Embassy of Sweden
Kigali

Multi-Dimensional Poverty Analysis Rwanda

Kigali, May 2024

INTRODUCTION AND SUMMARY OF CONCLUSIONS

This multi-dimensional poverty analysis report of Rwanda has been carried out by the Swedish Embassy in Kigali. The purpose of the report is to deepen the Embassy´s understanding of poverty and to strengthen the Embassy´s contribution to addressing critical constraints to multidimensional poverty reduction in Rwanda. This report uses the Swedish International Development Cooperation Agency´s Multi-Dimensional Poverty framework and draws on recent data, publications, and analytical reports on poverty in Rwanda, as well as existing knowledge within the Embassy team. Valuable analytical input was provided by Dr Kato Kimbugwe, Vanguard Economics, and Prof. Phil Clark, SOAS University of London. The report is part of the Embassy´s continuous context analysis, and the conclusions from the report will be regularly revisited and adjusted to reflect the rapidly evolving Rwandan context.

Sources have been listed under References, as well as under respective graphs and tables. Any omissions listing references appropriately should be understood as unintended errors.

The following key constraints to multi-dimensional poverty reduction in were identified:

1. ***Despite impressively high economic growth, expanding service delivery and rapid poverty reduction, Rwanda is still largely a poor country with stagnating levels of poverty and stubborn inequality, pointing to the need for more pro-poor growth.***
   - The share of people living in poverty has dropped sharply from 58.9% in 2000/01 to 39.1% in 2013/14 to stagnate around 38.2% in 2016/17, suggesting a slowdown in the rate of poverty reduction. Extreme poverty followed the same pattern falling from 40% to 16.3%, to plateau at 16%. Using the international poverty line, 52% of the population are below US$2.15 a day (2017 PPP) and 78% below US$ 3.65 a day.
   - Over 90% of the poor live in rural areas and the likelihood of being poor is higher for women, casual wage labourers, those with disabilities and with more dependents.
   - Life expectancy has increased dramatically and access to social services has expanded, surpassing peer countries and some with higher income levels, yet challenges to funding, quality of services and access inequality remain. Rural population, the poor, and people with disability face higher access barriers.
   - Analysis of growth elasticity of poverty suggests economic growth in Rwanda has been less pro-poor, as compared to peers in the region. Structural disadvantages - such the higher share of population dependent on low productivity agriculture, and patterns of growth driven by less labour-intensive sectors - means high growth does not translate well into poverty reduction and inclusion. If not addressed this could impact social cohesion and stability.

2. ***Rwanda has one of the highest population densities in Africa*, exerting pressure on natural resources, public services, and income opportunities.**
   - Rwanda is one of the smallest, most densely populated countries in Africa and population is expected to double by 2052, exerting pressure on natural resources, public services, and job creation.
   - Population is still largely rural and over 70% depend on rainfed agriculture – land-scarcity is a growing constraint and source of conflict, and unsustainable depletion of natural resources is driving biodiversity loss.
   - Urbanization has been identified as an important driver for poverty reduction, yet it is limited by structural impediments including lack of skills and housing, and strict regulatory frameworks on land-use and informality. A slower pace of urbanization could compromise future growth.
   - Population is young and dependency ration low but reaping this demographic dividend requires stimulating inclusive economic growth, infrastructure investments, and service delivery.

3. ***Weak growth within the private sector limits the creation of nonfarm jobs to absorb a growing number of job seeker, leaving an increasing number of Rwandans deriving their income in the informal economy and from agriculture.***
   - The rate of nonfarm job creation in the industry and services sectors has decreased while agriculture's employment share has stagnated around 70%, meaning agriculture has had to absorb an increasing number of Rwandan job seekers, at the same time the sector has exhibited low relative growth and limited productivity gains.
   - Key cross-cutting constraints to private sector growth include small size of the domestic market combined with a logistics penalty as a landlocked country, high costs of and limited access to finance, cost of electricity, a significant skills gap and onerous regulatory compliance requirements. Large state- and party-owned enterprises risk distorting the market.
   - Over 84% of the employment is informal, impacting earnings and work quality with women and youth disproportionately affected. Up to 30% of youth are Not in Employment, Education or Training.
   - Enabling environment reforms focused on priority growth sectors and formality, potentially inhibiting the growth of more dynamic entrepreneurial and informal sectors. Shifting the focus from 'growth from above' to 'growth from below' can empower the small-scale enterprises, urban informal sector and the rural non-farm economy opening pathways out of poverty for a large proportion of population.

4. ***The rural economy is characterised by overdependence on small-scale agriculture and underdeveloped nonfarm economies leading to low incomes, high vulnerability, and limited alternative income opportunities.***
   - Land-scarcity, combined with topography and a growing rural population, is constraining land size holdings. Casual wage labour / landless peasants (many of them youth) have emerged as the fastest growing group of highly vulnerable poor.
   - Weak linkages between agriculture and other sectors of the economy means high growth in other sectors has not spurred growth in the agriculture sector or in the rural economy to the extent itis needed.
   - Reduced nonfarm entrepreneurial activities in rural areas limits income opportunities for households. The overdependence on agriculture and on-farm casual wage labour increases vulnerability.
   - Addressing the limited nonfarm income opportunities is critical for poverty reduction. Diversifying livelihood, particularly through nonfarm entrepreneurial activities in both rural and urban areas in a crucial pathway out of poverty.

5. ***Rwanda is highly vulnerable to shocks predominantly climate related shocks and the projected economic cost of climate change poses a substantial risk to growth prospects and poverty reduction efforts.***
   - The World Bank also estimates that if Rwanda does not strengthen its resilience against different climate change effects, the country's GDP levels might drop by 5–7% below baseline in multiple years by 2050, with a huge negative impact on private consumption, exports, and government revenues.
   - To sustain the country's growth trajectory and gains, efforts are needed to enhance resilience by improving adaptive capacity against climate-related risks.
   - Rwanda has adopted ambitious policies and goals on climate and environment but faces significant financing and capacity gaps to be able to invest and implement climate and environment priorities.
   - Climate shocks and natural disasters are closely correlated with keeping households in poverty and pushing other back into poverty. Rural households and those dependent on agriculture have limited resilience and rural women have the highest vulnerability.

6. **<u>Despite significant progress on human capital, Rwanda struggles with weak human capital. Low levels of educational attainment and poor education outcomes constrain inclusive growth and progress on other development goals.</u>**
   - Education is one of the most critical enablers for reducing multidimensional poverty and weak human capital is constraining inclusive growth. Yet Rwanda struggles with access and quality challenges and transition rates to secondary and above are low.
   - Demographic pressure, repetition rates and late enrolment leads to the highest early-grade bulge in the region, with large primary classes compromising quality and education results. Quality is also affected by lack of qualified teachers and poor infrastructure, particularly in rural Rwanda.
   - Distance and out-of-pocket costs are important barriers, particularly in rural areas and for the poor, and girls access decreases higher up the education ladder.
   - Improving quality and access requires significant investments in a context of constrained financing, as well as reviewing policy approaches in the sector.

7. ***<u>Stunting rates are stubbornly high with detrimental impacts on human capital and long-term inclusive socioeconomic development.</u>***
   - Impacts of stunting are both short and long-term with detrimental impact on human capital, per capita income, and Rwanda´s development trajectory.
   - Stunting can further aggravate other important social and economic constraints by lowering education outcomes, productivity, and wages, as well as overall economic growth.
   - Prevalence is higher in rural areas, among the poor and in female-headed households, and strongly correlated to low education among mothers and houses with many dependents. The deepest stunting rates are in the West and South province, particularly Nyabihu, Ngororero and Nyamagabe with 51-59% of children stunted.
   - Inequality of stunting rates and intergenerational transmission risks reproducing current patterns of inequality, exclusion, and poverty, impacting rural areas and poor households, particularly female-headed households, and those with multiple dependents.

8. ***<u>Rwanda´s financing gap to meet the SDGs and its own development objectives are significant while the financing landscape has changed, with reduced ODA and rapidly rising debt levels. Diversifying and increasing financing sources is critical.</u>***
   - Rwanda has been highly reliant on ODA and public investment, yet ODA-levels are falling and are expected to decline further as Rwanda's per-capita income rises and Rwanda´s risk for debt distress has increased from low to moderate, narrowing the space for debt-backed government spending and investment. Unlocking other sources of public and private finance is becoming critical.
   - Domestic revenues have increased and today Rwanda has the EAC-region's highest tax-to-GDP ratio, expanding the tax base further remains important while at the same time balancing the tax pressure and compliance red tape for enterprises and private sector.
   - Plugging the investment gap through private finance is key but requires attracting more FDI, deepening the financial sector and increasing domestic savings to reduce external dependence. FDI flows have increased but face challenges linked to doing business, small domestic market, and competition regulation. Translating FDI's into more long-term high-quality jobs has also been difficult and the overall impact of FDI on inclusion has been weak.
   - Financial inclusion is high but flow of credit to productive sectors lags, particularly to agriculture, women and small enterprises, and access and cost of credit is ranked as a top constraint for private sector. Domestic savings are among the lowest in the region leading to high dependence on foreign financing.

9. ***Restrictive political and civic space limits downward accountability and hampers policy-making that is more responsive to citizens' needs.***
   - While an important stabilizing factor in the last 30 years, Rwanda´s political model has had consequences on the space for broader political debate and accountability.
   - Limited space for opposition political parties, together with weak capacities and self-censorship in the media and civil society, limits scrutiny and dissent and hampers citizens' ability to hold powerholders to account.
   - Existing channels for political and citizen participation provide Rwandans with a degree of agency and contribute to a more open discussion climate but are not effective enough as a channel of influence. Women, youth, and other marginalized groups struggle to participate in a meaningful way.
   - This restrictive political and civic space ultimately limits accountability to citizens and hampers responsive policy-making that addresses needs and priorities of citizens and is adapted to local level priorities. Besides undermining civil and political rights, it can lead to an ineffective use of public resources and undermine the inclusive social and economic development which the Rwandan social contract is built on.

10. ***Persisting underlying tensions and unspoken trauma undermine social cohesion and create a fragile post-genocide environment.***
    - Efforts to foster a national identity and to manage conflicts, as well as the equal provision of public services and opportunities across the past ethnic divides, has been successful in building inter-ethnic trust and stability.
    - Yet the consequences of the Genocide continue to shape Rwandan society and politics, including through individual and collective trauma, the reintegration of released genocide convicts, land conflicts and fluctuating tensions in the region.
    - Underlying tensions and fears of renewed conflict exacerbate political control and limit the freedom of expression, while contributing to regional tensions.
    - Economic exclusion, inequality and sudden onset crises can exacerbate these tensions and can bring underlying conflicts to the surface.

11. ***Regional volatility affects Rwanda´s stability, economic prospects, and poverty reduction.***
    - Rwanda is vulnerable to fluctuating tensions in the region. Cyclical conflicts with neighbouring countries directly affects cross-border trade and livelihoods in a small trade-dependent landlocked country, as well as social cohesion and tensions among borderland communities.
    - Volatility in the region also presents risks to domestic social cohesion, as ethnicity linked tensions in neighbouring countries can affect complex post-genocide legacies within Rwanda.
    - Poverty reduction – particularly in bordering communities and hinterland – and investment prospects are closely linked to trade and predictable market access opportunities.

12. ***Discriminative social norms lead to exclusion, discrimination, and multidimensional poverty.***
    - Socially determined gender norms and gender-based power asymmetries remain pervasive within households and the wider community suggesting deeply rooted patriarchal norms have not been sufficiently tackled. This translates into inequality across all dimensions of poverty – women and girls have unequal access to resources and opportunities, power, and voice to influence decision making and high rates of gender-based violence impact their security. As a result, vulnerability is deeper and poverty higher among women.
    - Discriminative social norms also impact multidimensional poverty of people with disabilities, who face significant access barriers across public services and economic opportunities thus have higher likelihood of being poor and struggle to sustainably escape poverty.
    - Rwanda stands out as the only country in the region without national legislation against LGBQTI+, yet anti-LGBTQI+ norms are prevalent and lead to discrimination.

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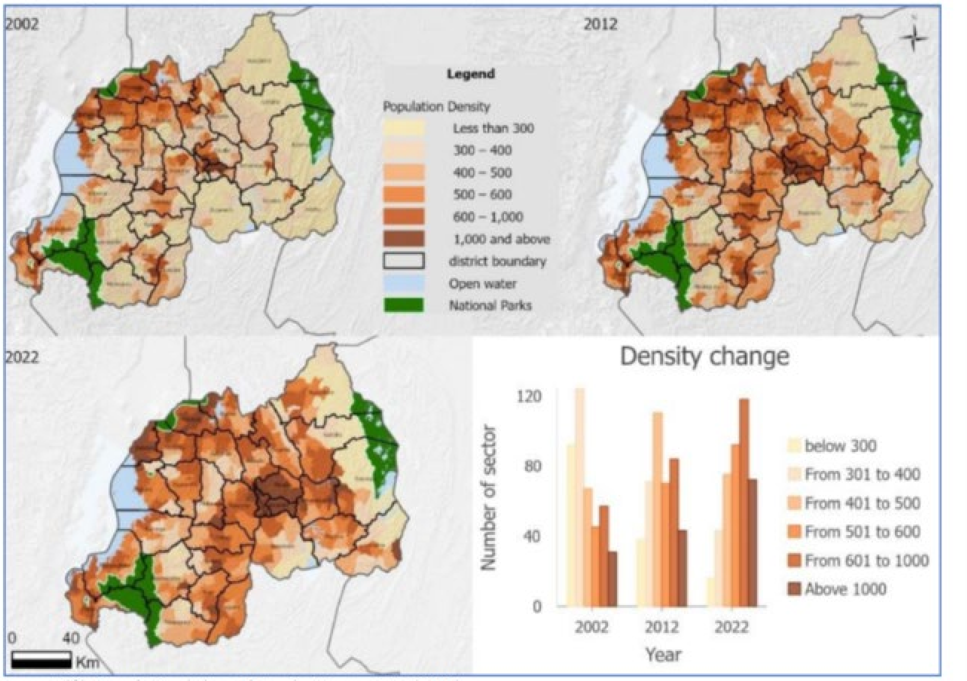
1 ECONOMIC AND SOCIAL CONTEXT

a) Demographics and Urbanization

Rwanda is one of the smallest, most densely populated countries on the African continent and the population is expected to double by 2052 increasing pressure on the country's resources.[1] Rwanda´s population has tripled since 1978, increasing to 13.2 million in 2022 (approx. 2.3% annually since 2012), and is projected to almost double to 23.6 million by 2052. [2] Population density, currently the 2nd highest in Africa at 503 people per km2, is projected to increase to 894 people per km2 by 2052 (medium population growth scenario)[3]. Rwanda's population structure mirrors that of many sub-Saharan African countries – with the bulk of the population below the age of 35**.** Population is still largely rural - 72% - including most of the youth[4] and the bulk of Rwanda's population (69%) is still heavily dependent on agriculture and natural resources for their livelihoods. As a land-scarce economy the expanding population is increasing pressure the country's natural resources including land.

Figure 1 Population Density Change 2002-2022



Source: Fifth Rwanda Population and Housing Census, 2022 (NISR)

Population growth has been largely driven by a high fertility rates and improved health outcomes have meant that Rwandans are living longer. Nevertheless, fertility rates have fallen dramatically to 3.6 children per woman, compared to 5.9 in the 2002 and 4.0 in 2012 census. These changes have largely been attributed to increased use of contraceptives and higher levels of literacy and education among girls. Rwanda has also seen impressive improvements in many social and health indicators, outperforming averages for low-income countries and even lower middle-income countries in some areas, see figure 2. Life expectancy at birth has doubled to 69.6 years in 2022, maternal and child mortality rates have fallen by 80-90% and the percentage of births assisted by skilled health staff is at 94%. This reflects the overall improvements in socioeconomic and health status of the population, including increase of health facilities across the country, child immunization, and improved living conditions.

Figure 2 Summary Social Indicators Rwanda 90s-2022

	Rwanda mid-90s	Rwanda (2022)	LIC* (latest)	LMIC** (latest)
Immunization, measles (% of children 12-23 months)	76	95 (2019, WB)	72 (2019)	86 (2019)
Using at least basic sanitation services (% population)	39	69 (WB, 2020)	28 (2020)	70 (2020)
Access to improved drinking water (% population)	61	82		
Births attended by skilled health staff (% of total)	27	94	67 (2019)	77 (2019)
Maternal mortality ration (per 100,000 live births)	1,270	203	430 (2020, WHO)	255 (2020, WB)
Mortality rate, under-5 (per 1,000 live births)	284	28.5	67 (2021)	44 (2021)
Life expectancy at birth, total (years)	31	69.6	62 (2021)	67 (2021)
Literacy rates, adult female (% of females ages 15+)	49	73 (WB,2021)	53 (2020)	73 (2020)
Literacy rates, adult males (% of males ages 15+)	68	79 (WB, 2021)	69 (2020)	85 (2020)

Sources: National Institute of Statistics Rwanda 5th Population Census 2022, World Bank DataBank, World Health Organization
*LIC = Low Income Country, **LMIC = Lower Middle-Income Countries

Rwanda´s age dependency ratio was 71 in 2022 (proportion of dependent per 100 working-age population) - significantly lower than those in Uganda (87), Tanzania (87), Burundi (93) and the SSA average (82) - and 29% of the population is aged 15-29 years[5] [6]. For Rwanda to reap this potential demographic dividend it must carefully manage its population growth, coupled with effective stimulation of economic growth, infrastructure investments, and service delivery**.** With a large number of primary school and labour market entrants every year, both labour markets and public service delivery are struggling to keep up. Providing quality social services, infrastructure, and creating economic opportunities for a burgeoning youth population will be essential, yet the government´s ability to increase spending, as discussed further below, is constrained, and will require re-examining spending priorities.

Despite the growing urban population and the positive economic impacts of urbanization, rural-to-rural migration in search of land is still significant. Analysis of migration trends finds urban population increased by 132% between 2002 – 2015, an annualized urbanization rate of 6,7%. Kigali is one of the fastest-growing cities in Africa and accounted for 40% of Rwanda´s GDP in 2012 [7] [8]. Urbanization in Rwanda has been found to be positively correlated with structural transformation, increased firm-level growth, and nonfarm job creation, making it one of the key drivers for poverty reduction over the last decade[9]. Despite these potential economic benefits, rural-to-rural migration in search of land has remained the dominant form of internal migration, outpacing rural-to-urban migration[10]. Promoting planned and sustainable urbanization is a priority for the Government under the Vision 2050, with an urbanization target of 70% by 2050. Based on current urbanization rates, however, projections estimate 41% of the population will be in urban areas by 2050 and 54% assuming a higher than historic rural-to-urban migration rate.

b) Macroeconomic Overview and Drivers of Economic Growth

Rwanda has experienced remarkable economic growth over the last decade, with an average annual GDP growth rate of 7.8% (2009-2019), and with a positive outlook despite downside risk including high vulnerability to climate shocks. In 2022 GDP per-capita was estimated at $1,004 up from $853 in 2021 and $806 in 2019.[11] Covid-19 significantly affected the economy, with GDP contracting 3.4% in 2020. Following interventions by the Government and development partners, growth rebounded in 2021 to 10.9%[12]. Economic growth has outpaced EAC peers and, despite a sharper contraction in 2020, recovery has been stronger (see figure 4). The outlook remains optimistic with a medium-term projected growth of 6-7% but downside risks include regional geopolitical tensions, inflation, funding squeeze on global financial markets and climate shocks which can impact the economy as discussed below.

__Figure 3: Rwanda GDP performance 2017-2022__

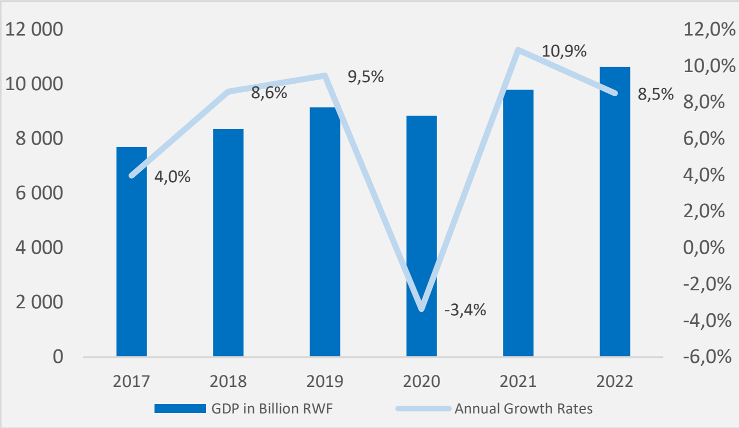
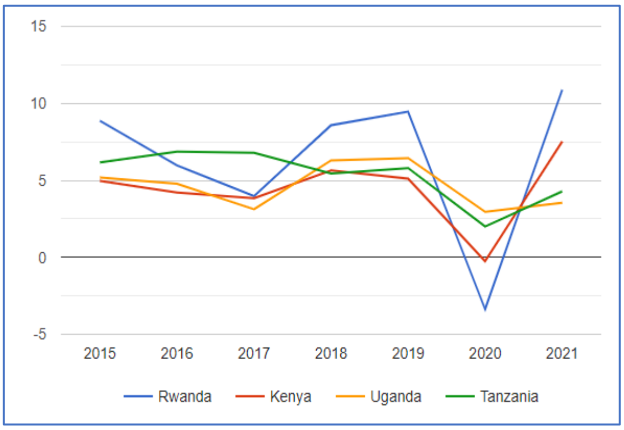


__Figure 4: EAC GDP Growth__



Source: Compiled from NISR (2022) Rwanda GDP National Accounts, World Bank dataset

Drivers of growth over the last five years have been services and industry and high levels of public investments. The shift in sectoral drivers of growth has been deliberately driven by the NST-1, under which the Government has been looking to transition quickly into a service and manufacturing-based economy, in line with the vision of becoming a knowledge-based economy with upper-middle-income status by 2035. High levels of public investment – rising from 5% of GDP to about 20% - have been critical for an overall investment-to-GDP ratio of 12-25% which has spurred growth[13]. Much of it has been externally financed through ODA, and more recently increased reliance of borrowing, often on commercial terms, as discussed further below. A substantial portion of the investments have been directed to priority sectors linked to the expanding services-sector, including MICE (Meeting, International Conferences and Events) and the national air carrier, as well as expanding access to electricity[14], road infrastructure and internet connectivity to address some of the bottlenecks to growth across the economy.

Stability, sound macroeconomics and an aggressive reform agenda to improve the investment and business climate has delivered results, providing an enabling environment for growth and investment, including growing levels of foreign direct investment. Rwanda performs comparatively well on many governance dimensions measured in the World Bank´s governance indicators, several which are important for private sector and investors, including low corruption, political stability, and quality of regulations. This has become a comparative advantage in relation to the region and brings it closer to the performance of East Asia. Reforms to the business environment have also been reflected in Rwanda's standing on the World Bank's Doing Business Indicators, where Rwanda was ranked 38th in the world in 2020 - above all low-income countries and second only to Mauritius on the continent[15]. These reforms have increased the inflow of Foreign Direct Investment, though from a low level, and the stock of FDI exceeds the average of EAC countries though still below peers like Uganda or Ethiopia.

<u>Figures 5 Governance Indicators and FDI Trends</u>

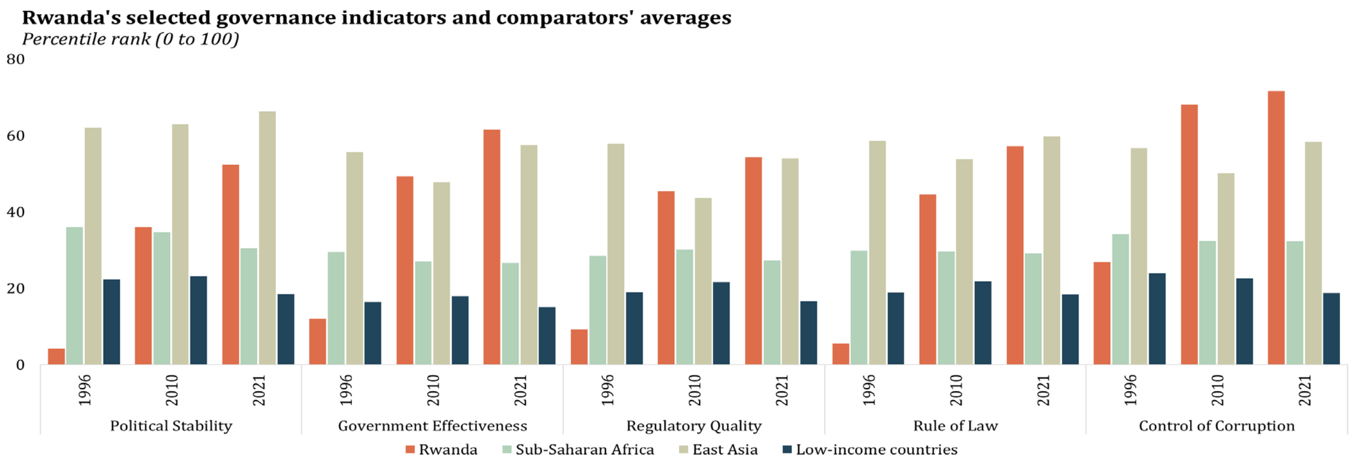


Figure 2.3: Stock of FDI as a share of GDP
(percent)

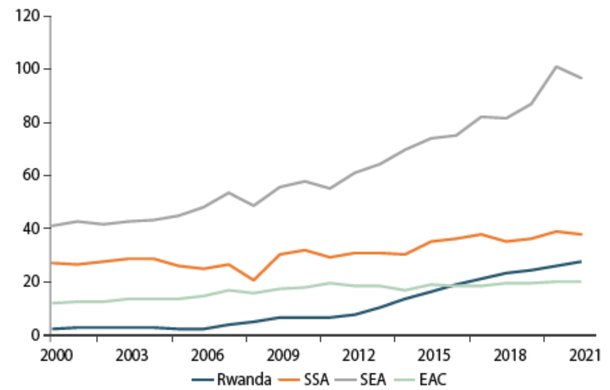
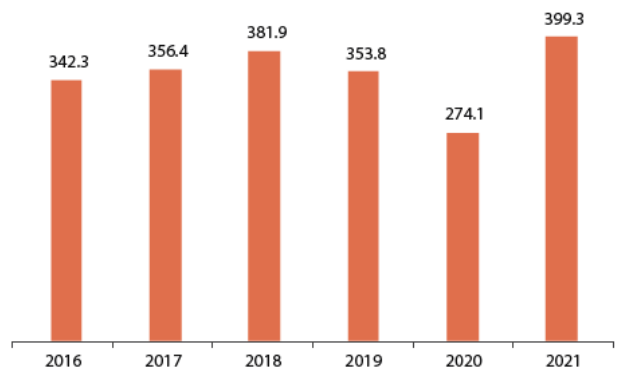


Figure 2.4: FDI inflows (US$ million) in Rwanda
(percentage)

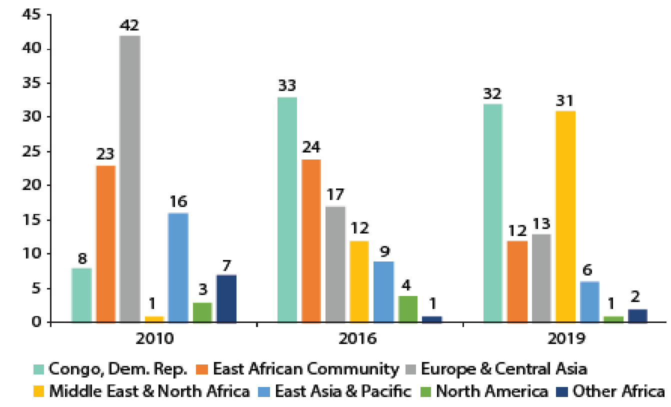


NBR. 2022 Foreign Private Capital survey

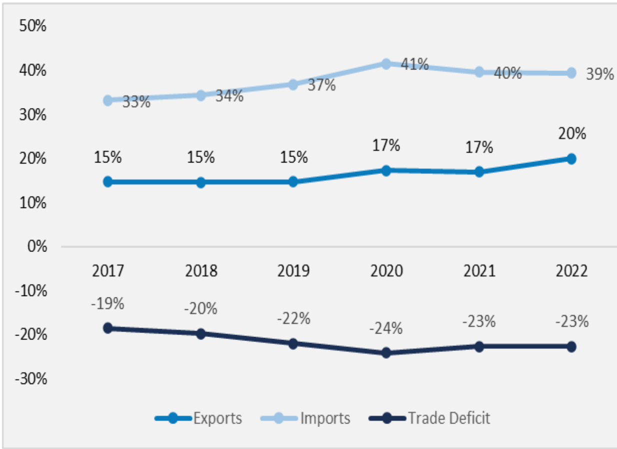
Participation in trade agreements, reduction of trade costs and the rapid growth of the service sector has increased exports, yet the country´s trade deficit remains significant. As a landlocked country with a small domestic market, trade is critical for Rwanda and engagement with trade blocks (EAC, COMESA, AfCTA) and progress on trade facilitation have paid off. Exports grew by about 20 percent annually the last two decades, albeit from a low base, reaching 19 percent of GDP in 2020 (WB data). Diversification from Rwanda´s traditional exports (tea, coffee, minerals) advanced and about half of export earnings today come from services, primarily tourism. Despite this progress, Rwanda's Terms of Trade have not improved. Exports are still low compared to the average of countries at its per capita income and comparable population size – at 22.4% of GDP (WB) and the trade deficit has grown making the current account deficit the regions highest at 9.8%. Export competitiveness is constrained by high costs of doing business and, despite an impressive reduction of 70% in transport times, infrastructure gaps and Rwanda's rugged terrain means, transport costs remain significant. The trade deficit highlights the need to industrialise and increase value addition, yet the share of manufacturing exports over total exports has been declining over time[16].

Figure 6

Figure 2.6: Exports of Rwanda, by destination
(exports of Rwanda, by destination)



Source: WBG staff calculation based on WITS data



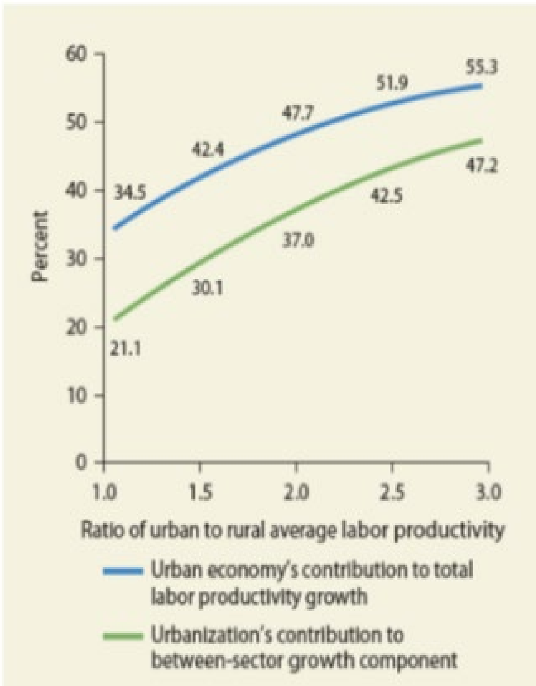
Rwanda´s export sector is vulnerable to trade-related shocks and particularly to tensions and conflicts in the region. Concentration is high, with 5 % of exporters account for more than 80 % of export value, and on average firms export 2 products to 1.5 destination (compared with Uganda 3.6 products, Tanzania 4.2, and Kenya 7.2)[17]. Continued dependence on unprocessed commodity exports also exposes Rwanda to global commodity price fluctuations and export performance in manufacturing sector, except for food processing, has been disappointing. As a landlocked country in a fragile region, Rwanda is also vulnerable to border closures associated to shifting conflict dynamics in the region. Recent border closures with Burundi and Uganda have negatively impacted Rwanda´s trade and bring uncertainty to private sector and investors[18]. DRC has become Rwanda´s largest export market with potential for further trade volumes if regional integration efforts and political relations remain stable.

For a small, landlocked country digitally enabled services can be a promising pathway for export-growth as locational disadvantages are a much lower barrier to competitiveness. The Rwandan government has *"bet big"* on digitization as a way to accelerate growth and reduce poverty and has implemented an aggressive agenda to improve the enabling environment for ICT. In 2023, Rwanda ranked first among low-income countries on the World Economic Forum's Networked Readiness Index in terms of its readiness to exploit the opportunities offered by ICT to boost growth and competitiveness[19]. The ICT sector has been growing rapidly, contributing approximately 2% of GDP in 2020, and, according to RDB, the ICT Gross Value Addition (GVA) for Rwanda's economy grew at an average of 21% annually over the period 2000 to 2015, a much faster pace than other major sectors in the economy. Rwanda has also emerged as one of Africa´s top performers on e-Governance, with the government´s Irembo platform providing access to an increasing number of government services and several back-end systems improving the delivery of key government functions[20].

Despite progress, the relative size of the sector remains below that of other East African countries and multiple challenges to digital adoption remain to leverage digital transformation as a driver of growth, job creation and service delivery. Though Mobile Internet users have risen to 24.5 percent, household penetration of fixed high-speed internet subscribers is less than 1 percent, far below the regional average of 6 percent. A mix of barriers such as a persistent digital skills gap, affordability of devices and services relative to average incomes, quality of services, and perceived relevance and value currently appear to be hindering uptake. Gender inequity in terms digital skills, uptake and use are also significant.

Figure 7

FIGURE 3.2 Contribution of urbanization to structural transformation and labor productivity in Rwanda, 2002–12



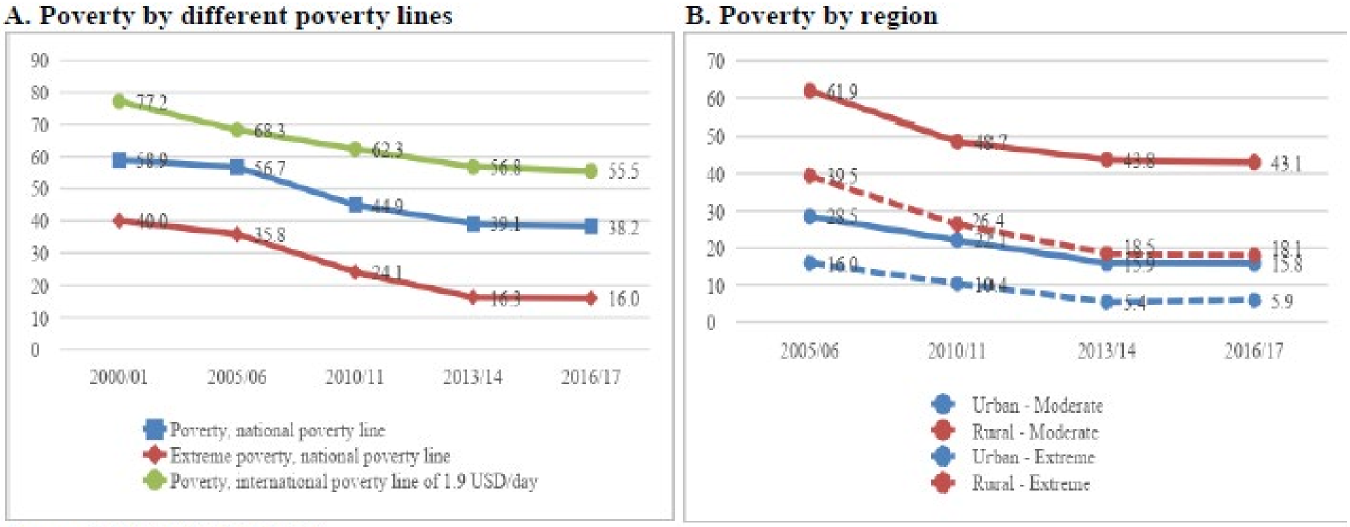
Urbanization has been critical to Rwanda's growth model accounting for as much as 37% of national structural transformation the last two decades and 48% of national labor productivity growth over the past 15 years. [21] [22] Research shows that Rwanda has had some success translating urbanisation to poverty reduction, particularly in Kigali. Estimates find that a 10% increase in population density has been associated with a 1.2 and 1.6 percent lower moderate and severe multi-dimensional poverty.[23] [24]However, the poverty reducing effect of urbanisation appears to have "eroded" in recent years[25]. Despite the existence of strong "push" factors (scarcity of land) and "pull" factors (income and wage differential), migration remains limited due to structural impediments, such as low levels of education in rural areas, strict land-use and zoning regulations, shortage of affordable housing and a unique regulatory framework that discourages informality. A slower pace of urbanization could compromise future growth as estimates suggest Rwanda's economy could be 20 percent larger by 2050 with faster urbanization[26]. Fully realizing the positive economic benefits of urbanization has been identified as a key driver for inclusive growth but requires significant investments, as well as rethinking policy approaches to support urban migration and create an enabling environment for denser urban economies[27].

c) Inclusivity of Rwanda's growth and poverty levels

Despite impressively high economic growth and expanding service delivery, Rwanda is still largely a poor country with high levels of poverty and stubborn inequality. According to the national poverty line the share of people living in poverty dropped significantly from 58.9% in 2000/01 to 39.1% in 2013/14 to then stagnate around 38.2% in 2016/17, suggesting a slowdown in the rate of poverty reduction.[28] Over the same period, extreme poverty followed a similar trend dropping sharply from 40% to 16.3% and then plateauing around 16.0%. The World Bank 2015 poverty assessment[29] found that the earlier rapid poverty reduction in Rwanda was mainly attributed to (i) increases in agricultural productivity leading to better harvests and increased rural incomes; (ii) diversification into non-farm income-generating activities; (iii) dropping fertility rates and the increase in cash transfers and remittances. Measured by Multidimensional Poverty Index, 48.8% of the population was multidimensionally poor and 23% vulnerable to multidimensional poverty in 2023[30].

In real terms, 1.8m Rwandans remain below the national extreme poverty line, meaning that these households have consumption levels of less than RWF 105,000 per year per capita or RWF 287 per day. Using the international poverty line, 52% of the population are below US$2.15 a day (2017 PPP) and 78% below the US$ 3.65 a day poverty line.[31] **More than 90 percent of the poor in Rwanda live in rural areas and particularly the Western and Southern Provinces have seen significant increases in the number of households in poverty and extreme poverty.** The protracted impacts of the Covid-19 pandemic, which may have increase poverty headcount rates by 5 percentage points[32], followed by inflations shocks in 2022/2023, risks eroding some of the hard-won gains in poverty reduction.

__Figure 8 Poverty Trends National Poverty Line and International Poverty Line__



Source: NISR (2015, 2018).

A slowdown in the pace of structural transformation and insufficient nonfarm job creation mean most Rwandan families still depend on small-scale rainfed agriculture for their livelihoods. Growth and rapid poverty reduction up to 2011 was largely characterized by movement of labour out of low-productivity agriculture to higher productivity jobs in industry and services (nonfarm jobs), and migration from farms to cities. The pace of this transition slowed after 2011. The rate of nonfarm job creation in the industry and services sectors, which have driven Rwanda´s high growth, decreased, and the share of agriculture employment stagnated around 70%. This means the absolute number of Rwandans dependent on small-scale agriculture has increased as population has grown[33]. At the same time, overall economic growth in the agriculture sector has been about half of other sectors and productivity improvements have stalled. Land scarcity (57.5% of Rwandan farmers have less than 0.3 ha land), rudimentary agricultural practices and climate vulnerability, limited skills, and finance, explain low productivity levels. Poor linkages between agriculture and other sectors of the economy have also meant that rapid growth in these sectors has not had the pull effect spurring agricultural growth, hence constraining opportunities for inclusive growth and poverty reduction where it matters the most – the rural economy.

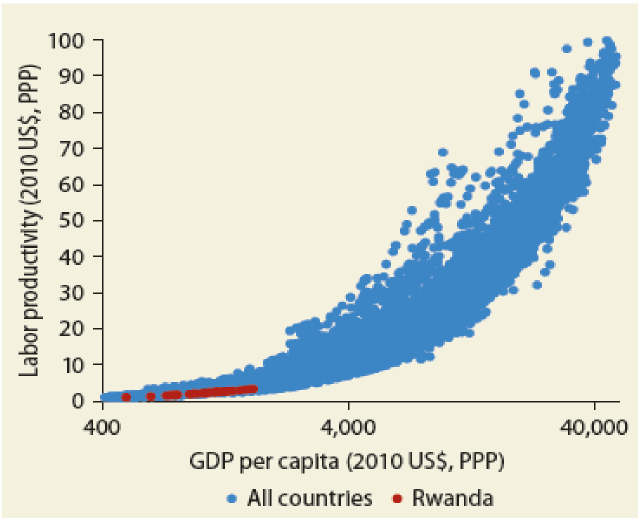
Although Rwanda has consistently improved its business enabling environment and the participation of private firms has expanded, these are still small and informal facing significant competitiveness limitations. Similar to the analysis above, there is evidence that after a period of expansion in the number of enterprises, including number of large firms, growth in the private sector slowed since 2011. Over 95% of firms remain micro- and small, on average employ no more than two workers and 93% of firms are estimated to be informal. Cross-cutting constraints to private sector competitiveness and growth include small size of the domestic market combined with a logistics penalty as a landlocked country, high costs of and limited access to finance, cost of electricity (among the 10 highest per unit cost in SSA), skills gap and onerous tax and regulatory compliance requirements, even for small enterprises. Political economy dimensions around state- and party-owned enterprises have also emerged as a constraint to both investors and private sector, calling for improvements in the regulatory framework for competition, transparency, and oversight of state- and party-owned enterprises.

A recent analysis on the inclusivity of FDI found that though FDI does generate higher quality jobs, the overall impact of FDI on inclusion has been weak. FDI projects have been concentrated in construction, real estate and utilities and located in and around Kigali (81%), which offers public good and human capital needed. Net job creation has been positive, FDIs employ 170% more workers than domestic firms, and provide higher quality jobs. However, a large number of the jobs have limited duration (i.e. construction), are located in districts with less poverty, have limited multiplier effects on local employment and there is no evidence of positive correlation with female or youth employment. The evidence is inconclusive in terms of spillovers and broader linkages to the rest of the economy. [34]

Weak productivity growth across the economy is emerging as a key concern. Despite high growth, Rwanda lags comparable countries in terms of labour productivity and productivity growth across the economy and within sectors has been limited. Analysis by the World Bank explain the productivity constrains by misallocation of investments and resources in the economy. The strong role of the state, through central planning, public investments, and state-backed investments, partly explains this, as well as low levels of skills and knowledge deficits; (ii) slow technology adoption and innovation among enterprises; and (iii) high cost of capital. The low productivity and underperformance of the manufacturing sector is particularly worrisome given its potential to drive value-addition and employment at scale. The sector has grown less than the overall economy and total value-addition from manufacturing has dropped below its 2000-level, currently employing only 4% of the workforce and trailing regional peers in value add as percent of GDP.

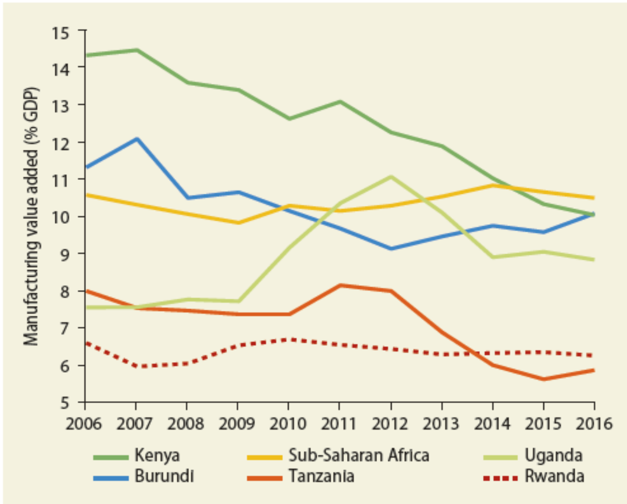
Figure 9

FIGURE O.7 Labor productivity and GDP per capita in Rwanda and other countries



Source: Calculations based on Penn World Tables 9.0 data (Feenstra, Inklaar, and Timmer 2015).
Note: PPP = purchasing power parity.

FIGURE O.11 Manufacturing value added in the East African Community, 2006–16



Source: World Development Indicators data (World Bank, various years).

The formal unemployment rate in 2022 was around 20% and over 84% of employment is informal characterised by low earnings, decent work deficits and vulnerability [35] [36] [37]. Women and youth are overrepresented among those unemployed, in agriculture and working in the informal economy, and as much as 30% of Rwandan youth is classified as Not in Employment, Education or Training (NEET), with a higher prevalence in rural areas[38]. Average monthly incomes across the labour market are low, particularly in rural areas and in agriculture. Even with incomes in urban areas being significantly higher, as much as 40.7% of Rwandan workers are classified as working poor earning less than required to lift themselves and their families above the poverty threshold, compared to SSA average of 35.5%[39]. A worker in the agriculture sector earns on average Rwf 21,000 per month, or Rwf 252,000 per year, compared to the recommended Rwf 187,633 monthly wage that would enable a rural household to graduate from poverty[40] [41]. The Covid-19 pandemic hit the labour market hard reflecting vulnerability of the labour market, disproportionally impacting women, and youth.

Figure 10

<table>
<tr><th colspan="8">Working–age population 16 years and older
7 873 326</th></tr>
<tr><td colspan="4">Outside the Labour Force

(Elderly, cannot work, discouraged work–seekers)
3 580 022 persons</td><td colspan="4">Active Labour Force

(Employed and unemployed)

4 293 305 persons</td></tr>
<tr><td colspan="4">Out–of–labour–force rate
45.5%</td><td colspan="4">Labour force participation rate
54.5%</td></tr>
<tr><td>Subsistence Agriculture

1 500 029
(41.9%)</td><td colspan="2">Exclusively Students

927 226
(25.9%)</td><td>Other outside labour force
1 152 767
(32.2%)</td><td colspan="2">Employed
3 585 651

Employment to population ratio:
45.5%</td><td colspan="2">Unemployed
707 654

Unemployment rate:
16.5%</td></tr>
<tr><td colspan="2" rowspan="3">Potential labour Force

1 148 093</td><td colspan="2" rowspan="3">Other out–of–labour–force

2 431 929</td><td>Agriculture excl. subsistence</td><td>1 882 466
(52.5%)</td><td>Unemployed but engaged in subsistence agriculture</td><td>383 549
(54.2%)</td></tr>
<tr><td>Industry</td><td>523 505
(14.6%)</td><td rowspan="2">Other unemployed</td><td rowspan="2">324 105
(45.8%)</td></tr>
<tr><td>Services</td><td>1 179 680
(32.9%)</td></tr>
<tr><td colspan="4"></td><td>Time–related under–employed
1 017 801</td><td>Other employed
2 567 850</td><td colspan="2"></td></tr>
<tr><td colspan="8">Labour underutilisation (2 873 5470)
Unemployed (707 654) + Time–related underemployed (1 017 800) +
Potential labour force (1 148 093)
Composite measure of labour underutilisation (52.8%)</td></tr>
</table>

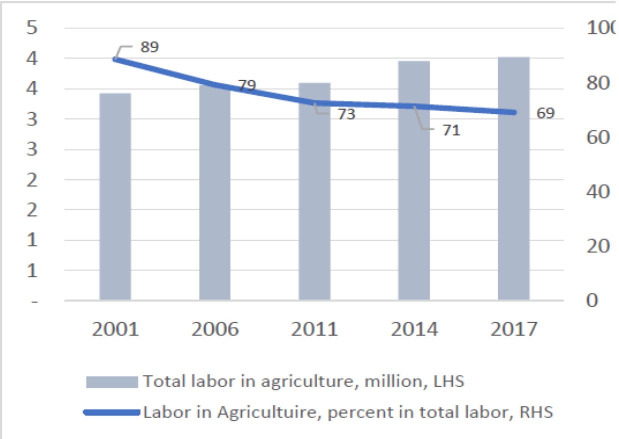
Source: National Institute of Statistics of Rwanda (NISR)

Insufficient job creation is attributed to, among other, limited firm-level growth and particularly the slowdown in nonfarm job creation. Sectors that have grown rapidly and attracted significant investment – such as services and the national carrier – are capital intensive and have not delivered - directly or indirectly – the much-needed job creation figures. Analysis of job creation patterns finds weak job creation at firm level. For example, formal firms added a total of 50,000 jobs between 2011-2016 and on average informal nonfarm enterprises added less than 10,000 jobs annually between 2011-2017, which is largely insufficient to employ the estimated 160,000 workers entering the labour market annually[42]. On the supply side, weak human capital, and the resulting inadequacy of skills for the job market, remains one of the biggest constraints. The majority of labour force work is unskilled. While investments have been made in the education and vocational training sectors, there is still a significant skills mismatch which limits the potential for the productive economy to employ those able and willing to work.

Rural Rwanda is characterised by underdeveloped nonfarm economies and the rural economy is less dynamic and diversified than comparable countries, providing less alternative income opportunities. The combination of a largely rural population, growing land-scarcity and insufficient nonfarm jobs means agriculture is still having to absorb a large number of workers, see fig 12, many of these in low wage casual agriculture work (around 750–800 RwF or US$0.80–$0.84 per day). The share of labourers with tiny holdings or no land, who are largely or entirely dependent on this type of wage labour, is growing among the poor, and landless peasants, many of them youth, have emerged as the fastest growing group of poor experiencing the deepest poverty and vulnerability rates. Addressing the limited nonfarm income opportunities is critical for poverty reduction, as livelihood diversification, particularly through nonfarm entrepreneurial activities in both rural and urban areas, has been found to be an extremely important route out of poverty[43].

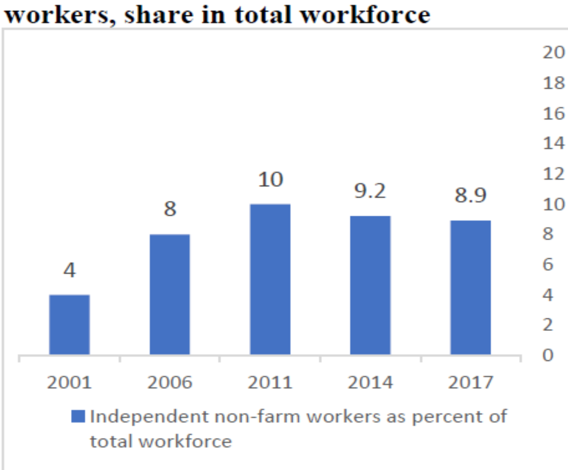
Figure 11

Figure 2.11: Agriculture employment, 2000-17



Source: NISR EICVs, WBG staff calculations

Figure 2.16: Independent non-farm workers, share in total workforce



Source: Rwanda Revenue Authority and NISR

A less supportive policy environment together with structural impediments could be inhibiting the growth of a more dynamic informal and entrepreneurial sector in both rural and urban areas, as well as more inclusive urbanization. The focus on growth within priority sectors, and the emphasis on formalization and compliance has relegated the importance of the informal sector and its inclusive growth potential. Most of the reforms implemented to support private sector have targeted the formal sector and emphasized rapid formalization and compliance, potentially leading to high entry and operating barriers, high business attrition rates and curtailing innovation.

Strict zoning and urban planning regulations may be restraining the development of urban scale economies, as well as the development of affordable housing[44]. The above, in combination with a low tolerance for informality, has discouraged rural-to-urban migration, particularly among the poor and unskilled, reducing the potential for urban areas to absorb surplus rural workforce, and contribute to much needed rural-urban remittances. The strict regulatory environment could also be an explaining factor to the less dynamic and diversified rural economies[45]. Rebalancing the emphasis between "growth from above", driven by large-scale investments and formal sectors, to creating an enabling environment for "growth from below" could generate better conditions for small-scale enterprises, urban informal sector, and the rural nonfarm economy, which in turn could open pathways out of poverty for a larger portion of the population[46].

Socio-economic inequalities have decreased but remain a challenge with growth being less pro-poor than in comparable countries. Income inequality measured by the Gini coefficient has declined from 52.2 in 2005/06 to 42.9 percent in 2016/17 - yet consumption data indicates regional inequalities are significant and growing rural-urban disparities, for example, the per adult equivalent expenditure in urban areas is 2.6 times that of rural areas [47] [48] [49]. Inequality manifests also in terms of gender - women's per capita Gross National Income is 24% lower than that of men and a larger share of female-headed households are poor, at 39.5%, compared to 37.6% of male-headed households[50]. Access to basic services such as health, education, water, and electricity shows broad improvements over the past two decades - though with similar patterns of disparities [51] [52]. Analysis of growth elasticity of poverty suggests economic growth in Rwanda has been less pro-poor, as compared to peers in the region, see figure 13. Structural disadvantages, such the higher share of population dependent on low productivity agriculture, and patterns of growth driven by less labour-intensive sectors, means high growth does not translate well into poverty reduction and inclusion. If not addressed this could impact social cohesion and stability.

Figure 12

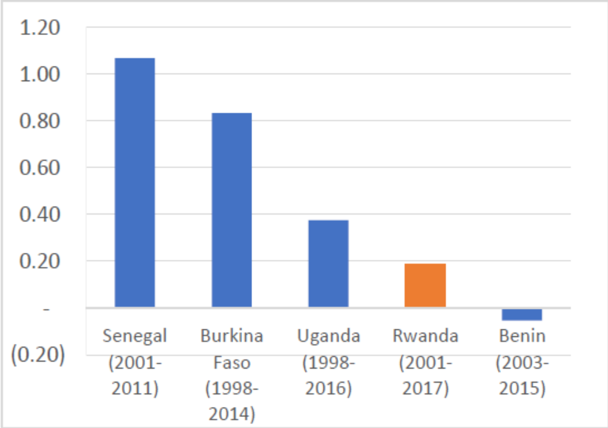


Figure 2.21: Growth elasticity of poverty (based on US$1.9 poverty and GNI per capita growth)

Vulnerability is an important aspect of poverty in Rwanda and the so-called "churning in and out of poverty" reflects how difficult it can be for households to sustain an exit from poverty. Analysis shows that households that move out of poverty easily fall back into poverty again. The main reason for falling back into poverty is high vulnerability to shocks, primarily natural hazards, including drought /floods, socio-economic shocks, such as loss of employment or food price spikes, and household shocks such as disease. Households in poverty have limited options to hedge against such risks and respond to shocks, tending to resort to negative coping strategies which risk depleting their economic assets and compromising their ability to exit poverty over time. Building stronger and more effective safety nets for the most vulnerable to smooth consumption and reduce negative coping strategies, supporting livelihoods diversification and promoting savings and financial inclusion have all been found to be important to build resilience among vulnerable households in Rwanda[53].

d) Social Context

Rwanda has seen significant progress across a wide range of nonmonetary indicators of well-being and life expectancy has doubled the last 25 years. Yet, Rwanda´s human capital outcomes - particularly in education and stunting - lag compared to countries at similar income levels and are strongly correlated with the persistent levels of poverty. Access to improved water sources, sanitation, and housing conditions, have all improved significantly, and, for instance, access to electricity almost tripled standing at 68% in 2023[54]. In terms of health, Rwanda has made substantial investments in health systems and improved access to health services improving adult survival and dramatically reducing maternal mortality to approach levels seen in lower middle-income countries. Access to prenatal care is now virtually universal and over 90 percent of women benefit from skilled attendance at birth. Despite this progress, Rwanda's 2020 Human Capital Index[1], at 38%, is lower than the average for the sub-Saharan region but slightly higher than the average for low-income countries. Key factors behind the low HCI are the weak performance on indicators related to expected years of school, learning outcomes, and incidence of stunting in children under 5 years.

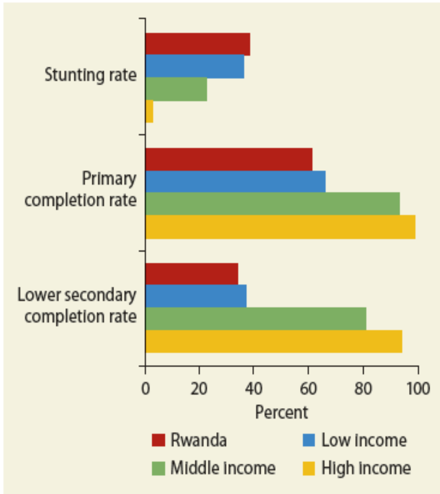
There is significant evidence that education is one of the most critical enablers for sustained poverty graduation in Rwanda, as well as a powerful driver for other development goals[55]. Despite progress expanding coverage, Rwanda´s education system struggles with the dual challenges of access and quality. Virtually all children will begin primary school but drop-out and repetition rates are high with a quarter of first grade students repeating that grade. Only 68 % of first graders eventually complete six years of primary, 38 % complete nine years and just 12 % will complete secondary school. At tertiary levels, enrolment is increasing rapidly, but still only 8% of tertiary-age youth are enrolled in tertiary education, well below the level in middle-income countries. Although Rwanda outperforms peers in terms of gender equality in access to primary and lower secondary, there are significant disparities between children in rural and urban areas and between income groups. Out-of-pocket costs, which despite fee-free primary school policy are significant, are an important barrier, particularly for cash-scarce households. [56]

[1] The HCI measures the amount of human capital that a child born today can expect to attain by age 18. It conveys the productivity of the next generation of workers compared to a benchmark of complete education and full health.

High enrolment and repetition rates have resulted in Rwanda having the largest early-grade bulge in the region[2] a situation with serious consequences for learning. There are high shares of underage and overage children in grade 1, and exceptionally large classes reaching 80 pupils per class. This leads to alarmingly low learning outcomes: 85% of students at the end of grade 3 rated "below comprehension" on reading tests. Similarly young people transition to the labour market lacking the required skills and struggle to secure productive employment. Opportunity costs for families increase as children grow older without progressing in the school system or attaining relevant skills and investments in education will not generate expected returns in economic growth and development if students are failing to learn.

__Figure 13__

FIGURE 0.4 Human capital outcomes in Rwanda and other countries, by income level, 2015



Source: World Development Indicators data (World Bank, various years).

Improving access and quality will require rethinking policy, as well as significant investments, yet the current education spending gap for primary education is estimated at US$406 million, more than double the amount the government currently spends. Despite incremental increases in nominal terms, the national budget allocation to education sector has decreased from 16% to 10% over the last decade, half the minimum (of 20%) recommended by the UNESCO. Primary teacher salaries have been among the lowest in the region, see figure 15. Recent teacher-salary increases may go some way, but the system continues to struggle with insufficient skills among teacher and limited command of the English. High dropout and repetition rates indicate significant inefficiencies and financial wastage. A recent study supported by UNICEF based on 2021 enrolment and financial data shows that the GoR spent RWF 33.9 billion (approximately $33 million) on students repeating grades in primary and secondary education.

Despite several initiatives and positive progress, stunting remains a major challenge in Rwanda with 32.4 percent of children suffering from stunting with far reaching consequences[57]. The stunting average masks variations related to socioeconomic and geographic characteristics. The stunting rate among the poorest 20 percent is 49 percent, compared to 21 percent among upper quintile, and strongly correlated with rural areas, low education among mothers and large families. Stunting has both short- and long-term impacts on Rwanda's human capital and development trajectory. Adults who were stunted in childhood have poorer health and have lower cognitive ability and fewer socioemotional skills. These effects translate into reduced productivity, lower wages, and slower economic growth. By one estimate, the per capita income of today's workforce would be 10 percent higher if adult Rwandans had not been stunted as children[58]. Stunting is also intergenerational, with stunted women more likely to have babies who are underweight and who have cognitive challenges.

The latest food security assessment found that food security had deteriorated with 20.6% of the population food insecure, of which 18.8% are moderately food insecure and 1.8% severely food insecure[59]. Reliance on markets is high, with 2/3 of food being purchased on markets, and 30% of households spend 65% of their total expenditure on food, making them vulnerable to food price fluctuation[60]. Food inflation has been strongly correlated with poverty and the high food inflation of 2022 is concerning. **Rwanda has prioritized social protection as a foundation for poverty reduction and inclusive economic development, but despite investments to expand the national system, challenges with coverage and transfer levels remain.** The system currently covers 35% of the poorest quintile and 14% of the second poorest quintile. The World Bank estimates that almost 50% of people living in extreme poverty are unserved. Low transfer values mean current transfers levels cover only

[2] The index comprises: (a) grade 1 GER; (b) ratio of enrolment in grade two to enrolment in grade one; (c) grade 1 GIR; (d) pre-primary GER.

16% to 57% of the basic consumption needs of a poor household, depending on the transfer instrument.

The rise in teenage pregnancies over the past couple of years has become an area of concern, correlated with increased marginalization and poverty among young women. The most recent Rwanda Demographic Health Survey from 2020 found the number of underage pregnancies had risen from 17,337 in 2017 to 19,832 in 2020[61]. More recent data shows the numbers have drastically increased, with 33,423 teenage pregnancies reported in 2022[62]. This challenge adversely affects teenage girls through societal stigma and school dropout rates which ultimately reduces their chances of attaining formal employment. There are several factors that contribute to this growing problem which include the lack of efficient comprehensive sexuality education, legal barriers to access to contraception[63], access to safe abortion and other sexual reproductive health services [64], as well as a strong pushback from conservative actors including religious leaders.

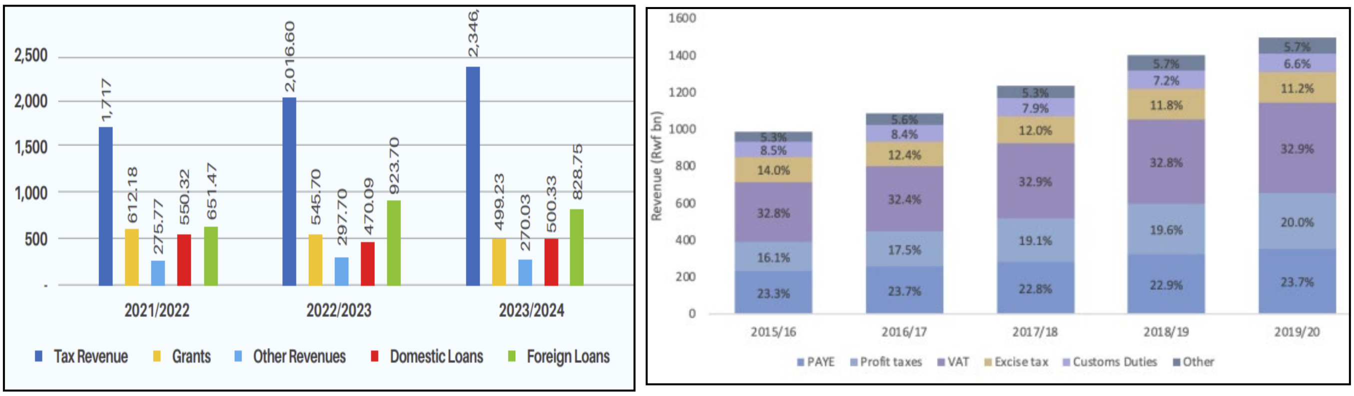
e) Financial Flows

Rwanda's financing gap to meet the SDGs by 2030,its own development objectives under NST-1 and Vision 2050, is significant and increased in the aftermath of the pandemic. IMF estimates additional investments of 21% of GDP per year are required in infrastructure, health, and education to meet the SDGs[65]. At the same time, revenue losses linked to the pandemic, expenditure increases and a planned fiscal consolidation to ensure rising levels of debt remain sustainable, are constraining Rwanda´s ability to invest, pointing to the urgency of diversifying financial flows. In the past external assistance has filled much of the funding gap, particularly ODA (Overseas Development Assistance), on which Rwanda has been highly reliant even compared to other low-income peers. ODA flows have been declining from around 18% as percent of Gross National Income in 2011 to approximately 8% in 2022 and are expected to continue doing so as Rwanda transitions to higher income per capita levels[66].

Domestic resource mobilization has been the dominant and fastest growing source of financing for Rwanda's national budget, growing steadily to a tax-to-GDP ratio of 16.9% in 2020, the highest in the EAC. In terms of budget expenditure, social sectors, except for education since 2022, have seen a decreasing proportional allocation as a percentage of the budget.[67] The share of external grants in financing the national budget has been declining as domestic resource mobilisation has increased, going some way to reduce dependence on ODA on-budget grant finance, see figure 16. Rwanda now consistently outperforms other EAC countries, with the highest tax-to-GDP ratio in the region since 2016. VAT contributes the largest share to revenue collection. Trade taxes have been declining over the years following Rwanda's accession to the EAC in 2014 and are expected to decline further with the implementation of the AfCFTA.[68] The Medium-Term Revenue Strategy (MTRS) 2021–2024 announces several tax measures to balance the need for revenue to finance pressing social needs, with the need to support economic recovery after the pandemic.

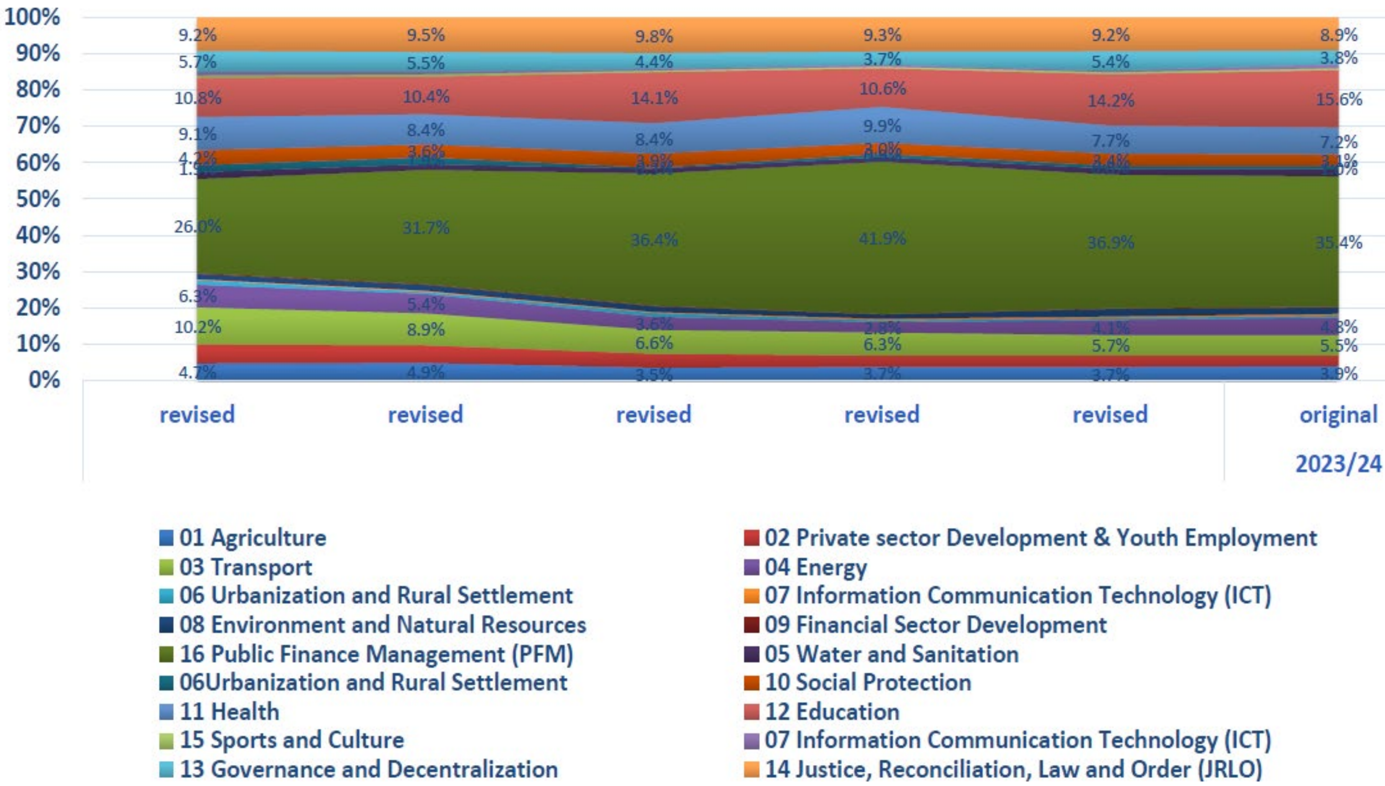
In terms of spending, social sectors have seen decreasing overall proportional allocations since 2019. The education sector has been the exception following a sharp increase from 10% in FY 2021/2022 to almost 16% in FY 2023/2024 partly as a response to the low educational outcomes discussed above. In FY 2023/2024, social protection received 3% of the budget, health 7%, agriculture 4%, and youth employment 3%. Public Finance Management, which includes peace keeping operations abroad and debt servicing, accounts for between 30-40% of the budget over the last 5-years. Debt servicing, including interest, has increased sharply.

Figure 14: Rwanda National Budget financing 23/24 –and Domestic tax revenue composition



Source: Minecofin (2021) Medium Term Revenue Strategy 2021 – 2024/
Minecofin (2021) National Budget – a Citizen Guide

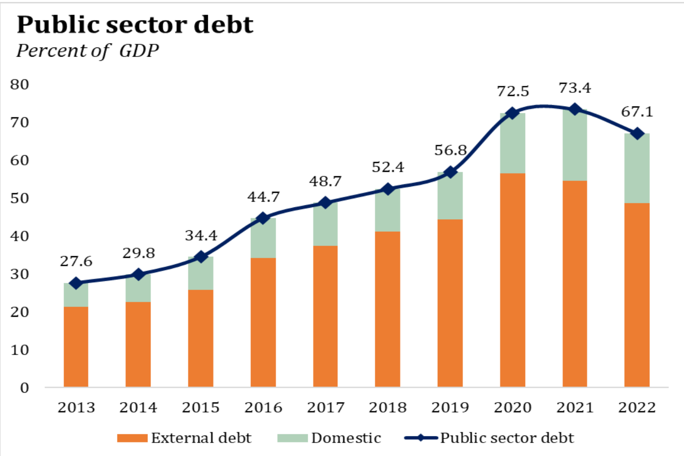
NST-1 sector – Proportional Budget Allocation FY 2018/2019 – 2023/2024

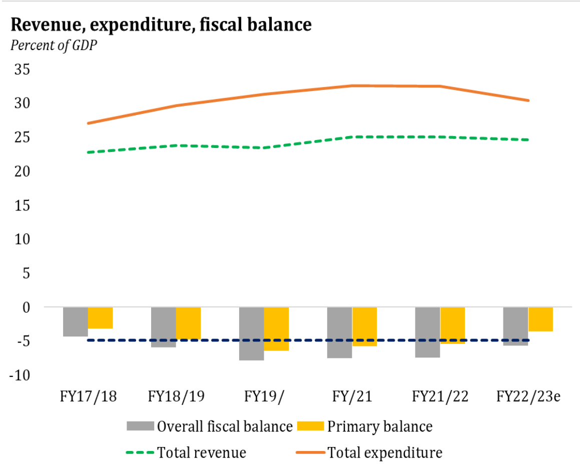


Rwanda´s risk for debt distress rating was moved from low to moderate as public debt and publicly guaranteed debt doubled as a share of GDP during 2015-2021, reaching an all-time high of 73.6% of GDP in 2021[69], compared to a Sub-Saharan Africa average of 57%. Rwanda´s public and publicly guaranteed debt has been growing steadily to support high levels of spending and public investment, which have fuelled strong economic growth. The fiscal deficit has oscillated between 3 - 5% of GDP, increasing significantly during the pandemic, and debt increased sharply between 2020-2022. Fiscal consolidation to reduce the public deficit is on-going. A combination of spending rationalizations, efficiency and favourable interests has seen public sector debt decrease for the first time, narrowing to 67.1% of GDP. In terms of debt composition, the majority is external loans, at around 54% of GDP which is high compared to 31.9% in Kenya, 27.9% in Uganda, 16.9% in Burundi[70], but domestic debt has increased during Covid.

Rwanda has been astute in its debt management - most is concessional in nature (75% from multilaterals), it successfully repaid its Eurobond in 2021 through a new issuance with lower rates and a large part of debt has been used to finance capital expenditure for growth. Rwanda´s Medium Term Debt Strategy (MTDS) has reiterated the countries approach to debt management – prioritisation of concessional funding while non-concessional funding may be considered for projects with high economic and financial returns that cannot get concessional funding[71]. Debt servicing also increased sharply 20/21 to come back down to 13.2% of national budget in 23/24, compared to projected spend of 15% on education and 7.3% on health in 23/24. The current debt situation, however, has narrowed the scope for further public spending and unlocking domestic and international private investment is becoming critical.

Figure 15





Source: World Bank, Economic Update January 2024

Shifting the growth strategy from a government-led to a private-sector led has become increasingly important, yet private investment as percentage of GDP has seen modest growth. While public investment has seen a substantial rise, from 5.0 percent of GDP to 13.8 percent between 2007 and 2022, private investment has seen limited growth from 12.7 percent of GDP in 2007 to 15.8 percent[72]. Compared to regional peers, Rwanda's private investment remains low, with Uganda at 16.9 percent and Tanzania at 24.3 percent of their respective GDPs in 2022.

Plugging the investment gap and increasing flow of private investment to key productive sectors and infrastructure will require both attracting more FDI, but also developing the financial sector and expanding current levels of domestic savings. Although Rwanda´s FDI stock has increased dramatically, flows are below peers such as Uganda. This performance can be explained by several factors noted earlier: (i) structural constraints that increase the cost of doing business (energy, transport, skills); (ii) high cost of capital and low level of savings; (iii) small and underdeveloped market that limits investment opportunities; (iv) investor aftercare is still below expectations. The strong presence of state- and party-owned enterprises (SOEs) and their impact on market development and competition is also emerging as a challenge to private investment as noted earlier[73].

Despite positive progress on overall financial inclusion, key concerns remain including increasing the domestic savings rate to reduce external dependence and support investment and growth, and the need to mobilize more credit and investment to productive sectors. Financial inclusion has risen steadily – from 48% in 2008 to 93% in 2020 (FinScope 2020) – including increased uptake of formal financial services. However, challenges persist to translate financial inclusion into positive real economy outcomes. Although the financial sector has expanded and diversified, it remains in its early development stages and is constrained by the small market size that limits economies of scale. The sector is characterized by lack of innovation and low competition. High collateral requirements, limited financial education, and gender disparities are significant barriers to access finance. Only 4% of formal credit flows to the agricultural sector and interest rates of 18%[74] to 25%[75] constrain business viability. Capital markets could play a larger role mobilizing savings and investment, but the Rwandan capital market and stock exchange remains nascent.

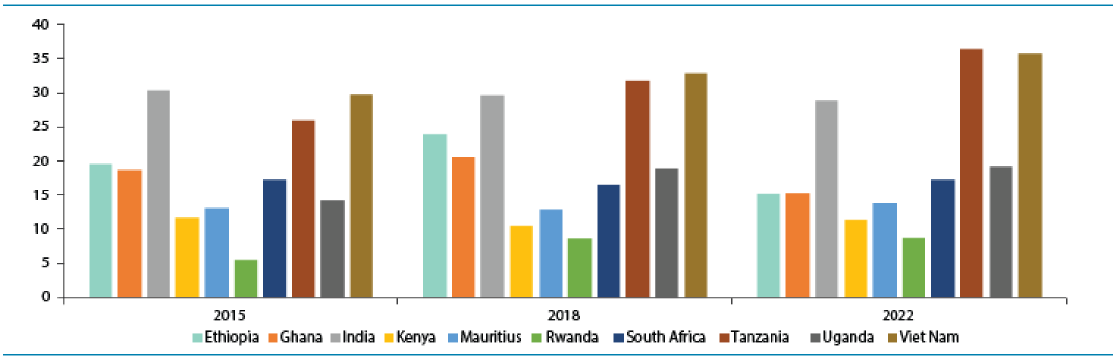
Rwanda´s low domestic savings rate, the lowest in the EAC region, is also striking and almost 30 percent of Rwandans still depend on informal savings methods, such as savings groups, without using any formal savings products[76]. Households where the head had less education or is female, rurally located or with agriculture as the main source of livelihood are all less likely to save in a formal institution. The Ejo Heza scheme, a voluntary defined contribution program established in 2017, has shown potential to boost domestic savings. In 2023, it reached 27% of the working-age population, particularly low-income households, and the informal sector, which together comprise 87% of its savers[77].

Rwanda acknowledges the important role the diaspora [78] can play for financial transfers, image building, trade, and investments. The Government has set up institutional, policy and legislative frameworks to coordinate, facilitate, and incentivise diaspora engagements. Remittances have been growing steadily over the years and overtook FDI flows from 2020. In 2022, remittances amounted to about US$474 million, or 3.5 percent of GDP, contributing significantly to the current account balance. Remittance recipients in Rwanda are primarily urban, well-educated, and relatively well-off. According to data on remittances and diaspora, 87% send remittances to families to be used for consumption, while 21%, have sent remittances for investment, mostly in land, property, or family businesses[79]. Remittance recipients demonstrate greater focus on human capital investment and entrepreneurship which means they contribute to job creation and help stimulate local economies. This additional contribution has significant welfare impacts at the household level and arguably assist Rwanda's poverty alleviation efforts. Among diaspora 82% express a desire to engage in the development of the home country but face constraints such as lack of information, limited encouragement, inadequate support, lack of opportunities and administrative hindrances, as well as the political dimensions discussed further down[80]. Despite important progress, the cost of remittances remains high and remittance fees in Rwanda are among the highest in the world[81].

Figures 16

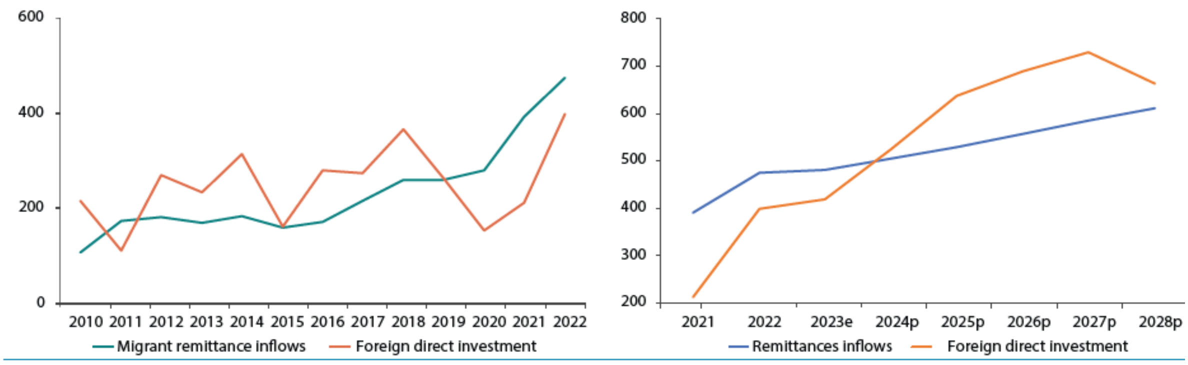
Figure 2.2: Gross domestic savings – Rwanda and peers

(percent of GDP)



Source: World Bank's WDIs

Figure 2.8: Remittance inflows and FDI, 2010-2028
(US$ million projections after 2022)



Sources: World Bank (2010-2022 data) and IMF (2021-2028). The World Bank data are the most recent estimates from KNOMAD, June 2023. The IMF data are from the Jun 2023 staff report.

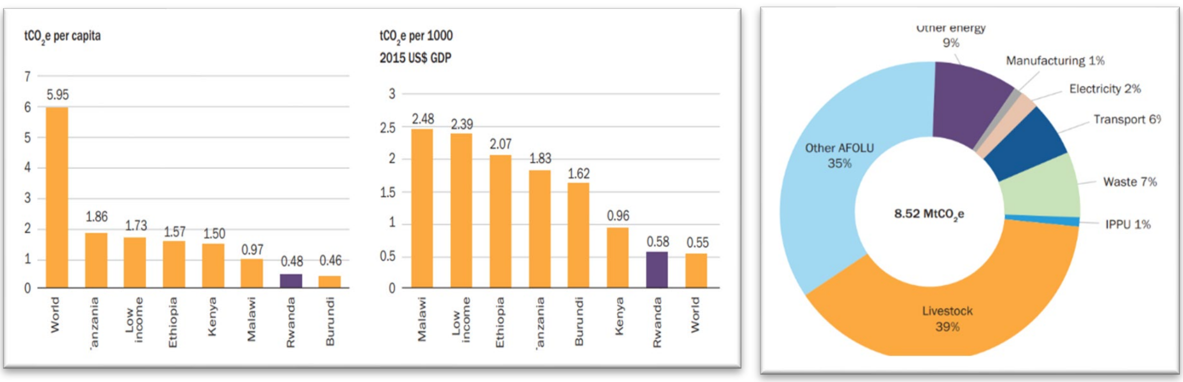
2 ENVIRONMENT CONTEXT

a) Overview, geographic profile, and climate change impacts

Rwanda has a tropical climate moderated by hilly topography stretching from east to west and variations in temperature and precipitation and their distributions are the main drivers of climate and weather-related disasters that negatively affect Rwandans and the overall economy[82]. The east and some parts of southern Rwanda are associated with longer dry periods and low precipitation levels, while the northern and western parts of the country receive high rainfall which have been becoming more frequent and intense in nature in the recent past[83]. The country's risk atlas (2015) indicates that the main risks/impacts that adversely affect the population include droughts, floods, landslides, and storms affecting each climatic region differently[84]. These are associated with damages to infrastructure, loss of lives and property including crops, soil erosion, water pollution.

Although Rwanda is among the countries with lowest emission per capita worldwide (*see Fig.7 below*), the country is highly vulnerable to climate change and the impacts potentially significant as Rwanda´s growth is highly reliant on climate sensitive economic sectors, such as nature-based tourism, rainfed agriculture and extractive industries. Together these account for 65% of employment and nature-based exports account for 40% of total exports[85]. Climate change is likely to increase variability in crop yields and agricultural production, cause severe flood damage to physical capital, reduce labour productivity, and impact demand for tourism products.

***Figure 17*: Rwanda's Per Capita and GDP Emissions and GHG Emissions by Source (excluding removals)**



Agriculture remains the largest contributor of emissions constituting 55% of the total emissions predominantly from livestock and fertilizer usage. The agriculture, forestry, and other land use (AFOLU) sector accounts for approximately 74%, or 6.26 MtCO2e, with emissions from livestock contributing the most as seen in Fig.8 above[86].

b) Demographics, vulnerability, and natural resources degradation

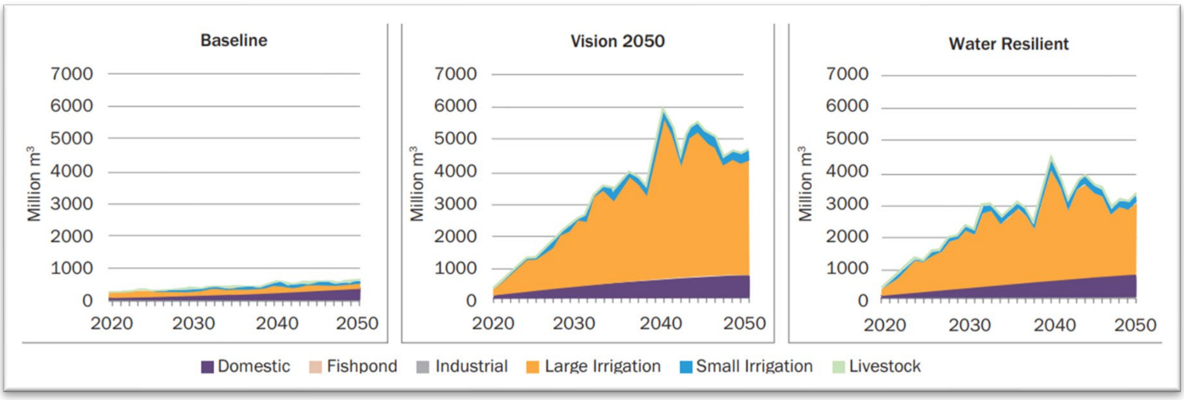
The rapid population growth and density discussed at the start of the report will not only drive demand for more land but also generate high levels of waste which will exert more pressure on natural resources. The target of 70% of the total population living in urban areas by 2052 need to eb managed[87]. Currently 40% of the population lives in informal settlements[88] and if the rapid rate of urbanisation is not matched with development of required infrastructure such as roads, waste disposal and sewer systems, it risks leading to an increase in the number of people living in informal settlements and increased air and water pollution in the medium and long-term[89].

Agriculture sector besides being the biggest contributor to employment and livelihoods is also the most vulnerable to climate variability. The World Bank estimates that extreme weather years (floods and droughts) lead to up to a 10 percent loss of total agricultural production value[90]. Currently, 69% of Rwandans are engaged in agriculture, primarily rain-fed and subsistence in nature[91]. Limited nonfarm job creation and a still largely rural population means a growing population continues to exert pressure on scarce land and natural resources. This has spurred rapid deforestation, loss of natural habitat and biodiversity increasing the risks of land degradation and soil erosion[92]. One of the major drivers of deforestation and biodiversity loss is huge demand for biomass for energy use.

High demand for wood supply for both firewood and charcoal production is among the top contributing factors to increased cases of deforestation across the country. Currently more than 70 percent of Rwandan population is still reliant on firewood and wood for charcoal as their main source of energy mainly for cooking. Some sources indicate that the demand to supply ratio is 2.1 and this deficit is expected to continue increasing in case alternative sources of energy are identified. This deficit is the main underlying factor that further exerts pressure both on privately owned and public forests.

Rwanda has lost 36% of its wetland ecosystems since 1988 and this negative trend has benefited mostly agriculture sector due to government plans to intensify agricultural production and food security ambitions[93]. The transformation of wetland ecosystems to agriculture has also increased the risk eutrophication of water sources to a greater extent[94]. Rwanda's water and wetlands resources are also under great pressure due to population growth, urbanization, pollution, and degradation from numerous economic activities compounded by the effects of climate change[95]. Additionally, the country is likely to experience future water resources challenges across different geographical areas that could hinder future productivity, growth, and transformation in the country. The World Bank (2022) predicts that, the annual water demand is expected to increase significantly by 83% by 2050, relative to 2020[96]. Is expected that this increase in water demand will predominantly shifted by both domestic use and irrigated agriculture as seen in fig. 20.

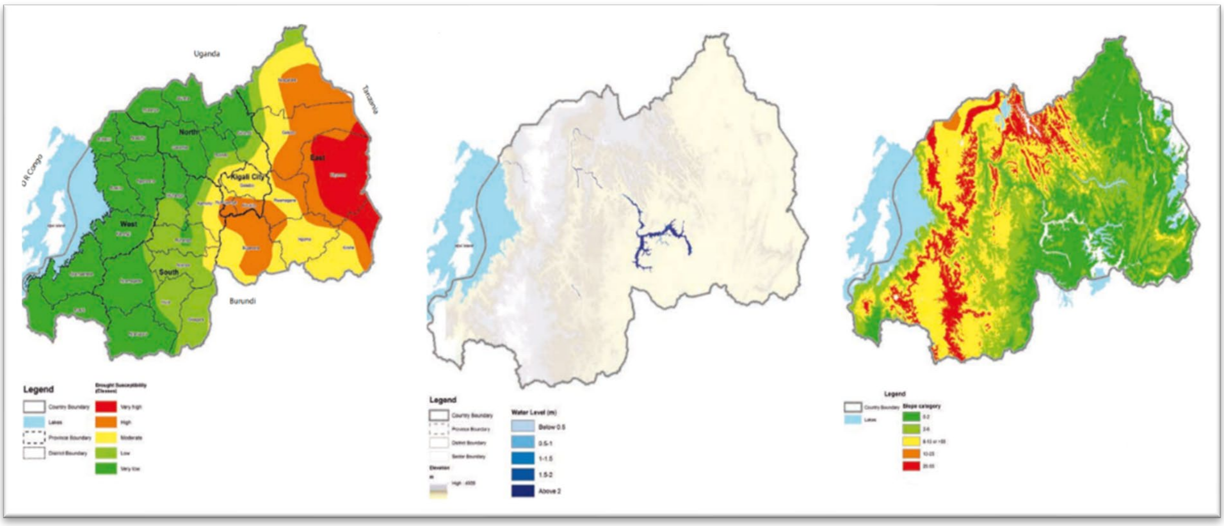
Figure 18 Projected Annual Water Demand, 2020 – 2050



Source: World Bank CCDR – 2022

The country's high elevation not only moderates its climate, but it also increases the country's exposure to landslides and soil erosion. Soil erosion has increased by 54% since 1990 and is estimated to cost 2% of agricultural GDP/year in lost productivity[97]. For instance, a total of 125 deaths only in 2020 were recorded due to landslides predominantly in the Northern and Western parts of the country. The 2018 floods alone caused an estimated USD 236.7 million (2.7% of GDP) in losses[98]. In the recent past, the country has been affected by recurring landslides, heavy floods, and severe droughts. The geographical profile of these risks differs across the country, as shown by the risk maps below (Fig.24). Soil erosion and landslide risks are predominantly in the Western and Northern provinces, while droughts have been prevalent in the Eastern part of the country.

Figure 19: Hazard profile for Rwanda – Season B. Droughts (Left), Flooding (Centre), Landslides (Right)



Source: Rwanda Risk Atlas 2015

Rwanda is among the highly vulnerable countries to the effects of climate change and the impacts significant as Rwanda´s economic growth is highly reliant on climate sensitive economic sectors. Sectors such as nature-based tourism, rainfed agriculture and extractive industries account for 65% of employment and nature-based exports (such as tourism, minerals, agriculture) account for 40% of total exports[99]. Climate change is likely to increase variability in crop yields and agricultural production, cause severe flood damage to physical capital, reduce labour productivity, and impact demand for tourism.

The World Bank also estimates that if Rwanda doesn't strengthen its resilience against different climate change effects, the country's GDP levels might drop by 5–7% below baseline in multiple years by 2050, with a huge negative impact on private consumption, exports, and government revenues[100]. For instance, in 2012 the failure of the rainy seasons and a major drought led to a below average harvest and a 4% decline in 2013 GDP growth due to lower agricultural output[101]. The economic costs of climate change are projected to be significant, estimated at 1% of annual GDP costs by 2030, rising to 2.5% by 2050[102]. These economic implications can undermine the pace of structural transformation, Rwanda´s growth prospects and slowdown poverty reduction efforts in the long term as the cumulative effects over time can reduce the future size of the economy. In order to sustain the country's growth trajectory and gains, efforts are needed to enhance resilience by improving adaptive capacity against climate-related risks.

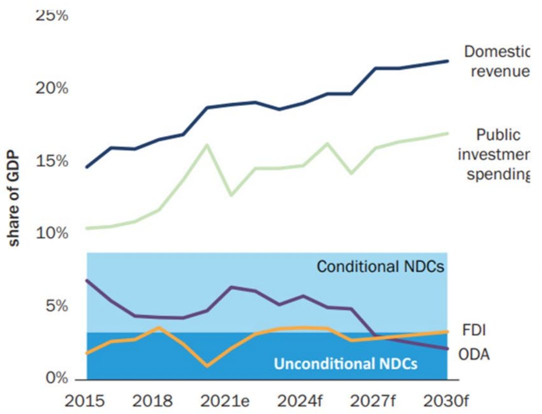
Rwanda is drastically affected by climate change impacts and related disasters, the effects are geographically distributed, and different population segments are affected differently. Households living in poverty, especially rural households engaged in agricultural activities, are highly vulnerable and mostly affected due to their weak mitigation and coping capacities. Climate-related shocks already keep people in poverty, or can drag them back into poverty, because these groups have fewer resources, higher vulnerability, and lower adaptive capacity[103]. For instance, a 2021 study on gender and climate change, found that rural women are more affected by impacts of climate change compared to men[104] This is predominantly due to the perceived gender roles and norms, but also their strong involvement in rain-fed agriculture. Poor urban households are also indirectly affected in form of increased food prices, in cases where climate related shocks affect the agricultural output.

c) Policy landscape, financing, and implementation gaps

Rwanda has committed to reduce its Green House Gas emissions (GHGs) by 38% compared to business as usual by 2030[3], implementing the commitments articulated in the NDC is estimated to require new investments of US$11 billion, of which close to US$7 billion is conditional on external financing. This is equivalent to spending an average of 8.8% of GDP each year through 2030 (see Fig.25) — exceeding recorded and projected annual inflows of ODA and FDI between 2015 and 2030 and representing a large share of projected domestic revenue collection during the same period[105]. While Rwanda has been successful in attracting climate finance, the available finance flows are not high enough to deliver the anticipated conditional targets in the country's NDC[106]. A review of the potential for climate finance, has identified a current potential pipeline of USD 500 million up to 2030, which falls short of the estimated unconditional financing needs for adaptation of USD 3.2 billion[107].

Figure 20: Projected NDCs costs compared to current fiscal and external flows

	Unconditional	Conditional	Total
	(Millions of U.S. dollars)		
Mitigation	2,010	3,667	5,677
Adaptation	2,145	3,218	5,364
Combined	4,155	6,885	11,041
Avg. annual share of GDP, 2022–2030	3.3%	5.5%	8.8%
Share of 2020 GDP	43%	71%	114%



Source: World Bank CCDR

Rwanda is mostly regarded as a strong green policy reformer and has been among regional leaders in the environment protection and embracing the sustainable development pathways. The government has adopted several ambitious environmental policies and goals and the public financial management (PFM) system has made significant progress in mainstreaming climate. Yet human capacity constraints in the government, particularly at sub-national levels, as well as across the economy affect implementation of policies and growth of green economic sectors. Civil society actors in this space, most especially the young environmental actors, are increasing.

3 POLITICAL AND INSTITUTIONAL CONTEXT

a) Introduction - the social contract

The 1994 Genocide against the Tutsi destroyed the political, social, and economic fabric of Rwanda. When the Rwandan Patriotic Front (RPF) came to power after the genocide, it inherited entirely collapsed state institutions, a heavily traumatised society, widespread insecurity, and well-founded fears of a return to mass violence. The overriding objective of maintaining stability and security – against the

[3] Rwanda's updated NDCs 2021 – P23

backdrop of the Genocide against the Tutsi and continuing conflict in the wider region – has since dominated the Rwandan political landscape.

The Rwandan political and institutional environment is fundamentally shaped by the effects of the Genocide and by the power and reach of the Rwandan state. The government led by the RPF has built an effective administration, driving an impressive social and economic recovery since the 1994 Genocide against the Tutsi. Despite the deep societal impact of the Genocide, the country has remained peaceful and stable for the last 30 years. A key reason for this has been the high degree of state effectiveness in the provision of security, delivery of services and tackling corruption at all levels of government. As discussed earlier, since the beginning of the presidency of Paul Kagame in 2000, Rwanda has recorded consistent economic growth and delivered socio-economic development in ways that directly tackle deep-seated inequalities, which historically have been crucial drivers of conflict in Rwanda.

This stability, however, has come at the cost of civil and political rights. International freedom and democracy indices typically paint a negative picture of Rwanda. For example, Freedom House ranks Rwanda as *Not Free* in terms of both political and civil rights, citing "suppressed political dissent through pervasive surveillance, intimidation, arbitrary detention, torture, and renditions or suspected assassinations of exiled dissidents" [108]. There are significant constraints on civil society and the media and a restrictive holding of elections, dominated by the RPF and characterised by severe limitations on the ability of opposition parties to campaign[109], as discussed below. The picture presented by international comparative studies and indices, while not incorrect, however fails to reflect the full context for the attainment of human rights in Rwanda.

The Rwandan social contract is based on the state expecting citizens to tolerate a high degree of government control and limits on their expression and association. In exchange, citizens expect the state's sustained provision of security, economic growth, and a robust socio-economic safety net.[110] To date, this situation has generally held firm, producing an overall sense of societal stability. However, the sustainability of this social contract in the long-term is uncertain. Barriers to delivering inclusive economic growth, as well as the global and regional context, may challenge the state's ability to deliver on its development agenda. The Covid-19 pandemic tested this capacity, resulting in widespread disenchantment, especially in Kigali.[111] In parallel, information technology now enables a freer flow of information and political expression in social media, which is challenging a system in which the state's control of information has been key. This technology is consumed by a new generation of Rwandans less influenced by the legacies of the Genocide than their forebears. These combined factors point to fragilities in the country's political, institutional, and social equilibrium in a rapidly evolving context which needs to be understood and monitored in the coming years.

b) Political culture and democratic space

While the 2015 constitution enshrines a multiparty system and guarantees Rwandans the right to choose their government through free and fair periodic elections, Rwanda has a weak track record regarding liberal, electoral democracy. Rwanda brands itself a "consensual democracy", with non-divisionism and national unity as key ideological principles. Elections in Rwanda are heavily circumscribed and provide limited means for Rwandan citizens to hold their leaders accountable. Senior political figures routinely critique Western liberal models of competitive multi-party politics, arguing instead for the perceived benefits of Rwandan approach.[112] For example, the National Forum of Political Parties is intended to provide a space for non-adversarial cross-party consultation.[113] This emphasis on consensual politics is driven, at least in part, by the history of externally-imposed, unregulated multiparty democracy in the early 1990s, which led to the growth of ethnically chauvinist political parties and the routine use of violence to pursue political objectives. Some commentators link this period of violent multipartyism directly to the violence deployed during the Genocide against the Tutsi.[114]

Today, all but four seats in Parliament are held by RPF or RPF-allied parties, which limits parliament's ability to hold the executive to account. As highlighted by v-Dem's rating on *horizontal accountability*, the ability for the Rwandan legislature to provide an effective check on the government remain low compared to the wider region.[115] While the RGB lists 11 active political parties in Rwanda,[116] only the Democratic Green Party occasionally criticises significant government policies and the space for opposition political parties to organise, register and mobilise is severely constrained. There have been reports of state infiltration of opposition groups, harassment of opposition members and inducement of citizens to become members of the RPF.[117]

The political culture is deeply influenced by the culture of the ruling party, with a tradition of top-down decision-making, revolving around the central figure of President Kagame and the Office of the President (OTP).[118] One of the manifestations of this culture is the regular turnover in senior and mid-level state personnel, with regular cabinet reshuffles. This reflects a desire to keep leaders accountable, 'on their toes' and to favour those dedicated to building a 'new Rwanda' over those considered too wedded to the past.[119] The rate of change within the RPF's ranks has increased in recent years and, while ensuring the regular refreshing of personnel and policy ideas, has also proven disruptive to some national decision-making.[120]

Dissent among Rwandans is carefully managed, with more space to question policy *implementation* than policies themselves. There is a growing scope for discussion on issues related to local service delivery, as witnessed in the wide range of public gatherings designed to hold local leaders accountable (see below). It is, however, more difficult for citizens' voices to be heard at the top of government and therefore to substantially influence national policymaking.[121] While certain human rights-related topics are relatively easy to discuss – such as aspects of women's rights or anti-corruption – many Rwandans tend to steer away from 'sensitive' political topics. Expression considered 'divisionist' or reflective of 'genocide ideology' is criminalized under the law. While laws on defamation have eased, there are still several laws criminalizing defamation. An administrative structure stretching to the village level allows the state to maintain a culture of surveillance and reporting on citizens' activities.[122] Together, all of these factors constrain open political expression and dissent towards national policymakers.

c) Policymaking and Accountability

Rwanda has a system of upward accountability, where officials are primarily accountable to the President. Core to the functions of all state officials are *imihigo* performance contracts signed between the Office of the President and district mayors. While the system allows citizens to monitor local government officials based on these contracts, and increasingly to influence their formulation, central officials set policy objectives and activities. *Imihigo* performance is monitored annually at the National Leadership Retreat, where the best performing local officials are rewarded while others are publicly castigated for poor policy implementation.[123] Also, the yearly Umushikyirano is another "home-grown" accountability mechanism led by the President. It is a public event where national leaders up to the ministerial level and local government officials are held accountable for their performance, largely based on a sample of citizen complaints.

While contributing to transparency and accountability, a key weakness of *Imihigo* is its reliance on quantitative measurements. It monitors numerical policy outputs rather than the quality of government initiatives.[124] Furthermore, some question whether *Imihigo* improves service delivery, as local officials report feeling under pressure, both from citizens and higher levels of government, which inhibits their decision-making at the community level.[125] Recognising some of these deficiencies, the Office of the President has demanded a review and reform of the *imihigo* system.

Decentralisation is increasing and citizen participation is evolving. Districts are seen as the main level of local government in charge of policy implementation, spending approximately 25% of the national budget and employing around 50% of the state administration.[126] In 2000, Rwanda instituted an ambitious decentralisation policy designed to move away from heavily centralised practices under previous regimes, and the revised 2021 policy consolidates this direction further[127]. A larger degree of fiscal decentralisation is in the plans to increase districts' ability to fund locally identified priorities.

At the local level, citizens exhibit political agency in a wide range of spaces. Community life is characterised by regular attendance in a range of citizen gatherings, both to participate in community works and to discuss common issues. Citizens find such spaces important for their sense of 'being Rwandan' and for participating in processes that concern their communities.[128] Evidence suggests that some of the current mechanisms have even contributed to gradually changing the political culture towards more openness and changing a "culture of silence"[129]. Recently, the government has further increased its policy focus on citizen participation, including through the 2021 Decentralization Policy.

The democratic potential of citizen participation is still challenged by structural constraints. While there is some recent evidence of the state's willingness to adapt policies on the basis of citizens' criticism, provided this is framed in terms of the government's wider agendas, local mechanisms are still limited in respect to shaping national decision-making or holding higher-level officials accountable.[130] Second, meaningful participation is undermined by the fact that local officials still have few funds at their disposal, with most of the national budget earmarked at the central level[131]. Moreover, the plethora of different participation mechanisms, both government and civil society-led, has resulted in a "participation fatigue"[132].

d) The role of Civil Society and Media

While there has been gradual progress in the past 30 years on freedoms of expression and association, Rwanda still rates lower than the average for sub-Saharan Africa and most other EAC countries. Reporters without Borders currently ranks Rwanda below Kenya, Burundi and the Democratic Republic of Congo but above Uganda and Tanzania in terms of press freedom.[133] As a result, despite improvements over time, the ability of media and civil society to provide an effective check on the government remains limited.[134]

The relative weakness of civil society organisations (CSOs) to influence and to monitor government is explained by the political environment, but also their limited internal capacities and financing. In terms of an enabling environment, while development oriented CSOs supporting the government's policy agenda are generally able to operate without interference, organisations working on human rights *and* that are perceived to be critical of the government or established narratives face challenges. CSOs' service delivery role is encouraged more than their policy advocacy role. Various sources report the onerous process for registering CSOs and the close oversight of CSOs by the Rwanda Governance Board. Over the last 20 years, various CSOs have been forcibly disbanded after falling foul of the government. Moreover, many CSOs have internal capacity gaps regarding advocacy and monitoring as well as weak governance and management systems. New stricter legislation regulating CSOs and increasing Government oversight is under discussion. The sustainability and independence of CSOs are also undermined by a heavy dependence on ODA, which may skew their agendas toward donor priorities. Taken together, some observers argue, these factors inhibit CSOs' capacity to hold government accountable and to advocate for substantial policy reforms.[135]

Similarly, despite gradual reforms, the range of perspectives currently available within the Rwandan media is narrow. While explicit government censorship is reported less frequently than the regional average, the Rwandan political culture discourages media from directly criticising the state[136], leading to a deep-rooted self-censorship. While there has been some liberalisation of the legal framework governing media practice, there are elements within the legal framework that curtail expression and journalists can be prosecuted for harming the reputation of the nation.[137] The self-regulatory body Rwanda Media Commission, established by the 2012 media reform, still must balance its independence as an industry body with an expectation to maintain a relationship with government.[138]

Nominally independent media institutions are still dependent on government buy-in and capacities are low. As part of a media reform launched in 2012 the state broadcaster was turned into a public media company, the Rwanda Broadcasting Agency (RBA). The RBA still dominates the sector – 80 percent of

Rwandans listen to its main radio channel every day.[139] While making serious efforts to apply public service values, the RBA is still widely perceived as government media. As advertisers gravitate towards the RBA, private media houses struggle to raise sustainable financing to build and retain capacities. Signs of a gradually more daring media culture can however be seen, for example, in Kinyarwanda radio phone-in programmes increasingly catering for heated debate and public criticism of state officials.[140]

Arrests of high-profile online media personalities may have a chilling effect on the media landscape. For many years, an apparent anomaly has existed in the openness of Rwandan social media to freer discourse and critique than exists in the traditional press.[141] This has reflected Rwanda's desire to become an African high-tech hub. Indeed, Rwanda still refrains from directly regulating social media, but in recent years prominent YouTube critics have attracted increasingly negative attention from powerholders, suggesting a tightening of the social media space. Particularly between 2020 and 2022 several YouTubers were prosecuted, including for inciting insurrection, spreading false information and genocide minimization, some given long prison sentences while others were held in pre-trial custody for several years before being released.[142] The government and many Rwandans alike are concerned about misusing the freedom of expression for spreading genocide ideology online.

A new media policy, expected in 2024, will consider new trends in technology and is expected to establish new, voluntary compliance mechanisms for social media actors and pave the way for investments in digital media literacy. It also intends to strengthen self-regulation and public service media, among other reforms. Whether this policy will contribute towards liberalising the overall media environment is not yet clear.

e) Inclusiveness of Political Participation

Research indicates that Rwandan women, youth and other historically marginalised groups tend to struggle to participate meaningfully in many arenas of political life. The patriarchal nature of Rwandan culture is seen as a key impediment in this respect, as are the weaknesses in the Rwandan education system, discussed earlier in this report. Parliamentary quotas and other mechanisms designed to increase the formal political role of women have yielded positive results. Community-based institutions such as the *abunzi,* responsible for mediating a wide range of local disputes, shows an increasing role for women, which is linked to the prominence of women in earlier processes such as *gacaca*.[143] Yet deeply rooted cultural norms limit the ability of women to fully realise their potential as political agents.[144] Women's organisations report that the quota system guaranteeing 30 percent for women both at local council and parliamentary levels is widely misunderstood as a ceiling, keeping women from running against men. Also, the burden of unpaid care work keeps many women from pursuing public careers.[145] The Batwa[4] are nominally represented in political decision-making through inclusion in the 'Historically Marginalised Peoples' (HMP) category, which guarantees one seat for a Twa senator. However, according to critics, the concerns of this group, particularly around land ownership and forced removals in conservation areas, are conflated with those of other marginalized groups and thus not systematically addressed.[146]

Despite the increasing importance of the post-Genocide generation, the role of ordinary youth in politics is marginal. While many Rwandan youth report regularly attending community dialogue and local governance events, they often find these spaces fail to enable youth voices and to address young people's concerns.[147] Despite the general impression that people born after 1994 have a different approach to societal issues from their parents, the Rwandan youth "movement" is nascent, and youth led CSOs are generally weak.

[4] The Rwandan parliament guarantees representation by "Historically Marginalised Peoples" (HMP), which include women, people with disabilities, Muslims and the third "ethnic group" Batwa. For further discussion of the use of the "HMP" label, see, R. Ntakirutimana, M. Laws and Collins, B., 'One Rwanda for all Rwandans':(Un) covering the Twa in post-genocide Rwanda' in *Rwanda since 1994: Stories of change*, 2019, pp. 125-145; R. Ntakitutimana, Collins, B. and Laws, M. C., 'Becoming "Historically Marginalized Peoples": examining Twa perceptions of boundary shifting and re-categorization in post-genocide Rwanda', *Ethnic and Racial Studies*, *44*(4), 2021, pp. 576-594.

f) Corruption and Political Economy

Rwanda exhibits one of the lowest rates of corruption in Africa. Transparency International's Corruption Perception Index ranked Rwanda 54/180 countries in 2022, compared to Uganda at 142, Kenya at 123 and Tanzania at 94. The Rwandan government has remained committed to its Zero Tolerance to Corruption vision. Several recent assessments find the government has established a robust institutional framework to fight corruption and there is little evidence of "grand" corruption. While Rwanda stands out for its anti-corruption efforts, the reported 4.5%[148] likelihood of bribery remains a problem, particularly in accessing key services, disproportionally punishing the poor. Meanwhile reports of corruption by cell and village officials suggest a different picture at the community level.[149] The Covid-19 pandemic seems to have impacted the likelihood of bribery significantly, with 10% more citizens reporting they had offered a bribe to a government official compared to before Covid.[150]

Along with the degree of political control discussed earlier, the power of the Rwandan state is also apparent in the national economy. Although there are sound historical reasons for strong government direction of the economy of a small, landlocked post-conflict state with few natural resources, the presence of companies with close links to the military and the ruling party creates distortions and vulnerabilities, weakening the private sector[151], exhibiting limited transparency in the awarding of contracts[152] and hindering the capacity for citizens without strong government connections to enter the formal economy.[153] Some commentators argue that the economic dominance of these companies limits political pluralism, as opposition parties and social movements are structurally denied access to vital resources.[154] State-run enterprises are also increasingly active beyond Rwanda's borders, winning major security and other contracts in the wake of Rwanda's peacekeeping missions in Central African Republic and Mozambique.[155] Moreover – compounding the findings above – this system risks creating a structural challenge for the independence of the media, which largely depends on advertisement revenues either directly from the state or from the state-dominated private sector.[156]

g) Access to Justice

Rwanda's justice system ranks highest in Africa in the World Justice Project's 2022 Rule of Law Index.[157] Core to this analysis is Rwanda's effectiveness at maintaining order and security, keeping corruption low, enforcing regulations, and delivering a widely trusted civil and criminal justice system.[158] The 2003 Constitution enshrined a new wave of rights and reaffirmed Rwanda's commitment to a range of international covenants and treaties. [159] [160] Many commentators, however, criticise the Rwandan judiciary's lack of independence from the executive, especially in high profile cases involving state officials or opposition political candidates.[161] Critics also highlight the ways in which the legal framework – particularly laws regarding 'genocide ideology' and 'divisionism' – while responding to genuine post-Genocide concerns can also have a limiting effect on dissent and discussions of Rwandan history.[162]

The Government invests in community based, alternative dispute resolution methods, which have increased access to justice. The *abunzi* mediation committees in every cell and sector address all local disputes, criminal and certain civil cases,[163]and Access to Justice Bureaus provide legal aid to all citizens. These systems have brought justice closer to the local population, increased the number of cases handled outside the formal court system and thus helped reduce the national backlog of cases.[164] In 2023 a new policy on Alternative Dispute Resolution (ADR) was adopted, paving the way for further development of these methods.

Nevertheless, the population continues to struggle to access the formal justice system in more serious criminal cases. This includes seeking legal redress for sexual and gender-based violence[165] and cases involving government actors, such as those concerning land expropriations.[166] Key impediments to citizens' access include lack of knowledge of their rights and of the legal system[167] and widespread perceptions that the justice system is only for the wealthy and powerful in society – including dominance by men, which deters many women from pursuing GBV cases.[168] There is some evidence too that the government's strong emphasis on mediating disputes has impeded citizens' prosecutorial redress through the criminal legal system.[169]

In 2023, Rwanda adopted a new criminal justice policy, enacting a general transition from punitive to restorative justice, with fewer and shorter prison sentences. This is partially a response to overcrowded prisons – Rwanda has the world's third largest prison population per capita[170] - but a reduced backlog in courts may reduce time spent in pre-trial detention and shorter sentences may increase the proportionality of sentences to the crime.

4 CONFLICT AND PEACE CONTEXT

Rwanda is rightly praised for its comprehensive recovery since the 1994 Genocide against the Tutsi. Various state-led and non-state peace, reconciliation and socio-economic processes have tackled root causes of historical violence in Rwanda. Yet, the consequences of the Genocide continue to reverberate deeply in Rwandan daily life, manifesting most acutely through individual and collective trauma. This creates potential conflict dynamics that require constant management. Furthermore, numerous post-Genocide legacies such as land pressures and regional conflicts compound those historical factors, requiring vigilance to sustain peace and stability in the longer term. The extent to which various intersecting post-Genocide legacies continue to shape Rwandan society today should not be understated. In addition, human security is affected by social norms related tensions, causing gender-based violence and discrimination and violence against sexual minorities.

As is shown throughout the chapter, the recent experience during the Covid-19 pandemic showed that external shocks and pressures can exacerbate different underlying tensions and challenge the Rwandan resilience to conflict.

a) Post-Genocide Legacies

Widespread trauma and complex relational dynamics, coupled with the challenges of poverty, create a precarious post-Genocide environment. For much of the population, the 1994 Genocide against the Tutsi is not distant history but a daily reality. Research emphasises the sense of "woundedness"[171] and prevalent Genocide-related trauma across Rwanda, most acutely among genocide survivors and their children.[172] Lately also the trauma of perpetrators and their children has gained some attention. Women experience particular forms of this trauma, including as victims of sexual violence during the Genocide. As the Government has acknowledged, trauma has been handled much less effectively than other post-Genocide legacies, due to limited psychosocial expertise[173], but in the past years the mental health discussion and response has picked up. The mental health situation produces multidimensional vulnerabilities across Rwandan society, affecting people's livelihoods and linking Genocide-related trauma to gender-based violence and increased alcohol and drug dependence.[174]

Intergenerational transmission of trauma and guilt is a challenge, most prominently for descendants of survivors. A specific vulnerable group of young adults are children born of genocidal rape[175], known to be discriminated against due to the circumstances around which they were conceived. Recent years have witnessed tensions stemming from many young Hutu Rwandans' perception that they have been unfairly saddled with guilt, despite the majority being born after the 1994 Genocide of the Tutsi.[176] Research shows that this "intergenerational transmission of guilt" has been viewed as limiting young Hutus' ability to carve out a future on their own terms, free from the shame of the past.[177]

Rwanda is faced with the release of the approximately 22,000 remaining genocide convicts between 2023 and 2028, most of them convicted during the *gacaca* prosecutions between 2002 and 2012 and sentenced for the most severe crimes.[178] It is currently unclear over what timeframe those prisoners will be released. The experience from previous waves of returning genocide perpetrators, including the estimated 270,000 individuals convicted by *gacaca* to community service a decade ago[179] and returnees from DRC,[180] has created some community resilience. However, communities that feel they had begun to "settle" after the ten years of *gacaca* trials may find this return destabilising. That this occurs in communities under current economic pressures could produce localised tensions, not all of them foreseeable.

Various processes at multiple levels of society have been geared explicitly towards managing conflicts, providing significant *drivers of peace* and decreasing the risk of ethnic violence. Government measures to create a national identity of "Rwandanness" have helped foster inter-ethnic trust and dampened ethnicity as a key fault-line in Rwandan society. Considerable energy has been dedicated to addressing the obvious legacies of the 1994 Genocide against the Tutsi, not least complex inter-personal and inter-communal relations. The sustained emphasis on citizen participation and alternative dispute resolution, discussed earlier, should be seen through this lens. The equal provision of *Ubudehe* social protection across the ethnic divide, for example, has been crucial in reinforcing the state's message of a national identity overcoming the ethnic favouritism of the past[181], and should be considered a major driver of peace. Research suggests ethnicity has decreased as a factor likely to drive future violence, as inter-ethnic trust has increased over the last 20 years.[182]

With the establishment of the new Ministry for National Unity and Civic Engagement (MINUBUMWE) in 2021, some new policy initiatives have been taken. This includes the introduction of the "community resilience" concept, shifting attention from reconciliation to building resilience to conflict at all levels of society, including through a stronger focus on trauma healing, as well as the rehabilitation of *genocidaires* being released from prison.

Nevertheless, inter-communal relations, while being carefully managed, remain fragile – as evidenced by cases of genocidal hate speech and localised cases of violence linked to the annual commemoration period.[183] The immense social and economic pressures of Covid-19 brought some of these factors to the fore, compounded by the halting of community-level dialogue and dispute resolution meetings that have been crucial drivers of peace.[184]

a) Regional and Diaspora Dynamics

Rwanda is highly susceptible to violence in the wider region, conflicts in which Rwanda is often deeply entangled. Over the last decade, border closures resulting from Rwanda's political conflicts with Uganda, Burundi and the DRC have stalled trade with these vital partners and hampered livelihoods, increasing deprivation and social tensions between cross-border communities.[185] This has also diluted the potential for efforts at regional and continental economic integration – for example, through the ACFTA, discussed earlier – to foster peace. Conflicts in Burundi, the DRC and, to a lesser extent, Uganda have also created major flows of refugees, some of whom have been hosted in Rwanda. There is some evidence of tensions between these refugee populations and Rwandan host communities, especially over land and other economic issues. However, the same sources highlight the important economic, educational and other benefits to Rwandan communities from the increased infrastructure delivered around refugee settlements.[186]

The current political and military crisis in DRC causes concerning dynamics affecting Rwandans. This includes the advancement of the allegedly Rwanda-backed M23 in eastern DRC, causing international pressures on Rwanda, as well as Rwandan accusations of the Congolese military's support for the FDLR, a group with roots in the old Genocide regime of Rwanda. Recent waves of anti-Tutsi hate speech and violence in Burundi and eastern DRC have caused alarm among Rwandans.

Conflicts within the Rwandan diaspora also have the capacity for blowback to Rwanda itself, shaping the domestic political environment. Rwandan diaspora communities did not participate in *gacaca* or the wide range of other post-genocide justice and reconciliation processes that have contributed to peace and stability in Rwanda today. Thus, many Rwandan diaspora communities remain trapped in a mode of inter-ethnic separation and antagonism that bears little resemblance to the present situation inside Rwanda.[187] That the most organised, including the armed opposition to the RPF has emerged from diaspora communities has led the Rwandan government to respond through two principal means, by positive enforcement of national unity through, for example, Rwanda Day events abroad; and by an active disruption of diasporic opposition groups through infiltration, extraditions and alleged assassinations.[188]

b) Land Conflicts and the Urban-Rural divide

Land ownership and land use constitute highly conflictual issues in both urban and rural Rwanda. This is not surprising in a small landlocked country with a rapidly growing population amid the mass return of refugees, former combatants and the broader (especially Tutsi) diaspora. Two key government policies have created significant land-related tensions and food insecurity in rural Rwanda: the 1995 land-sharing policy by which many plots were sub-divided to accommodate various categories of post-Genocide returnees[189]; and, the 2007 crop intensification policy, which included the mass consolidation of land use and synchronisation of farmers who cultivate the same crops.[190] Such pressures have made land conflicts the most common cases brought before the *abunzi* for mediation[191], which has helped avoid significant violence around land claims, but highlights a need for careful management. A new wave of land conflicts may emerge due to forced resettlements due to climate-related risks, as well as large-scale commercial and infrastructure investments that can trigger new competition for land.[192]

Land conflicts are already increasing in Kigali, resulting from a decade-long up-market construction boom, biodiversity efforts, and land expropriations designed to facilitate these developments. While some Kigali residents report they have been adequately compensated for expropriation of their property, some resent the disruption to their lives and livelihoods. Many residents, however, report inadequate levels of compensation – with some evidence that wealthier and better connected residents are likelier than their poorer neighbours to receive reasonable compensation – which has caused resentment across the capital.[193] Rwanda's secondary and satellite cities also face significant absorption challenges, resulting from rural-to-urban migration, which may increase land disputes in the future.[194] Some of these challenges are being addressed, especially those concerning registration and land use planning, by updating the 2004 Land Policy in 2018, revising the 2005 Land Law in 2013 and again in 2021, and drafting new technically-oriented laws on land valuation and National Spatial Data Infrastructure (NSDI).

The Covid-19 pandemic highlighted various important rural-urban differences, which are important for understanding the peace and conflict dynamics, as similar crises are likely to recur in the future. The collapse of the formal and informal urban economies during Covid – in communities without sufficient land to cultivate – led to largescale food insecurity.[195] The urban population experienced more acute forms of control and surveillance to enforce Covid-19 restrictions that the rural population. The measures caused annoyance in Kigali – expressed publicly by some commentators – much of it directed at the government, which was seen as failing to provide for a desperate population.[196] This pointed to a range of specific societal pressures in Kigali that could, if left unaddressed, breed greater discord in the future. It should also be recalled that rural communities have traditionally participated more regularly and in much greater numbers in both *gacaca* and the range of subsequent local dispute resolution and citizen participation processes than their urban counterparts and thus have dealt more comprehensively with various post-Genocide legacies.[197] Urban residents, on the contrary, tend to have more access to social media, where the discussion during and after the pandemic became freer but also at times with new ethnic undertones.

c) Social Norm-Based and Intergenerational Tensions

A further source of conflict in Rwanda is embedded social norms around gender and sexuality. A particular effect of this is the high rate of domestic and gender-based violence across Rwanda.[198] Some of this is attributed to the legacies of genocidal violence, including trauma, which generate conflict in households. Other observers highlight that government policies for women's empowerment, while ambitious and progressive compared to the region, have so far not delivered on tackling patriarchal norms.[199] For example, commentators argue that the government has failed to recognise that some Rwandan men feel threatened by the government-led women's advancement and retaliate against women through violence and coercion within the home.[200] Traditional social norms is still a major factor hindering the protection of sexual and reproductive health and rights and bodily integrity of women and girls, as described in chapter 2. While the space for feminist activism is slowly opening, feminism remains a controversial topic and feminists often face opposition, including in digital spaces.

Traditional and progressive values are also at odds on the status of LGBTI+ people. The situation for LGBTI+ Rwandans is fraught, and a discussion on their rights is frequently met with opposition. Rwanda stands out in the region as the only country where national legislation does not discriminate against LGBTI+ citizens, and Rwandan political leaders – unlike their peers particularly in Uganda – have refrained from mobilising against sexual minorities. Nevertheless, reports indicate that anti-LGBTI+ norms prevail at the community level, manifesting in marginalisation and sometimes violence against sexual minorities.[201] International and regional Christian anti-rights organisations have been found to attempt influencing Rwandan policy-making. Some Rwandan church groups have openly opposed the enshrinement of LBGTI+ rights in Rwandan law,[202] and vocal opposition to LGBTI+ rights, for example on social media, typically has anti-western connotations.

An often-overlooked realm of conflict in Rwanda, cutting across some of the dimensions discussed in this section, involves intergenerational dynamics. While some are related to values, as described above, other potential intergenerational conflicts are economic, produced, not least by very high rates of youth unemployment.[203] Many young Rwandans also resent that national land laws make it difficult for them to inherit land.[204] Others report difficulties stemming from the fact that their *Ubudehe* categories, which determine their welfare benefits, are tied to their wider family's circumstances. For example, a family's ownership of land and livestock in rural areas may place the entire family in a higher *Ubudehe* category and therefore deliver fewer state benefits for younger family members searching for work and facing considerable hardship.[205]

5 DIMENSIONS OF POVERTY - WHO IS POOR, DRIVERS OF POVERTY AND VULNERABILITY

While both income poverty and multidimensional poverty have fallen significantly since the 2000s, Rwanda is still one of the world's poorest countries and vulnerability is high. As noted earlier, 52% of the population are below US$2.15 a day (2017 PPP) and 78% below the US$ 3.65 a day poverty line.[206] The Multidimensional Poverty Index – which measures deprivations in the poverty dimensions health, education and standard of living – shows that the fall in the multidimension poverty has been largely correlated with improvements in health, while more than half of the 2021 MPI is explained by deprivations in incomes and standard of living with inadequate cooking fuel and poor housing standing out[207]. **Geographical disparities are important, over than 90 percent of the income poor live in rural areas where multidimensional poverty is also higher.** The **Western and Southern Provinces have the highest income and multidimensional poverty rates** and have seen increases in the number of poor and extreme poor.

Research on poverty has found **three overlapping vulnerable groups**, who are at higher risk of impoverishment, chronic poverty and with lower probability of sustaining an escape from poverty: **households with high shares of dependents, those dependent on casual wages in agriculture and female-headed households.** Female-headed households are about 1.8 times more likely to be poor than the average and more likely to be chronically poor. Households dependent on agriculture wages are three to four times more likely to be poor than the rest of the population, have higher probability of being chronically poor and unlikely to sustain an escape from poverty. The higher the share of dependents in a household, the higher the probability of becoming impoverished and the lower the probability of a sustained poverty exit.[208] **Disability is also a considerable barrier to escaping poverty and people with disabilities (PWDs) face inequality barriers across all poverty dimensions**[209]**.**

Several factors have been identified as potential drivers of impoverishment and vulnerability. Dependence on farming (62% of female-headed households compared to 43% among male), food insecurity (also higher among female-headed households and in those with many dependents), and family breakdown and male abandonment which drives downward mobility of women left to provide alone for the family. Conversely**, several factors have been identified as critical enabler for escaping poverty and preventing impoverishment**. Education stands out contributing to reduced likelihood of being poor and as a key enabler for sustained poverty escapes, as well as health insurance and savings to mitigate risks and cope with shocks, collaborative spousal relationships, and diversification of incomes outside of agriculture and into off-farm entrepreneurship.[210]

RESOURCES

Women, youth, people with disabilities and rural populations face powerful inequalities in access to resources. Accessing critical socioeconomic assets such as education and healthcare are still heavily determined by wealth and rural-urban divides. **Gender inequality remains one of the greatest challenges across all poverty dimensions despite positive progress** and serious efforts by government to promote gender equality**.** Socially determined gender norms and gender-based power asymmetries remain pervasive within households and in the wider community. Women and girls have unequal access to and control over productive assets and income, face higher rates of food insecurity and despite legislation on marriage and inheritance, the implementation of such laws is largely limited to married couples, excluding almost a third of unions. **Disability is strongly correlated with poorer living conditions and less access,** including lower access to electricity and improved water sources, and only 65% of school-going children aged 6-17 years with disability are currently attending school, compared to 81% of children without disability.[211]

OPPORTUNITIES AND CHOICE

Access to opportunities and choice is also unequal along similar fault lines leading to less access for women, youth, rural populations, and poor households. Unemployment and underemployment is higher among women and youth, and a larger share of them work in the informal sector. Gendered social norms again represent a significant barrier determining women's agency in terms of autonomous decision-making, division of unpaid informal and domestic work, as well as influencing drop-out rates higher in the education ladder and choices in terms of SRHR[212]. Households in the lowest consumption quintiles and in rural areas face limited opportunities outside of farming, struggle to cover out-of-pocket costs for health insurance and education, and report longer travel times to reach the closest health centre, market, or road.[213]

POWER AND VOICE

Poverty in terms of power and voice is significant, particularly related to freedom of expression, civic space, democracy, and accountability. Strong political control, the effects of consensual democracy and centralized decision-making, leads to **wide-spread self-censorship and a reduced space for dissent and open critique**.

Particularly women, youth, people with disabilities and other so called historically marginalized people[5] struggle to make their voices heard and to influence decisions. This is largely due to social gendered norms, patriarchal culture, and social marginalization. Despite a generous quota for women in Parliament and a relatively strong women's movement, women's political influence is still challenged by social norms and, for example, the burden of unpaid care-work. Existing avenues for participation fail also to bring out youth voices and address young people's concerns[214]. The possibilities of Batwa to influence politics have, despite a quota seat in the Senate, not been enough to address its vulnerabilities and CSOs representing them are assessed weak.

HUMAN SECURITY

In contrast to its neighbours, most of which have experienced cyclical violence over the last 30 years, Rwanda has witnessed almost no largescale violence on its territory since 1994. The high level of human security is remarkable given the post-Genocide legacies and regional dynamics. However, a number of

[5] Here reference is made particularly to the Batwa community

simultaneous factors may increase the risks to this stability in the coming years. These include persistent poverty and unemployment, land pressures, as well as inter-generational transmission of trauma and guilt, the challenges of reintegrating of genocide perpetrators, and risks of regional conflicts spilling over into communities along the borders. Many of these **factors affect young Rwandans,** particularly, which coupled with the lack of power and voice may have consequences in the years to come.

An area of serious concern is that **widespread violence against women and girls** and entrenched patriarchy normalise sexual and gender-based violence, with domestic violence particularly prevalent. **Natural disasters represent a significant threat to human security** and development with recurrent landslides, floods and droughts leading to infrastructure damage, displacement, and human casualties.

6 CONCLUSIONS AND KEY BINDING CONSTRAINTS

Based on the analysis, what are the key characteristics and constraints to multi-dimensional poverty reduction in Rwanda?

1. ***Despite impressively high economic growth, expanding service delivery and rapid poverty reduction, Rwanda is still largely a poor country with stagnating levels of poverty and stubborn inequality, pointing to the need for more pro-poor growth.***
   - The share of people living in poverty has dropped sharply from 58.9% in 2000/01 to 39.1% in 2013/14 to stagnate around 38.2% in 2016/17, suggesting a slowdown in the rate of poverty reduction. Extreme poverty followed the same pattern falling from 40% to 16.3%, to plateau at 16.0%. Using the international poverty line, 52% of the population are below US$2.15 a day (2017 PPP) and 78% below US$ 3.65 a day.
   - Over 90% of the poor live in rural areas and the likelihood of being poor is higher for women, casual wage labourers, people with disabilities and with more dependents.
   - Life expectancy has increased dramatically and access to social services has expanded, surpassing peer countries and some with higher income levels, yet challenges to funding, quality of services and access inequality remain. The rural population, the poor, and people with disability face higher access barriers.
   - Analysis of growth elasticity of poverty suggests economic growth in Rwanda has been less pro-poor, as compared to peers in the region. Structural disadvantages - such the higher share of population dependent on low productivity agriculture, and patterns of growth driven by less labour-intensive sectors - means high growth does not translate well into poverty reduction and inclusion. If not addressed this could impact social cohesion and stability.

2. ***Rwanda has one of the highest population densities in Africa*, exerting pressure on natural resources, public services, and income opportunities.**
   - Rwanda is one of the smallest, most densely populated countries in Africa and the population is expected to double by 2052, exerting pressure on natural resources, public services, and job creation.
   - Population is still largely rural and over 70% depend on rainfed agriculture – land-scarcity is a growing constraint and source of conflict, and unsustainable depletion of natural resources is driving biodiversity loss.
   - Urbanization has been identified as an important driver for poverty reduction, yet it is limited by structural impediments including lack of skills and housing, and strict regulatory frameworks on land-use and informality. A slower pace of urbanization could compromise future growth.
   - Population is young and dependency ratios low but reaping this demographic dividend requires managing population growth, stimulating inclusive economic growth, infrastructure investments, and service delivery.

3. ***Weak growth within the private sector limits the creation of nonfarm jobs* to absorb a growing number of job seeker, leaving an increasing number of Rwandans deriving their income in the informal economy and from agriculture.**
   - The rate of nonfarm job creation in the industry and services sectors has decreased while agriculture's employment share has stagnated around 70%, meaning agriculture has had to absorb an increasing number of Rwandan job seekers, at the same time the sector has exhibited low relative growth and limited productivity gains.
   - Key cross-cutting constraints to private sector growth include small size of the domestic market combined with a logistics penalty as a landlocked country, high costs of and limited access to finance, cost of electricity, a significant skills gap and onerous regulatory compliance requirements. Large state- and party-owned enterprises risk distorting the market.
   - Over 84% of the employment is informal, impacting earnings and work quality with women and youth disproportionately affected. Up to 30% of youth are Not in Employment, Education or Training.
   - Many environment reforms focused on priority growth sectors and formality, potentially inhibiting the growth of more dynamic entrepreneurial and informal sectors. Shifting the focus from 'growth from above' to 'growth from below' can empower the small-scale enterprises, urban informal sector and the rural non-farm economy opening pathways out of poverty for a large proportion of population.

4. ***The rural economy is characterised by overdependence on small-scale agriculture and underdeveloped nonfarm economies* leading to low incomes, high vulnerability, and limited alternative income opportunities.**
   - Land-scarcity, combined with topography and a growing rural population, is constraining land size holdings. Casual wage labour / landless peasants (many of them youth) have emerged as the fastest growing group of highly vulnerable poor.
   - Weak linkages between agriculture and other sectors of the economy means high growth in other sectors has not spurred growth in the agriculture sector or in the rural economy to the extent it is needed.
   - Reduced nonfarm entrepreneurial activities in rural areas limits income opportunities for households. The overdependence on agriculture and on-farm casual wage labour increases vulnerability.
   - Addressing the limited nonfarm income opportunities is critical for poverty reduction. Diversifying livelihood, particularly through nonfarm entrepreneurial activities in both rural and urban areas is a crucial pathway out of poverty.

5. ***Rwanda is highly vulnerable to shocks predominantly climate related shocks,* and the projected economic cost of climate change poses a substantial risk to growth prospects and poverty reduction efforts.**
   - The World Bank also estimates that if Rwanda does not strengthen its resilience against different climate change effects, the country's GDP levels might drop by 5–7% below baseline in multiple years by 2050, with a huge negative impact on private consumption, exports, and government revenues.
   - To sustain the country's growth trajectory and gains, efforts are needed to enhance resilience by improving adaptive capacity against climate-related risks.
   - Rwanda has adopted ambitious policies and goals on climate and environment but faces significant financing and capacity gaps to be able to invest and implement climate and environment priorities.
   - Climate shocks and natural disasters are closely correlated with keeping households in poverty and pushing others back into poverty. Rural households and those dependent on agriculture have limited resilience and rural women have the highest vulnerability.

6. ***Despite significant progress on human capital, Rwanda struggles with weak human capital. Low levels of educational attainment and poor education outcomes constrain inclusive socioeconomic development and progress on other development goals.***
   - Education is one of the most critical enablers for reducing multidimensional poverty and weak human capital is constraining inclusive growth. Yet Rwanda struggles with access and quality challenges and transition rates to secondary education and above are low.
   - Demographic pressure, repetition rates and late enrolment leads to the highest early-grade bulge in the region, with large primary classes compromising quality and education results. Quality is also affected by lack of qualified teachers and poor infrastructure, particularly in rural Rwanda.
   - Distance and out-of-pocket costs are important barriers, particularly in rural areas and for the poor, and girls´ access decreases higher up the education ladder.
   - Improving quality and access requires significant investments in a context of constrained financing, as well as reviewing policy approaches in the sector.

7. ***Stunting rates are stubbornly high, with detrimental impacts on human capital and long-term inclusive socioeconomic development.***
   - Impacts of stunting are both short and long-term with detrimental impact on human capital, per capita income, and Rwanda´s development trajectory.
   - Stunting can further aggravate other important social and economic constraints by lowering education outcomes, productivity, and wages, as well as overall economic growth.
   - Prevalence is higher in rural areas, among the poor and in female-headed households, and strongly correlated to low education among mothers and houses with many dependents. The deepest stunting rates are in the West and South province, particularly Nyabihu, Ngororero and Nyamagabe with 51-59% of children stunted.
   - Inequality of stunting rates and intergenerational transmission risks reproducing current patterns of inequality, exclusion, and poverty, impacting rural areas and poor households, particularly female-headed households, and those with multiple dependents.

8. ***Rwanda´s financing gap to meet the SDGs and its own development objectives are significant while the financing landscape has changed, with reduced ODA and rapidly rising debt levels. Diversifying and increasing financing sources is critical.***
   - Rwanda has been highly reliant on ODA and public investment, yet ODA-levels are falling and are expected to decline further as Rwanda's per-capita income rises and Rwanda´s risk for debt distress has increased from low to moderate, narrowing the space for debt-backed government spending and investment. Unlocking other sources of public and private finance is becoming critical.
   - Domestic revenues have increased and today Rwanda has EAC-region´s highest tax-to-GDP ratio, expanding the tax base further remains important while at the same time balancing the tax pressure and compliance red tape for enterprises and private sector.
   - Plugging the investment gap through private finance is key but requires attracting more FDI, deepening the financial sector and increasing domestic savings to reduce external dependence. FDI flows have increased but face challenges linked to doing business, small domestic market, and competition regulation. Translating FDI's into more long-term high-quality jobs has also been difficult and the overall impact of FDI on inclusion has been weak.
   - Financial inclusion is high but the flow of credit to productive sectors lags, particularly to agriculture, women and small enterprises, and access and cost of credit is ranked as a top constraint for private sector. Domestic savings are among the lowest in the region leading to high dependence on foreign financing.

9. ***Restrictive political and civic space* limits downward accountability and hampers policy-making that is more responsive to citizens' needs.**
   - While an important stabilizing factor in the last 30 years, Rwanda´s political model has had consequences on the space for a broader political debate and accountability.
   - Limited space for opposition political parties, together with weak capacities and self-censorship in the media and civil society, limit scrutiny and dissent and hampers citizens' ability to hold powerholders to account.
   - Existing channels for political and citizen participation provide Rwandans with a degree of agency and contribute to a more open discussion climate but are not effective enough as a channel of influence. Women, youth, and other marginalized groups struggle to participate in a meaningful way.
   - This restrictive political and civic space ultimately limits accountability to citizens and hampers responsive policy-making that addresses needs and priorities of citizens and is adapted to local level priorities. Besides undermining civil and political rights, it can lead to an ineffective use of public resources and undermine the inclusive social and economic development which the Rwandan social contract is built on.

10. ***Persisting underlying tensions and unspoken trauma undermine social cohesion* and create a fragile post-genocide environment.**
    - Efforts to foster a national identity and to manage conflicts, as well as the equal provision of public services and opportunities across the past ethnic divides, have been successful in building inter-ethnic trust and stability.
    - Yet the consequences of the Genocide continue to shape Rwandan society and politics, including through individual and collective trauma, the reintegration of released genocide convicts, land conflicts and fluctuating tensions in the region.
    - Underlying tensions and fears of renewed conflict exacerbate political control and limit the freedom of expression, while contributing to regional tensions.
    - Economic exclusion, inequality and sudden onset crises can exacerbate these tensions and can bring underlying conflicts to the surface.

11. ***Regional volatility affects Rwanda´s stability*, economic prospects, and poverty reduction.**
    - Rwanda is vulnerable to fluctuating tensions in the region. Cyclical conflicts with neighbouring countries directly affect cross-border trade and livelihoods in a small trade-dependent landlocked country, as well as social cohesion and tensions among borderland communities.
    - Volatility in the region also presents risks to domestic social cohesion, as ethnicity linked tensions in neighbouring countries can affect complex post-genocide legacies within Rwanda.
    - Poverty reduction – particularly in bordering communities and hinterland – and investment prospects are closely linked to trade and predictable market access opportunities.

12. ***Discriminative social norms* lead to exclusion, discrimination, and multidimensional poverty.**
    - Socially determined gender norms and gender-based power asymmetries remain pervasive within households and the wider community suggesting deeply rooted patriarchal norms have not been sufficiently tackled. This translates into inequality across all dimensions of poverty – women and girls have unequal access to resources and opportunities, power, and voice to influence decision making and high rates of gender-based violence impact their security. As a result, vulnerability is deeper and poverty higher among women.
    - Discriminative social norms also impact multidimensional poverty of people with disabilities, who face significant access barriers across public services and economic opportunities thus have higher likelihood of being poor and struggle to sustainably escape poverty.
    - Rwanda stands out as the only country in the region without national legislation that against LGBTQI+, yet anti-LGBTQI+ norms are prevalent and lead to discrimination.

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