

Report from Kenya
Report #120

Economic Jump in Rwanda?

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I assume that in August 1994 at the end of the genocide, Rwanda was the poorest country in the world. When I first visited Rwanda for AGLI in January 1999, there was a dispute. The Rwandan Government claimed that agricultural production had reached pre-genocide levels, while a number of NGO's were skeptical if this was true or not. Really it was one of those arguments that had no relationship to the lives of farmers on the ground.

When I was in Rwanda a year ago, a number of tall, perhaps 8 story modern office buildings were being completed. This year I counted a 13 story building that was still going up and another being topped out at about 20 stories! Rwanda recorded an 11%+ rate of growth in GNP in 2008 and 9% in the first months of 2009. But how does this translate to daily lives of the majority of rural dwellers?

Remember the mabati (corrugated iron sheet) index from my discussion on Burundi (i.e., how many new shining mabati sheets are visible). Two or three years ago in Rwanda, there were very few new mabati sheets. Last year I began to see some and this year there are many bright new roofs, particularly within ten to twenty miles outside of Kigali. As I descended the hills above Lake Kivu going into Gisenyi I was almost blinded by the shine of the numerous new mabati roofs. New building was going on everywhere. I also noted that many of these houses were yet to be finished and no one was living in them. Nonetheless in rural areas farther from Kigali, there was less "mabati" activity, but still a good amount of new construction with the cheaper locally made tile roofs.

Since mabati roofs can only be bought by excess income, my conclusion is that some rural Rwandans are doing much better. In other words the increase in income is not going solely to the Kigali elite.

It seems to me Rwanda is trying something unique, jumping from a very poor country to a middle income country, well, overnight! Let me give some examples.

About five years ago the Rwandan Government decided that people could no longer build adobe brick houses plastered with cement which is the predominate housing stock in the city. While it is possible to build a really nice, strong adobe house (in 1966 I was in an adobe house in Kenya built in 1926 and, as far as I know, it could still be there) I will have to admit that most of the adobe buildings in Kigali are not particularly well-built. Rather the Government decreed that housing would have to be built with permanent materials, meaning at that time, burned bricks.

Soon they realized that if people were firing bricks, all the trees anywhere near Kigali would be cut down for firewood to burn the bricks. So they banned building with burned bricks. This left cement blocks as the main building material. These are much more expensive than the burned bricks so the cost of building a house in Kigali increased substantially.

Note that the cost of a bag of cement is \$10 in Kenya, \$12 in Bujumbura (imported by boat from Zambia), \$17 in Goma (imported from Uganda), and \$25 in Rwanda (even when imported from the same factory in Uganda). How does this reflect on the cost of building and therefore the cost of living in the various countries?

Moreover the Government has now launched a master plan for Kigali with what we would call zoning laws. In some places only three story apartment buildings can be built (I assume this is to keep Kigali from spreading farther and farther out into the countryside). But who can build a three story building – only the wealthy who will then rent them out. Yet with the ban on traditional cheaply built housing, the result is a housing shortage and a vast increase in rent so that housing in Kigali is, for the average person, very expensive.

To compensate for this, salaries have been raised considerably, but if a significant part of one's income is going to housing, is the individual any better off? Moreover, where is the funding for these increased salaries coming from? I don't know.

Take the example of schooling. Teacher salaries have been raised considerably, but then so has tuition to pay for these higher salaries. As a result education in Rwanda is much more expensive than surrounding countries. It is cheaper to send a child to boarding school in Uganda than to stay in Rwanda – so many Rwandans are doing this. Education in Burundi is even cheaper (although probably not of particularly high quality). The question is "Can the small country of Rwanda leap forward economically when all its surrounding neighbors are just progressing slowly step by step?"

Gladys and I took the bus from Kampala, Uganda, to Kigali. A Rwandan woman was loading up the bus with about 25 bags of food – cooking bananas, onions, watermelons, etc.; all of which grow quite well in Rwanda. She had to pay the transport costs to Rwanda and Kampala does not seem to me to be the cheapest place in Uganda to buy food. Clearly there was some economic advantage to this indicating that food in Rwanda was much more expensive than in Uganda. Since this is happening on a large scale, is not the wealth of Rwanda moving to other countries? When Masisi in North Kivu, the breadbasket of the region, recovers from the fighting there, will not its cheap food prices lower the income of Rwandan farmers who will be unable to compete?

The real problem is that this jump to prosperity is being financed by heavy taxation. As I mentioned in my report on North Kivu, the Rwandan Government did not like the pressure put on it by the international community during the problems in North and South Kivu – 50% of its operating budget came from the international community. To counter this, Rwanda raised taxes. In particular they have implemented the first real estate taxes that I know of anywhere in the region.

The Quaker's Peace Garden (it used to be the Women's Peace Garden – it seems the women have been pushed out) has a tax bill of about \$2000 on a rather large piece of property. Yet they are required to build more on it or they will lose it to someone who would soon build three story apartment buildings on the land (as stipulated in the Kigali master plan). As a result they borrowed \$100,000 from the bank to build a 120 bed retreat center. Unfortunately this was not

enough to finish the project and they are repaying the bank \$1250 per month this year and \$2321 per month starting next year for 6 or 7 years. They are paying 18% interest. But if they didn't they might have lost the land. If the project were complete, it would generate sufficient income to cover the payments.

As a result Rwanda is a very expensive country. Our taxi driver in Kampala was from western Uganda near Rwanda and said that he lived there six months but it was too expensive so he moved to Kampala. I also heard that since there is peace in North Kivu many Rwandans are returning to Masisi where life is so much cheaper. Rwanda is promoting a three-children-per-family model; again much more ambitious than anywhere else in the region. By my child-on-the-back of women assessment, Rwanda in the last few years has lowered its birthrate considerably. With a lowered birth rate and increased emigration, it seems possible to me that Rwanda may soon be actually losing population.

Will this leap to middle income status work for Rwanda? Or will it collapse during some economic crisis under the weight of too much ambition? Can it succeed without its neighbors also moving forward at roughly the same rate?

If you are still reading my reports in ten years, I'll let you know the answer.

Peace,
Dave

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