Project #3, Group #1 Will Resman, Evan Miller, Jacob Odebrecht, Johnathan Park, Lucca D'Elia
ECON 3960

Botswana and Rwanda: Role of Institutions in Africa

Abstract

There's been a lot of debate recently about whether aid to African countries is actually doing any good. Some argue it hasn't helped much with development, and now the IMF is considering cutting aid. But if we take a closer look at countries like Botswana and Rwanda, we see another story. Botswana started out being one of the poorest countries in the world and now has one of the highest incomes in Africa. Rwanda, after going through a terrible genocide, used debt relief and smart investments to bounce back and grow rapidly. This paper looks at what made their stories successful and argues what we should do with the aid, to make sure it's used under the right conditions, with good institutions and policies in place.

Introduction

As the IMF African Department faces budget cuts, there's growing concern about whether aid has really helped African countries develop. From the outside, it might look like a lot of money has gone in with little to show for it. But that's not the whole picture. Botswana and Rwanda are two examples that show what's possible when aid is used the right way. Botswana gained independence in 1966 with barely any roads or graduates. But today, it's one of the most successful economies in that region. Rwanda went through a horrific genocide in the 90s, yet with support from the IMF and the World Bank, especially through the HIPC debt relief program it managed to rebuild and grow its economy in ways that would've seemed impossible back then. This paper uses data and case studies to argue that aid should not be reduced. Instead, it should be tied to certain conditions like having strong institutions and good policies so that countries are more likely to succeed.

Constraints and Conditions

Even though Rwanda's recovery was a success, it depended on key conditions. Aid and debt relief worked because the government had a clear plan and strong rules to prevent waste and corruption. Leaders focused on rebuilding schools, hospitals, and government offices. Stability after the genocide gave time for programs to succeed, and close cooperation with partners like the IMF and World Bank helped guide smart choices. Without these conditions, Rwanda's success would not have been possible. This shows that aid should come with clear expectations and strong standards.

Case studies

Case Study #1: In the early 1990s, Rwanda went through one of the worst conflicts in history. Between April and July 1994, members of the Hutu group carried out a genocide against the Tutsi people, killing about 800,000 people and leaving the country destroyed. When the Rwandan Patriotic Front (RPF) took control in July 1994, they ended the genocide and brought some stability. But Rwanda still faced huge problems. The economy was ruined, roads and buildings were damaged, and many people were hurt and traumatized.

In 1995, Rwanda joined the Heavily Indebted Poor Countries (HIPC) Initiative, led by the IMF and World Bank. This program gave debt relief and freed up money that Rwanda could use to rebuild. Starting in 1995, Rwanda invested in roads, schools, and other important services. By 2005, after completing HIPC, Rwanda's economy started to grow fast, with real GDP growing about 7 to 8 percent each year between 2005 and 2015. Before that, the economy had barely grown at all.

Debt relief also helped Rwanda’s government become stronger. With more money, the government could create programs that improved education, healthcare, and other services. This helped people trust the government again. Even though full data is limited, it is clear that government effectiveness improved after the debt relief.

Healthcare is a good example of where extra funding made a big difference. Rwanda started programs like Performance-Based Financing (PBF), which gave money to health centers based on results. Between 2000 and 2015, infant mortality dropped from 107 to 32 deaths per 1,000 births. Maternal mortality also fell sharply, from 1,160 to 290 deaths per 100,000 births. Health insurance coverage grew too, with over 90 percent of Rwandans covered by 2015 through a program called Mutuelles de Santé.

Some key successes in Rwanda include:

- Real GDP growth of 7–8% per year after 2005.
- Infant mortality dropped from 107 to 32 per 1,000 live births between 2000 and 2015.
- Maternal mortality fell by more than 75%.
- Over 90% of the population had health insurance by 2015.

Rwanda’s story shows that debt relief can help a country recover after a crisis, but it depends on how the money is used. Aid works best when the government has a good plan and strong leadership. Rwanda's leaders worked hard to rebuild trust and institutions. Today, Rwanda is an example of how a country can rise after a tragedy when aid is used wisely.

Conclusion

Looking at Rwanda and Botswana shows us that aid can work if it is given under the right conditions. It is not enough just to send money. There must be strong leadership, good plans, working institutions, and real efforts to build trust among people. When aid is matched with responsibility and smart use of resources, it can help countries rebuild after the worst disasters and even create strong economies. If aid is simply reduced without thinking about these examples, we could lose the chance to help other countries follow the same path. The key lesson is that aid should continue but be tied to real conditions that make success more likely. Rwanda's story proves that even after something as terrible as genocide, real recovery is possible with the right mix of help, leadership, and planning.

Case study #2: By the end of the 1990s, Ghana was experiencing an unsustainable (as declared by the HIPC thresholds) amount of debt. The debt reached this level for reasons such as: Excessive growth in the amount of debt for projects that yielded low returns, fall in the prices of gold and cocoa (the country's biggest exports), excessive political spending and fiscal deficit (especially during elections), among others. The country "joined" the HIPC program in the late 90s and the Multilateral Debt Relief Initiative (MDRI) later on.

After the completion of the HIPC and the MDRI, by the mid 2000s, Ghana saw its debt burden fall by 50%, clearing a lot of money in the following years' budgets and paving the road for promising days of development and welfare.

However, the following years saw an erratic administration make mistakes of the past again. Besides political spending, the country failed to build a strong domestic revenue system and had to again rely on borrowing, both domestic and external. Also, the country failed to diversify its source of income, still heavily relying on gold and cocoa, depending greatly on the performance of the international commodities market.

The results could not be different: Ghana only reduced the amount of people living on US$ 2 or less from 63% to 54%. Not a bad result, but definitely disappointing when taking into account that its debt burden was practically halved. Also, the fiscal deficit was back to 8% of GDP in 2008, an impressive number if paired with the fact that it had almost reached 0% in 2005, right after the conclusion of the MDRI.

When comparing indicators from Botswana and Ghana, especially the ones directly dependent on actions of the government, it is clear to see how the two countries are in totally different chapters when it comes to political stability. One good indicator is the % of the population practicing open defecation. In 2005, the two countries had both roughly 20% of their population engaging in this practice. By 2022, Botswana had 5%, while Ghana still had 17%.

Conclusion

As the first case study, this one also converges to an idea that aid itself will not do much for a country. Ghana's corrupt and erratic government showed how fast the benefits of debt relief can be gone if the administration does not engage in new and sustainable practices after its implementation. Financial aid has to be given out only if there are prospects of structural improvements in the political and checks-and-balances system. Also, the comparison between Ghana and Botswana shows how a country with serious and trustable institutions can leverage from international financial aid.

Works Cited

International Monetary Fund. *Rwanda: Enhanced Initiative for Heavily Indebted Poor Countries — Completion Point Document*. IMF, 2005, https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Rwanda-Enhanced-Initiative-for-Heavily-Indebted-Poor-Countries-Completion-Point-Document-18468.

World Bank. *Rwanda Economic Update: Tackling Stunting – An Unfinished Agenda*. World Bank Group, 2018, https://documents1.worldbank.org/curated/en/147011523639821752/pdf/124109-WP-PUBLIC-add-series-REU-April-2018-English-web.pdf.

Overseas Development Institute (ODI). *Rwanda's Progress in Health: Leadership, Performance and Innovation*. ODI, 2016, https://odi.org/documents/459/11572.pdf.