## RURAL ECONOMIC DEVELOPMENT

Embassy (for delegated aid): EKN Kigali

Country: Rwanda

Strategic Goal: Pro-poor sustained economic growth and a business climate that matches the ones in Uganda and Tanzania.

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**1. CONTEXT**

Rwanda is one of the poorest and most food insecure countries in the world. Most poor people live on the countryside and with 80%-90% of the population engaged in subsistence agriculture, poverty in Rwanda is closely correlated with farm productivity and food security. The Rwandan Government has increased its investments in rural areas and these are in 2010 at 7% of the budget, which is considerably higher than in other countries in the region. The implementation of government policies has contributed to above average overall economic growth in the past three years with a particular high growth in agricultural production.

EKN invests in Rwanda’s business climate as we believe economic growth can be best achieved through private sector stakeholders, which means in the Rwandese context farmers, cooperatives, small and medium enterprises. As most poor people live on the countryside, we focus on rural economic development. Our intervention logic is to take away binding constraints. We invest in roads, because without roads products cannot be brought to the markets. We invest in energy and training, because without electricity or skilled workers, it is very hard to get any agribusiness going.

**2. RESULTS ANDS LESSONS LEARNED**

Programs financed by the Embassy have contributed strongly to pro-poor growth in rural Rwanda.

# **Rural infrastructure**

*Roads and marshland development (including anti-erosion measures).* The Netherlands have been active in feeder roads for eight years. In the course of the present ‘second phase’ of the program with a duration of four years ending in 2011, over 400 kilometres of rural roads will have been rehabilitated, 425 hectares of marshland will have been developed into rice fields, 240 hectares of terraces will have been rehabilitated or constructed and almost twenty million plants and trees will have been planted. Also, over 7.000 people will have been trained. An interesting pro-poor feature of the programs is that the works are executed as much as possible with labour intensive technology. In total 25.000 poor Rwandans, in majority women, get a job through the program and manage to save some money. The cash payments that go into the rural areas in this way contribute to creating local demand and stimulating economic growth.

An evaluation of the programs showed the impact these investments have on the life of ordinary Rwandans. Roads for instance touch all aspects of life: health, education, income, jobs. Through road rehabilitation transport of goods becomes cheaper and takes much less time. The evaluation indicated that overall benefits of the program are so big that investments would be paid back in two years. The investments fit well within the overall government approach and are planned together with the districts.

*Energy.* During the five-year program, 30.000 enterprises, households, health centers, administrative centres and schools will get access to electricity. Linked to the roll-out of electricity are investments in generation of clean energy, most of it in hydro electric power and methane gas. This will result in 1 MW renewable energy generation. After a slow start, due to tender procedures, this ambitious program is well on track.

***Technical and Vocational Training (TVET)***

In a country where education does not yet respond well to business needs, and where internships are hardly available, EKN supports the development of a TVET qualification framework (so that schools know what companies expect of their graduates) and introduced internships together with the Rwandese Private Sector Federation. The program has just started and aims to provide 300 students per year with an internship. The first year, 65% of the interns found a job, while usually only 20-25% of graduates finds work. This shows the need for good technical and vocational training: graduates don’t find work while companies don’t find skilled people. EKN therefore lobbied for more funds for TVET, and with success: in 2008 2% of the national education budget was spent on TVET and 6% in 2010. With the Private Sector Federation EKN also holds a business plan competition in which around 1000 businesses participate yearly. The best businesses (last year: 100) get technical assistance and are connected to banks for loans. This creates SMEs and jobs.

# **Business climate**

In 2008, Rwanda ranked 158 out of 173 on the World Bank’s Doing Business index. In 2009 Rwanda was the best performer worldwide and in 2010 the second best, resulting in a 58th place. For comparison, Uganda ranks 122nd, Tanzania ranks 128th. The Embassy contributed to these results through a program of the World Bank Group, aiming to make it faster, easier and cheaper for private sector to do business in Rwanda.

The improved Doing Business score now has to translate in a better investment climate on the ground and more investments. It is a bit too early to measure the impact of Doing Business measures. They may have a positive impact on local investments, that doubled in 2010.

The Embassy contributes to the business climate in other ways as well, creating an enabling environment through better infrastructure (see above) and also through a program with the Banque Populaire du Rwanda, in which Rabobank has a 35% stake. Through this program, in two years, about 375000 Rwandese companies and individuals got connected to banks.

WHAT WENT LESS WELL AND WHY?

While local investments doubled in 2010, in that same year, depending on definitions and sources, FDI only slightly increased or even decreased. EKN is aware that foreign companies, including Dutch companies, face some challenges and lobbies for solutions through for instance the Private Sector Development sector working group of which EKN is co-chair.

Once rural roads are rehabilitated and handed over to the district authorities, they are responsible for maintenance, but they don’t always take up this responsibility which threatens the sustainability of roads. An important factor is the lack of funds and this may be positively influenced by the Road Maintenance Fund that is in place since July 2010.

Even though women participate in big numbers in project implementation and thus acquire salary, and even though they have good access to developed marshlands, the mid-term evaluation concluded that gender strategies are missing. Additional measures are needed to sustain women’s improved conditions.

Tender procedures in Rwanda can take a long time, partly because officials are very afraid to make mistakes in complicated procedures in view of the strong anti-corruption drive in Rwanda. This may lead to delays in implementation, as has been the case in the roll-out program for electricity.

WHAT HAS BEEN LEARNED

Investments in rural infrastructure need careful design and good cooperation with the district authorities and the beneficiaries. In the dialogue with the authorities issues of supervision and maintenance need to be put higher on the agenda. These projects deliver high value for money for Dutch tax payers’ money, but without sustainability in the medium term these high returns are an illusion.

Issues on quality of service delivery and accountability apply as much to the private sector as to the public sector. Our programs have experienced substantial problems with private contractors that did not deliver and were not accountable.

**3. RESOURCES SPENT (ODA and FTEs)**

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| --- | --- |
| Dutch ODA disbursed during 2009-2010 as contribution to this strategic goal (approximately) | € 35,5 mln in 2009 and 2010 (HIMO, Energy, PSF, GTZ, IFC, CDF) |
| Average amount of Embassy FTEs allocated during 2009 and 2010 to this goal (for delegated aid) | 1,3 FTE |
| Piramide numbers of relevant Activities | 16806, 19940, 19815, 18252, 19160 |

**4. OVERALL TRAFFIC LIGHT SCORE**

The overall achievement of results is:

(Please tick **√**)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Off-track | 1 |  |
|  | In danger to be off track | 2 |  |
|  | On track | 3 | √ |