



RWANDA¹

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New Data Indicate Significant Gains in Poverty Reduction

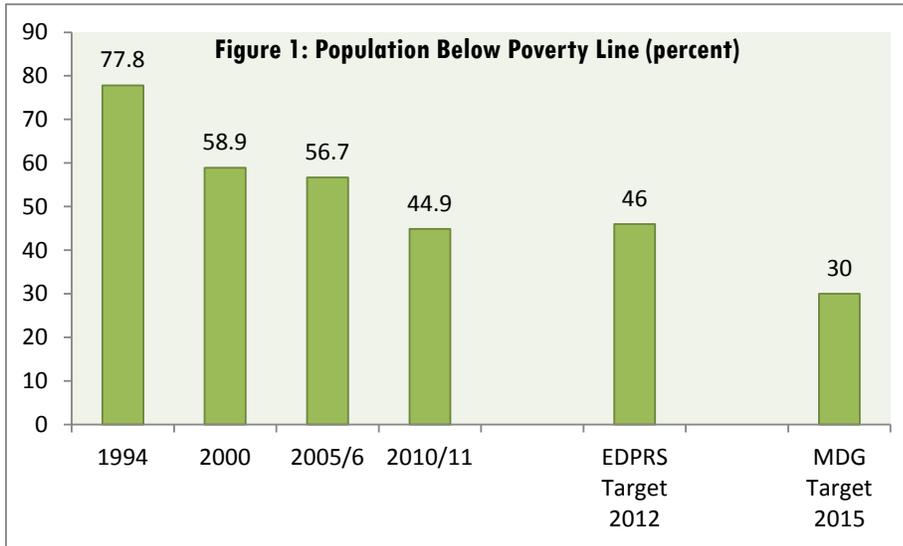
Newly released data from Rwanda's third *Household Living Conditions Survey* (EICV 3) conducted in 2010/11 suggests significant reductions in both poverty reduction and income inequality during the second half of the decade to 2010.

Between 2005/06 and 2010/11, the proportion of the population below the national poverty line² (RWF 118,000 or USD 197 per adult per year) has declined from 56.7 percent to 44.9 percent. This represents a graduation from poverty of over 200,000 Rwandan families or approximately one million citizens between 2005/06 and 2010/11. Extreme poverty³ also declined from 36 percent to 24 percent during the same period. Fig. 1 reveals two important features. First, the reduction in poverty was steeper during second half of the decade to 2010 (2010 H2) than during the first half (2010 H1). Second, the realized poverty rate in 2010/11 was also below the Economic Development and Poverty Reduction Strategy (EDPRS) target for 2012, although still short of the MDG target. As examined in last section, several factors including renewed emphasis on poverty reduction have contributed to the marked reduction in poverty during 2010 H2.

¹ This article was authored in February 2012 by Edward Sennoga, Country Economist African Development Bank Rwanda Country Office. The views expressed in this article are those of the author and do not reflect the opinions of the African Development Bank, its Management or its shareholders.

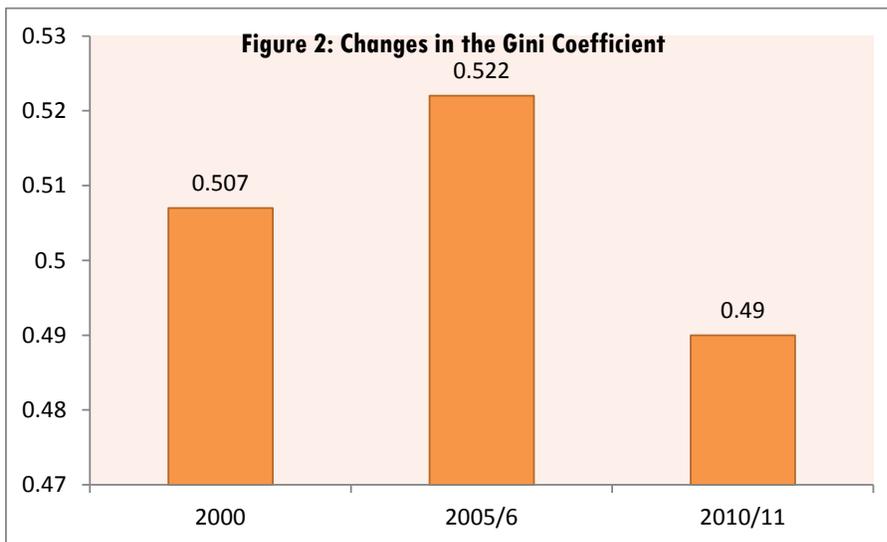
² The national poverty line was determined with reference to a minimum food consumption basket judged to offer a sufficient number of calories required to undertake physically demanding work and adjusted to provide an allowance for non-food consumption.

³ The extreme poverty line excludes the allowance for non-food consumption (that is, it only considers the cost of buying the food consumption basket if all income was spent on food items) and was established at RWF 83,000 or USD 138 per adult per year.



Source: National Institute of Statistics Rwanda; author computations

The majority of Rwandans have benefited from this reduction in poverty. Income inequality as measured by the Gini coefficient (Fig. 2) declined from 0.52 in 2005/06 to 0.49 in 2010/11. Another measure of income inequality, the ratio of the 90th to 10th percentile also indicates a reduction in income inequality during this period with the richest 10 percent of the population spending 6.3 times more than the poorest 10 percent in 2010/11 compared to the 7.1 multiplier in 2005/06.

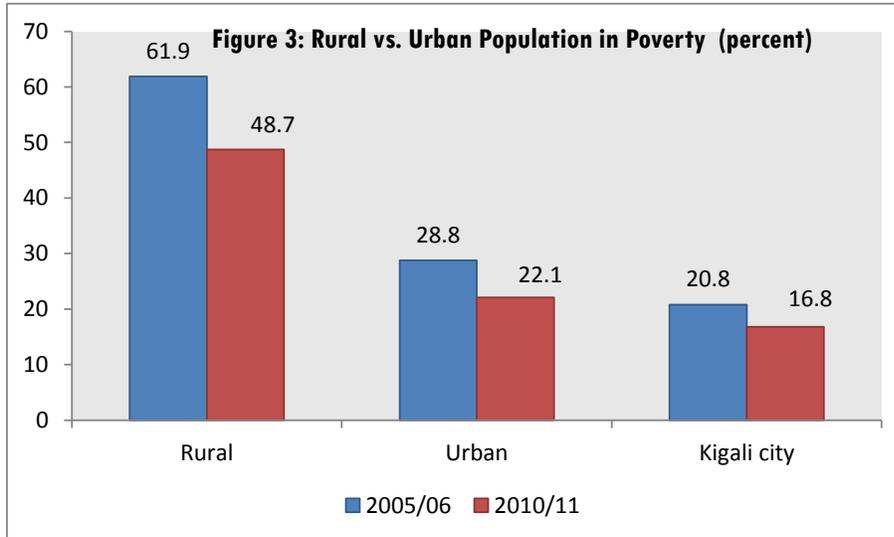


Source: National Institute of Statistics Rwanda; author computations

These developments bode well for the country's vision of middle-income status by 2020 while ensuring broad-based and shared growth. During the last decade, marked progress has been made in realizing these objectives. Per capita income is trending upwards and it is projected that if current

The new data bodes well for the country's vision of greater equitable distribution of development, itself part of the vision of middle-income status for the country by 2020.

growth rates in per capita income are sustained, middle income status could be within reach by 2017.



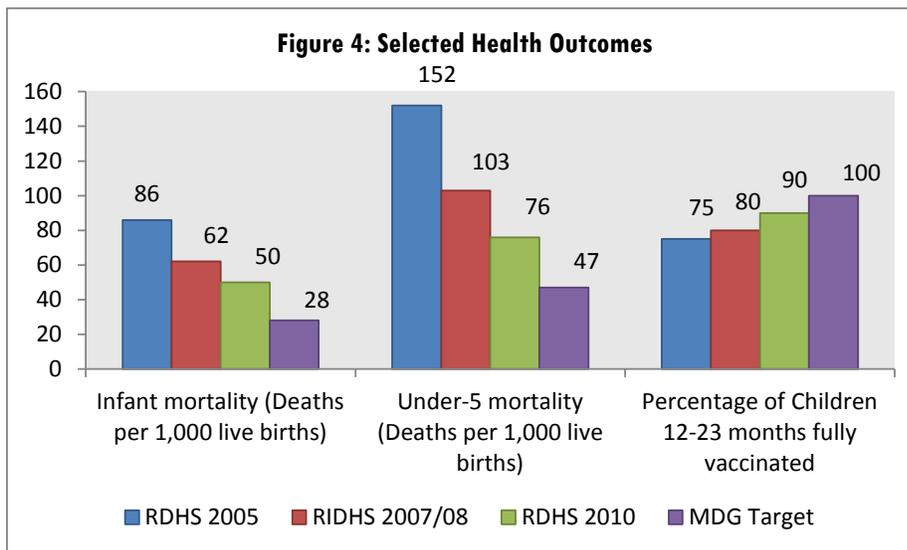
Source: National Institute of Statistics Rwanda; author computations

However, in spite of these improvements, poverty rates remain higher in the rural areas compared to the urban areas (Fig.3), an indication that expansion in economic opportunities although broad-based, is still predominant in the urban areas.

DRIVERS OF THE REDUCTIONS IN POVERTY

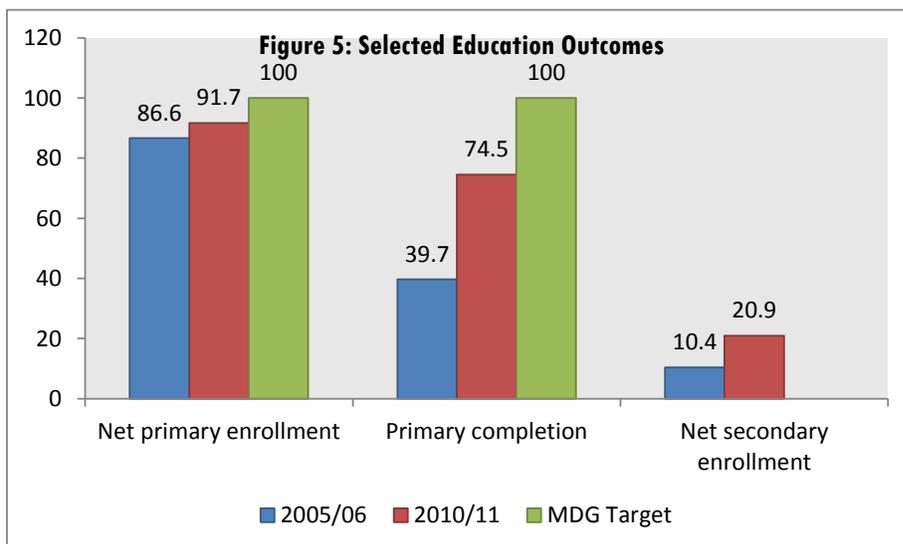
Renewed focus on poverty reduction under the EDPRS (2008-2012) compared to the first PRSP (2002-2005) which focused on rehabilitation and reconstruction. Evaluation of Rwanda's first medium term strategy revealed that while major achievements had been made in rebuilding the economy; restoring peace; and provision of key basic services such as health, education, and access to safe water; the reduction in poverty was only negligible. Thus, the strategic thrust of the EDPRS prioritized accelerating economic growth to create employment for the majority of Rwandans through public investments in energy, transport and ICT to reduce the cost of doing business and thus catalyze private sector development. To promote shared growth, Vision 2020 Umurenge (VUP), an integrated village development program was designed. VUP was aimed at creating opportunities for the poorest and most vulnerable Rwandans through: (i) public works programs; (ii) credit packages for cooperatives and small and medium-sized enterprises (SMEs); and (iii) social services and assistance to landless families that are unable to participate in public works programs.

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Source: National Institute of Statistics Rwanda; author computations

Public expenditure was also re-aligned to these priorities. For instance, the share of the budget allocated to human development/ social sectors⁴ and capital development/ productive sectors⁵ increased from 44.8 percent in 2004 to 59.8 percent in 2007 and to 70.1 percent in 2010/11. This re-prioritization of public expenditures has resulted in improvements in key development outcomes such as health and education (Fig.4) and access to safe water and sanitation (Fig. 5).



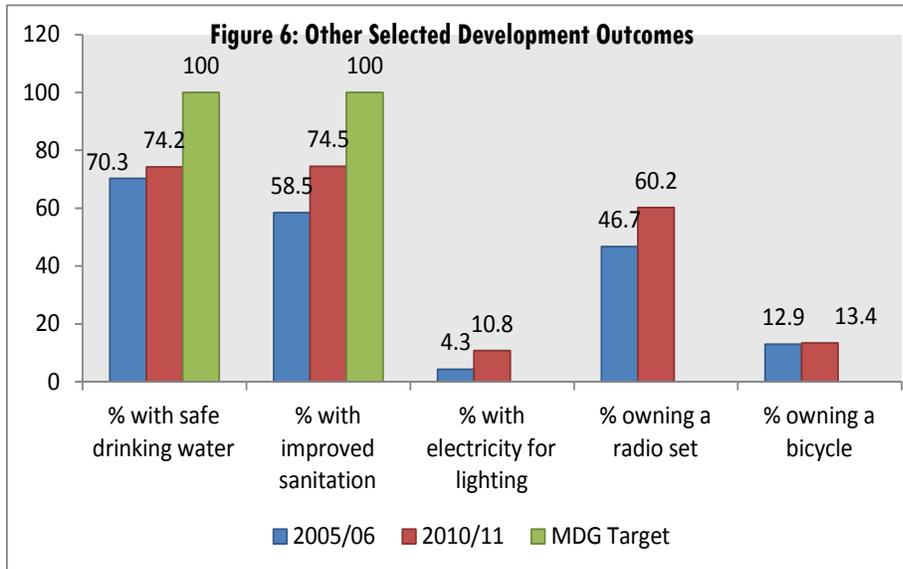
Source: National Institute of Statistics Rwanda; author computations

⁴ Human development and social sectors include education, health, social protection, employment and capacity building.

⁵ Capital development/ productive sectors include infrastructure, agriculture, manufacturing, and science, technology and innovation.

Several bottlenecks to Rwanda's middle income vision remain, including high energy and transport costs, a nascent private sector that is yet to respond commensurately to the improved business regulatory environment, and constrained public sector capacity.

The reduction in fertility rates from 6.1 to 4.6 between 2005/06 and 2010/11 due to improvements in reproductive health has had two major benefits. First, it has contributed to reductions in infant, child, and maternal mortality and second, it has reduced time poverty amongst the women allowing them more access to economic activities. Increased economic inclusion for women has contributed to lower poverty rates among female-headed households. For instance, female-headed households accounted for 47 percent of the poor in 2010/11 compared to 60 percent in 2005/06.



Source: National Institute of Statistics Rwanda; author computations

Other indicators of economic wellbeing have also improved (see Fig. 6). For instance, in 2010/11, 39 percent of all households resided in planned settlements compared to 18 percent in 2005/06. The share of all households using metal roofing has increased from 43 percent to 54 percent during this period while the percentage of households living under thatched roofs dropped from 10 percent to 2 percent during the same period. A Government program initiated to support households to replace grass thatched roofs with metal and other durable materials is a major driver of these improvements. Access to electricity, an indicator of the status of infrastructure in a country, more than doubled between 2005/06 and 2010/11. Ownership of such assets such as radios and bicycles, which are crucial for communication and production respectively, also increased.

Increase in non-farm employment.

Sustained investments in infrastructure as well as measures to improve the business regulatory environment have contributed to increased private sector activity and more remunerating employment opportunities outside the agriculture sector. EICV 3 data reveals that 650,000 more Rwandans were working in 2010/11 compared to 2005/06 and more than 75 percent of these were working in the non-farm sector. Waged farm work increased by 138,000 persons while waged non-farm work and non-farm self-employment increased by 370,000 and 133,000 persons respectively. As

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indicated in Table 1, poverty is highest amongst Rwandans whose major source of income is farm wage labor followed by those relying heavily on agriculture. On the other hand, poverty is lowest among Rwandans in other categories particularly non-farm wage and the self-employed suggesting that non-farm wage employment has had a major contribution to poverty reduction between 2005/06 and 2010/11.

Table 1: Economic Activity and Poverty

	Share of Population (%)		Percentage in poverty	
	2005/06	2010/11	2005/06	2010/11
Mostly agriculture	56.6	52.2	62.8	52.2
Mostly farm wage	4.3	3.6	88.1	76.6
Mostly non-farm wage	7.3	10.7	36.6	22.8
Mostly non-farm self-employment	27	16.2	46.5	24.2
Mostly transfers	1.5	2.2	45.6	28.6
Diversified, but farm wage more than 30%	1	4.1	77.3	76.2
Diversified, but farm wage less than 30%	2.3	11.1	28.4	47.6

Source: National Institute of Statistics Rwanda; author computations

Increased productivity and commercialization in agricultural sector

A Crop Intensification Program (CIP) has been implemented since 2008 and focuses on several priorities including land use consolidation; fertilizer and seed distribution; and post-harvest activities and marketing. Sector strategies such as the Strategic Plan for the Transformation of Agriculture II (2009-12) are also being implemented and these have contributed to increased production and marketing of agriculture produce. Land productivity as measured by agricultural value-added per cultivated land in hectares increased from about US\$ 500 in 2005 to approximately US\$ 760 in 2008. In addition, the proportion of farm households who purchased sacks and other packaging materials, an indicator of commercialization of agriculture⁶, increased from 37 percent to 48 percent between 2005/06 and 2010/11. As indicated in Table 1, increased productivity and commercialization of agriculture has contributed to poverty reduction in poverty among Rwandans whose primary economic activity is agriculture (Table 1). Since 52 percent of the population derives its livelihood from agriculture, falling poverty rates in this sector also contributed to the reduction in the national poverty rates between 2005/06 and 2010/11.

⁶ Increased purchase of packaging material is an indicator of increased commercialization of agriculture since such materials are purchased by farm households if the intention is to sell the produce.

Several bottlenecks to Rwanda's middle income vision remain, including high energy and transport costs, a nascent private sector that is yet to respond commensurately to the improved business regulatory environment, and constrained public sector capacity.

In conclusion, findings from Rwanda's 2010/11 household survey underscore the importance of robust policies and strategies, sound institutions to design and deliver on the core national priorities, as well as national leadership that is committed to a country's vision. Several bottlenecks to Rwanda's middle income vision remain, including high energy and transport costs, a nascent private sector that is yet to respond commensurately to the improved business regulatory environment, and constrained public sector capacity. However, sustained efforts to get the fundamentals right as demonstrated by the country's achievements during the past decade put this vision within reach.