

RWANDAN ECONOMY AND FOREIGN AID

In this chapter, I shall first outline the situation of the Rwandan economy in general and the scope of international development assistance to the country, including the strings attached to the aid.

The Economy in General

Rwanda is generally an extremely poor country with few natural resources and little industrial production. The average life expectancy is only 40.5 years.¹ For 1999, Rwandan GDP is estimated to have been Rwfr 641.0 billion, or US\$ 1.92 million, and Rwfr 712.2 billion for 2000, or US\$ 1.83 million. The real change in Rwandan GDP is estimated by the Economist Intelligence Unit to have been 5.3% for 1999. In 1999, annual per capita income was US\$ 189.²

Debt servicing has since 1994 been a major cause for a balance-of-payments deficit, but the most recent figures available seem even more aggravating. Based on IMF, World Bank, and national data, the Economist Intelligence Unit estimates the latest available debt figures as follows: the total debt had risen to US\$ 1.3 billion in 1999, and debt servicing to US\$ 48.2 million, representing 69% of the value of the US\$ 70.8 million merchandise exports.³

Foreign investments account for more than 90% of total gross fixed investments, and due to the huge inflow of hard currency from donors, the Rwandan Franc has been reasonably stable despite the low exports.⁴

There is a huge economic and social divide between the countryside and the urban areas. Economically, commercially, as well as seen from a wider developmental point of view, the urban areas – in particular the capital Kigali – are far better off in all respects.

¹ André, Catherine, and Luzolele Lola, Laurent, *The European Union's Aid Policy Towards Countries involved in the Congo: Lever for Peace or Incitement to War?*, Unpublished paper, May 2001, p. 26

² International Monetary Fund, *Rwanda: Statistical Appendix*, Country Report No. 01/30, 5 February 2001, at <http://www.imf.org/external/pubs/ft/scr/2001/cr0130.pdf>, p. 3

³ Economist Intelligence Unit, *EIU Country Profile 2000...*, unpaginated version; and Economist Intelligence Unit, *EIU Country Profile 2001...*, p. 28

⁴ Confer 'Table 7 – Rwanda: Selected Economic Indicators'; and Economist Intelligence Unit, *EIU Country Profile 2001...*, p. 19

According to the Economist Intelligence Unit, Kigali is thus "home to 94% of Rwanda's banks, 96% of its industry, 65% of the civil service, 80% of the informal sector and 90% of the hotel space. The city also has the most reliable supplies of water, electricity and telephone lines."⁵

There are roughly 60,000 telephone lines in Rwanda, of which 90% are in Kigali. The national telecommunications company, Rwandatel, is slated for privatization in 2001 with 51% being offered to a strategic investor. MTN Rwandacell operates cellular phone services for some 20,000 subscribers. There are only about 2,000 Internet subscribers.⁶

In the countryside, most people are farmers. About 90% of the Rwandan work force is employed in the agricultural sector, and the productivity in this sector is generally low. Agricultural production collapsed with the Genocide in 1994 and only started to recover two years later, although much of the improvement is because more areas are being cultivated.⁷

Also, the south-western part of the country has experienced drought and famine. Formal and informal unemployment is widespread all over the country, which is reflected in the fact that an estimated 70% of the population lives below the poverty line, and the vast majority of this group are from the countryside.⁸

Table 1 – Rwanda: Selected Economic Indicators

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u> (estimates)	<u>2000</u> (forecasts)
GDP at market prices - in Rwftr billion	431.1	562.5	631.7	641	712.2
Real GDP	15.8	12.8	9.5	6.1	5.8
Average consumer price inflation	9.0%	7.4%	4.0%	-2.4%	4.0%
Exports fob – in US\$ million	61.7	93.2	64.5	62.3	68.4
Imports fob – in US\$ million	218.5	278.2	234	224.5	245.9

Source:

Economist Intelligence Unit, *Country Report Rwanda*, 1 February 2001, unpaginated version

⁵ Economist Intelligence Unit, *EIU Country Profile 2000...*, unpaginated version

⁶ Economist Intelligence Unit, *EIU Country Profile 2001...*, pp. 17-18

⁷ Economist Intelligence Unit, *EIU Country Profile 2000...*, unpaginated version

⁸ Ibid.

Tea and coffee are the main export items, comprising 80% of the value of total exports in 2000.⁹ Rwanda earned US\$ 68.4 million from exports in 2000, up by US\$ 7.2 million from 1999, in spite of a drop of nearly US\$ 4 million in the value of its main export, coffee. Tea accounted for this improvement, since tea exports were US\$ 8.5 million higher in 2000 than in 1999 because of increased production.¹⁰ However, imports reached US\$ 245.9 million in 2000 and thus by far outweighed exports, and the balance of payments situation has not eased in the last few years.¹¹ Little hope is in sight in this regard, since Rwanda's export capacity and ability to attract foreign investment capital is generally regarded as low and likely to remain so for at least a decade.¹² Private and public transfers, which in 1999 covered 64% of the current deficit, are also diminishing.¹³ As a result, the balance of payment deficit in 1999 went beyond US\$ 100 million for the first time after 1994 took power and the trend is forecast by the IMF to continue.¹⁴

Catherine André therefore argues that the balance of payment deficit can either be financed by jeopardizing the stable monetary policy, i.e. accepting inflation, or by external means:

Ce solde négatif devra être couvert soit par les moyens propres du Rwanda [...] mettant en danger l'équilibre monétaire du pays ou par des financements extérieurs sous forme de dons ou d'emprunts supplémentaires.¹⁵

It is worth mentioning that Rwanda currently has sufficient foreign reserves to match imports at the current level for more than 10 months.

Official Development Assistance

I shall use the OECD's generally accepted definition of official development assistance (ODA), which is defined as grants and loans with at least a 25% grant element, provided by OECD and OPEC member countries and multilateral agencies, and which are administered with the aim of

⁹ Economist Intelligence Unit, *EIU Country Profile 2001...*, p. 19

¹⁰ Economist Intelligence Unit, *EIU Country Profile 2001...*, pp. 26-27

¹¹ Confer 'Table 7 – Rwanda: Selected Economic Indicators'

¹² André, Catherine, and Tierens, Michel, 'Les Limites Structurelles de L'Economie Rwandaise Face aux Reformes Economiques et a L'integration Regionale', in Reyntjens, Filip, and Marysse, Stefaan, eds., *L'Afrique des Grands Lacs. Annuaire 1999-2000* (Paris: L'Harmattan, 2000), p. 68

¹³ *Ibid.*, p. 73

¹⁴ *Ibid.*, p. 68

¹⁵ *Ibid.*, p. 68

supporting development and welfare in the recipient country.¹⁶ It is important to stress that the OECD definition of ODA does not include military assistance.

Donors view aid as having a positive effect on both economic development and the political level. Economically, in particular the Bretton Woods Institutions argue that a structural adjustment programme, including a slimming of the public administration, privatization of public companies and a reduction in military spending, will benefit the economy as a whole and thereby also the poor people in Rwanda. Politically, donors argue that the economic reforms are an essential element to stabilize the socio-political environment in Rwanda and the Great Lakes Region.¹⁷ In other words, aid is seen as a means to bring lasting peace to the region. The exact process is hardly ever defined, but the argument seems to be that 'fat cats don't fight'; the wealthier the people are, the more unlikely are wars.¹⁸ This is apparently why Rwanda is treated as a 'special case' by international institutions, such as the World Bank and the IMF, and provided with critical loans although they do not live up to IMF criteria.¹⁹ The United States and the United Kingdom also support this view and give quasi-unconditional aid towards the budget and the external balance.²⁰ The EU has followed the line set out by the Bretton Woods institutions and is a major donor of development aid, despite official protests against the continued war in the Congo. For instance, the European Commission in June 1999 issued a communication to the EU Council of Ministers and the EU Parliament reviewing the EU's economic cooperation with countries at war in the Congo. The report was intended to avoid the misuse of development funds, provided by the EU, for military purposes.²¹ However that may be, the EU has – long after the

¹⁶ Organisation for Economic Cooperation and Development, Development Co-operation Directorate, *DAC Statistical Reporting Directives*, 2000, at <http://www1.oecd.org/dac/htm/dacdir.htm>, pp. 9-13, p. 31 and p. 71

¹⁷ See for instance International Development Association, *Rwanda: Economic Recovery Credit*, Washington, 9 March 1999, p. 18

¹⁸ This was for instance the conclusion in a report by the Center for War and Peace Research in Uppsala, Sweden. Radio Free Europe & Radio Liberty, *Swedish Report Emphasizes Role Of Poverty In War*, News Article, 20 June 2000, at <http://www.rferl.org/nca/features/2000/06/F.RU.000620135251.html>

¹⁹ See International Development Association, *Rwanda: Country Assistance Strategy - Progress Report*, IDA/R99-135, 11 June 1999 and section 'Donors and the 'Government of Rwanda' Agree on Lenient Conditions'

²⁰ André, Catherine, and Tierens, Michel, 'Role de L'aide dans la Relance et la Stabilité Economique de Procédure du Rwanda', in Reyntjens, Filip, and Marysse, Stefaan, eds., *L'Afrique des Grands Lacs. Annuaire 1998-1999* (Paris: L'Harmattan, 1999), p. 94

²¹ Also in June 1999, a presidential declaration expressed concern at the continuing flow of arms and military equipment to the Great Lakes and Central Africa regions. The statement called on member states to strictly adhere to the EU's own *Code of Conduct on Arms Exports*, and recalled that, under the EU code, countries agree not to authorize arms exports that might "aggravate existing tensions or armed conflicts in the country of final destination" or fuel human rights abuses. Human Rights Watch, 'Eastern Congo Ravaged...', also available at <http://www.hrw.org/reports/2000/drc/Drc005.htm#TopOfPage>, unpaginated version

commencement of the Congo War - disbursed massive amounts of aid, including budget support to the ministries of education, health and justice, as well as debt relief.²²

Table 2 – Net Official Development Assistance to Rwanda

Grants and loans with at least a 25% grant element - disbursements minus repayments
All units in US\$ million

	1995	1996	1997	1998	1999
Bilateral	339.2	252	178.7	209	180.5
of which:					
US	101	10	9	23	39.8
UK	34.5	19.3	10	20.6	26.5
Belgium	13.9	31.3	21	23	20.9
Netherlands	46.7	41.1	29.2	29	20.3
Germany	52.1	45.6	26	20.6	18.8
Multilateral	363.1	213.3	50.4	140.9	192.4
of which:					
IDA	29	38.1	47.5	61.6	63.5
EU	17.9	55.4	46	26.7	39.1
WFP	150.7	80.7	-69.8	4.6	34
IMF	0	-1.3	-2.5	13.7	26.8
UNDP	5.1	5.1	10.5	9.7	12.2
Total	702	466.5	229.6	349.9	372.9
Of which:					
Grants	662.6	423.9	181.5	260.4	287.4

Source:

Organisation for Economic Cooperation and Development, *Geographical Distribution of Financial Flows to Aid Recipients: 1995/1999* (Paris: Organisation for Economic Cooperation and Development, 2001), pp. 216-217

Note: Organisation for Economic Cooperation and Development data is not necessarily complete. The Organisation for Economic Cooperation and Development caution that donors are not always accurately reporting aid flows to non-governmental organizations working in Third World countries. Telephone interview with Organisation for Economic Cooperation and Development official, June 2001

²² Confer the next chapter, 'Foreign Aid and the War Effort

Much of Rwanda's debt servicing is, at present, paid for by a donor trust fund. Debt relief granted under the IMF and the World Bank's Highly Indebted Poor Countries (HIPC) initiative is planned to reduce debt servicing to US\$ 35 million per year in 2001 – if donors follow the recommendations of the Bretton Woods institutions as of late December 2000.²³

As can be seen in Table 8, Table 9, and Table 10, Rwanda is generally highly dependent on aid in virtually all sectors. For instance, the country received US\$ 372.9 million in Official Development Assistance (ODA) during 1999, most of which (287.4 mil US\$) comprised grants provided by bilateral donors. However, net foreign assistance has been declining and is unlikely to exceed US\$ 180 million in 2001 and US\$ 170 million in 2002, according to the Economist Intelligence Unit, partly due to the Rwandan presence in the Congo and partly due to the termination of the 'emergency period' following the 1994 Genocide.²⁴

The impact that the foreign aid has on the 'Government's' budget is no doubt significant although accurate information on the financial operations of the 'Rwandan Government' is difficult to come by. One of the reasons for this is the discrepancy between the figures provided by the IMF and those provided by the 'Government of Rwanda'. For 1999, the latest year for which the most comprehensive data is available, the IMF claims that the 'Government's' total expenditures were Rwfr 127.5 billion, or US\$ 382 million, while the Rwandan Ministry of Finance lists Rwfr 150.6 billion, or US\$ 451 million. As can be seen in Table 9 and Table 10, there is also a difference on the amount of the 'Government's' budget covered by loans and grants from foreign donors: 49% according to the IMF and 55% according to the Rwandan Ministry of Finance.

Likewise, It is unclear how many of these funds have been provided as direct budget support. According to the *UN Exploitation Panel Report*, foreign budget support "has steadily increased, from \$26.1 million in 1997 to \$51.5 in 1999".²⁵ The IMF, however, estimates that Rwanda received direct budget aid worth US\$ 44.7 million in 1999.²⁶ The direct budget support was mainly provided by the EU and the United Kingdom.²⁷

²³ Economist Intelligence Unit, *EIU Country Profile 2001...*, p.28

²⁴ Economist Intelligence Unit, *Country Report Rwanda*, 1 February 2001, unpaginated version

²⁵ United Nations, Security Council, *Report of the Panel of Experts...*, at <http://www.un.org/News/dh/latest/drcongo.htm>, p. 38

²⁶ International Monetary Fund, *Rwanda: Statistical Appendix*, Country Report No. 01/30, 5 February 2001, at <http://www.imf.org/external/pubs/ft/scr/2001/cr0130.pdf>, p. 32

²⁷ United Kingdom, Department for International Development, *Building support for Rwandas development*, Press Release, 26 September 2000, also available at <http://www.dfid.gov.uk/public/news/pr26sept00b.html>

Table 3 – Financial Operations of the Central ‘Government of Rwanda’ - 1999**Source: ‘Government of Rwanda’**

	<u>Rwfr million</u>	<u>US\$ million</u>
Fiscal receipts	71,000	212.6
Non-fiscal receipts	3,500	10.5
Total revenue	74,500	223.1
Current expenditures	93,620	280.4
Capital expenditures(domestically financed)	5,000	15.0
Capital expenditures(externally financed)	46,200	138.4
Arrears payments (domestic)	5,700	17.1
Total expenditures	150,620	451.1
Overall balance incl. Others	-79,620	-238.5
Financing	79,620	238.5
Loans	30,611	91.7
Grants	51,511	154.3
Domestic financing	-2,502	-7.5
Foreign Loans and Grants as part of Total Expenditures	55%	

Source: Rwandan Ministry of Finance quoted in Economist Intelligence Unit, *EIU Country Profile 2000: Rwanda Burundi*(London: Economist Intelligence Unit, 2000), unpaginated version

Table 4 – Financial Operations of the Central ‘Government of Rwanda’ – 1998-2004**Source: International Monetary Fund**

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
			(estimates)	(budgeted)	(projections)	(projections)	(projections)
Current Expenditures - in Rwfr billion	75.3	87.1	86.7	96.4	101.1	109.7	120.3
Total Expenditures - in Rwfr billion	117.4	127.5	134.4	153.3	166.8	183.5	201.2
Net Foreign Financing - Grants	33.0	38.6	26.1	35.2	39.4	46.8	51.3
Net Foreign Financing - Loans	39.2	24.5	11.0	10.2	17.2	19.4	21.4
Net Foreign Grants and Loans as part							
Of Total Expenditures	61%	49%	28%	30%	34%	36%	36%

Source:

International Monetary Fund, African Department, *Rwanda-Staff Report for the 2000 Article IV Consultation and Requests for the Third Annual Arrangement Under the Poverty Reduction and Growth Facility and for Extension of Commitment Period*, 11 December 2000, p. 37

(*) A projected exchange rate of Rwfr:US\$ 430.0 was used for 2001

Source: Economist Intelligence Unit, *Country Report Rwanda*, 1 February 2001

'Donor-Imposed' Conditions

When pledging aid, donors usually agree on a set of principles with the recipient country. These usually include more or less specified promises from the recipient government to work for democracy, curb corruption, increase social expenditures, minimize military expenses etc.²⁸ Usually such promises – or indeed conditions for receiving aid - are written down in declarations addressed to the World Bank and/or the IMF. At other times, donors simply declare that continued support depends on the recipient government's adherence to such and such criteria.²⁹

Donors and the 'Government of Rwanda' Agree on Lenient Conditions

Rwanda has been no exception in this regard. Donors have time and again stressed that continued aid is tied to both political conditions, for instance the respect of the Lusaka Accords, i.e. the withdrawal of Rwandan troops from the Congo as well as other issues, such as democratic progress, respect for human rights and what is loosely termed 'good governance'.³⁰

In addition, donors also demand that Rwanda adheres to certain macroeconomic criteria, such as a minimum of net foreign assets in the National Bank of Rwanda, privatizations, and not least cutbacks in military expenditures.³¹ The economic criteria are primarily imposed by the IMF and the World Bank, though the issue of military expenditures is continuously mentioned by all donors. For instance, during his March 2000 visit to Rwanda, the EU Commissioner for Development and Humanitarian Aid, Poul Nielson, asked the 'Rwandan Government' to mind its military expenditures.³² At a major donor conference in November 2000, several influential donor countries reiterated concerns of the Rwandan presence in the Congo and stressed that further

²⁸ See for instance Kanbur, Ravi, 'Aid, conditionality and debt in Africa', in Tarp, Finn, and Hjertholm, Peter, eds., *Foreign Aid and Development: Lessons Learnt and Directions for the Future* (London: Routledge, 2000), pp. 409-422

²⁹ See for instance *East African*, 'Trim Spending or Risk Aid Cut, Kigali Told', 13 November 2000, also available at <http://www.nationaudio.com/News/EastAfrican/19112000/Regional/Regional15.html>

³⁰ See for instance the memorandum of understand signed by Paul Kagame and Claire Short on 12 April 1999, reprinted in United Kingdom, Department for International Development, *Rwanda: Country Strategy Paper 1999*, September 1999, also available at http://www.dfid.gov.uk/public/what/strategy_papers/rwanda_csp.html, pp. 9-12

³¹ See for instance See for instance *East African*, 'Trim Spending or Risk Aid Cut, Kigali Told', 13 November 2000, also available at <http://www.nationaudio.com/News/EastAfrican/19112000/Regional/Regional15.html>; United Kingdom, Department for International Development, *Rwanda: Country Strategy...*, at

http://www.dfid.gov.uk/public/what/strategy_papers/rwanda_csp.html; International Monetary Fund, African Department, *Rwanda: Midterm Review under the First Annual Arrangement Under the Enhance Structural Adjustment Facility and Request for Waiver of Nonobservance of Performance Criteria*, 26 February 1998; and International Monetary Fund, *Rwanda – Midterm Review Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility and Request for Waiver of Nonobservance of Performance Criteria*, EBS/99/22, 26 February 1999

³² United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: EU restores development cooperation', 10 March 2000, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20000310.htm>

cuts in military expenditures were necessary to ensure continued donor support.³³ In a statement from early 2001, the IMF directors stressed that they 'expected' military spending to be shifted more and more towards social areas "as efforts to promote peace in the region advanced". In fact, hardly any donor meeting goes by without donors asking Rwanda to decrease its military expenditures.³⁴

With reference to the Genocide, donors have been extremely lenient toward the 'Government of Rwanda', claiming that the latter needs more aid, fewer conditions, and more patience from donors. A discourse largely invented by the 'Government of Rwanda', but accepted at face value by most donors. The discourse of 'recovery from Genocide' has been successfully introduced by the 'Government of Rwanda' and used gratefully by donors to explain why Rwanda should have just a little more time and be given just a little more rope before it could meet the criteria that are normally imposed on other African countries in return for development assistance at a much earlier stage.³⁵

This argument has been used not only to legitimize political moves, such as the postponement of elections, the postponement of withdrawal from the Congo, the massive abuses, etc., but also to legitimize the necessity of maintaining higher military expenditures in order to come to terms with the former genocidaires. When the 'Government of Rwanda' negotiated with the IMF and the World Bank for structural adjustment loans and access to the HIPC Initiative, the Bank and the Fund accepted that the proportion of GDP spent on the military would for years remain higher than was normally the case under structural adjustment

³³ *East African*, 'Trim Spending or Risk Aid Cut, Kigali Told', 13 November 2000; and World Bank, External Affairs Department, *Development News*, 9 November 2000, at <http://wbln0018.worldbank.org/NEWS/DEVNEWS.NSF/eb730c645da440418525673500723bf3/9f3ffe649923ece185256992004f6342?OpenDocument>; and United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: Donors urge pullout from DRC', 9 November 2000, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20001109.phtml>

³⁴ André, Catherine, and Luzolele Lola, Laurent, *The European Union's Aid Policy Towards Countries Involved in the Congo: Lever for Peace or Incitement to War?*, Unpublished paper, May 2001, p. 16. See also statements quoted in Amnesty International, *Democratic Republic of Congo: Rwandese-controlled east: Devastating human toll*, 19 June 2001, Report No. AFR 62/011/2001, at <http://web.amnesty.org/ai.nsf/Index/AFR620112001?OpenDocument&of=COUNTRIES%5CRWANDA>, unpaginated version, footnote 11

³⁵ For instance, the UK's Department for International Development (DFID) wrote in a memorandum that the "Government of the United Kingdom [...] believes that Rwanda should be treated as a special case for international assistance." United Kingdom, Department for International Development, *Rwanda: Country Strategy Paper...*, at http://www.dfid.gov.uk/public/what/strategy_papers/rwanda_csp.html, p. 9. On 7 April 1998, the World Bank Board of Directors "endorsed the CAS [Country Assistance Strategy] proposal that Rwanda be treated as a special case for international assistance and given exceptional assistance to overcome the legacies of the genocide and make the transition to peace and development." International Development Association, *Rwanda: Country Assistance Strategy - Progress Report*, IDA/R99-135, 11 June 1999

programmes. For several years, Rwanda was allowed to have military expenditures of approximately 4% of GDP.³⁶

Conditions are Violated by the ‘Government of Rwanda’

In 1998, several budgetary requirements were not met. The official military budget - excluding extra-budgetary revenue - was exceeded by 0.4% of GDP, there was underspending on basic social services, an end-September 1998 performance criteria deadline on net foreign assets of the National Bank of Rwanda was not met, while the repayment of domestic arrears owed by the ‘government’ had been delayed. A deadline for submitting certain legislative proposals to parliament had also not been met, and an audit of the national telephone company Rwandatel was carried out several months too late.³⁷

.... but Donors either Waive the Conditions...

But when the ‘Government of Rwanda’ did not meet these criteria, in particular with respect to staying with the record-high allowance for military expenditures, it faced no consequences. The IMF response was to agree to a request by the ‘government’ for waiving these criteria arguing that the financial targets “were broadly met” and that the ‘government’ maintained a ‘strong commitment’ to the programme.³⁸ Three years later, in late March 2001, the IMF Board of Directors “expressed concern over the extra-budgetary expenditures, especially those relating to military spending”, though no amounts or estimates were mentioned. Again, the ‘Government of Rwanda’ faced no consequences, but the IMF Board of Directors merely “welcomed the authorities’ intention to bring them into the 2002 budget”.³⁹

.... Turn a Blind Eye on Violations ...

The Bretton Woods institutions have failed to investigate how minerals exploited from Congo fund the Rwandan military outside the recorded budget. And this despite a recorded export of various minerals that are either not mined in Rwanda or not in the quantities in which they are exported, and despite the fact that the mineral exploitation in the Rwandan zone of Congo has

³⁶ Confer ‘Table 6 – Official Rwandan Military Expenditures’

³⁷ International Monetary Fund, Rwanda – Midterm Review Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility and Request for Waiver of Nonobservance of Performance Criteria, EBS/99/22, 26 February 1999, p. 3

³⁸ Ibid.

been openly acknowledged by RCD-officials on a number of occasions.⁴⁰ The establishment of a handful of diamond comptoirs in Kigali has also not prompted any reaction by donors or Bretton Woods officials.⁴¹

No political analysis and no thorough investigations seem to have been carried out by neither the IMF nor the World Bank on this issue. In fact, several IMF sources acknowledge that they do not see it as their job to find out whether revenue earned from the trading in precious commodities funds the Congo campaign. One official thought it was 'anybody's guess' whether exploitation was going on and whether this contributed to the RPA's warfare:

We are not able to police possible illegal exploitation from the Congo. We can not exclude that resources are being taken away on an individual basis. It is not the IMF's task to travel to Congo to find out about this [...] The view we have taken on [the level of] military activities is that it was the same before and after the start of the war. We cannot exclude that natural resources are financing additional activities. [But] It is not our task to find it out.⁴²

The fact that the RPA's military expenditures has gone down after the war started following the Congo, the IMF official said, was tied to the IMF's conviction that the RPA was only "assisting the rebels". With respect to the level of military expenditures following the Rwandan invasion of Congo in August 1998, the official said:

Our impression was that the military activities had been financed by the government's own resources until '98, and that they continued to use their own resources [for this purpose], which was 4 % of GDP. The bulk of activities already took place [...] Since the Rwandese army was there in the area [in connection with the counter-insurgency campaign in North-Western Rwanda], it was just displacing the activities across the border. There was not a need for a massive increase in resources.⁴³

This statement seems a bit far-fetched for (at least) two reasons. First, the premise of the calculation, namely that the RPA only 'assists' RCD-Goma is doubtful. The RPA is largely

³⁹ International Monetary Fund, *IMF Concludes Article IV Consultation with Rwanda*, Public Information Notice (PIN) No. 01/31, 27 March 2001, at <http://www.imf.org/external/np/sec/pn/2001/pn0131.htm>

⁴⁰ Confer the above section 'Exports via Rwanda' and 'Table 2 – Official Rwandan Coltan Production and Export'

⁴¹ Lemarchand, René, *The Democratic Republic of Congo: From Failed State to Statelessness*, unpublished paper, December 2000, p. 17; and *Chicago Tribune*, 'Torrents of civil war pound ravaged Congo: Nation of riches impoverished by legacy of greed', 10 December 2000, also available at <http://www.pulitzer.org/year/2001/international-reporting/works/congo1.html>

⁴² Confidential telephone interview with International Monetary Fund official, 2001

⁴³ Ibid.

controlling RCD-Goma, which was created by the RPA only one day after the (re-)invasion on 1 August 1998. RCD-Goma, deeply resented by the local Congolese population, would be nothing without the RPA, and this makes the line between RCD-Goma expenses and RPA expenses fluid at best.

Second, it is simply not true that RPA activities have just been displaced across the border. Rwandan troops are operating deep inside the jungle, hundreds of kilometers away from Rwanda, in areas by and large only reachable by expensively chartered airplanes or through army helicopters. Such transport of material and troops is bound to incur substantial extra expenses compared to a situation in which the RPA stayed put inside the Rwandan borders. Ammunition, the replacement of weapons lost in battle etc. also incur extra expenses.

Moreover, the Bretton Woods institutions seem not to have investigated extra-budgetary financing through the so-called 'voluntary contributions', claiming there was no evidence of people being forced to contribute and that any such contribution made had been disclosed to donors.

Donors appear to have decided to refrain from investigating whether conditions are being respected, instead quietly 'believing' in the good intentions of the Rwandan 'government', which is, for instance, expressed in the following statements by a high-ranking World Bank economist, Chukwuma Obidegwu, and a press release from the Dutch Foreign Ministry, respectively:⁴⁴

The government of Rwanda assured us that it is not interested in the continuation of the war – which is satisfactory to us [...] We have no guarantees but we have their word⁴⁵

In a letter to [the Dutch Minister for Development Cooperation, Eveline] Herfkens, President Kagame said that he was cooperating fully in implementing the Lusaka peace agreement. This was enough to persuade Ms Herfkens to include Rwanda on the list [of countries receiving bilateral Dutch aid].⁴⁶

⁴⁴ See also *File on Four*, BBC Radio 4, 10 July 2001, transcript available at

http://www.bbc.co.uk/radio4/progs/genre/transcripts/fi_leonfourmobilephones.pdf

⁴⁵ *Reuters*, unnamed news article on IMF loan to Rwanda, 8 February 1999, quoted in Reyntjens, Filip, *Talking or Fighting...*, p. 26

⁴⁶ Netherlands, Ministry of Foreign Affairs, *Development aid countries now "18+4"*, Press Release, n.d., at <http://www.minbuza.nl/english/Content.asp?key=310533&pad=257569,257774>

.... or Accept Manipulated Figures

The Bretton Woods institutions have steadfastly backed questionable statistics put forward by the 'Government of Rwanda' and even continued to publish manipulated and incompatible figures by the 'Government of Rwanda'. The clearest example of such incompatibility are the huge gold exports to Belgium, worth US\$ 35.5 million and US\$ 29.8 million for 1997 and 1998, respectively. These figures are totally incompatible with both the total Rwandan exports to Belgium, listed at US\$ 4 million for both years in question, as well as total Rwandan gold exports.⁴⁷ According to ex-RPA officer Deus Kagiraneza, he was approached by World Bank staff in Rwanda, who already back in 1998 asked Kagiraneza to explain this gap. Kagiraneza, a former employee at the Congo Desk, says he told the World Bank staff that he was not able to offer an explanation.⁴⁸ But neither the World Bank nor the IMF have written a single line about this discrepancy in their subsequent reports on Rwanda, which are used by virtually all other donors to evaluate the economic progress of the country.

In Any Event, Aid Contributes to Development, Donors Say

To most donors, neither the extra-budgetary revenue nor the Congo war have as such prevented the continuation of aid to Rwanda. Because aid, donors argue, contributes to development in Rwanda. But the reasons for the continuation or expansion of aid to Rwanda have varied considerably, though two concepts have always been at the center of discussions: progress on the one hand and backwardness, or need, on the other.

Before 1994, donors used to emphasize Rwanda's economic *progress* and disbursed so much aid that the country received one of the highest per capita rate of foreign aid in Africa.⁴⁹

During and after the Genocide, both government donors and NGOs rapidly shifted the discourse and emphasized the great *need* in Rwanda (as well as in Eastern Zaire).

Following enormous amounts of post-Genocide 'emergency aid' as it usually termed, donors have the past few years stressed *both progress and need* in Rwanda. Some examples illustrate this.

⁴⁷ Confer 'Official Rwandan National Accounts and Export Statistics' and Economist Intelligence Unit, *EIU Country Profile 2001...*, p. 27. The gold export is also inconsistent with the official total export for 1998, which was US\$ 64.5 million, most of which was coffee and tea, thus leaving only US\$ 9.8 million USD for 'other products'. International Monetary Fund, *Rwanda: Statistical Appendix*, Country Report No. 01/30, 5 February 2001, at <http://www.imf.org/external/pubs/ft/scr/2001/cr0130.pdf>, p. 35

⁴⁸ *La Libre Belgique*, 'A qui profite le coltan de l'est congolais?', 23 December 2000, and Telephone interview with ex-Rwandan Patriotic Army officer, Deus Kagiraneza, June 2001

⁴⁹ Prunier, G rard, *The Rwanda Crisis...*, first edition, p. 79

Progress has been lauded by donors in numerous statements. According to an IMF statement, its executive board commended the Rwandan authorities for their "success in maintaining macroeconomic stability with solid growth and low inflation [...] This has provided the basis for the completion of the review and a consolidation of Rwanda's good track record of policy performance"⁵⁰ In March 2000, the EU Commissioner for Development and Humanitarian Aid, Poul Nielson, praised Rwanda's economic reform efforts when he signed an aid contract for € 110 million.⁵¹ Rwanda has also been performing well, according to a strategy paper prepared by the UK's Department for International Development (DFID) in connection with the signing of a UK£ 30 million aid donation: "[e]conomic progress has been made through a number of central reforms in foreign exchange, fiscal, monetary and trade areas."⁵² The Dutch Foreign Ministry also emphasized the progress achieved by the 'Government of Rwanda' when the former decided to put Rwanda on the list of countries receiving bilateral Dutch aid, setting aside NLG 50 million for Rwanda in 2000: "Rwanda has made progress economically and in the area of governance, which justifies further Dutch aid and a place on the country list."⁵³

However, the same donors have also used backwardness to justify aid. The Government of the United Kingdom has in its above-mentioned strategy paper argued that:

Rwanda is one of the poorest countries in the world. It is recovering from tragic human and economic destruction (institutional and productive capacity has been decimated) which has few parallels [...] Capacity constraints are acute and constrain efforts to improve Rwanda's public sector management and the productivity and competitiveness of its private sector.⁵⁴

An IMF team visiting Rwanda in January 2001 declared that great challenges remained in terms of tackling the poverty situation, a theme also stressed at a major donor conference in Kigali

⁵⁰ See also United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: Economic basic sound, poverty issues remain', 22 January 2001, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20010122.phtml>

⁵¹ Irin United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Commissioner calls for cut in military spending', 10 March 2000, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20000310.htm>; and Economist Intelligence Unit, *EIU Country Profile 2000...*, unpaginated version

⁵² United Kingdom, Department for International Development, *Rwanda: Country Strategy...*, at http://www.dfid.gov.uk/public/what/strategy_papers/rwanda_csp.html, p. 3

⁵³ Netherlands, Ministry of Foreign Affairs, *Development aid countries now "18+4"*, Press Release, n.d., at <http://www.minbuza.nl/english/Content.asp?key=310533&pad=257569,257774>

⁵⁴ United Kingdom, Department for International Development, *Rwanda: Country Strategy...*, at http://www.dfid.gov.uk/public/what/strategy_papers/rwanda_csp.html, p. 1

convened in November 2001 to discuss the eradication of poverty.⁵⁵ After having signed the above-mentioned € 110 million aid package, the EU Commissioner for Development and Humanitarian Aid, Poul Nielson, said that additional EU money would be available to Rwanda "in the light of the country's general situation and needs", thereby suggesting that the provision of aid was tied to the backward situation in the country.⁵⁶

As demonstrated above, two opposite depictions of the situation in Rwanda - backwardness and progress - have been used side-by-side to justify increased or sustained aid. For instance, the DFID

...recognises that without substantial, sustained and flexible support from the donor community it will not be possible for the Government [of Rwanda] to manage the difficult transition from conflict to peace and stability and to attain the sustainable growth necessary to reduce the extreme poverty of the Rwandan people.⁵⁷

Without aid, the DFID argues, there will be no effective development. Aid must thus be given on a 'flexible' basis and not tied to rigid criteria: The "move to sustainable growth requires a shift of international financial support from humanitarian assistance to longer term, flexible and sustainable support for development." Similarly, in connection with the release of funds to the education sector, the UNDP stressed that such aid projects contributes to development in the Rwanda. "Following the genocide, there is a very urgent need to rebuild human resources and I believe that these projects are absolutely key to that process,"⁵⁸ the UNDP resident representative stated in 1999. In 2001, the (new) UNDP resident representative stated that the "UNDP is proud to support these critical components that will help Rwanda move toward

⁵⁵ United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: Economic basic sound, poverty issues remain', 22 January 2001, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20010122.phtml>

⁵⁶ United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: EU restores development cooperation', 10 March 2000, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20000310.htm>

⁵⁷ United Kingdom, Department for International Development, Rwanda: Country Strategy Paper..., at http://www.dfid.gov.uk/public/what/strategy_papers/rwanda_csp.html, p. 9

⁵⁸ United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'UN and other donors approve governance fund', 11 December 2000, at <http://stone.cidi.org/humanitarian/irin/ceafrika/00b/0028.html>; and United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: \$6.7 million pledge for education and civil service programmes', 24 August 1999, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/19990824.htm>

increased levels of sustainable human development".⁵⁹ NGOs have also strongly backed the view that aid contributes to development. For instance, Oxfam has argued that:

the debt problem, left unresolved, will contribute to wider pressures endangering Rwanda's development prospects. Rwanda's debt burden is a fundamental obstacle to the reconstruction and rehabilitation efforts of the Rwandan Government and members of the international community.⁶⁰

Thereby stressing the simultaneous progress, i.e. the 'rehabilitation efforts' of the 'Government of Rwanda', as well as the great need and backwardness in Rwanda.

In short, donors claim that aid is bound to contribute to development in Rwanda: the progress seems to imply that aid money will not go to waste, while backwardness or need implies that money is spent on needy people. Donors thereby end in the circular logic that was sarcastically lauded by Professor Peter T. Bauer of the London School of Economics:

Whatever happens in the recipient countries can be adduced to support the maintenance or extension of aid. Progress is evidence of its efficiency and so an argument for its expansion; lack of progress is evidence that the dosage has been insufficient and must be increased. Some advocates argue that it would be inexpedient to deny aid to the speedy (those who advance); others, that it would be cruel to deny it to the needy (those who stagnate). Aid is thus like champagne: in success you deserve it, in failure you need it.⁶¹

The donors' perception of Rwanda fits this description quite well. I have come across no donor statements implying that the absence or diminution of aid, let alone sanctions, would contribute to development in Rwanda.

Provisional Conclusion

Rwanda is a very poor country with very few valuable exports, mainly tea and coffee, and imports outweigh exports by a factor of nearly four. The country is extremely dependent on donor loans

⁵⁹ United Nations, Office for the Coordination of Humanitarian Affairs, *Integrated Regional Information Network for Central and Eastern Africa* (IRIN-CEA), 'Rwanda: UN and other donors approve governance fund', 11 December 2000, at <http://www.reliefweb.int/IRIN/cea/countrystories/rwanda/20001211.phtml>

⁶⁰ Oxfam, *Debt relief for Rwanda: an opportunity for peace-building and reconstruction*, Policy Paper, n.d., available at <http://www.caa.org.au/oxfam/advocacy/debt/rwanda/relief.html#section2>

⁶¹ Bauer, Peter, *Equality, The Third World and Economic Delusion* (London: Weidenfeld & Nicolson, 1981), (no page number provided), quoted in Hancock, Graham, *Lords of poverty: The Free-wheeling Lifestyles, Power, Prestige and Corruption of the Multi -Billion Dollar Aid Business* (London: Macmillan, 1989), pp. xiv-xv

and grants, which finance roughly half of the government's budget. Despite the fact that the 'Government of Rwanda' has violated several important economic agreements with the Bretton Woods institutions, *inter alia* by financing its military by precious commodities obtained under cover of the war in the Congo, donors have nevertheless been unwilling to limit the aid to Rwanda. Aid helps – regardless of the situation, donors say.