



Rwanda

Scenario comparisons

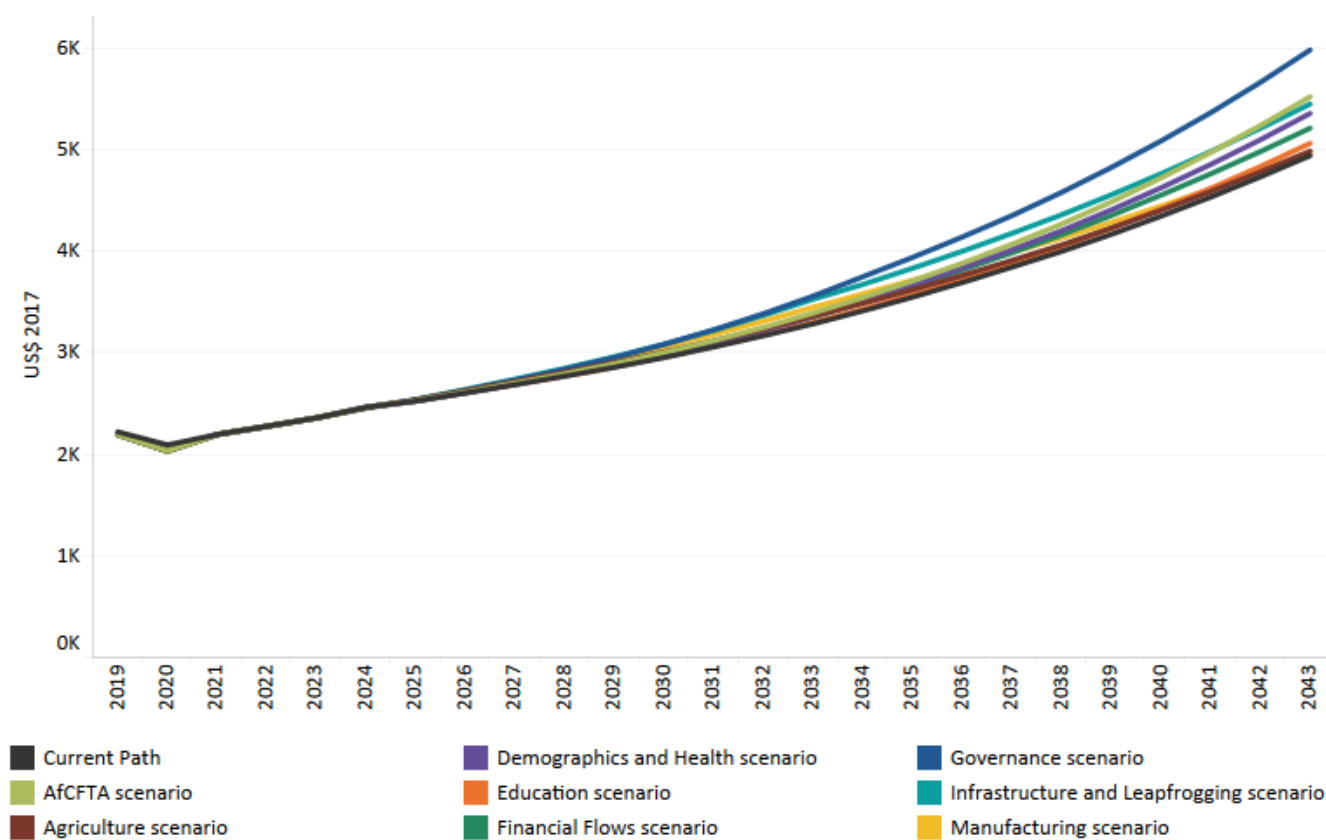
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Last updated 06 November 2024 using IFs v7.84

Scenario comparisons

Chart 28: GDP per capita in CP and scenarios, 2019–2043

Purchasing power parity



Source: IFs 7.84 initialising from UN Population Division World Population Prospects and WDI data

Chart 28 presents GDP per capita in the Current Path forecast and all scenarios, from 2019 to 2043.

The **GDP per capita** is generally used to measure the standard of living and is the most widely used and accepted index used to compare welfare among countries. This study uses GDP per capita measured in purchasing power parity (PPP) for this analysis. Rwanda's GDP per capita of US\$2 219 in 2019 is the fifth largest GDP per capita among the 23 low-income countries in Africa and 21% higher than the group average of US\$1 832 for low-income countries in Africa. This figure represents a tremendous improvement of about 140% from the US\$933 it recorded in 1990, which made it the eighth lowest among the low-income group in Africa. Between 2009 and 2019, GDP per capita grew at an average of 5%.

On the Current Path, GDP per capita in Rwanda will reach US\$4 937 by 2043, making it the second largest among the low-income African countries, only lower than Uganda. At this rate, the country's GDP per capita will be 41.3% higher than the average of US\$3 494 for its income peers in Africa. Indeed, by 2050, which marks the end of the implementation of Rwanda's Vision 2050, the country's GDP per capita of US\$6 691 on the Current Path will be the highest among the low-income countries in Africa. However, this will be about half the target of US\$12 476 by 2050 expected by the Rwandan authorities.

The scenarios with the greatest impact on GDP per capita by 2043 will be the Governance scenario, followed by the AfCFTA scenario and the Large Infrastructure and Leapfrogging scenario. In the Governance scenario, GDP per capita will rise to

US\$6 010 by 2043, representing a 21.7% increase over the Current Path for that year. It means that the Governance scenario can raise GDP per capita in Rwanda by an additional US\$1 073 by 2043. Regime stability and good governance in the form of adherence to the rule of law, reduced corruption and improved transparency and accountability lead to more rapid economic growth.

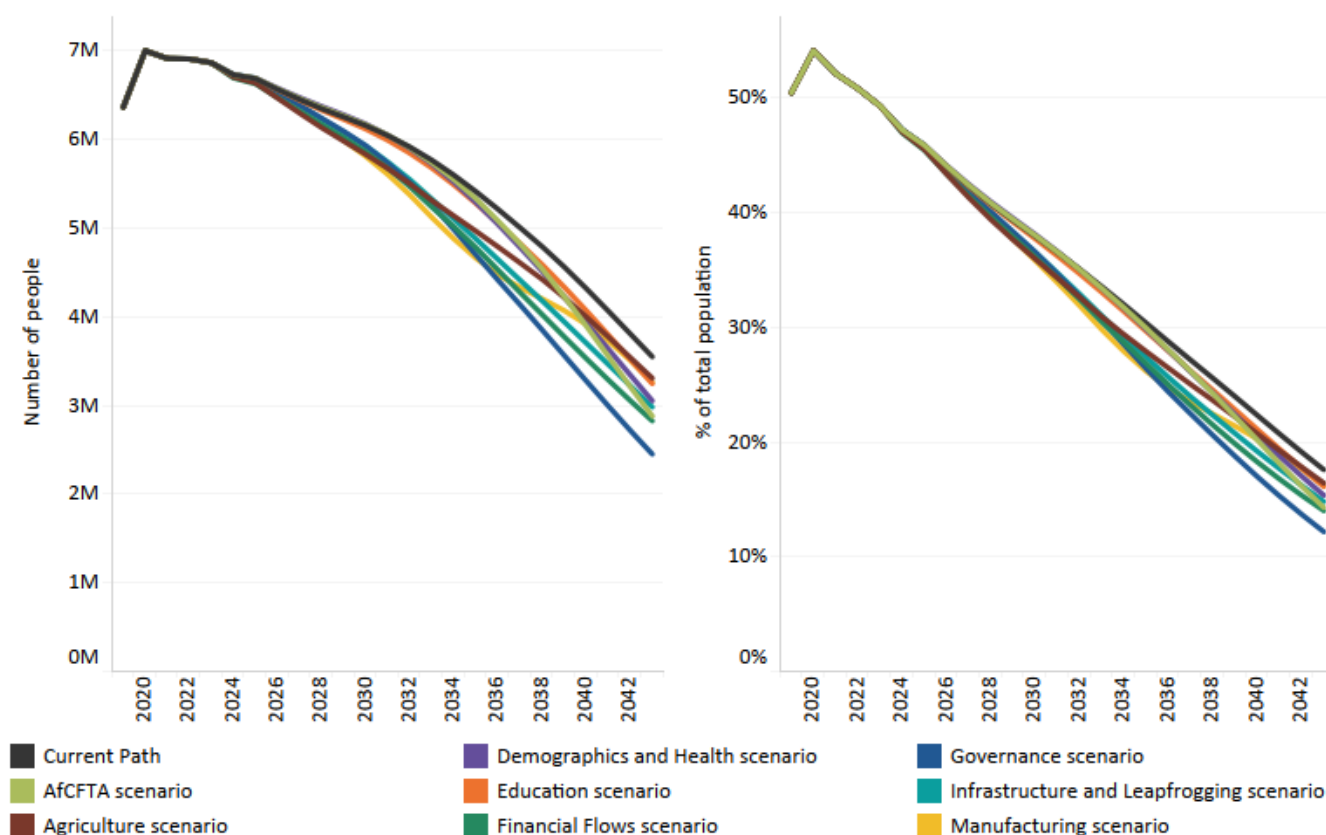
In the AfCFTA scenario, Rwanda's GDP per capita will increase to US\$5 546 by 2043, which represents an increase of US\$609 (or 12.3%) compared to the Current Path in 2043. This indicates that Rwanda has considerable potential to increase GDP if it takes advantage of the full implementation of the AfCFTA. Trade between African countries has the benefit of increasing Rwanda's exports, as it provides access to a much larger market and can also improve the country's manufacturing sector. This could lead to more rapid economic growth and increased employment in key sectors.

In the Large Infrastructure and Leapfrogging scenario, Rwanda's GDP per capita will increase to US\$5 473 by 2043. This is an increase of US\$536 (or 10.9%) compared to the Current Path of US\$4 937 for 2043. Broadband accessibility and use have the potential to increase GDP through its effect on reducing transaction costs for businesses. It can also help firms adopt efficient technologies, which can improve productivity and ultimately lead to growth. This also means that if Rwanda's huge informal sector is formalised it can increase GDP, government revenue and productivity.

The Agriculture scenario will increase GDP per capita to US\$4 981, US\$44.3 more than the country's Current Path by 2043. The marginal impact of the Agriculture scenario on GDP per capita reflects the declining share of agriculture's contribution to GDP expected to occur over the period.

Chart 29: Poverty in CP and scenarios, 2019–2043

Number of people and % of population



Source: IFs 7.84 initialising from UN Population Division Population Prospects estimate, WDI population data and PovcalNet World Bank data

Chart 29 depicts poverty in the Current Path forecast and all scenarios, from 2019 to 2043.

There are numerous methodologies for and approaches to defining poverty. We measure income poverty and use GDP per capita as a proxy. In 2015, the World Bank adopted the measure of US\$1.90 per person per day (in 2011 international prices), also used to measure progress towards achieving SDG 1 of eradicating extreme poverty. To account for extreme poverty in richer countries at slightly higher levels of income than in poor countries, the World Bank introduced three additional poverty lines in 2017:

- US\$3.20 for lower-middle-income countries
- US\$5.50 for upper-middle-income countries
- US\$22.70 for high-income countries^[1]

As a low-income country, Rwanda uses the US\$1.90 benchmark for extreme poverty. Post-genocide, the government of Rwanda has worked hard to eliminate extreme poverty in the country. In 1990, 5.6 million Rwandans, representing almost two-thirds of the population, lived below the poverty line of US\$1.90, though above the average of 69.2% for low-income countries in Africa. Rwanda has relatively higher poverty rates than its continental peers with similar income per capita, as poverty reduction has become less responsive to growth in recent years.

Through the Vision 2020 Umurenge Programme (VUP), poor and elderly people in Rwanda receive cash transfers and public work payments as part of measures to tackle poverty. However, this programme has been criticised for not tackling the root causes of poverty that is widespread in rural areas. Also, these welfare programmes have been criticised for being concentrated mainly in Kigali.

The private sector, which is supposed to be the engine of growth, has limited economic participation partly due to low domestic savings. In addition to this, many of the rural farmers still practise subsistence agriculture, which earns them little disposable income. Moreover, overpopulation and underemployment as a source of poverty will remain the main socio-economic challenges for the next decade.

By 2019, 6.4 million Rwandans lived below this threshold, equivalent to 52.4% of the population, 6.6 percentage points below the average of low-income countries. The decline in poverty over the years can partly be attributed to the effective implementation of social protection programmes that have contributed to improving the standard of living and livelihood opportunities for many Rwandans.

On the Current Path, the number of people living in poverty in Rwanda will stand at 3.5 million, constituting 17.6% of the population, by 2043. This corresponds to a decrease of 32.4 percentage points in the extreme poverty rate over 24 years. By this time, the poverty rate in Rwanda will be slightly (0.53 percentage points) lower than the average of its income peers in Africa.

The Governance scenario has the greatest potential to reduce extreme poverty in Rwanda. In the Governance scenario, the number of poor people will decline to 2.4 million (equivalent to 12% of the population), compared to the Current Path of 3.5 million people (17.6%) by 2043. It means that improved governance in the form of greater transparency and accountability for public resources has the potential for 1.1 million fewer people to live in extreme poverty by 2043.

In the Financial Flows scenario, 2.8 million Rwandans (25% of the total population) will be living in extreme poverty by 2043 making it the scenario with the second-largest impact on poverty reduction. This means that there will be 705 000 fewer poor people in this scenario (or 3.7 percentage points below the Current Path) compared to the Current Path. The huge

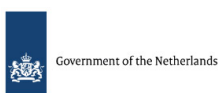
impact of the scenario on poverty reduction in Rwanda demonstrates the importance of financial flows particularly aid in fighting extreme poverty in the country.

The AfCFTA scenario has the third-largest impact on poverty reduction in Rwanda. In the scenario, 2.85 million people will live in extreme poverty by 2043, constituting 14.1% of the population. This will be 3.6 percentage points lower than the Current Path, and equivalent to a reduction of about 655 000 people living in extreme poverty. Trade openness will reduce poverty in the long term after initially increasing it due to the redistributive effects of trade. Therefore, a continental free trade agreement that reduces tariffs and non-tariff barriers for Rwanda could increase the country's competitiveness especially in sectors in which it has comparative advantage. In the long term, as the economy adjusts and it produces and exports its comparatively advantaged (lower relative cost) goods and services, poverty rates will decline.

Endnotes

1. In May 2022, the World Bank announced that it would be using US\$2.15 in 2017 prices as the new international poverty line (to measure progress towards the Sustainable Development Goals) instead of US\$1.90. Instead of the previous US\$3.20 for low-middle-income countries, the adjusted poverty line is now \$3.65, and \$6.85 for upper-middle-income countries (instead of \$5.50 in 2011 prices). The World Bank has not yet announced the new poverty line for high-income countries, previously set at \$22.70 in 2011 prices. The World Bank intends to release the associated poverty estimates in 2023. In the meanwhile, this site continues to use the US\$1.90, US\$3.20, US\$5.50 and US\$22.70 poverty lines.

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