45	-6.22	1.31	-1.09	-1.99	0.30	-0.49
Rwanda 1994-2000	45	19	36	-2.17	-1.17	-0.66	-0.98	-0.22	-0.24
Rwanda 2001-2006	41	21	38	0.84	0.52	0.61	-0.35	-0.11	-0.23

[3] Data on the GDP division over primary, secondary and tertiary sectors – necessary to calculate the total value added of the agricultural sector - were not available for the year 2006. Therefore, we used the 2005 data as an estimate for 2006.

* GDP shares for Rwanda are based on the average between 1994 and 2000, and the average between 2001 and 2006).
** The growth elasticity of poverty and the participation effect for Rwanda 2001-2006 is not comparable with the other figures given that a different poverty line has been used to calculate these figures.
Source: For SSA-low income data: Christiaensen and Demery, 2006; For Rwandan data: own calculations based on World Bank, 2006; GoR; 2002 and GoR, 2006A.

HOW PRO-POOR WERE PRSP POLICIES REALLY?

Taking all into consideration for the period 2001-2006, growth has fluctuated and on average not met the target of 6%, the translation of growth into poverty reduction has been low, and Rwanda is confronted with ever further increasing inequality. Overall, the success rate of the first Rwandan Poverty Reduction Strategy is thus limited.

A first question is whether the priorities in the first PRSP were wrongly defined. The six priority areas, ranked in order of importance, were identified as: "rural development and agricultural transformation, human development, economic infrastructure, governance, private sector development, and institutional capacity building" (GoR, 2002:6). These choices were largely encouraged by the international community, and translated into the Joint Staff Assessments of the International Monetary Fund.

However, although each of these priorities could indeed be an important action point for poverty reduction, a lot depends upon how policy measures are formulated and which public they target. In their independent evaluation of the PRSP, Evans et alii (2006) touch upon this problem, stating that: "while the poverty analysis is clearly value-adding, relatively little analysis is provided of the specific risks and vulnerabilities facing different groups in different localities in Rwanda" (Evans, 2006: 5). As a result, the prioritisation of sector strategies by poverty impact is weak or non-existing in several areas. Many strategies focus on how realising maximal growth but pay little attention to the distribution of this growth.

When looking at budgetary commitments (see table 2), overall priority spending has strongly increased over the last six years from 25 up to 50% between 2001 and 2006. However, the pro-poor character of several of those spending posts can indeed be questioned.

Table 2: Priority expenditures

%	Act. 2001	Budg. 2002	Act. 2002	Budg. 2003	Act. 2003	Budg. 2004	Act. 2004	Budg. 2005	Act. 2005	Budg. 2006	Act. 2006	Budg. 2007
Tot Priority expenditures	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0	100,0
- Of which Education	62,9	22,9	21,5	21,4	24,8	22,2	24,1	23,8	38,2	39,7	41,3	36,9
Of which tertiary education	19,7	15,5	14,2	13,3	13,8	12,8	na	na	na	na	na	na
- Of which Health	13,0	7,1	6,8	7,6	8,9	8,9	8,7	10,6	12,9	12,3	12,8	12,3
- Of which Internal affairs (police, prisons)	8,8	8,2	8,0	7,9	9,1	7,1	6,1	6,9	6,8	6,3	6,4	5,4
- Of which Infrastructure	1,7	9,1	8,9	12,1	10,4	11,6	6,6	8,3	17,0	10,6	13,8	17,7
- Of which Local Government *	4,4	44,2	46,1	43,0	42,1	34,9	33,1	32,5	4,8	6,3	9,2	10,0
- Of which Agriculture	4,6	4,6	5,2	4,7	2,3	3,4	2,2	3,4	4,9	4,7	6,4	11,5
- Of which commerce / export promotion	1,1	1,5	1,3	1,3	0,9	9,7	5,2	4,2	6,0	4,7	4,6	3,1
- Of which energy**	0,0	0,0	0,0	0,0	0,0	0,0	12,8	6,3	0,0	2,6	*	*
- Of which others	3,5	2,4	2,2	2,0	1,4	2,2	1,1	4,1	9,5	12,8	5,5	3,8
Priority expenditures as % of total exp.	25,3	32,1	35,8	28,4	30,5	35,6	35,7	32,5	35,9	42,0	49,8	54,2

* For actual 2005, budget 2006, actual 2006 and budget 2007, no data are available on provincial programmes and these funds are not included in this post.
** For Actual 2006 and Budgeted 2007, energy expenditures are included in infrastructure expenditures.
Sources: Purcell et alii, 2005; GoR, 2006B and GoR, 2007.

Tertiary education for example received over half of the priority budget spent in education. Similarly, tertiary health received 1 billion frw extra in 2004, while primary health care came 1.5 billion frw short (Evans, 2006). Even more striking is the comparison of the share destined for tertiary education (over 12%) with the share for the total agricultural sector (less than 5%). And within this sector, the impact of growth on poverty reduction is low as shown in previous parts of this paper.

Despite the fact that the first Rwandan PRSP did indeed provide some decent policies for enhancing development and growth, many of its strategies were less suited to target the poorer categories of the Rwandan population. The major underlying problem is the marginal attention in the first PRSP for the inequality problem. Unequal distribution was not seen as a major issue as illustrates the following quote from the PRSP: “Growth can be accompanied by increased or reduced inequality. However, economies which have followed an agriculture-led strategy have seen much more pro-poor growth than those where growth has been concentrated in the other parts of the economy. Because Rwanda’s growth strategy is based on agriculture, it is specifically designed to be pro-poor” (GoR, 2002:31). Based on this reasoning, the PRSP policy makers failed to capture the need for strategies that aimed at targeting and solving the problem of unequal distribution.

LESSONS FOR FUTURE POVERTY REDUCTION POLICIES

By way of conclusion, we could say that Rwanda is still facing the challenges it was facing in 2001. Sustained and stable growth figures will not be easy to achieve. But far more important is the translation of growth into poverty reduction. To reach this objective, the pro-poor character of Rwandan development policies has to increase. In line with this, policies should refocus on inequality reduction and redistribution policies.

Many people identified as ‘poor’ have a high productive capacity but are confronted with institutional constraints that prevent them from taking part in profitable income-generating opportunities. PRSP policies should involve the large mass of such impoverished people. A crucial exercise lies then in differentiating between various population groups; defining institutional access gates or barriers for those divergent groups; and analyzing how specific policies can remove those barriers. This would result in a more equitable distribution of growth and could pro-actively prevent households from falling into the vulnerability trap.

The ambition of the future EDPRS policy is to “refocus on equitable growth, sustainable development, and poverty reduction”, with again rural development as an important priority[4]. Striving for pro-poor growth can however not be confined to “looking for growth in the sector where the poor are located”. The major challenge for

[4] Various document explaining the logic and planning of the EDPRS process, can be found on www.devpartners.gov.rw/edprs.php.

policy makers and international donors is to shift their attention from a purely output-led logic towards more integrating distribution-oriented development policies. In other words, it would require reconciling efficiency with equity, and maybe even to put equity first.

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