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IS A UNIVERSAL INCOME GRANT AN APPROPRIATE SOCIAL POLICY TO ALLEVIATE POVERTY IN RWANDA?

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A mini-thesis submitted in partial fulfilment of the requirements for the Degree of Master of Commerce in Development Studies in the Faculty of Economics and Management Sciences at the University of the Western Cape.

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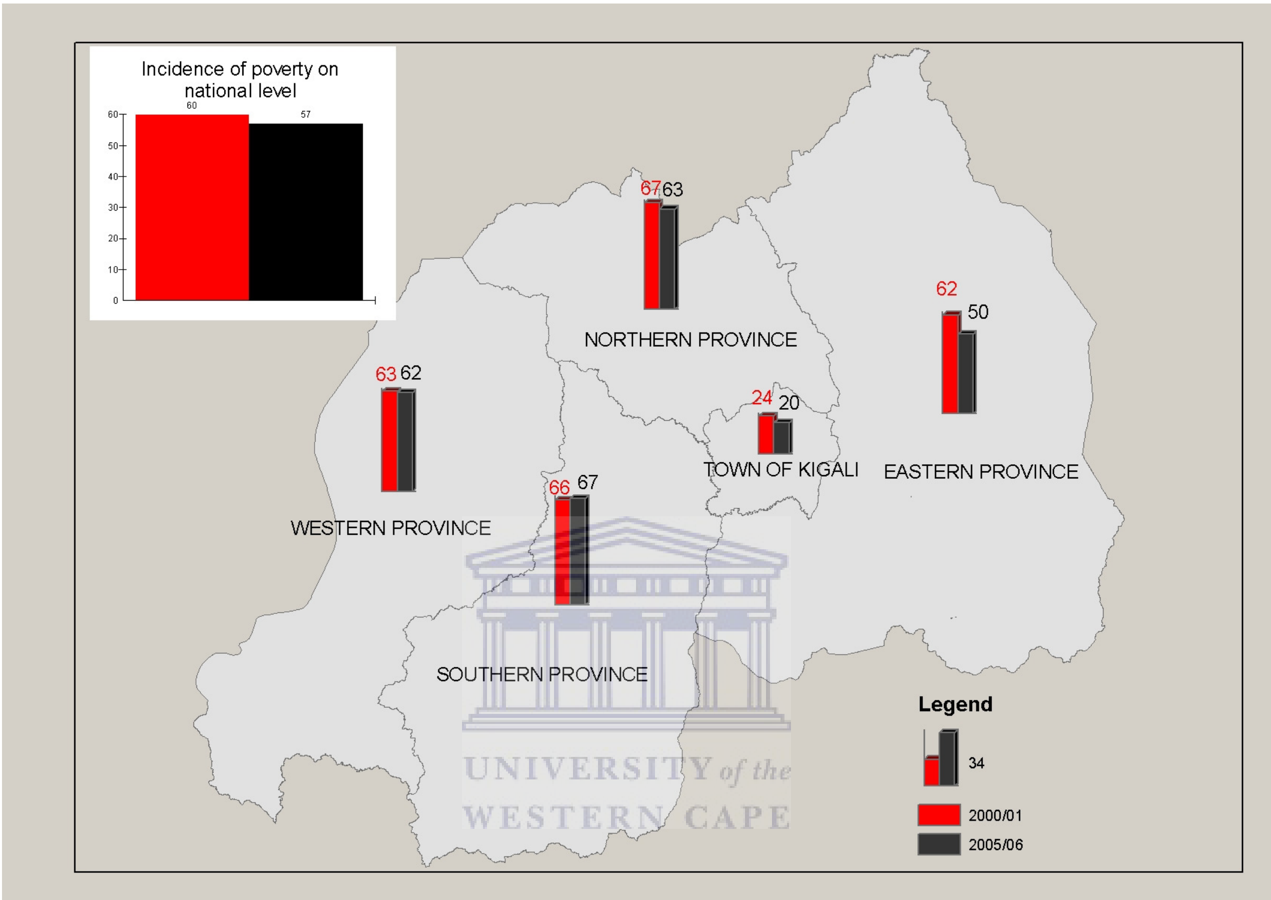
MAP OF RWANDA SHOWING CHANGE IN INCIDENCE OF POVERTY BY PROVINCE



Source: Republic of Rwanda (2007:28). Profile of Living Conditions. National Institute of Statistics Rwanda

KEYWORDS

Poverty

Social Policy

Universal Income Grant

Rwanda

Economic Growth

Social Development

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Means tested

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ABSTRACT

Title: Is a Universal Income Grant an appropriate social policy to alleviate poverty in Rwanda?

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Rwanda is characterised as a low-income country amongst the poorest on the African continent. Poverty in Rwanda has been persistent for a long period of time and it was made worse by the genocide that took place in 1994 and claimed over a million people. Although a variety of social policies, both home-grown and foreign, have been adopted since 1994 by the government of Rwanda to try and alleviate poverty, none has up to now succeeded to get rid of the poverty-conflict trap, partly because they are all means tested. It should be noted here that Rwanda's situation needs a universal approach in order to help ameliorate the current poverty level which is now at 60 percent, and the rising inequality. The researcher, when investigating a universal approach to use, suggested that a UIG could be the appropriate social policy option for Rwanda.

Rwanda has set itself goals through its Vision 2020 and the EDPRS to have changed the country's position by the year 2020 from being categorised as a low-income country into a middle-income country like South Africa. However, for this to be possible, economic growth must be robust. An annual growth rate of 7 percent needs to be maintained. It also means that the current per capita annual income of $290 needs to be increased to $900. The researcher concurs with these developmental goals but at the same time cautions policy makers that although growth is necessary, it should not crowd out redistributive justice.

There seems to be a strong argument that development approaches which focus on income transfers are more prudent in attaining economic development and poverty reduction than those whose sole intention is to attain economic growth. Although policies that pursue economic growth usually lead to inequalities in the societies, governments should take it upon themselves to ensure that there are also counter measures that will reduce poverty at the same time.

The researcher in this dissertation advocates for a universal income grant financed by an increase in indirect taxes supplemented by foreign aid as the best approach towards poverty alleviation in Rwanda. It must be noted that dependency on foreign aid is not sustainable in the long-term. There is a need to come up with measures of utilizing the already existing foreign aid in alleviating poverty and also to take care of future uncertainties when the foreign aid has been stopped.

In order for Rwanda to break out of the poverty–conflict trap, it needs to adopt social policies that are geared towards alleviating poverty and assuring growth. A UIG was chosen as a social policy option that is capable of alleviating poverty.

This research had three major aims. First of all it shows the possible impact of a universal income grant (UIG) in as far as the alleviation of poverty in Rwanda is concerned. Secondly it considers how a part of the existing foreign aid could be channelled into a UIG for all, with the funding effectively being recouped from those who do need support by an increase in the indirect taxes, e.g. in VAT. Thirdly develops a micro-simulation model which could show the impact of the combination of a UIG, partly being financed out of foreign aid and partly by the increases in indirect taxes, on poverty and income distribution in Rwanda. It is clear from the analysis that if the UIG is introduced in Rwanda it will have a multiplier effect when it develops social capital, stimulate aggregate spending, increase economic activity, bring investor confidence, promote economic growth and job creation and in the end alleviate poverty.

DEDICATION

This work is dedicated to my wife **Josephine Gatsinzi Haguma.**

DECLARATION

I declare that **"Is a Universal Income Grant an appropriate Social Policy to alleviate poverty in Rwanda?"** is my own work, that has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by complete references**.**

John Haguma **December 2008**

Signed _________________

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LIST OF ABREVIATIONS

UIG	Universal Income Grant
BIG	Basic Income Grant
MDGs	Millennium Development Goals
PRSP	Poverty Reduction Strategy Paper
RRA	Rwanda Revenue Authority
VAT	Value Added Tax
EDPRS	Economic Development and Poverty Reduction Strategy
RWF	Rwandan Francs
EICV	Enquête Intégrale sur les Conditions de Vie des Ménages (Households Living Conditions Survey)
IMF	International Monetary Fund
MINECOFIN	Ministry of Finance and Economic Planning
GDP	Gross Domestic Product
HDI	Human Development Index
PPP	Purchasing Power Parity
ILO	International Labour Organisation
AU	African Union

Chapter One: Introduction

> Which social policies are both suited for the facilitation of a higher economic growth and a positive impact on social development? Do the contingency of globalisation, to which all countries are today exposed, permit the luxury of developing a home grown social policy? Or is it more sensible to simply accept the social policy approaches recommended so strongly by the international organisations such as the World Bank and the IMF? Le Roux (2004:1).

This dissertation is trying to identify an appropriate social policy that Rwanda could use in order to alleviate poverty. As Le Roux implies, in the paper he wrote for the International Labour Organization (ILO) and the African Union in January 2004[1] quoted above, it is clear that Rwanda needs to pursue both the appropriate social policy and economic growth. But are the current social policies really favouring the attainment of a high rate of economic growth? And if so, do they facilitate social development?

Rwanda like all other countries has been influenced by globalisation. The question is whether in this context it is possible for Rwanda to develop a home grown social policy? Or must it simply accept the social policies dictated to them by organisations such as the World Bank and the International Monetary Fund (IMF)?

1.1 . Background

Poverty is among the many issues that have been investigated by research in development studies. In terms of poverty Rwanda is one of the poorest countries in the world, with 90 percent of its population in rural areas.[2]. Out of 175 countries for which estimates have been made in terms of the Human Development Index (HDI), it is ranked 158th. In terms of per capita Gross Domestic Product (GDP) in Purchasing Power Parity (PPP US $), Rwanda is ranked 153rd out of 175 countries.[3] Poverty in Rwanda has been persistent for a long period.[4] Although a variety of social policies have been put in place to try and alleviate poverty in

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[1] The Title of the paper is: A South African Social Policy Framework Analyzing and understanding the past and planning for the future.
[2] United Nations (2006:7);
[3] Howe & Mckay (2007:200)
[4] Majyambere & Nzaramba (2006) also see http://www.rwandagateway.org/article.php3?id_article=1579 (Accessed .on 20/06/2007);Musahara (2004).

Rwanda, none has up to now succeeded to get rid of the poverty-conflict trap.[5] This suggests that new approaches towards poverty alleviation are required. President Kagame said at the launch of the Economic Development and Poverty Reduction Strategy (EDPRS) that: 'Rwandans *need to be liberated from poverty and I wish it could be changed to poverty liberation instead of poverty reduction'*. [6] This would indicate that there is the political will to alleviate poverty.

Rwanda is characterised as a low-income country. But this has not stopped it from setting itself ambitious goals through its Vision 2020 according to which it wishes to transform the economy from a low-income into a middle-income country by the year 2020.[7] What this means is that it wants to move from the present per capita income of 290 US Dollars per year to 900 US Dollars. This will require an annual growth rate of 7%.[8] Rwanda has already shown itself to be able to restore and reform the economy by establishing a stable government and securing peace and safety in its territory.[9]

Economic growth is necessary[10] to address issues of inequalities and unemployment but it is not a sufficient condition for poverty reduction.[11] Growth need not crowd out distributive justice because this is how its impact on the poor will be identified across the population.[12] It should be noted however that if a country's citizens are illiterate, unskilled, politically angry and unsupported by their governments in their endeavour to make a living, then there is a growing risk that the goal to attain economic growth will be rejected by many.[13] This is a topical issue today especially since some countries have attained the growth but their populations are still suffering from chronic poverty.[14] This is because growth has failed to trickledown to the poor.

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[5] Musahara(2004:231).
[6] Howe & Mckay (2007:200).
[7] RIEPA (2006); RPSF (2005:2).
[8] Republic of Rwanda (2000:6).
[9] United Nations (2006:1).
[10] Bhorat Haroon &Ravi Kanbur (2006:9); Dollar, D. & Kraay, A. (2002); Kannbur, R. (2005); Ravallion, M. & Chen, S. (2003); May (2000).

[11] Coady, D. et la.,(2004:1); World Bank (2004:1); World Bank (2002) ; Cabazas & Rob (2006:54) and Easterly (2002:8).
[12] Musahara(2004:231); Yanagizawa & Bigsten (2006:8) ;Cabazas & Rob (2006:54) and May (2000:11-13).
[13] Nolan Riall (2002:11).
[14] This is exactly what Prof. Le Roux was referring to in the quotation above. He was referring to South Africa which had attained the growth but had at the same time failed to deal with poverty, unemployment and inequality.

It is for this reason, that Goldin & Reinert have argued that:

> The acceleration of growth and poverty reduction requires a more rapid evolution and dissemination of ideas. The challenge is the identification and assimilation of what works (and what does not work) in the fight against poverty, with local ideas addressing the uniqueness of local problems drawing on the full richness of global knowledge.[15]

There seems to be a strongly argued view that development approaches which focus on income transfers are more prudent in attaining economic development and poverty reduction than those whose sole intention is to attain economic growth.[16] Because policies that pursue economic growth usually lead to inequalities in the societies, governments should take it upon themselves to ensure that there are also counter measures that will reduce poverty at the same time. It means therefore that they should focus growth in areas that have a high benefit for the poor.[17]

1.2. Statement of the Problem

Today proponents of development advocate for poverty alleviation in a number of ways. Some concentrate on getting rid of income poverty, others are more preoccupied with reducing the illiteracy rate and getting the rural poor out of their poor health conditions, while others focus on those with insecurity of income to be provided them with a remedy, and advocate for those who are powerless.[18] A universal income grant (UIG) partly financed from foreign aid, has, however, not been investigated in any detail before. In this dissertation the possibility of combining a UIG and foreign aid as the best approach towards poverty alleviation in Rwanda is investigated.

Social welfare transfers from the rich to the destitute members of society are a common trend whenever countries are faced continuously with high levels of inequality, unemployment and poverty.[19] It should be noted however that because development theorists and policy makers already have different ideological thinking and they come from a wide variety of schools of

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[15] Goldin & Reinert (2007:194).

[16] Taylor, V. (2007); Rhee (2007); Le Roux (2002); McKay (2004); Musahara (2004).
[17] Taylor, V (2007:19).
[18] Goldin & Reinert (2007:124)
[19] Musahara (2004); Le Roux (2002).

thought, this has led to some social safety nets being referred to as superior and effective over the others which have been assumed to be poorer performers.[20]

In order for Rwanda to break out of the poverty–conflict trap[21], it needs to adopt social policies that are geared towards alleviating poverty and assuring growth. In this dissertation the researcher will consider whether a universal income grant (UIG) [22] is an appropriate social policy option that could enable Rwanda deal with its poverty and also enable it to attain its vision 2020.

Despite the fact that Rwanda has been relying on foreign aid for long it has not yet gotten rid of the poverty trap. This therefore begs the need to consider how a part of the existing foreign aid (say about 20%) could be channelled into a universal income grant for all, with the funding effectively being recouped from the better off, and further funding for the grant raised for those who do need support by an increase in the indirect taxes, for example in VAT[23].

1.3. Aims of the Research

The aims of this research are three fold. First of all the research will try to show the possible impact of a universal income grant (UIG) in as far as alleviation of poverty in Rwanda is concerned. Secondly it will consider how a part of the existing foreign aid can be channelled into a universal income grant for all, with the funding effectively being recouped from those who do need support by an increase in the indirect taxes, e.g. in VAT. And thirdly it will develop a micro-simulation model which will show the impact of the combination of a universal income grant, partly being financed out of foreign aid and partly by the increases in indirect taxes, on poverty and income distribution in Rwanda.

[20] Adesina (2006); Mkandawire (2006); Mkandawire (2001);Midgley (2004).
[21] Musahara (2004:5).
[22] Le Roux (2003).
[23] VAT is a consumption tax, an indirect tax and a multi-stage tax. It was introduced in France by a French economist in 1954 known as Maurice Lauré and it extended over time to all business and reached Africa through the countries that were colonized by France such as Ivory Coast in 1959, Senegal in 1960, and Madagascar in 1969. Today this tax operates in many parts of Africa like Kenya in 1990, Uganda in 1996, Tanzania in 1998, Cameroon in 1998, South Africa in 1998 and in Rwanda it was introduced in January 2001 (See www.wikipedia.org and www.rra.gov.rw).

1.4. Relevance and filling the gap

The research is taking place in the context where the existing social policies in Rwanda have failed to eliminate poverty. To consider the problem of addressing poverty through changes in social policy is clearly relevant in this context. The research is unique because it is advocating for a UIG to be introduced in Rwanda which is a low –income country. It agrees with the Goldin & Reinert argument in favour of the '*evolution and dissemination of ideas'* in order to deal with poverty. But they go on to warn us that, '*the challenge is the identification and assimilation of what works and what does not work'*. [24] In a search for an appropriate social policy option that could deal with poverty in Rwanda, this research has introduced a UIG to be given to the entire population as the best idea and the most appropriate social policy to alleviate poverty in Rwanda.

1.5. Limitations and research gaps

The researcher faced some problems in gaining access to government documents and statistics.

1.6. Organization of the Thesis

The dissertation is organised as follows: Chapter two gives an overview of Social policy on Poverty in Rwanda. It identifies different social policies that Rwanda has been using to alleviate poverty. It shows the gap that exists and hence a need for a Universal Income Grant (UIG) as an appropriate social policy. Chapter three presents a literature review with regard to the origins and evolution of the Universal Income Grant (UIG) especially in Developed Countries. It then looks at how the Universal Income Grant (UIG) has been interpreted in developing countries, but especially middle-income countries such as South Africa, Namibia and Brazil. Furthermore it tries to identify some low-income countries that have used income-transfers as a form of helping its citizens, like Mozambique. Then it introduces the trend of foreign aid in Rwanda in order to show why there is a need to channel it directly to poverty alleviation. Based on the above this dissertation introduces a U I G in Rwanda even though it is a low-income country. But with its ambitious Vision 2020, Rwanda wants to be transformed into a middle-income country by 2020. But above all, the inclusion of foreign aid

[24] Goldin & Reinert (2007:194).

will make a new contribution to the original model developed by le Roux[25] for South Africa and Namibia, and first applied to Rwanda by Musahara.[26] Chapter Four constructs a model to measure the impact of a universal income grant financed out of indirect taxes and foreign aid on Rwanda. It shows what the impact of UIG will be and investigates whether and at what level a UIG can be financed out of the available resources. Chapter five contains the Conclusion and Recommendations.

1.7. Conclusion

Rwanda has been affected by globalisation like many other countries. It is at the cross-roads in identifying a social policy option to follow. Whether it is possible to adopt a local idea that could address the uniqueness of the country will depend on big players like the World Bank and IMF.

Rwanda in its pursuit to attain its vision 2020 and the MDGs have focused all its resources on attaining economic growth. But as it has been mentioned by many scholars that economic growth without distributive justice is not good, there is a need therefore to come up with radical ideas that could fill the gap that exists.

The researcher in the chapters that follow suggests the introduction of a UIG as an appropriate social policy that may deal with poverty in Rwanda. The idea is particularly appropriate for Rwanda because genocide destroyed its social, political and economic fabric[27]. One needs something akin to the Marshal Plan to achieve economic growth and at the same time alleviate poverty.

The research develops a micro-simulation model which shows the impact of the combination of a UIG, partly being financed out of foreign aid and partly by the increases in indirect taxes, VAT and other indirect taxes (alcohol, cigarettes etc.), on poverty and income distribution in Rwanda.

[25] Le Roux(2002).
[26] Musahara(2004).
[27] Rusuhuzwa (2008:2); Musahara (2004: 149, 213)

Chapter Two: Overview of social policy on poverty in Rwanda

2.1. Introduction

There is a contradiction between rhetoric and practice in as far as appropriate social policies to deal with poverty alleviation are concerned. This chapter gives an overview of social policy on poverty in Rwanda by identifying the different social policies that Rwanda has been using to try and alleviate poverty. It shows the gap that exists and hence a need for a UIG as an appropriate social policy option.

2.2. Poverty in Rwanda

The subject of inequality and poverty has engaged the attention of scholars for centuries and a wide variety of definitions have been provided. In general, most sources differentiate between 'absolute' and 'relative' poverty.[28] Absolute poverty refers to the lack of sufficient income in cash or exchange in items for meeting the most basic needs of food, clothing and shelter.[29] On the other hand, relative poverty defines poverty of a particular group or area in relation to the economic status of other members of the society. From this perspective, people are considered as poor if they fall below the prevailing standards of living in a given societal context.[30]

Although extreme poverty according to the World Bank is defined as living on one dollar or less per day[31], it should be noted that poverty is in fact concerned with the broad dimension of all the facets of economic, political, cultural, emotional, and the psychological ones. It should be noted however, that eing poor does not simply mean lack of money. No, it also means that these poor people are subjected to physical abuse and violence, humiliation and indignity, and above all exploitation by the powerful and the wealth.[32] "It normally involves experiences of humiliation, of helplessness, of ill health, of indignity, of anxiety, of rejection

[28] Sachs (2005); Graaff (2003); World Bank (2000); World Bank (1998); Atkinson (1991); Bigstein (1983).
[29] Sachs (2005); Atkinson (1991); World Bank (2000);World Bank (1990).
[30] Sachs (2005); World Bank (2000); World Bank(1998); Atkinson(1991); Bigstein(1983)
[31] Nolan (2002:30).
[32] May (2000:11-13); Graaff (2003:6).

and denigration, of powerlessness and insecurity, of fatalism, of being trapped in a terribly bleak place, and of deep injustice".[33]

The Poverty Reduction Strategy Paper (PRSP) was designed during the post-conflict environment. Its primary focus was to manage the transitional period of rehabilitation and reconstruction which was from 2002-2005.[34] This Strategy was very good in as far as categorising the poor people was concerned. It enabled policy makers to know which groups were in severe poverty. However, it never showed how it will get the categories of households that are in destitution (Umutindi nyakujya, Umutindi and umukene) out of poverty. Table 1 shows the different categories of persons in Rwanda as categorised by the PRSP.

Table 1: Poverty Categories in the Rwanda's Nationwide Participatory Poverty Assessment PPA

Category of household	**Characteristics**
Umutindi nyakujya (Those in abject poverty)	Those who need to beg to survive. They have no land or livestock and lack shelter, adequate clothing and food. They fall sick often and have no access to medical care. Their children are malnourished and they cannot afford to send them to school.
Umutindi (The very poor)	The main difference between the *umutindi* and *umutindi nyakujya* is that this group is physically capable of working on land owned by others, although they themselves have either no land or very small landholdings, and no livestock.
Umukene (The poor)	These households have some land and housing. They live on their own labour and produce, and though they have no savings, they can eat, even if the food is not very nutritious. However, they do not have a surplus to sell in the market, their children do not always go to school and they often have no access to health care.
Umukene wifashije (The resourceful poor)	This group shares many of the characteristics of the *umukene* but, in addition, they have small ruminants and their children go to primary school.

[33] Ibid pg.8
[34] Republic of Rwanda (2007); Ansoms (2007).

Umukungu (The food rich)	This group has larger landholdings with fertile soil and enough to eat. They have livestock, often have paid jobs, and can access health care
Umukire (The money rich)	This group has land and livestock, and often has salaried jobs. They have good housing, often own a vehicle, and have enough money to lend and to get credit from the bank. Many migrate to urban centres.

Source: Howe & Mckay (2005:202); Musahara (2004); Republic of Rwanda (2002)

Vision 2020 is a document that was designed after the genocide of 1994 after a broad consultation process through meetings that took place at the president's office, commonly known as Village urugwiro. It is a long-term ambitious growth and development document whose main priorities are: *good governance, rural transformation, manufacturing and service development, regional and international cooperation, promotion of the private sector and poverty reduction*.[35] It emphasizes a GDP of $US 14.4 billion, an average GDP growth rate of 7%, and a per capita GDP of $US 900 per annum, for most of the next 20 years. Its main targets are: *to attain universal primary education by 2010, reduce infant mortality rates by two thirds by 2015, achieve gender equality by 2020 and to reduce a population growth rate of about 2.9% down to about 2% by 2010.*[36] It is important to note that so far eight years are gone and we are remaining with only twelve years to see to it that the goals set in table 2 below are achieved.

However like the Poverty Reduction Strategy Paper (PRSP)[37], Vision 2020 does not tell us how poverty will be eliminated. If you take three indicators from table 2 and 3 and compare them you will find that a lot still needs to be done. For example in 2000 the life expectancy rate was 49 years, infant mortality rate was 107 for every 1000 live births and poverty was at 64 percent. Now six years down the road you would expect a drastic change but this is not how things are because life expectancy actually reduced to 44 years and yet the expectation is

[35] Ansoms (2007); Musahara (2004).

[36] Musahara (2004:237); Republic of Rwanda (2000). Vision 2020.

[37] *PRSP is an acronym for a poverty reduction strategy. It is like any PRSP in any other developing country with the exception that in Rwanda the effects of genocide have substantially influenced it. Its major feature was to develop a nationwide involvement of the people or what the government called a participatory poverty assessment (PPA). It aims to generate an accurate profile and diagnosis of what poverty is in Rwanda, evaluate the policies proposed in the I-PRSP and be able to State a longer-term process in which poor people would generate and implement their own solutions. Its main pillars are economic growth, macroeconomic stability, prioritization of public actions, forging a sound partnership between government and other stakeholders and human resource development. The priority areas are agriculture for transformation of the rural areas, human resource development, economic infrastructure, good governance, private sector and technology, gender, environment, HIV/AIDS, Capacity building, villagisation (Imidugudu) and inequality (Musahara (2004:238-241).*

that by 2010 it should be at least 50 years. Infant mortality improved to 118 for every 1000 live births, although the expectation is that it should be 80 for every 1000 live births by 2010. The incidence of poverty in 2000 was estimated to be 64 percent while in 2006 it reduced slightly to 57 percent but the expectation is that by 2010 poverty should have been reduced to 40 percent. It is against this background that this thesis tries to put forward the UIG as a social policy option that would enable Vision 2020 to achieve its objectives.

Table 2: Major Projections of Vision 2020

Indicator	Current situation-2000	Projection 2010	Projection 2020
Population	8,300,000	11,000,000	14,000,000
Life expectancy	49	50	55
Total fertility rate per woman	6.5	5.5	4.5
Infant mortality (per 1000 live births)	107	80	50
Maternal mortality(per 10,000 women	1070	600	200
Rate of demographic growth	2.9	2.3	2.2
Primary school enrolment rate-Net	72	100	100
Poverty as a % below 1$ per day	64	40	30
Average growth of GDP	6.2	8	8

Source: Musahara (2004:239)

Table 3: Rwanda's Economic and Social Indicators for 2006

GDP (US$ Billions)	2.5
Population, mid-year (Millions)	9.1
GNI Per Capita	250
Poverty (% of Population below national poverty line)	57
Life expectancy at birth (years)	44
Infant Mortality (per 1,000 live births)	118
Child Malnutrition (% of children under 5)	23
Literacy (% of population age 15+	65
Access to an improved water source (% of population)	74
Gross primary enrollment (% of school –age population)	120
Male	119
Female	121

Source: World Bank (2006); http://devdata.worldbank.org/AAG/rwa_aag.pdf (Accessed on 15/07/2008); National Institute of Statistics Rwanda.

It is clear that although Rwanda had a well written Poverty Reduction Strategy and the ambitious Vision 2020, poverty is still a major problem for Rwanda as can be seen in Table 4, where poverty is considered by province.

Table 4: Proportion of people who are poor by Province (%)

Province	2000–01	2005–06
City of Kigali	24	20
Southern	66	67
Western	63	62
Northern	67	63
Eastern	62	50
National	**60**	**57**

Source: Republic of Rwanda (2007:28). Profile of Living Conditions. National Institute of Statistics Rwanda

From Table 4 above, we can see how poverty incidences are similar throughout the five provinces. From the statistics shown above in table 4 it is clear that on a national level there is a drop in among the poor from 60 percent in 2000-01 to 57 percent in 2005-06. This further implies that there has been a real reduction in poverty over the past five years. Not only did poverty drop in Kigali but it also dropped in other areas. It is worth noting that some provinces have actually benefited more than others in terms of poverty reduction. For example in Eastern Province poverty dropped from 62 percent to 50 percent. While the Northern and the city of Kigali provinces have seen some reduction in poverty. But the Western and Southern provinces were not as privileged as the other provinces.

Although the proportion of people living below the poverty line fell from 43 % to 36.9 %, this did not prevent the increase in the number of those living in extreme poverty to 200, 000 due to the fast growing population.[38] In Rwanda, the predominant poor live in Southern province, but most specifically in Gikongoro (79%) and Gitarama (57%).[39]

Poverty however still remains a rural issue, and this can be explained by the fact that 83 percent live in the rural areas, and they include 92 percent of all poor people in 2005-06 (refer to Fig 1 below).[40]

[38] Republic of Rwanda (2006:5).
[39] Ibid
[40] Republic of Rwanda (2007:27-28).

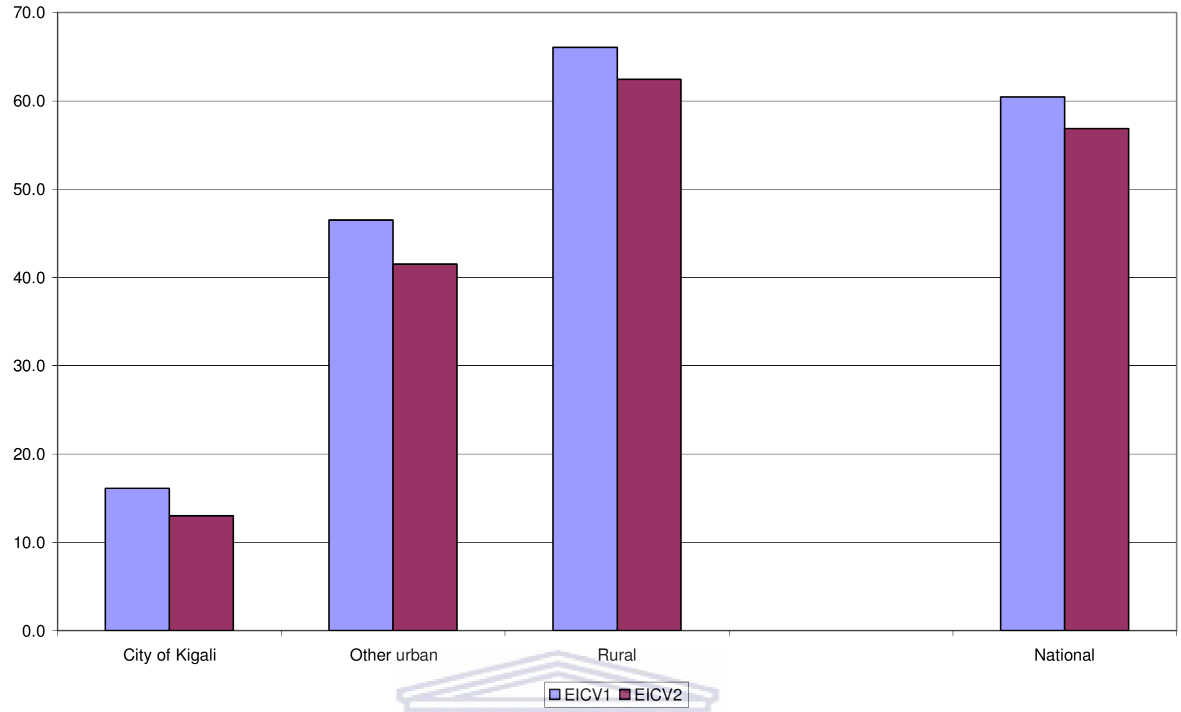

Figure 1**:** Proportion of people who are poor (%)

Source: Republic of Rwanda (2007:28). Profile of Living Conditions. National Institute of Statistics Rwanda

It should be noted however that although the figures indicate that there has been progress in reducing poverty, the population has also grown rapidly since 2000-01. It means therefore that though the percentage of the population which is poor has fallen, the total number of people living in poverty is estimated to have increased from around 4.8 million in 2000-01 to 5.4 million in 2005-06.[41]

It also seems as though poverty levels among the vulnerable groups have been reduced. From table 5 below, we see that poverty levels among the female-headed households were reduced from 66.3 percent in the EICVI of 2000/01 to 60.2 percent in the EICV2 of 2005/06. It is also clear that among the widow-headed households there was a reduction from 67.7 percent in EICV1 of 2000/01 to 59.9 percent of EICV2 of 2005/06. And above all, the poverty levels among the child-headed households reduced from 60.1 percent to 56.9 percent in 2005/06 EICV2. All in all, the table shows us that poverty levels of all households actually

[41] Ibid

did go down from 60.4 percent of EICV 1 in 2000/01 to 56.9 percent of EICV 2 in 2005/06. But what should be noted about this group is that it represents the vulnerable, those that need immediate attention. They are a product of the 1994 genocide. Yes poverty levels dropped, but if we adapt the UIG, more of the vulnerable people will get out of destitution because of the fact that they will get a monthly grant on a personal basis.

Table 5: Population share and poverty levels among potentially vulnerable households (%)

	EICV 1[42]		EICV 2[43]	
	Population share	**Poverty level**	**Population share**	**Poverty level**
Female-headed	27.6	66.3	23.8	60.2
Widow-headed	22.0	67.7	18.7	59.9
Child-headed	1.3	60.1	0.7	56.9

Source: Republic of Rwanda (2007:35). Profile of Living Conditions.

There is a big difference between the poor and the wealthy in Rwanda. And there are fears that the inequality is growing. For example, of everything that was consumed in Rwanda, the poorest (20%) of the population in 2000/01 consumed only 5% while the wealthiest 20% consumed virtually 12 times as much.[44]

Despite the fact that inequalities exist in Rwanda, Table 6 below shows that there was indeed an improvement in some provinces and a decline in others. For example, in the City of Kigali Province, poverty among households reduced from 39.9 percent in 2000/01 to 32.1 percent in 2005/06. The Eastern Province experienced a reduction in poverty among its households from 41.5 percent in 2000/01 to 36.1 percent in 2005/06. However, in the Western Province, there was a statistically insignificant increase in poverty among households from 40.0 percent in 2000/01 to 41.0 percent in 2005/06.

[42] EICV1 stands for Enquete Intégrale sur les Conditions de Vie, 2000/01 or in English referred to as (Integrated Living Conditions Survey, 2000/01).
[43] EICV 2 stands for Enquete Intégrale sur les Conditions de Vie, 2000/01 or in English referred to as (Integrated Living Conditions Survey, 2005/06).

[44] Republic of Rwanda (2007:29-30).

Table 6: Depth of Poverty by Location (% of poverty line)

	Poverty Depth	
By Stratum	**EICV 1**	**EICV2**
Kigali	34.4%	29.3%
Other Urban	36.0%	37.3%
Rural	42.1%	40.4%
By Province		
City of Kigali	39.9%	32.1%
Southern Province	42.5%	42.7%
Western Province	40.0%	41.0%
Northern Province	42.4%	40.1%
Eastern Province	41.5%	36.1%
National	**41.5%**	**40.0%**

Source: Republic of Rwanda (2006:6).Integrated Living Conditions Survey 2005/2006.

Economists use the Lorenz Curve[45] as a measure of income inequality. The gini-coefficient[46] is an outstanding measure of inequality of income distribution. It is always somewhere between 0 and 1, with 0.25 being about the lowest ever measured (in some of the Scandinavian countries), and 0.68 being the highest recorded up to now (in Namibia).[47] While 0 corresponds to perfect equality, 1 corresponds to perfect inequality. When we have a low gini coefficient, it means that there is more equal income or wealth distribution, while with a high gini coefficient the implication is that there is more unequal distribution of income or wealth.[48]

[45] It is a graphical representation that was introduced by Max O. Lorenz in 1905 as a way to represent income distribution.
[46] which was introduced by the Italian Statistician named Corrado Gini in 1912
[47] Haarmann & Haarmann (2005:19).
[48] http://en.wikipedia.org/wiki/Gini_coefficient (Accessed on 05/11/2007) and http://en.wikipedia.org/wiki/Lorenz_Curve (Accessed on 05/11/2007).

2.3. Inequalities in Rwanda

It is evident from figure 2 and Table 7 below that inequality does exist in Rwanda. The Lorenz curve of EICV 1 of 2000/01(blue colour) showed that inequalities were there. And as if that was not enough, the EICV2 of 2005/06 (Red colour) also tells us that inequalities in Rwanda has increased even though poverty has been reduced to a certain extent. Table 7 illustrates the scenario of the levels of inequality by provinces. The City of Kigali province had a gini coefficient of 0.52 in the EICV 1 of 2000/01, while in the EICV 2 of 2005/06, the gini coefficient reduced to 0.50. However in the Southern province, the gini coefficient increased from 0.39 in 2000/01 to 0.51 in 2005/06 EICV2. Western province in 2000/01 EICV1 had a gini coefficient of 0.42, but it increased to 0.47 in 2005/06 EICV 2. Northern Province had a gini coefficient of 0.42 in 2000/01 EICV1; nevertheless, in 2005/06 EICV2 it reduced to 0.41. Eastern province had a gini coefficient of 0.47 in 2000/01 EICV 1 but it increased to 0.51 in 2005/06 EICV2.

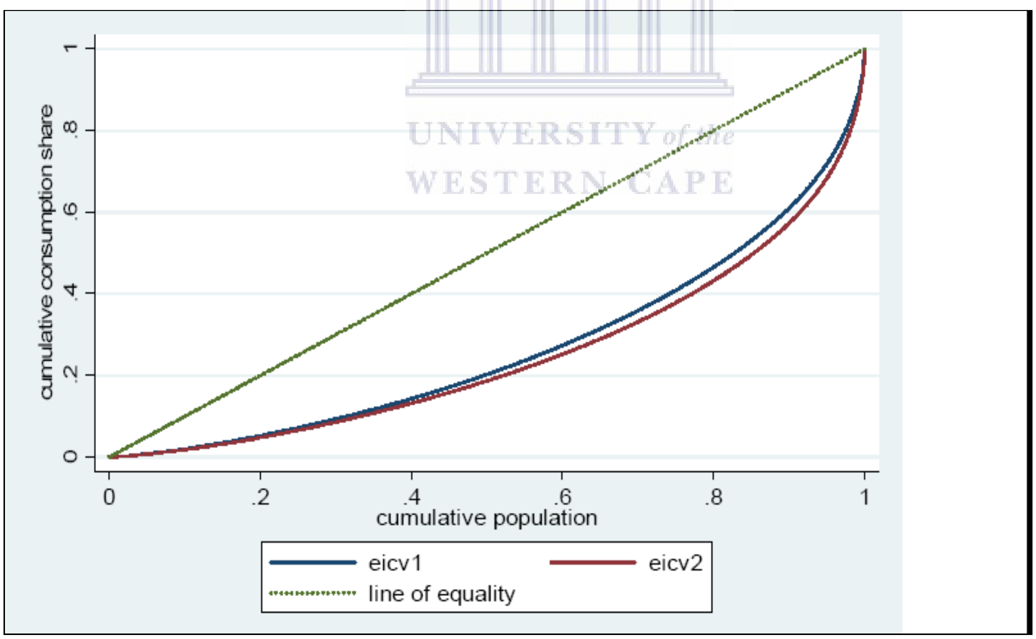

Figure 2: Lorenz Curves for Rwanda 2000/01 and 2005/06

Source: Republic of Rwanda (2006:6).Integrated Living Conditions Survey 2005/2006.

It should be noted from the above discussion that inequality does manifest itself clearly in Rwanda. Nationally, it increased from a gini coefficient of 0.47 in 2000/01 EICV 1 to a gini coefficient of 0.51 in 2005/06 EICV2.

Poverty still persists in Rwanda with 5.4 million Rwandans still living in abject poverty.[49] Will the EDPRS get Rwanda out of poverty? Of course no policy has a universal remedy. But it is hoped by the Rwandan Government that with the EDPRS they will be able to attain the long-term goals of the Vision 2020 and the MDGs. These policies are, however based on a neo-liberal model instead of a pro-poor one which has the ability to get populations out of poverty and destitution. It is amazing to see poverty reduction strategies being promoted on the international development agenda while in practice little is known about the effective policies we can use to reduce poverty.[50] There clearly is space for new ideas which address the uniqueness of the local problems.[51]

Table 7: Consumption growth rates and inequality: 2000/01 to 2005/06

By Stratum	Estimated annualised consumption growth rate, 2000/01 to 2005/06	Gini Coefficient	
		EICV 1	EICV 2
Kigali	2.1%	0.49	0.47
Other Urban	1.5%	0.52	0.52
Rural	3.7%	0.37	0.44
By Province			
City of Kigali	1.7%	0.52	0.50
Southern Province	4.3%	0.39	0.51
Western Province	2.0%	0.42	0.47
Northern Province	1.2%	0.42	0.41
Eastern Province	6.1%	0.38	0.43
National	3.0%	0.47	0.51

Source: Republic of Rwanda (2006:8). Integrated Living Conditions Survey 2005/2006.

49 Integrated Living Conditions Survey 2005/2006.
50 Ibid, 52.
51 Godldin & Reinert (2007:194).

The EDPRS is the second government strategy after the PRSP in its pursuit to attain the country's long term development aspirations that are embraced in the Vision 2020, the MDGs and the Seven Year Government programme.[52] It is a medium term framework whose focus is to achieve economic growth, poverty reduction and human development. It promotes three flagship programs in its quest for human development. They are sustainable growth for jobs and exports, Vision 2020 Umurenge which is a decentralised integrated rural development program to accelerate reduction in extreme poverty and finally good governance which aims to build on Rwanda's image as a country with a low incidence and tolerance of corruption.[53]

The introduction of the EDPRS[54] in Rwanda in May 2007 marked a landmark to a new phase which they named 'a development phase'. This differentiates it from the 'restructuring phase' that begun in 2000. Again like the Vision 2020, the EDPRS has set itself targets which it must achieve by 2012. See table 8 below.

Table 8: Targets for the EDPRS in 2012

Priority area	**Indicator**	**Baseline 2006**	**Target 2012**
Growth and poverty reduction	Real GDP growth (% annual)	6.5	8.1
	Export growth (% annual)	10	15
	National investment (% of GDP)	15	23
	Share of population living in poverty (%)	57	46
	Share of population living in extreme poverty (%)	37	24
	Poverty incidence among people living in female-headed households (%)	60	48
Widen and deepen the financial sector	Private sector credit (% of GDP)	10	12
	Financial depth (broad money/GDP)	17.5	20
Develop skills	Pupil/teacher ratio in primary schools	70:1	47:1
	Pupils/classroom in primary schools	70:1	52:1
	Gross secondary school enrolment	10	30
Raise agricultural productivity and ensure food security	% of agricultural land protected against soil erosion	40	64
	Area under irrigation (hectares)	15,000	24,000
	Use of mineral fertiliser (kgs/ha)	8	12
	Rural households with livestock (%)	71	85
Improve environmental management	Forestry coverage (%)	20	23.5
	Reduction in annual wood consumption (million cubic metres)	8.9	6.2

[52] Ansom (2007); SIDA (2007).
[53] Republic of Rwanda (2007); IMF (2008:1).
[54] Cabazas & Rob (2006:31) and Ansoms (2007:7) termed it as 'a second generation' PRSP or PRSP 2.

	Critically degraded ecosystems mapped, assessed and rehabilitated (%)	50	80
Build infrastructure	Households with access to electricity (number of households)	77,000	200,000
	Electricity generation (off/on grid, MW)	45	130
	Classified road network in good condition (%)	11	31
	ICT community access to telecommunication facilities (%)	4	12
	Employment in agriculture (% reporting as main occupation)	80	70
Improve health status and reduce slow down population growth	Infant mortality (deaths per 1,000 live births)	86	70
	Maternal mortality (deaths per 100,000 live births)	750	600
	Population covered by health insurance schemes (%)	70	95
	Women aged 15-45 using modern contraceptive techniques (%)	10	70
	Incidence of HIV among 15-24 year olds (%)	1	0.5
	Total Fertility Rate (children per woman)	6.1	4.5
Increase access to safe drinking water and sanitation	Access to safe drinking water (% of population)	64	80
Strengthen governance, security and the rule of law	Share of population expressing satisfaction/confidence in decentralised governance (%)	85	100

Source: Republic of Rwanda (2007:45-46). Economic Development and Poverty Reduction Strategy 2008-2012.

The main themes of the EDPRS are growth, rural development, human development and governance.[55] Vision 2020 umurenge is expected to accelerate the rate of poverty reduction through a combination of measures such as public works for the able- bodied poor, micro-enterprise development to foster entrepreneurship and off-farm employment, have greater targeted access to social services for labour poor households such as community child care centres, adult literacy and numeracy, artisan and handicraft activities.[56] This thesis will try to show that there is a gap that exists and it needs to be filled by the help of UIG. Rwanda is characterised by poor households who are not even able to purchase the simple tools like a hoe or a spade for farming.[57] It should be noted however that although microfinance is a good policy to improve the lives of people, it is not those in destitution that will get the loans. At the same time, the public works programs, though they have a good intention of development, they are seasonal and fail to reach many of the poor. This leaves us in a search for an alternative in the event that the program came to an end. The researcher shows in figure 10 below that if a UIG is adopted, it will complement the EDPRS so that it can be able to attain its objectives by 2012 and hence enable the attainment of the Vision 2020.

[55] Republic of Rwanda (2007:3)
[56] IMF (2008:7).
[57] Musahara (2004:391).

As discussed above it is clear that poverty and inequality exists in Rwanda. For example if you look at the data in figure 3 and 4 below, child mortality and maternal mortality are dominant issues in the Rwandan communities. But of importance to this thesis is the fact that 90 percent of the poor still live in the rural areas and have no means to get out of this destitution.[58] This is why we are seeing many deaths of children during birth and mothers dying during labour because of poor nutrition and lack of money to visit an antenatal clinic or even a doctor (See figures 3 & 4). People are dying because of lack of food and money to visit a doctor. This is why ideas to stop this from happening are urgently needed in order to protect the population.

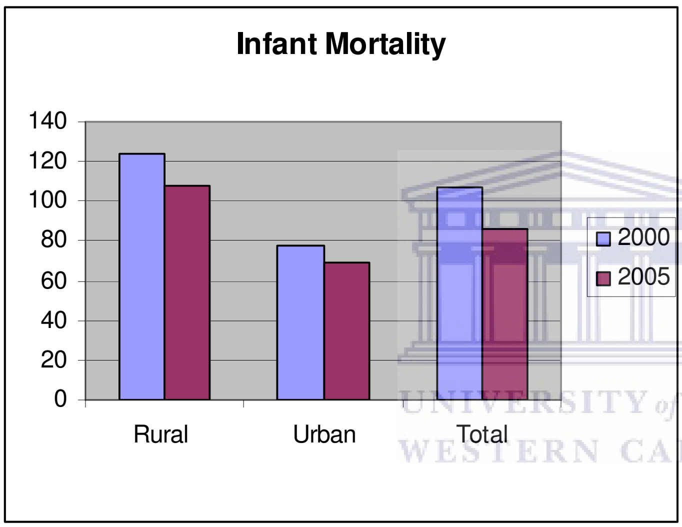

Figure 3: Infant Mortality

Source: Adopted from Republic of Rwanda (2007).

[58] United Nations (2006:7).

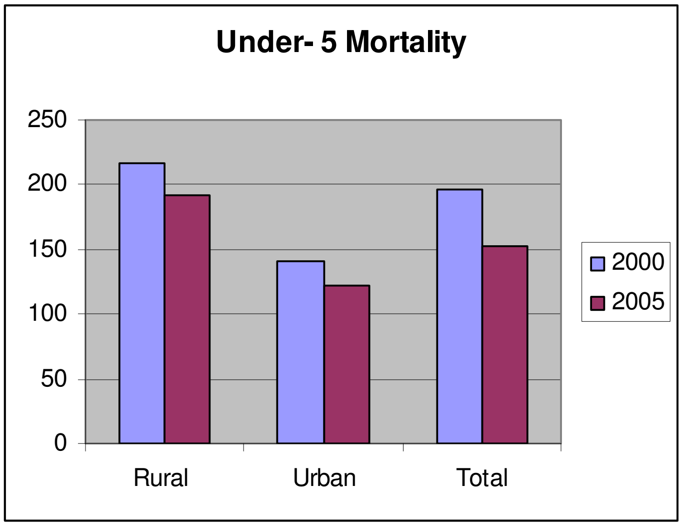

Figure 4: Under-5 Mortality

Source: Adopted from Republic of Rwanda (2007).

Consensus now exists among donors that a more in-depth study is required of the relationship between growth and poverty reduction.[59] The implication of this is explained in the following words:

> This implies that quite a bit of experimenting with what policies work and which not seem unavoidable. It also implies that 'one-size-fits-all' approaches or policy solutions based on cross-country experiences simply will not do. The strategies will need to consider the country-specific institutional and structural characteristics as a starting point.[60]

However this should not send signals that all neo-liberal policies are wrong. Our concern is with the fact that by the very nature of the problem in Rwanda, issues of growth, poverty alleviation and distributive justice cannot be resolved by pursuing only the neo-liberal model.[61] However, this should not deter researchers from coming up with new ideas because if Rwanda is to attain growth and poverty alleviation this is what it needs now more than ever. Section 2.4 below discusses some of the social policies that Rwanda has been using to try and deal with poverty. These are concerned with Education and Health. Of course there are many social policies as the concept is very broad because it covers values policies such as societal well-being, welfare, redistribution of resources, social functioning, social justice and the provision of services.

[59] Cabazas & Rob (2006:52); and IMF (2004).
[60] Cabazas & Rob (2006:52).
[61] Musahara (2004:121-125).

2.4. Social policies used to alleviate poverty in Rwanda.

2.4.1. Education

Education became the core of the development strategy for Rwanda. This research considers education as a key area of social policy. There is a need to invest in education in order to achieve human resource development and social development.[62] Every society needs to have good educated teachers, engineers, doctors, architectures and nurses. But for this to happen, you need resources which Rwanda did not have at the end of genocide in 1994. The war destroyed all the infrastructure of education. Schools were destroyed. Teachers and lectures were killed. The government of national unity recognised the importance of education in economic and social development. They removed the ethnic identity cards which contained one's ethnicity and the quotas that existed. This was the beginning of a social policy of inclusion instead of that of exclusion from the previous regimes that ruled Rwanda immediately after independence, in 1962. Education as one of the social policies to alleviate poverty was met with all the above mentioned challenges. But our main concern is to establish if indeed education helped to address those issues and also was able to improve the lives of people by getting them out of destitution.

In Rwanda during the first and the second Republics, the languages of instruction were Kinyarwanda and French. But after the end of the 1994 genocide, the 1959 refugees came back to Rwanda from different countries which were English speaking. And since the system before was built on the back born of the French system, there was a need for English schools to be built.[63] With the help of the international organisations, the government of national unity was able to address issues of capacity building, construction of English speaking schools, improving the enrolment rates in primary schools and a reduction in the illiteracy rate.[64] (See Figure 5 below).

[62] Midgley & Hall (2004:160).
[63] World Bank (2003:91-109).
[64] Obura, A. (2003:1-15).

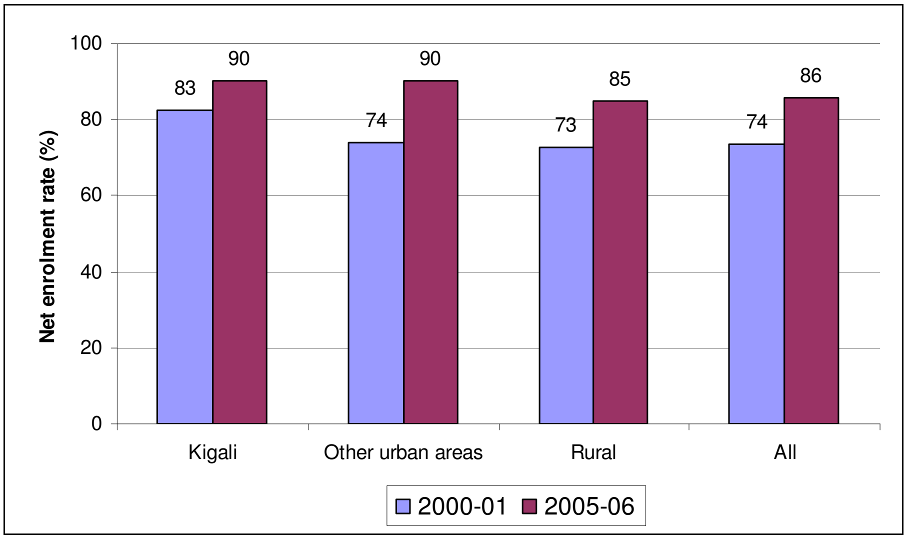

Figure 5: Enrolment rate at primary school (%)

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06

There was a great improvement in the primary enrolment from the city of Kigali up to the rural area from the years 2000/01 to 2005/06. Enrolment in Primary school increased to 86 percent (See Figure 5 above). However, looking at table 9 below, there indications that children are not attending school at the right age.

Table 9: School currently attended by children and young adults (% of age group)

Age	Primary	Above primary[1]	None	Total
7-9	80	0	20	100
10-12	91	0	8	100
13-15	74	4	22	100
16-18	27	16	57	100
19-21	4	19	77	100
22-24	0	9	91	100

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06

Enrolment rate at secondary schools was not the same as that at primary level. Performance was better in the city of Kigali, for there was an increase from 24 percent to 29 percent. Yet in the rural areas it is only 8 percent in 2005/06 in the rural areas from a mere 5 percent in 2000/01. Enrolment in secondary school increased to only 10%. See figure 6 below.

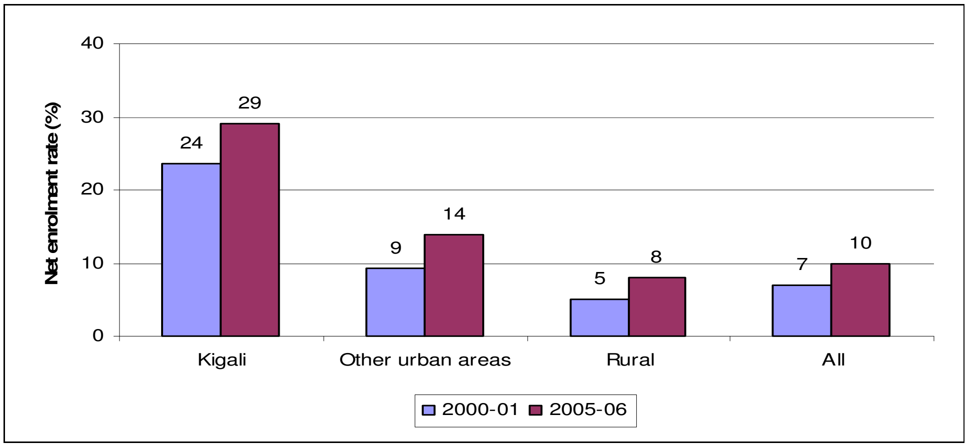

Figure 6: Enrolment rate at secondary school (%)

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06.

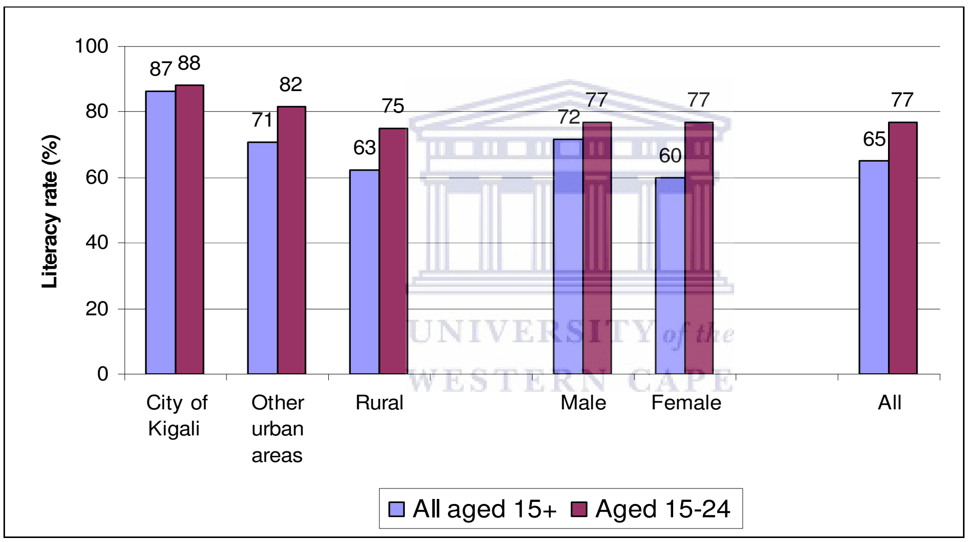

Figure 7: Literacy rate (%)

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06

The overall literacy rate improved from 65 percent in 2000/01 to 77 percent in 2005/06. Also as far as gender issues are concerned, although males were more than females in 2000/01(72% to 60%), in 2005/06 the number of males and females that were literate was equal to (77%). (See Figure 7 above).

It should be noted however, that today people living in rural areas are continuously gaining access to education facilities. It is estimated that 37% (three million people) of the rural population are in communities where primary schools have been built. This indicates that there is an improvement as compared to 32% in 2000-01. Two thirds of the rural communities today have at least one adult literacy program. This has tremendous impact on poverty alleviation in the long run.

All said and done, today in Rwanda, not all children have access to those education facilities that are provided to them. And yet both primary education and the first three years of secondary school (Lower secondary school level) commonly known as 'Tronc commun'[65] are free for all. This is due to the costs involved that each household in Rwanda at least has to spend on education even though public primary schools are free.

It has been estimated that an average household pays FRW 1,845, on education per child in primary school, per annum. 42% of the household expenditures go to uniforms and 37% goes to books and stationery. Other costs go to items such as transport, food and of course not forgetting donations to the school. This amount of money cannot be afforded by households that live in the rural areas (umutindi nyakujya-those in abject poverty, umutindi-the very poor, umukene- the poor), because of the prevalence of poverty.[66] One wonders whether this education is helping the poor households to get out of poverty or it is moving them deeper into the poverty trap. It should be noted that there are enrolment fees at private schools.

The cost of schooling at secondary level is another serious issue. On average, each household that has a child going to secondary school pays FRW 68,300 on education. The amount of money households spend on children in secondary schools is 37 times more than what they spend on children in primary schools. However, the government has introduced a policy of free tuition for the first three years of secondary school. But this does not rule out the extra costs per child as we illustrated in the case of children at primary schools. They will definitely need to spend on uniforms, books and stationery. They will have to provide transport, food and above all give donations to secondary schools.

It has been established that there is a link between improved household incomes and improvements in education attainment when a grant is given to poor households on a monthly basis.[67] This is supported both by theory and practice that once a UIG is given to the poor

[65] Republic of Rwanda (2006:15).
[66] See table 2 for an in-depth illustration.
[67] Alderman (1996);Behrman & Wolf (1987a,b);Birdsall(1985);Deolalikar (1993); King & Lillard (1987).

household, it will increase that households' disposable income.[68] With the increased disposable income this household is able to send their children to school rather than going to work in order to earn an income or to help their parents in food production, in case of subsistence farmers.[69] The impact of this grant in terms of poverty alleviation is emulated in the increase in numbers of girls attending school and the impact it has on them.[70] This can be substantiated by the research that was done in South Africa which came up with a conclusion that in order to determine human development one needed to educate females in infant survival and child nutrition.[71] An increase in school attendance from the poor households is assumed to improve future productivity, add to human capital, increase economic growth and above all have a long-term solution to HIV/AIDS.[72] Once you have a workforce that is educated, innovation is high and economic performance is attained because of having improvements in capital productivity.[73] This conforms to the aspirations of the EDPRS.[74]

2.4.2. Health

Health is paramount in as far as development is concerned. You cannot have good doctors or engineers when your health system is flowed. It is from this understanding that as part of the development phase Rwanda has decided to encourage every Rwandan to at least visit a clinic or a hospital. It is visible from the figure 8 below that in 2000/01 the percent of people who consulted a doctor were between 12 percent to 35 percent. However in 2005/06, the percentage increased from 20 percent to 45 percent. This means that measures are being put in place to combat disease in Rwanda as per the requirements of the Vision 2020, the EDPRS and the MDGs. See figure 8 below to see how ill households in Rwanda go for consultation following their poverty levels.

[68] Samson, M. et al., (2001:19).
[69] Ibid.
[70] Ibid.
[71] Ranis & Stewart (2000).
[72] Samson, M. et al., (2001:20).
[73] Lucas (1988).
[74] Republic of Rwanda (2007).

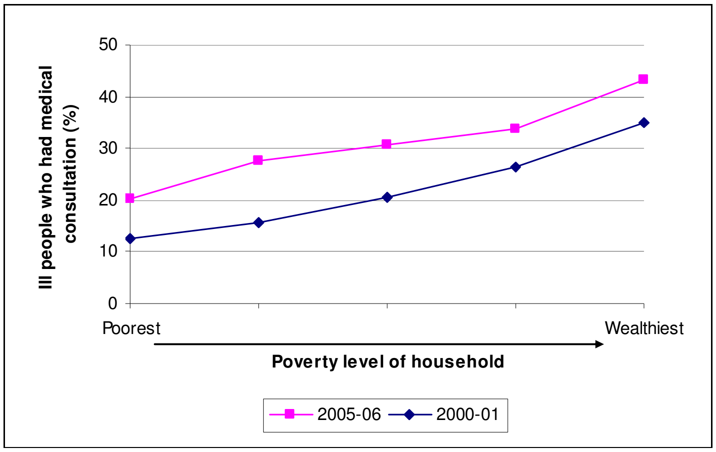

Figure 8: Proportion of ill people who have a consultation, by poverty level (%)

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06

When you compare figures 8 and 9, you will discover that there is a cost involved in either consulting a nurse or doctor. Yes, households working in urban areas in the formal sector have insurance. Poor households living in the rural areas are currently insured under "mutuelles de santé". Commonly known as:

> a community -based health insurance scheme that operates at a community level, which people pay into regularly. What should be noted is the fact that they are required to contribute at least FRW 1000, in oder to access medical services. They can then use some of the funds if they need to pay for certain health care problems.[75]

Again let us be realistic in trying to analyse the poverty situaton on the ground bearing in mind at the same time the kind of social policy that may be adopted as a remedy. Where will those in abject poverty (umutindi nyakujya), the very poor (umukene) and the poor (umukene) get that FRW 1000 from? Looking at the poverty levels that exist in those rural areas and the unemployment therewith and the fact that there are 5.4 million people[76] who are living in poverty, this did not stop households in rural areas to subscribe to mutual insurance. Figure 9 below shows that mutual insurance covered 38 percent and the other 5 percent was covered by the Rwandan national insurance scheme (RAMA). However it should be noted that although mutual insurance has expanded as seen from figure 9, there are still many

[75] Republic of Rwanda (2007:36); Republic of Rwanda (2004); Hatlebakk & Øystein (2005);; Bennett, S. et al. (1998).

[76] Profile of Livivng conditions in Rwanda, 2005-06.

people who still don't have health insurance.[77] This is why there in a need for an interventionist social policy. The researcher believes that the UIG may provide that remedy to fill the gap that may hinder Rwanda from attaining its Vision 2020 and the MDGs.

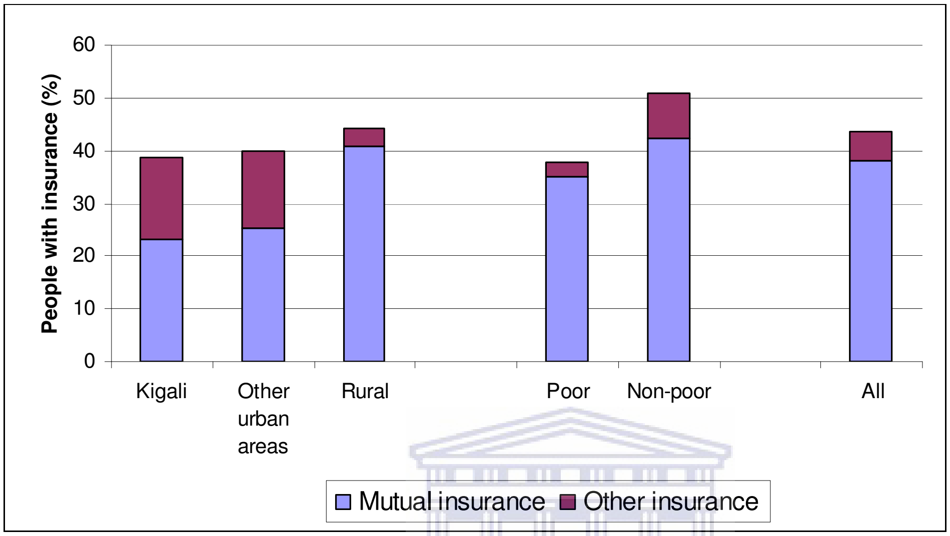

Figure 9: Proportion of the population with health insurance (%)

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06

Table 10: Person seen during medical consultation (%)

	2000–01			2005–06	
Person consulted	**Poorest 20%**	**Wealthiest 20%**		**Poorest 20%**	**Wealthiest 20%**
Nurse / healthcare worker	59	46		65	56
Doctor	9	40		12	31
Traditional healer	26	10		17	8
Other	6	4		6	5
Total	**100**	**100**		**100**	**100**

Source: Republic of Rwanda (2007). Profile of Livivng conditions in Rwanda, 2005-06

Looking at table 10 above, there is inequality in terms of person seen during medical consultaion, that is visible between the poorest 20% and the wealthiest 20%. During the 2000-01 survey, 59 percent from the poorest 20 percent of the households visited a nurse/health worker. And 46 percent from the wealthiest 20 percent of the households visited

[77] Republic of Rwanda (2007:21).

the nurse/health worker. However during the 2005-06 survey there was an improvement because 65 percent from the poorest 20 percent of the households visited a nursse/health worker. And 56 percent of the wealthiest 20 percent of the households visited a nurse/health worker. In 2000-01 survey, only 9 percent from the poorest 20 percent of the households saw a docter while 40 percent from the wealthiest 20 percent of the households visited the doctor. In 2005-06 survey there was a statistically significant increase because 12 percent from the poorest 20 percent of the households saw a doctor while 31 percent from the wealthiest 20 percent of the households saw a doctor. Although there is an increase in the number of households among the poorest 20 percent who visited a doctor, a lot is still to be desired when compared to the wealthiest 20 percent of the households. What is disturbing most is the fact that in the 21st Century, there are households in Rwanda that still go to traditional healers. In 2000-01, 20 percent of the poorest households visited a traditional healer and 10 percent from the wealthiest households visited a traditional healer. In 2005-06 survey, 17 pecent from the poorest 20 of the households while only 8 percent from the wealthiest households visited a taditional healer. What does this imply for the Rwandan society where 5.4 million people live in poverty? What is the fate of those in abject poverty (umutindi nyaujya),the very poor (uutindi), and the poor (umukene)? It is clear that although there are measures in place to make Rwanda a disease free country, poverty still looms.[78]

We believe the UIG is the possible means that will empower these households to be able to contribute that FRW 1000 to access the health facilities so that they stop going to traditional healers for treatment. The grant will also enable these poorest 20 percent of the households to afford good nutritious foods to avoid diseases.

2.5. Why a Universal income grant is an appropriate social policy to deal with poverty in Rwanda

The rationale is that Rwanda has 5.4 million people living in poverty.[79] And in order for Rwanda to attain its Vision 2020 and the MDGs, it ought to adopt a social policy that will advocate for universalism rather than means-tested support. There is evidence that cash transfers exist in Rwanda today under the Ubudehe project but they are not universal in

[78] Profile of Livivng conditions in Rwanda, 2005-06
[79] Those in abject poverty (umutindi nyakujya), the very poor (umutindi) and the poor (umukene).

nature as the UIG could be, they are means tested.[80] A UIG Based on the fact that it is universal, it is able to reach many people and there is no stigma attached to it.[81]

It should be noted however that the main reason the researcher is advocating for a UIG is because it has the potential to eradicate destitution, reduce poverty and inequality.[82] It has been proven that means-test social policies can be very expensive, wasteful, and ineffective in targeting people and yet a UIG is self targeting.[83] Means-test creates a poverty-trap due to the fact that once a beneficiary of the grant decides to look for a job and earn extra income he is penalized, hence creating dependence.[84] The UIG instead of discouraging members of these poor households from searching for work, it will help them to get out of the vicious cycle of poverty by facilitating them to search for work.[85] There is evidence from research that an increase in disposable income of a poor household not only acts as a safety net but it is also a springboard where people are able to find a job and also be able to earn an income.[86]

The researcher believes that the state still needs to play a more active role in as far as social welfare and redistribution are concerned. However, the dynamics at play still remain a paradox especially when it comes to identifying the kind of redistribution system to be used. It is evident that differing ideological views play a significant role in Rwanda.

After the genocide of 1994, Rwanda got 'emergence aid' as budget support. As it starts its 'development phase', more aid is still coming to the country. The purpose of this thesis is to try and investigate whether a combination of a UIG and foreign aid could be the appropriate social policy that may help get the 5.4 million people out of poverty and destitution. The researcher however, believes that a possibility of attaining a UIG is possible only if aid is forthcoming. It should be noted however, that this is also a sustainable way of absorbing

[80] Musahara (2004)

[81] Samson, M. et al., (2002:13).

[82] Ibid.
[83] Haarmann & Haarmann (2005:13-15).
[84] Ibid.
[85] Ibid.
[86] Rhee (2007); Haarmann & Haarmann (2005); Le Roux (2002).

foreign aid because it is redistributed to the poor people who deserve it. This goes without saying that if good policies are in place then aid can be used to alleviate poverty. [87]

Figure 10 below is trying to show how the researcher assumes the universal targeting approach to work. It should be noted however that one of the major prerequisite for proper targeting of the poor via the UIG is the tax system. The Rwanda Revenue Authority over the past eight (2001-2008) years has managed to reflect a good transformation process. And when a country has an appropriate tax reform that is at the same time linked to the UIG will be able to achieve very effective redistribution. [88]

The debate on which amount is adequate for the grant is still a long way to be resolved. It is very important that while arguing one should remove the myth around the adequate grant as we go deeper into our debate on a UIG. The researcher would like to bring it to the attention of the readers that the core concern of this thesis is to try and come up with an option that may help get the 5.4 million people get out of poverty in Rwanda. This is why in the micro-simulation model that is in Chapter four, the researcher has given several options that he deems to be adequate as a grant.

It is assumed that the UIG will be calculated on an individual basis. It means therefore that an individual leaving alone gets say Rwf 213 per month.[89] However, a household having six (6) members will have more income to the tune of Rwf 1.278 per month. Does this mean therefore that this could also be a solution to the rapid population growth in Rwanda? Well, this can be informed with concrete research when a UIG is adopted. It should be noted however that for this money to be of use to the household, it must be given to the caregivers who are mainly women since they are responsible for childcare in the day-to-day life. However because of HIV/AIDS and genocide, the social roles have changed because you now have women headed households, and child-headed households.[90]

[87] Goldin & Reinert (2007:129).

[88] Samson, M. et al., (2002:14).
[89] See scenario one in chapter four. Micro-simulation model.
[90] Samson, M. et al., (2002:13).

2.5.1. Social Capital

Social capital in Rwanda was destroyed after the genocide of 1994. People who used to leave together in harmony all of a sudden turned into cold blooded killers. This in the end led to the presence of a poverty-conflict trap in Rwanda.[91] In order to instil social capital among the Rwandan community, a lot has to be done but the most important ones are to provide education that is inclusive and not exclusive, provide health facilities and good nutrition, provide them with cash transfers to enable them form cooperatives or community based organisations and above all promote social stability.[92] A UIG is that cash transfer that the researcher deems to have the potential to build this social capital in Rwanda.

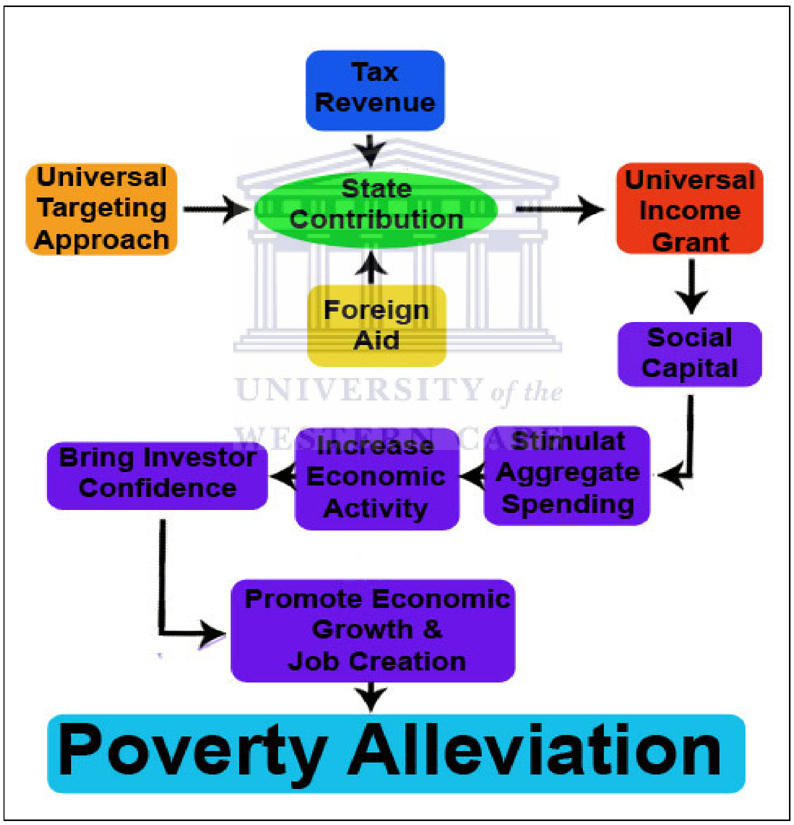

Figure 10: Implications of a Universal Income Grant (UIG) partly financed from Foreign Aid.

Source: Authors

[91] Musahara (2004).

[92] Samson, M. et al., (2002:17); also see Philip (2000).

2.5.2. Stimulate aggregate spending.

When a UIG is redistributed among the poor households it is expected to stimulate their aggregate spending especially among the non-durable goods.[93] This is true with the Rwanda case because they will not purchase food stuff using the grant since it is auto-consumed.[94]

2.5.3. Increase economic activity

The substantial increase in economic activity generated economically by income transfers will tend to increase capacity utilisation, probably more with non-durable manufacturing than with durable goods. This spending will provide a demand-side stimulus that increases the demand for labour, promoting increased employment.[95] It is alleged that if a UIG is given to the unemployed, it will act as a disincentive for them to provide their labour to the market. However empirical evidence from South Africa shows that these poor households once they get the grant are encouraged to go out and find a job.[96] This is in line with the first flagship of the EDPRS where it puts emphasis on creation of jobs as the way to achieve Vision 2020.

2.5.4. Bring investor confidence

Investors would like to invest in an environment where there is no corruption and there is abundance of labour onto the market. However, for this to be possible they need to be given a grant which is expected to stimulate their spending and in the end there will be an increase in economic activity. This is also in line to the first flagship where investments are expected to be increased in order to achieve Vision 2020.What should be noted here is the fact that corruption must be erased for good in order to win investor confidence. In the third flagship of the EDPRS which emphasises good governance, the crux is on ensuring a corruption free country.

[93] Samson, M. et al., (2002:24-25)
[94] Musahara (2004).
[95] Samson, M. et al., (2002:24-25)

[96] Samson, M. et al., (2002:21-22); Le Roux (2002); Rhee (2007).

2.5.5. Promote economic growth and job creation.

A UIG may stimulate economic growth by either boosting aggregate demand or shifting spending towards those sectors that absorb labour in economy. By shifting resources from savings to consumption, a UIG stimulates the overall level of economic activity hence it has the potential to shift the composition of spending towards labour-absorbing sectors of the economy. The spending of the lower groups tends to concentrate on labour-absorbing sectors of the economy. Income transfers to the poor shift aggregate demand towards labour-intensive job-creating industries, because it increases the consumption of the poor, the composition of which is relatively labour-intensive. Redistributing income to lower income individuals is likely to stimulate job creation, particularly if appropriate policies are implemented to enable the unemployed to undertake productive activities that meet the resulting increased economic demand.[97]

2.6. Conclusion

Poverty in Rwanda is still rampant. This is why the government has set itself goals through Vision 2020 to be able to transform from a low income country into a middle income country by the year 2020. But for this to be possible, the 5.4 million people living in poverty need to be rescued via a redistributive social policy approach such as UIG.

Education as a social policy to address poverty and illiteracy in Rwanda also has a lot to be desired. Much as the past social policies of exclusion are today done with, the fact that most households are poor (5.4 million people), they are excluded from enjoying the fruits of education because they cannot afford the expenses that go with it. And this is happening even when the country is supposed to enjoy achievements of the universal primary and universal secondary education.

Health is another area of social policy that also has short falls. It is the expectation of government to be able to have a disease free country where malaria, Tuberculosis, HIV/AIDS are controlled. Infant and Mortality death rates need to be brought down. But again because of the 5.4 million people that are living in poverty, they are excluded from getting the health services on the pretext that they can't afford it.

[97] Samson, M. et al., (2002:26) ; Le Roux (2002).

The researcher declares that a UIG partly financed from foreign aid has not been investigated in detail before. This is why the possibility of combining a UIG and foreign aid as an appropriate social policy to alleviate poverty in Rwanda is investigated in this dissertation.

I would want to argue that if it is done it will enable Rwanda attain its Vision 2020 and the MDGs. Chapter three is going to deal with the literature review/theoretical framework.

Chapter Three: Literature Review/Theoretical Framework

3.1. Introduction

This dissertation is about the search for an appropriate social policy option that could be used to alleviate poverty in Rwanda. However, the concept social policy and the UIG/BIG) need to be conceptualised in depth without excluding all the debates that surround them. It is in light of this, that chapter three will outline the different views on social policy both from a developed and a developing perspective. It will also embark on analysing the literature review with regard to the origins and evolution of the UIG also commonly known as a Basic Income Grant (BIG) especially in developed countries. Furthermore, it is going to investigate how the UIG has been interpreted in developing countries, more especially middle-income countries such as South Africa, Namibia and Brazil. It also considers some low-income countries that have used income-transfers as a form of assistance to its citizens, like Mozambique and Brazil.

Since foreign aid is very important to the growth of many developing countries, although not necessarily depending on it, this thesis will introduce the trend of foreign aid in Rwanda in order to show that although there has been massive flow of aid into the country, poverty still prevails. Evidence is presented of donors and other bilateral and multilateral organisations. The argument that there is a need to channel aid directly to poverty alleviation in order for Rwanda to be able to attain its Vision 2020 and the MDGs is developed. It is from this background that this dissertation introduces a UIG that could be given to all Rwandans even though it is a low-income country. The researcher believes that Rwanda with its ambitious Vision 2020 and the EDPRS is able to be transformed into a middle-income country by 2020 and also simultaneously attain the MDGs. The bone of contention in this thesis is the inclusion of foreign aid which has not been used by the developed world, the bilateral and multilateral organisations and the developing world. The original research and model that was developed by Le Roux for South Africa and Namibia, and then first applied to Rwanda by Musahara, is further developed. The researcher believes that this research could make a new contribution to the already existing research on appropriate social policy options that can be used to alleviate poverty.

3.2. Social Policy

According to the explanatory or analytical theory[98] there are several theories stating how social policies evolved. To some it is believed to have been industrialization and urbanization that motivated governments to extend social welfare provisions. Others argue that even before the industrial boom, families, churches and the nobility took responsibility for those in destitution. While others say that it was the interest groups, trade unions and religious organisations that promoted social policy expansion in order to get rid of inequalities, unemployment and poverty. Others have asserted that since appropriate social programs could prevent political unrest and also maintain order this has motivated governments to adopt new social policies.[99]

It should be noted that modernization destroyed the pre-industrial modes of social production which gave a central role to the family, church, nobility, the community and in the end brought about social mobility, urbanisation, individualism and market dependence. Up until now the most spoken of factors that are believed to have influenced social policy in Europe are rapid urbanisation, industrialisation and population changes.[100]

Social policies implemented in the developing countries are in most cases directly adopted from the developed world and applied without any alterations and yet their initial goals and aims differ tremendously.[101] Unlike in Europe, in Africa, almost all countries depend on subsistence agriculture for their survival and their industrial base is very small. It therefore means that you cannot use the same social policies that were used in Europe to solve Africa's problems. Africa needs social policies that are able to address the circumstances that its people live in. Therefore the notion that 'one size fits all' does not make sense.

[98] Midgley & Hill (2004: 25-26).
[99] Midgley & Hill (2004).
[100] Esping-Andersen, G. (1990:13).
[101] Devereux & Cook (2000).

Social policy is a field of study that is controversial. This is why we have a number of scholars all concentrating on trying to define social policy. [102] But the question that comes into our mind is, 'Will this bring a lasting solution to the inequalities, unemployment and poverty'? Let us go through the debates below and see how scholars were struggling to come up with appropriate definitions that they found useful at the time. But we should remember that times change.

Social policy is perceived by some as *"a deliberate intervention by the state to redistribute resources amongst its citizens so as to achieve a welfare objective."*[103] It is further understood as "*that part of public policy that has to do with social issues such as public access to social programs, aim at improving human welfare and above all be able to meet the human needs for education, health, housing and social security"*.[104] It is regarded by some as "*a particular policy of government which has a direct impact on the welfare of its citizens and that this impact can be translated into providing them with either services or income"*.[105] To others it is "*a collective action for social welfare where all the people are equal"*. Here the idea of an egalitarian society was being echoed against the understanding that the state has the resources and the capacity to affect the distribution process.[106]

Social policy may also be described as government interventions that are specifically designed to affect individual behaviour by enabling people to have the command over their resources, influence the economic system, and in the end be able to shape the society in which they live.[107] Others still maintain that although improvement of human welfare is deemed important, there is a call for social policy to put an emphasis on meeting the human needs, in particular for education, health, water and sanitation, housing and social security.[108] To some social policy means the provision of welfare or the well-being of society. Here it is emphasised that social policy should comprise of income maintenance and social services, education and training policy, employment policy and housing policy.[109] However, we should bear in mind that the issue of what is appropriate social policy is full of controversy. Arguing

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[102] See Levi, 1997; Marshall 1965; Rodgers 1979; Jones 1985; Kleinman & Piachaud 1993 Hill 1980; Blakemore 1998; Alcock 2000 and Midgley & Hill 2004
[103] Baldock et la., (2003: xxi).
[104] http://en.wikipedia.org/wiki/Social_policy (Accessed on 25/10/2006). See also Lewis, G. et la., (2000 :1); Iatridis, D. (1994 : 32-33); Blackemore, K. (1998:1-10); Andeasson, S. (2003:2); Yeates, N. (2001:95-100); Morales-Gomez, A.D. (1999;2000:9-15) and Deacon, B. et la., (1997:91-100; 2000).
[105] Marshal (1965:9).
[106106] Rodgers (1979:6).
[107] Kleinman & Piachaud (1993:1-19)
[108] Blakemore (1998:1).
[109] Alcock et la., (2000:1-4).

about definitions will not help much, especially if we are searching for alternative options to achieve poverty alleviation. We should address the real issues, in this case by targeting the policy areas such as social security, personal social services, health services, education, employment services and housing.[110] It is time to start addressing poverty with genuine solutions and not imaginary formulas or dreams commonly known by the developed world as, ‘utopia’. In Africa and particularly in Rwanda, poverty is real and so there is a need for appropriate social policies to eliminate poverty.

Since social policies originated from the developed world, it is clear from the definitions given above that the bias exists. To the developed world social policy means provision of social security and there must be government intervention to carry out the redistribution process. They are industrialised, which means that they are able to provide more jobs to their citizens. And for those that are not employed, provision is made for them to get out of the poverty-trap. However, it is different in the case of developing countries. In most countries in Sub-Saharan Africa livelihood depends on subsistence agriculture. Most people are not catered for in terms of social security. Those that are employed in the public sector are often privileged and have social security. But how can all those people living in rural poverty be reached? The introduction of a UIG, funded by the indirect taxes (VAT) and other indirect taxes such as (taxes on alcohol, fuel, cigarettes etc) and then supplemented by foreign aid will make the relatively affluent bear the burden of financing the grant while the poor gain from this targeted grant in order to ameliorate their poverty situation.[111]

3.3. Evolution of a Universal Income Grant (BIG)

In this section we are considering how the UIG also commonly known as basic income grant (BIG) evolved from a policy proposal for the developed world to one for the developing world. In the developing world, we first look at middle-income countries such as South Africa, Namibia and Brazil. It should be noted however, that the rationale of this thesis is that even a low-income country such as Rwanda may implement a UIG if it is funded by VAT and other indirect taxes such as fuel, alcohol and cigarettes, and supplemented by foreign aid.

[110] Hill (1980:1).
[111] This shall be illustrated in the simulation model in Chapter Four.

3.3.1. Basic Income Grant (BIG) or UIG in the developed world

The concept 'basic income for all citizens' was first introduced by *Thomas More in a 1516 publication* entitled, '*Utopia, an island of perfect society*'.[112] One could say that this was the origin of the idea of a basic income grant. Moore had a dream of a society (utopia) that could guarantee the means of survival for all its citizens by providing them with a minimal level of income. It is worth noting that this is the seminal work from which a basic income for all citizens gained significant support in a range of disciplines such as economics, philosophy and sociology. And although authors came from different backgrounds and proposed different solutions, they all agreed on the need of redistribution to eliminate poverty in a particular nation.[113] The policies proposed have enabled most of the developed world to get large sections of its population out of poverty and to overcome unemployment, a hurdle Africa has a long way to achieve as long as our scholars are caught up in ideological debates and do not focus on finding a lasting solution for poverty.

A number of scholars have written about UIG or commonly known as a BIG.[114] Juan Luis Vives one of Thomas Moore's friends in his search for an appropriate form of assistance to the poor, proposed the first basic minimum income, while living in Bruges, a small city in today's Belgium.[115] It is important to note here that the grant was being suggested in a small city, then why can't we introduce the same idea in a small country like Rwanda? The researcher is of the view that once government has the political will and the concern for growth which has redistributive justice and not just subscribing to any ideology with the intention to promote the interests of the few in the light of the entire population, then economic and social development may be achieved.

Thomas Spence came up with a radical view advocating an egalitarian society. According to him the surplus of state taxes was supposed to be equally divided and distributed to everyone living in that society irrespective of their gender, marriage status, age or wealth. He advocated for universalism instead of means-tested approaches towards addressing the social

[112] Rhee (2007);More (1516).
[113] Rhee (2007).
[114] See Suplicy, 2006; Van Parijs, 2000a, 2000b, 2001 & 2004; Le Roux, 2003; Thurlow, 2002; Samson, M. et la., 2002; State of the Nation, 2007; Makino, 2004; Samson, M. et la., 2001; Samson & Standing, 2003; Samson, M. et la., 2003; Seekings & Matisonn, 2003; Bhorat, 2003; Kallmann, 2003; Coleman, 2003;Cournot, 1838; Friedman, M. 1962; More, 1516; Musahara, 2004).
[115] Rhee (2007);Suplicy (2006).

evils of society.[116] It is again very clear from Thomas Spence that means-testing had failed to yield results and that the only probable remedy was a universal redistribution of resources for it would reach the entire population.

Van Parijs who is also the co-founder of the Basic Income Earth Network (BIEN) started by informing us of the different names a BIG/UIG has. He said that it can be referred to as "*universal wage', 'territorial dividend', 'demogrant', 'citizen's wage', 'social dividend', 'basic income', or 'national dividend"*. And that "*it is the sole responsibility of the political community to pay out this income, which in the end will enable it to trickle down through to all its members on an individual basis, without work requirements or a means test"*.[117] Therefore he defines a BIG/UIG in a broad sense as:

> Paid in cash, other than in kind. It must be paid on a regular basis rather than a once –off endowment. It must be paid by a political community (it could be a nation state, a state within a country or by multi-national organisation such as the United Nations). It must be paid to all its members (which may be restricted to citizens, but also may be expanded to include all legal permanent residents. Children are included as well although the actual payment will go to the care-taker). It must be paid to each individual rather than to each household or to its head (as is the case under most existing guaranteed minimum schemes). It should be noted however, that the amount given to the individual is uniform, as opposed to being adjusted based on the household size (it does not account for economies of scale) and above all it is paid irrespective of income and does away with a means test.[118]

It is clear from Van Parijs that the emphasis is on universalism rather than targeting or means-testing.

James E. Meade, a prominent economist and a Nobel Laureate, is known to be an intellectual giant of the 21st Century. He made a significant contribution to the universal income debate. He has consistently advocated for the implementation of a citizen income in the book he published entitled: 'Agathotopia'.[119]

[116] Rhee (2007);Spence (1797).
[117] Rhee (2007);Van Parijs (2000a:2).
[118] Rhee (2007);Van Parijs (2004); Le Roux (2002).
[119] Rhee (2007).

This is how popular the BIG or UIG was in Europe. It can be seen that all the scholars in the developed world, because they were surrounded by inequality, unemployment and poverty at the time, their main concern was finding solutions that are sustainable. They believed in a universal social policy instead of means-tested support.

There is a possibility of introducing a UIG in a middle-income country such as South Africa, a country which was affected by the apartheid form of governance whose social policy was of exclusion instead of inclusion. And of interest is the fact that it has been suggested by a scholar as astute as Van Parijs, that you can not fund a BIG in a developing country. Now when you compare the dynamics at play here, there are double standards when it comes to Africa in its quest to get out of poverty for good just as the developed countries did it. If a small city in Belgium could start thinking of instituting a UIG, sincerely why can't South Africa adopt it? The debate has ensued and Le Roux in his presentation to the Taylor committee showed that it was possible to fund a BIG in South Africa at a reasonable net cost.[120]

3.3.2. UIG OR BIG in developing and middle-income countries.

3.3.2.1. South Africa

During the apartheid regime, not all South Africa's citizens were treated equally. The state promoted a redistributive system of exclusion. It is only the minority that benefited from the social policies then. After the first democratic elections held in 1994, there was a need to correct past mistakes and make social policies available to all South Africans. There was a desire to develop a comprehensive social policy in order to reduce the inequalities that existed in South Africa. The government in its bid to achieve this appointed Professor Vivienne Taylor from UCT, who was one of the lecturers at the University of the Western Cape (UWC) before, to head the commission (which was named the Taylor Commission) in 2002.[121] A number of scholars have written about the BIG in South Africa.[122] They all reckon that this social policy option is the answer to eliminating destitution in South Africa. But the means to achieving this differs from scholar to scholar because they come from different

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[120] Le Roux (2002).
[121] Rhee (2007); Hanlon (2004) Le Roux (2002).
[122] See Le Roux (2003); Thurlow(2002); Samson, M. et la. (2002); State of the Nation (2007); Makino (2004); Samson & Standing (2003); Samson, M. et la., (2003); Seekings & Matisonn (2003); Bhorat (2003); Kallmann,(2003); Coleman (2003).

ideological backgrounds. The researcher sees this as the reason why developing countries are failing to implement home grown social policies and end up just adopting those that are dictated to them by the international organisations such as the World Bank and IMF.[123]

Le Roux strongly argued for the introduction of a BIG in middle- income countries such as South Africa and Namibia in order to address the inequality, unemployment and poverty.[124] It should be noted that in his calculation which was in a paper he presented to the Taylor commission, he proved wrong Van Parijs when he showed that:

> UIG was an appropriate policy (albeit at levels well below the poverty line) for middle-income developing countries with high levels of unemployment, a highly skewed distribution of income, a relatively inefficient bureaucracy, and with a high proportion of the population living in destitution.[125]

It is clear from his statement above that he was advocating for an alternative way of thinking in as far as social welfare redistribution was concerned. He was dealing with the realities on the ground and not a'utopia' as most scholars in Europe have always regarded it.

In South Africa the poverty and destitution is real. One therefore needs to come up with concrete solutions if the society is to leave in harmony and also be able to sustain economic growth. Le Roux argued for the Taylor Committee findings that an amount of R100 is given to every citizen and all permanent residences of South Africa. However his approach of where the funds will come from is that indirect taxes such as VAT and other indirect taxes such as cigarettes, fuel and alcohol be increased proportionally in order to fund the UIG. If this is done well, according to him, then it will be possible to target the net benefit in favour of those who are most in need, and at the same time imposing the net burden on those who spent the most.[126] The BIG got support from COSATU, the Council of Churches and other civil society organisations. But COSATU were of the view that income tax should be used to fund the grant and not the expenditure tax. However, the government eventually rejected the UIG. Nevertheless, with the high rates of inequality, unemployment and chronic poverty, the South African government may well have to reconsider the duty it has to its citizens which is enshrined in its constitution to eliminate destitution.

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[123] Le Roux (2004).
[124] Le Roux (2003).
[125] Ibid, 39.
[126] Le Roux (2002); Rhee (2007).

It should be noted that although Le Roux proved Van Parijs wrong, and also started advocating for a universal approach instead of means-tested grants, this researcher is of the view that instead of him advocating for the UIG to be introduced in a middle-income country like South Africa, the emphasis should have been on advocating for it to be adopted in Africa irrespective of whether it is a middle-income or a low-income country. The best way to fight poverty is by taking a unanimous position. This is how scholars from the developed countries did it. They took a universal stand on poverty and that is why they were able to get rid of it.

It is the work of this thesis to try and search for a possibility of developing a model for low - income countries for instance Rwanda. But this is expected to be achieved if the answer to this question is a yes: 'Is it not possible to apply the same model in Rwanda which was used by Le Roux of adopting a social policy option where a UIG is financed out of an increase in indirect taxes, such as VAT and other indirect taxes (fuel, cigarettes and alcohol) and then supplementing it by foreign aid in order to address destitution?'

Rhee in her Master's mini-thesis showed that the UIG was financially affordable.[127] Using le Roux's model, she concluded by saying that a UIG in today's' circumstances in South Africa looks to be the only viable option of reducing inequality, providing employment and above all alleviating poverty.[128] Again it can be noted that among the scholars from the developing world although divided on principles of ideology and not on solving the destitution problem, they are all in agreement that there must be a universal approach of redistribution and not means-tested.

3.3.2.2. Brazil

In Brazil they also have cash transfers which are also targeted or means-tested. The Bolsa familia was initiated in October 2003 by President Lula when he combined the four income transfers that existed at the time. Here we are talking about school scholarships, cash food aid, gas subsidy and food cards. The impact became visible and as a result recipients increased from 2.3 million families in October to 3.5 families in December 2003. It then increased to 8.7 million families by December 2005. The programme caters mainly for families with a monthly per capita income which is below R$100. It should be noted however

[127] Rhee (2007).
[128] Ibid.

that although this programme targeted over 11.2 million families (about 45million people), it is conditional in nature and to prove one's eligibility you will need a thorough verification process.[129] As a response to this shortfall, in 2005 a Citizen's Basic Income was introduced. Suplicy[130] who is a member of the Brazilian Senate, advisor to President Lula and a proponent of the Citizen's Basic Income played a very important part in its introduction. The grant was to be given to all Brazilian residents, citizens and foreigners who have stayed in the country for more than five years irrespective of their social status.[131] However, it should be noted that although it was passed by parliament, the process of implementing it is still pending. You will see that the Bolsa familia on its own was means-tested.

3.3.3. A UIG OR BIG in low-income countries

3.3.3.1. Mozambique

In Mozambique, after the decade-long civil war and the flood in early 2000, cash transfers were given to the citizens and this created a positive impact to the livelihood of the citizens. These cash transfers were mainly given to the demobilised soldiers to enable them to start a new way of life. They managed to start up small businesses, build houses and also take their children to school.[132] To the flood victims the government also gave cash transfers to help them resettle. Although little in amount, larger households were able to use these monies to purchase goods and services. They were able to build houses, start up small businesses and also buy plots of land for cultivation. Their children were able to go to school.

They were able to visit a medical centre.[133] This was testimony enough to show that with the help of the international community even low–income countries are able to provide cash transfers to their citizens. And if this is possible in Mozambique, then other low-income countries such as Rwanda could follow-suit. However it should be noted that these cash transfers are targeted or means-tested. They are either for settling down demobilised soldiers or resettling food victims. We are advocating a universal approach towards getting the entire population out of poverty irrespective of whether you were a flood victim or a demobilised soldier. This provides the population with a constant flow of income and they are able to

[129] Rhee (2007);Suplicy (2006);Suplicy (2005);
[130] Suplicy is also a Professor in Economics of Escola de Administracao de Empresas e de Economia de Sao Paulo. See Suplicy. (2006).
[131] Rhee (2007);Lindert, K. el al.(2007).
[132] Hanlon (2004: 376-379).
[133] Ibid.

participate in the main stream of the economy by either searching for a job, joining the informal sector and above all be able to take their children to school.

3.3.3.2. Rwanda

Rwanda is categorised as a low-income country.[134] It is also true that cash transfers in the majority of countries support government programs. And this in the end helps in attaining growth and reducing poverty.[135] The rationale of this dissertation is that cash transfers actually do exist in Rwanda, under the Ubudehe project, but it is means-tested and not universal in nature. Then all those genocide survivors are provided with cash transfers to enable them go to school, buy food and also be able to go to hospital. Again it is targeted to assist only the genocide survivors. Rwanda's growth pattern is controversial in the sense that in practice they follow a neoliberal growth path and yet claim to be pursuing a pro-poor growth path.[136] This is why there is a need to adopt an appropriate social policy of redistribution that is sustainable in nature and which advocates for universalism.[137]

A UIG was identified as one of the best options for Rwanda to get out of the poverty-conflict trap. It was further argued that for the sake of Rwanda, if the grant is financed by increasing the indirect taxes (VAT and other luxury taxes) and supporting it with foreign aid, then poverty can be effectively challenged.[138]

The turning point in the UIG debate came when Musahara not only challenged the status quo but actually argued that it is possible to finance a BIG out of indirect taxes in a low-income country like Rwanda.[139] Rwanda of course hopes, through its Vision 2020, to become a middle-income country by the year 2020. It is in this context that Musahara argued that a BIG financed by indirect taxes will be an appropriate social policy that will help to diminish poverty far more rapidly than through a trickle down model.[140]

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[134] Mwenda (2006).
[135] Goldin & Reinert (2007:114).
[136] Ansom (2007); Ravallion & Chen (2003).

[137] Musahara (2004).
[138] Musahara, 2004.
[139] Musahara, 2004
[140] Ibid.

This Literature review cannot be complete without a discussion on the alternative approaches to social policy outlined by Devereux & Cook, Le Roux, Midgley & Hall, Mkandawire, Adesina and Musahara.

3.4. Alternative Approaches to Social Policy

Most African countries just cut and paste the social policies they are today using without considering their compatibility to the circumstances on the ground. This explains why scholars have decided to look at social policy from an African context. They specifically emphasize the need to rethink social policy.[141]

Alternative approaches to social policy in low income countries are urgently needed.[142] Transfers of northern social policy objectives, programmes and instruments to Africa do not match local realities, simply because they are always assumed.[143] And this is the main reason as to why current social policies existing in Africa have failed to address the social needs of the people. Today in the social policy discourse worldwide there is a growing use of concepts like social protection, social security, social insurance, social sectors, social rights to mention but a few. Nevertheless one would wonder which one is the best answer to the poverty problem. And I believe that this begs for a search of an appropriate word to be used which might be inclusive of all the five categories as Devereux & Cook put it in their scope of social policy.[144]

Here a revolutionary way of thinking by emphasizing bottom-up approach if you are to solve Africa's poverty is introduced. Their contribution to this debate is so remarkable in the sense that today we have the scope of social policy. Social policy is very wide and this is why its scope must be understood before one can start identifying the options to follow.[145] See Table 6 for the scope of social policy. Nevertheless, these are semantics that need to be understood clearly from their point of view.

[141] See Devereux & Cook, 2000; Le Roux, 2004; Midgley & Hall, 2004; Musahara, 2004; Mkandawire, 2006 and Adesina (2006)
[142] Ibid.
[143] Devereux, S. (2002); Devereux, S. (2001a); Devereux, S. (2001b); Devereux, S & Cook, S (2000).

[144] Devereux & Cook (2000:63).
[145] Devereux & Cook (2000:63-64)

Table 11: The Scope of Social Policy

Social Sectors	Health, Education, Water and Sanitation, Housing
Social Insurance	Pensions, Unemployment benefits, Disability Allowances
Social Protection	Food subsidies, Targeted Safety Nets (e.g. Public works projects, Supplementary feeding, Income transfers)
Social Services	Care for the vulnerable groups (e.g. People with disabilities, Elderly people and Orphans)
Social Rights	Child labour, Women's rights, Labour codes

Source: Devereux & Cook (2000: 64).

On the other hand, it is worth mentioning that this scope in table 12 above is not linear in nature. When one is dealing with say social insurance, you will need also to provide the social services to speed up the process. The same will apply if one is dealing with social services or social protection. Education and health are paramount in making the process a success. A country which wants to get out of poverty must invest in its education, it must have a good health care system, and it must provide both for those who are in the formal and the informal sectors simultaneously.

Le Roux begins by asserting that social development should not be left to social policy alone, but that there must be involvement of economic policy as well.[146] He warns that although a high rate of economic growth is desirable, prudence must be put where such a very high rate is not attained.[147] It is clear that there is indeed a call for a radical change in the way social policy is being perceived in Southern Africa. He recognizes the need for having economic growth as long as there is a conducive environment for adopting appropriate social policies that match that growth. He evokes a dynamic way of thinking when he suggests that with globalisation we are not free to have a home grown social policy. As if this is not enough, he goes on to challenge us by posing a question to us: are we just going to accept the terms and conditions of World Bank and the IMF?[148] This is a very provocative question in the sense that it wants to open our mind set into a new kind of debate.

[146] Le Roux (2005);Le Roux (2004); Le Roux (2003); Le Roux (2002); Le Roux (2001);
[147] Le Roux (2004:1).
[148] Ibid.

Midgley & Hall begin by saying that *"defining social policy is not as straight forward a task as it once seemed."* To them the term is full of ambiguity and uncertainty that it needs to be carefully set out and employed appropriately. They further come out with a strong voice saying that; "*the time is ripe for a re-examination of social policy and its role in the development process*". Their main concern here is the tendency in recent times by policy makers and development experts to omit in the academic literature and in social policy circles terms such as poverty and inequality and go for social exclusion and capabilities. They unanimously condemn the exercise by saying that it is wrong due to the fact that the social evils of poverty and inequality that exist in communities are not addressed.[149]

Mukandawire starts by alluding that research on social policy has lagged behind.[150] He believes that social policy should not be engaged in only after attaining a certain development stage, nor is it exclusive to only advanced welfare states, but it is a key to economic and social development. He goes on to say that it is a moral obligation of all researchers to get involved in addressing poverty and global inequality. It is clear that there is a need now to undertake research in social policy in an African context.[151] It is clear from the discussion above that countries are not doing enough, in most cases they wait until a particular stage of growth is attained and then start thinking of social policy. In Rwanda's context instituting social policies should not be left only to the welfare states or just keep hoping for the best to come out of the Vision 2020. It is worthwhile to adopt these ambitious plans like the UIG because the researcher believes that it will enable Rwanda attain its Vision 2020.

For Adesina in his paper written for the workshop to look at social policy in a development context, held in Sweden, he begun by asserting the fact that it is essential to rethink social policy in Africa, and that there is also a need to return to a broader vision of social policy. His advice to us is:

> That we should move away from targeting and means-testing in social policy because it has not been developmental or improved social well-being and above all enhanced social cohesion. But rather, we should promote universal access because it has been developmental, it has improved social well-being and it has also enhanced social cohesion. He goes on to say that universalism tends to secure wider social commitment

[149] Midgley & Hall (2004:1, 45).

[150] Mkandawire (2005); Mkandawire (2001)
[151] Mkandawire, (2006:2-5).

> to the policy and that a state/citizen nexus based on mutual exchange of obligations and privileges has a greater chance of securing social stability which itself is valuable for sustained economic development.[152]

It is clear from Adesina's radical way of thinking that indeed things went wrong in Africa. In his view he suggests a total overhaul of the entire state machinery in Africa. This does ring a bell especially after all the wars and conflicts that have taken place on the African continent in the last century. It indeed culminated into the Rwandan genocide that claimed over one million people. So for Adesina, an appropriate social policy must be universal and not means-tested because it is developmental, it improves social well-being and it also enhances social cohesion**.**

Musahara in his PhD thesis informs us that the stocks of existing social policies for poverty reduction used in Rwanda are inappropriate. To him, none of these social policies can claim ability to target poverty in the developing world and definitely not in Rwanda. He is of the view that a country like Rwanda with its distorted past, as a result of its colonial legacy and then the 1994 genocide that claimed almost a million people, care must be taken while determining the appropriate social policy to put in place. He therefore advocates for a comprehensive social policy which has a universal targeting approach in order to alleviate the poverty-conflict trap in Rwanda.[153] Although he advocates a universal targeting approach to deal with poverty, his call was for the adoption of a comprehensive social policy which does not only look at one remedy. However the researcher in this thesis is suggesting that for Rwanda to be able to attain its Vision 2020 in the remaining 12 years, a UIG needs to be adopted to reduce the inequalities that already exist and also to alleviate poverty.

The reasons put forward by the different scholars are a clear indication that indeed there is a need to start identifying appropriate social policies that can help alleviate poverty. And above all that, the existing social policies have indeed failed to address the problem of mass poverty and the promotion of human welfare in the developing world.[154] A universal targeting approach seems to be the best option in the case of Rwanda. This is why we have come out with a provocative question in this thesis, whether a UIG is appropriate to alleviate poverty in Rwanda. The next section is going to be a discussion on the trend of foreign aid in Rwanda.

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[152] Adesina (2006: 1-3).

[153] Musahara (2004:2).

[154] Midgley & Hall (2004:1-2).

3.5. Trends in Foreign Aid for Rwanda

Why are we concerned with consulting the historical trends of foreign aid in Rwanda? The answer is purely to show that Rwanda has been depending on foreign aid for some time now. And it is therefore about time to devise mechanisms which could make the current aid more sustainable in the event that no more aid is given to Rwanda. In this thesis AID is defined as Official Development Assistance (ODA).[155] It covers both the financial and non-financial components. These are flows of which the sources are the governments and official agencies of donor countries. Concessional aid also includes non-financial forms of assistance (such as grants of machinery or equipment as well as providing technical analysis, advice, and capacity-building).[156] Such non-financial forms of aid are favoured by donors instead of cash transfers which we argue could be very vital for alleviating poverty.[157] Rwanda has been depending on foreign aid for a long time. The figure 13 below represents the performance of foreign aid in Rwanda from 1973 to 2005.

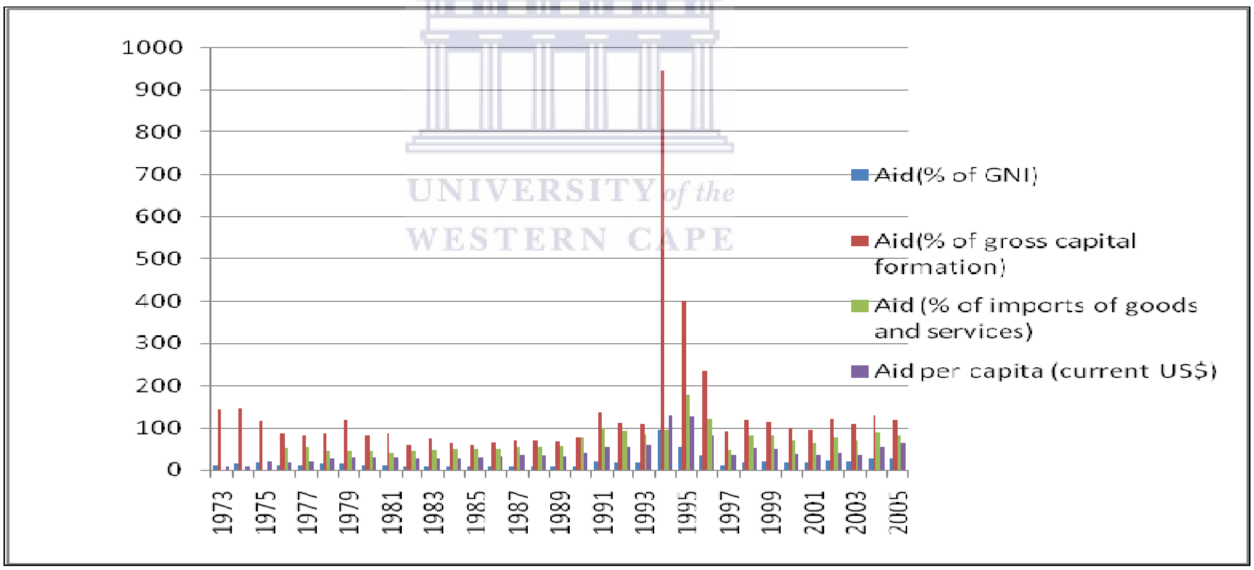

Figure 11: Performance of Foreign aid in Rwanda (1973-2005)

Source: Adopted from the World Development Indicators, 2007

155 Boame(1994); Browne(1990).
156 Krueger, A.O. et al., (1989:32-33).
157 Goldin & Reinert (2007: 113)

From figure 12 above it is clear that Rwanda has indeed benefited from foreign aid. But the question to be asked is, has this foreign aid been used properly, especially towards addressing the poverty issue? If you refer to table 13 below, it begins in 1960 up to 1972.[158] It actually covers the first regime of Gregoire Kayibanda who is the first civilian president that Rwanda got after the monarchy was destroyed. It means that Rwanda starts off after independence in 1962 getting foreign aid. Much of it was intended for capital formation. Foreign aid in terms of the Gross National Income (GNI) had very little contribution. It is illustrated by table 13 below that from 1970 to 1972 aid as a percentage of GNI was undulating. It started with 6% in 1960, then 6% in 1961, 9% in 1962, 5% in 1963, 5% in 1964, 5% in 1965, 9% in 1966, 8% in 1967, 9% in 1968, 9% in 1969, 10% in 1970, 11% in 1971 and 12% in 1972

Table 12: Aid performance in Rwanda from 1960-1972

Year	Aid(% of GNI)	Aid(% of gross capital formation	Aid(% of imports of goods and services)	Aid per capita (Current US $)
1960	6	104	-	3
1961	6	90	-	2
1962	9	108	-	4
1963	5	65	-	2
1964	5	58	-	2
1965	5	52	2	
1966	9	94	-	3
1967	8	110	-	4
1968	9	114	-	5
1969	9	141	-	5
1970	10	140	-	6
1971	11	123	-	6
1972	12	128	-	7

Source: Adopted from the World Development Indicators, 2007

Table 14 below covers the period from 1973 to 1993.[159] It considers the regime of Major General Habyarimana who took power after a coup d'etat in 1973. Foreign Aid as a percentage of GNI from 1973 to 1993 was also surging. In 1973 it was 13%, then 15% in 1974, 16% in 1975, 12% in 1976, 12% in 1977,14% in 1978, 14% in 1979, 13% in 1980, 12% in 1981, 11% in 1982, 10% in 1983, 10% in 1984, 10%in 1985, 11% in 1986, 11% in 1987, 10% in 1988, 9% in 1989, 11% in 1990, 19% in 1991, 17% in 1992 and 18% in 1993.

[158] Refer to figure 1.
[159] Refer also to figure 1.

Aid in terms of gross capital formation from 1973 up to 1979 was also rising and falling. It was 142% in 1973, 144% in 1974, 116% in 1975, 86% in 1976, 82% in 1977, 86% in 1978, 118% in 1979, 82% in 1980, 87% in 1981, 60% in 1982, 73% in 1983, 65% in 1984, 59% in 1985, 66% in 1986, 71% in 1987, 71% in 1988, 70% in 1989, 76% in 1990, 134% in 1991, 110% in 1992 and 107% in 1993.

From 1976 up to 1990 aid on the imports of goods and services in terms of percentage was also rising and falling. It was 52% in 1976, 53% in 1977, 44% in 1978, 43% in 1979, 43% in 1980, 42% in 1981, 43% in 1982, 46% in 1983, 50% in 1984, 50% in 1985, 48% in 1986, 54% in 1987, 55% in 1988, 57% in 1989 90% in 1990 101% in 1991, 94% in 1992 and 84% in 1993.

Aid per capita from 1973 up to 1993 was also rising and falling. It started from US$ 9 in 1973, US$11 in 1974, US$20 in 1975, US$ 17 in 1976, US$ 20 in 1977, US$ 26 in 1978, US$ 29 in 1979, US$ 30 in 1980, US$29 in 1981, US$27 in 1982, US$26 in 1983, US$ 28 in 1984, US$ 29 in 1985, US$ 32 in 1986, US$ 36 in 1987, US$35 in 1988, US$32 in 1989, US$ 41 in 1990, US$ 53 in 1991, US$ 55 in 1992 and US$ 60 in 1993.

Table 13: Aid performance in Rwanda from 1973-1993

Year	Aid(% of GNI)	Aid(% of gross capital formation	Aid(%of imports of goods and services)	Aid per capita (Current US $)
1973	13	142	-	9
1974	15	144	-	11
1975	16	116	-	20
1976	12	86	52	17
1977	12	82	53	20
1978	14	86	44	26
1979	14	118	43	29
1980	13	82	43	30
1981	12	87	42	29
1982	11	60	43	27
1983	10	73	46	26
1984	10	65	50	28
1985	10	59	50	29
1986	11	66	48	32
1987	11	71	54	36
1988	10	71	55	35
1989	9	70	57	32
1990	11	76	77	41
1991	19	134	101	53
1992	17	110	94	55
1993	18	107	84	60

Source: Adopted from the World Development Indicators, 2007

Table 14: Aid performance in Rwanda from 1994-2005

Year	Aid(% of GNI)	Aid(% of gross capital formation	Aid(%of imports of goods and services)	Aid per capita (Current US $)
1994	95	946	95	129
1995	53	401	178	128
1996	34	234	120	82
1997	13	90	46	37
1998	18	119	80	51
1999	19	112	81	50
2000	18	101	71	40
2001	18	95	64	36
2002	21	121	77	41
2003	20	108	71	38
2004	27	130	80	55
2005	27	119	82	64

Source: Adopted from the World Development Indicators, 2007

From 1994 this period is very important in the history of Rwanda in as far as aid and social policies are concerned. This is a time when a government of national unity was sworn in to try and correct past mistakes, rebuild and reconstruct Rwanda which had been devastated by the war and the 1994 genocide.[160] We can therefore see that from 1997 up to 2005, Aid as a contribution of GNI in percentage terms was surging. It was 13% in 1997, 18% in 1998, 19% in 1999, 18% in 2000, 18% in 2001, 21% in 2002, 20% in 2003, 27% in 2004 and 27% in 2005. Because this was an emergency period under reconstruction, aid in terms of Capital formation in percentage terms increased. It was 146% in 1994, 401% in 1995, 234% in 1996, 90% in 1997, 119% in 1998, 112% in 1999, 101% in 2000, 95% in 2001, 121% in 2002, 108% in 2003, 130% in 2004 and 119% in 2005. From 1995 to 1996 import of goods and services percentage terms was rising and falling. It was 95% in 1994, 178% in 1995, 120% in 1996, 46% in 1997, 80% in 1998, 81% in 1999, 71% in 2000, 64% in 2001, 77% in 2002, 71% in 2003, 80% in 2004 and 82% in 2005. Aid per capita from 1994 to 1995 was also rising and falling. It was US$%129 in 1994, US$128 in 1995, US$82 in 1996, US$37 in 1997, US$51 in 1998, US$50 in 1999, US$40 in 2000, US$36 in 2001, US$41 in 2002,US$38 in 2003, US$55 in 2004 and US$64 in 2005. See table 15 above for an illustration.

[160] Refer also to figure 1.

3.6. Conclusion

The UIG debate dates back to 1516 from the time of Thomas Moore. But of course as the discourse suggests, this debate was participated in by scholars from different walks of life. There were economists, philosophers, sociologists, and anthropologists. But the outstanding feature of all of them is that they concluded that targeting or means -tested approaches do not alleviate poverty effectively and consensus was developed to adopt a UIG grant that may be distributed to the entire population.

During the 21st century, Van Parijs became very instrumental in the debate of a UIG. He went as far as defining it and setting standards that must be followed, for example that a UIG can only be possible in developed countries and not in a developing country due to lack of resources.

However, Le Roux in his model of 2001 in the Taylor Commission came up with a counter argument that said that yes it is possible to have a UIG in middle-income countries like South Africa and Namibia. In his model he came up with a grant of R100 to be given to all citizens every month. He got support from COSATU, the Council of churches, and civil society, but never from the government. He advocated for a universal approach towards providing a lasting solution to unemployment, inequality and chronic poverty in South Africa.

Rhee in her masters' mini-thesis while trying to get answers to the prevailing social evils of high unemployment rates, high levels of inequalities and poverty, confirmed UIG is affordable today in South Africa and but she suggested that each individual in the household be given a monthly payment of R 125 instead of R100 that was suggested by Le Roux in his model of 2001.

Although according to Le Roux a UIG is only possible in middle-income countries alone, it is also documented that there is a possibility of it working in low-income countries such as Mozambique and Rwanda. We found out that cash transfers were given out in Mozambique to demobilised soldiers and flood victims in 2000. Rwanda also has cash transfers under the Ubudehe[161] participatory projects. It also gives cash transfers to the genocide survivors so

[161] Musonera (2005:2); Musahara (2004).

that they can pay for their tuition fees, buy uniforms, transport, clothes, and hospital, buy food and also be able to pay for electricity and water bills. You will realise that this social policy is targeted and not universal in nature.

The amount of foreign aid that has and is still flowing in Rwanda, since 1960 up to today, we suggested appropriate measures of using the aid in a sustainable manner. Then we recommended that if a certain percentage of foreign aid (say 20%) was channelled directly to poverty alleviation and then recouped from the affluent by higher indirect taxes (VAT, luxury goods etc), then it would be possible to start instituting the UIG.

This research intends to carry on with the work that was started by Musahara to show that indeed a UIG can be used to alleviate poverty in Rwanda and enable the country attain its Vision 2020 and the MDGs. The question is: whether UIG financed out of indirect tax increases (VAT, sales tax etc), and foreign aid is appropriate for poverty alleviation in Rwanda, This brings in a new phenomenon of channelling donor funding to poverty alleviation instead of the usual channel which is via the budget support or via projects. This approach has not been used by any of the proponents of the UIG in the developed or developing world or by those that consider the best use of foreign aid.

Chapter Four: Developing a micro- simulation model to measure the impact of a UIG in Rwanda

4.1. Introduction

In this chapter the simulation model developed by Le Roux for South Africa and Namibia[162] is adapted to the Rwandan circumstances to show the impact of increasing VAT to what is assumed to be a maximum sustainable level and allocating the additional funds thus raised to pay for a universal income grant. In order to enhance the level of the grant and to ensure that the increase in indirect taxes combined with a grant does not imply a net burden for those under the poverty line, the possibility is also investigated of allocating about a fifth of the present foreign aid to help pay for a universal grant.

4.2. The assumptions of the model.

In order to illustrate the impact of the proposed income grant financed out of an increase in indirect taxes, the households were grouped into ten groups or deciles, each containing an equal number of households, after being ranked according to their expenditure per household member. The data used for this purpose is from the Integrated Living Conditions Survey 2005/06 (EICV 2) of December 2006 and the SPSS Data for 2005/06 that was obtained from the National Institute of Statistics (NISR) of Rwanda.

For purposes of a simulation model, measuring the impact of paying a universal income grant from the funds raised by increasing VAT and other indirect taxes proportionally, estimation had to be made of what proportion of each decile's expenditure was subject to VAT. Since we know what the total VAT collected in 2007 was, and further also know that food stuffs and most of the goods the low- income groups purchase are exempted from VAT, an estimation of the proportion of goods on which VAT and other indirect taxes are paid by each decile, with the low income deciles paying very little VAT. A number of simulations were run until the proportions estimated generated the total VAT collected in 2007.

[162] BIG FINANCING GROUP (2004); Rhee (2007); Le Roux (1999); Le Roux (2001); Le Roux (2002); Le Roux (2003); Le Roux (2004) & Le Roux (2005).

VAT often has a regressive[163] impact because of the fact that low-income households spend most of their income on consumption and this often results in them paying a larger percentage of their income in tax than the wealthiest households, who save a larger proportion of their income.[164] However, this is not the case if the goods primarily purchased by the poor are excluded like the case is in Rwanda.[165] Furthermore, as we will show below, the net impact of an indirect tax increase combined with a universal grant financed by the tax increase is progressive, in that the poorest 8 deciles always benefits from such a redistribution of income.

4.3. Static or dynamic model

The model we are adopting in our simulation is a static model. Two types of dynamic consequences of paying a UIG and increasing indirect taxes are ignored.

Firstly, there may be a positive or negative macro-economic impact. Some have argued that because this redistributes income from the rich to the poor, it would in the end stimulate growth in GDP via a Keynesian multiplier. [166] Although under certain assumptions this could be shown to be the case, it is difficult to prove that these conditions pertain in Rwanda. The opposite could also be argued. The monetarists, for example would argue that such redistribution will eat into the savings of the higher income groups and that this will result in higher interest rates which would lead to lower investment.[167] In this research any such dynamic impacts were ignored because they are difficult to estimate. It is in any case, given the fact that only about 1% of the GDP is being distributed, quite possible that no or insignificant negative or positive short- term macro-economic consequences will be observed because of such a redistribution of income.

A second possible dynamic consequence is that the rich, because they are paying more net tax, may cut back on their consumption. This would mean that VAT and other indirect taxes might have to be increased by more than what we estimate in order to raise money to pay any given level of the grant. This would mean a higher increase in VAT and other indirect taxes

[163] Rhee (2007); Le Roux (2002).
[164] Ntibanyurwa (2001: 90).
[165] Musahara (2004).
[166] Samson, M. et al., (2002:24-26); Samson, M. et al., (2001:16-18).
[167] See Le Roux (2002:30).

than assumed in the calculations here for a given grant, or a lower net benefit, and also lower the net burdens. It may be counter-intuitive, but once one considers it carefully it is obvious that if one has to increase the indirect taxes by more because of a reduction in the consumption of those who are better off, this implies that everyone pays higher indirect taxes. As a consequence, for any given level of the grant, the net benefits are lower, as is the net burden.

4.4. Assumption with regard to VAT increase

As will be shown in all our calculations, the net impact of a VAT and other indirect tax increase as envisaged here combined with a UIG and a transfer of one fifth of foreign aid, is that 90% of the households have a net benefit and do not in fact in net terms pay more tax, with the benefit being bigger the lower household per capita expenditure is. It is only the top decile of households that are worse off in this model.

However, because the grant is not a negative expenditure tax, but paid out as a lump sum to everyone, while everyone also pays more indirect taxes, this means that there will be an inclination to avoid indirect taxes if pushed up too high. It is difficult to know what the upper limit is to which VAT can be increased. On advice of some of the members of the NAMTAX commission, it is here proposed that the maximum VAT should preferably not be higher than 25%, which means that it can only be increased by 7%.

4.5. No foreign aid used for grant

In the first instance we run a simulation in which we do not use foreign aid at all. However, we increased VAT by 7% and other indirect taxes proportionally. The monthly per person UIG which could be funded by this increase amounts to Rwf 432 (or USD$ 0.74 a month at 2007 exchange rates). It should be noted, that such a UIG is very low. This is the case because; in contrast to South Africa and Namibia (where VAT increases of even lower than 7% could finance UIG's of respectively SAR100 and N$70) there are not enough people with high income in Rwanda to finance a significant grant to all.[168] See table 17 for an illustration.

As a result it was decided to investigate the possibility of using a proportion of foreign aid for

[168] It was also highlighted in Musahara (2004).

the grant, after first having implemented an indirect tax increases, to thus ensure that the foreign aid is targeted to benefit the poor and not the better-off.

If one should bring down the VAT increase dramatically to only 3.5% tax as illustrated in table 15 below, one can only finance a UIG of Rwf 213 which is equivalent to US$0.36 or US$0.89 in terms of PPP. It should be noted that in this case the bottom 8 deciles are all better off but those households in the top decile are worse off paying on average a net annual tax of Rwf 14 .431. While the average households in the 9th decile pays a net annual tax increase of Rwf 1.726. As a consequence the household with an average per capita income in the ninth decile, in spite of it being under the poverty line, still is worse off by about 1 %. See table 15 and figures 12a, b & c below for a clear illustration of what the impact is in terms of benefit and cost as a result of bringing down the VAT dramatically to 3.5% tax.

Table 15: Benefit and cost of a monthly income grant of Rwf 213 combined with an increase in VAT of 3.5% and a proportionate increase in excise and levies but with zero foreign aid.

HH Decile	Population	*HH Per Person expenditure maximum*	*HH Per person expenditure Average*	*Vatable expenditure*	*Annual Grant Rwf (billions)*	*Per capita Grant*	*Indirect tax Rwf (billions)*	*Per capita indirect tax*	*Additional VAT &other indirect taxes Rwf (billions)*	*Per capita Additional VAT &other indirect taxes*	*Net benefit/loss Rwf (billions)*	*Per capita Net benefit/loss*	
1	1.10	25489	18362	0.086	2.827	2562	0.445	404	0.161	146	2.666	2416	
2	1.09	34981	30281	0.086	2.780	2562	0.722	666	0.213	197	2.567	2365	
3	1.02	44079	39407	0.086	2.621	2562	0.886	866	0.241	236	2.380	2326	
4	1.00	54286	49112	0.08689	2.573	2562	1.096	1091	0.281	280	2.292	2282	
5	0.99	65610	59788	0.121834	2.537	2562	1.844	1862	0.453	457	2.084	2104	
6	98	79311	72363	0.179002	2.504	2562	3.236	3310	0.766	784	1.738	1778	
7	0.93	98572	88097	0.258678	2.392	2562	5.437	5824	1.246	1335	1.146	1227	
8	0.93	131867	113331	0.361722	2.389	2562	9.769	10476	2.163	2320	0.225	242	**13.509 Net Benefit**
9	0.92	207779	162596	0.483866	2.359	2562	18.514	20106	3.948	4288	-1.589	-1726	**-13.509 Net tax ollected**
10	0.94	14042339	495255	0.67	2.398	2562	79.288	84702	15.907	16993	-13.509	-14431	**0.000 Total foreign aid**
	9.91				**25.380**		**121.237**	**129.306**	**25.380**	**27.035**			

Source: Own Calculations.

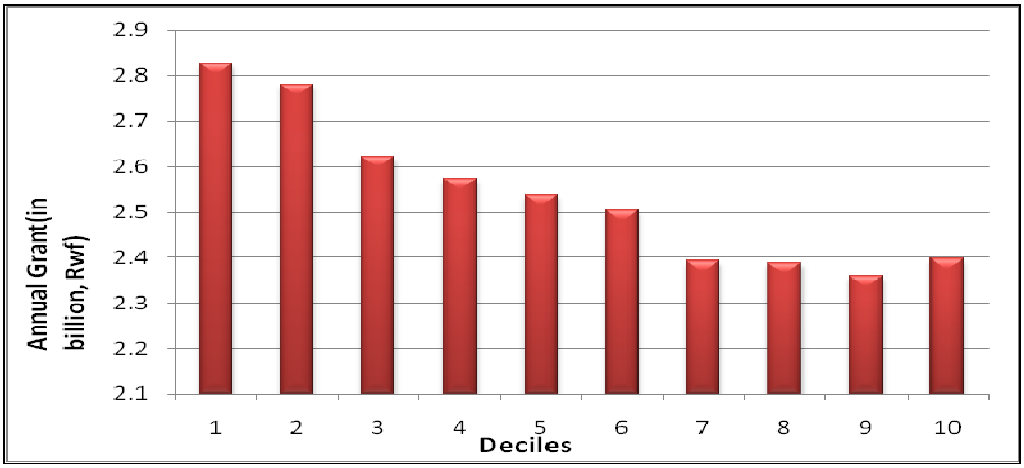

Figure 12 The Total annual net costs of the grant per decile of a Rwf 213 grant per person combined with an increase in VAT of 3.5% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 12 above shows the annual grant per decile in terms of benefit and cost. As it is illustrated by the graph, the lower deciles benefit more than the higher deciles from the grant. The reason for this is that the number of people per household decreases from the 1st to the 9th decile. In the case of the 10th there is an increase in the household size over that of the 9th decile.

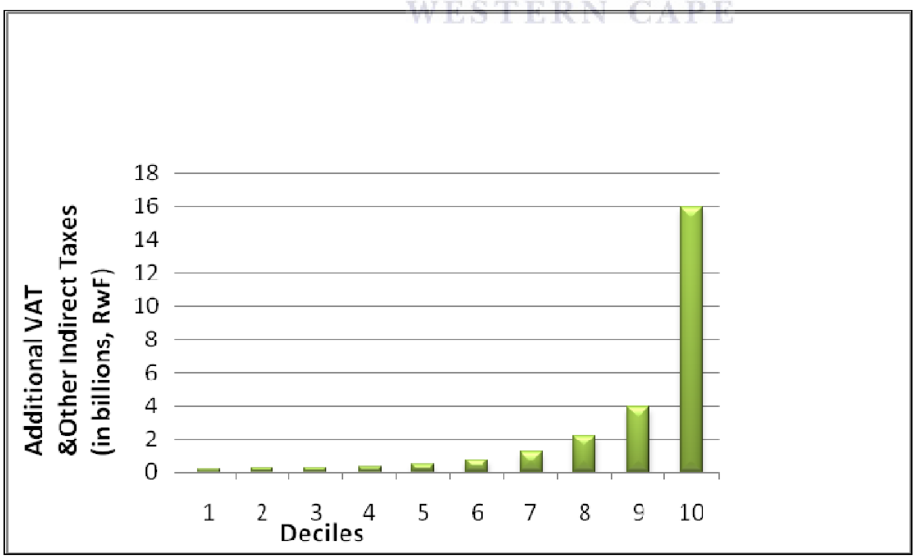

Figure 13 The total additional indirect taxes paid per decile of a monthly UIG of Rwf 213 combined with an increase in VAT of 3.5% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 13 again shows the additional VAT and other indirect taxes paid per deciles. The higher deciles are contributing much more than the lower deciles because of the fact that their expenditure is much higher.

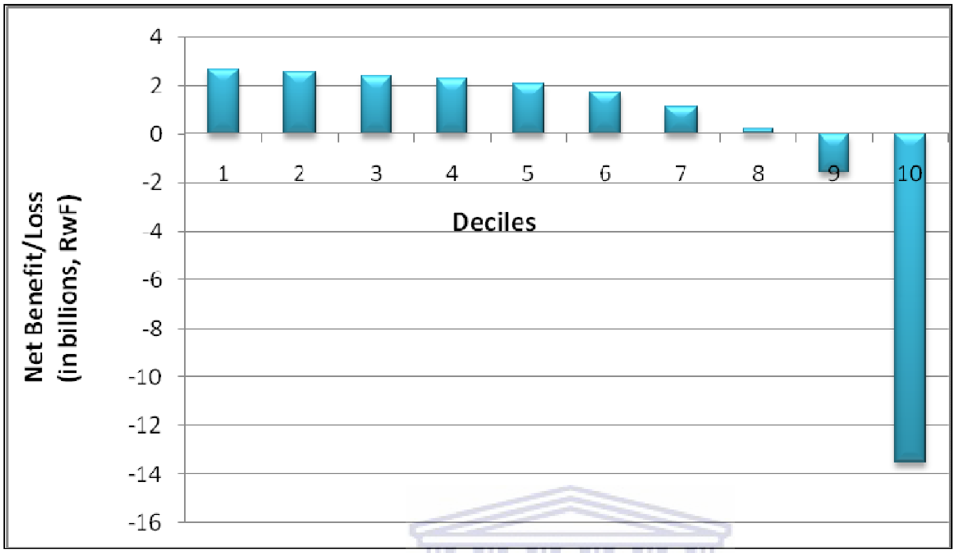

Figure 14 The net benefit or cost per decile of a monthly UIG of Rwf 213 combined with an increase in VAT of 3.5% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 14 illustrates the Net Benefit/Loss incurred as a result of redistributing the Universal grant. It is clear from the graph that from the first decile to the eigth decile, they receive a benefit. However, from the ninth and the tenth decile, there is a loss that is experienced.

Table 16: The Net impact of an increase in VAT of 3.5% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 213 illustrated in dollar terms but with Zero Foreign Aid.

House Hold Deciles	Daily US$ per person expenditure at PPP	Daily US$ per person after benefit	Daily US$ per person net benefit at PPP	Percentage increase in per person expenditure: Grant
1	0.21	0.24	0.03	13%
2	0.34	0.37	0.03	8%
3	0.45	0.47	0.03	6%
4	0.56	0.58	0.03	5%
5	0.68	0.70	0.02	4%
6	0.82	0.84	0.02	2%
7	1.00	1.02	0.01	1%
8	1.29	1.29	0.00	0%
9	1.85	1.83	-0.02	-1%
10	5.63	5.46	-0.16	-3%
Average	0.75	0.75	0.00	0%

Source: Own Calculations.

In terms of daily PPP US$ per person net benefit, the scenario is that households in the first seven deciles attain a net benefit varying from 1c to 3c at PPP per person a day. Households in the top two deciles respectively make a net contribution of 2c and 16c at PPP per person a day.

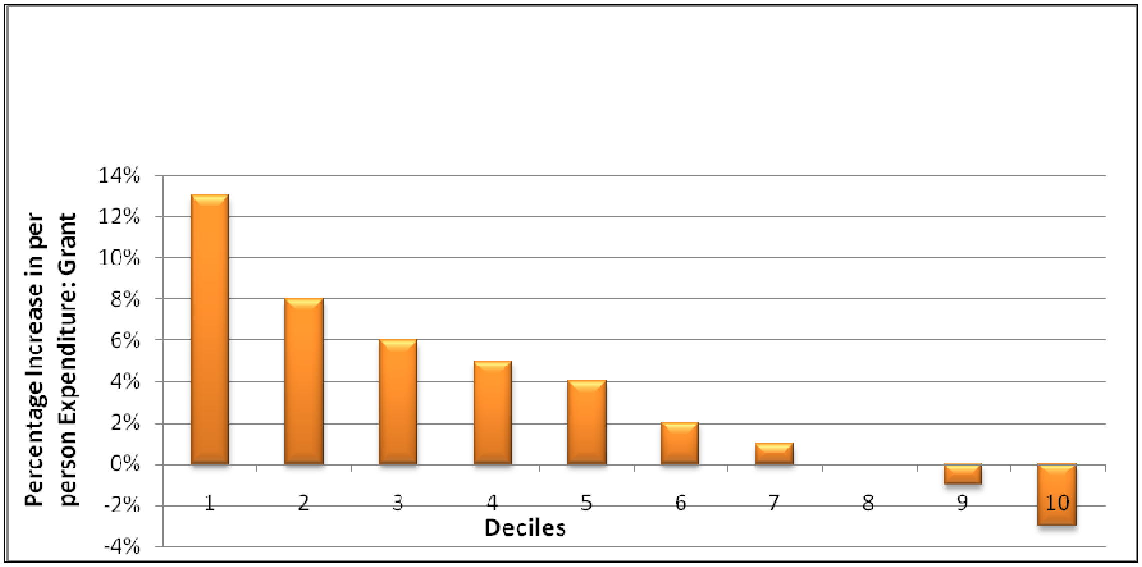

Figure 15 The percentage increase or decrease in per person expenditure caused by an increase in VAT of 3.5% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 213 illustrated in dollar terms but with Zero Foreign Aid.

Source: Own Calculations.

We can see from the table 16 and figure 15 above that a grant of Rwf 213 has a positive impact on the poorest six households. It increases the expenditure of the poorest decile by 13% while imposing a net tax burden on households in the top decile of 3%. See figure 15 above for an illustration.

Table 17 below shows that if VAT is increased by 7% and all other indirect taxes proportionally, it is possible to finance a monthly UIG of Rwf 432, which is equal to US$ 0, 74 in exchange rate terms. The net benefits paid out and the net additional tax imposed will balance each other at a total of Rwf 30.37 billion. In this scenario the bottom 8 deciles are all better off, but all the households in the top decile are worse off paying on average a net annual tax of about Rwf 29,000.

The average household in the 9th decile pays a net annual tax of Rwf 3522. At first glance this seems to be a good outcome – all of the households in the top decile and the average household in the second richest decile are worse off, but everyone else is better off. However, we are in fact also taxing households in the 9th decile who on average have incomes below US$2[169] in terms of PPP[170] a day

Table 17: Benefit and cost of a monthly income grant of Rwf 432 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid.

HH Deciles	*Population*	*HH Per Person expenditure maximum*	*HH Per person expenditure Average*	*Vatable expenditure*	*Annual Grant Rwf (billions)*	*Per capita Grant*	*Indirect tax Rwf (billions)*	*Per capita indirect tax*	*Additional VAT &other indirect taxes Rwf (billions)*	*Per capita Additional VAT &other indirect taxes*	*Net benefit/loss Rwf (billions)*	*Per capita Net benefit/loss*	
1	1.10	25489	18362	0.086	5.725	5188	0.445	404	0.348	315	5.377	4873	
2	1.09	34981	30281	0.086	5.631	5188	0.722	666	0.453	417	5.178	4771	
3	1.02	44079	39407	0.086	5.309	5188	0.886	866	0.507	495	4.802	4693	
4	1.00	54286	49112	0.08689	5.212	5188	1.096	1091	0.587	584	4.625	4604	
5	0.99	65610	59788	0.121834	5.138	5188	1.844	1862	0.939	948	4.199	4240	
6	0.98	79311	72363	0.179002	5.072	5188	3.236	3310	1.581	1617	3.491	3571	
7	0.93	98572	88097	0.258678	4.844	5188	5.437	5824	2.559	2741	2.284	2447	
8	0.93	131867	113331	0.361722	4.838	5188	9.769	10476	4.420	4740	0.418	448	
9	0.92	207779	162596	0.483866	4.777	5188	18.514	20106	8.020	8710	-3.243	-3522	**30.374 Net Benefit**
10	0.94	14042339	495255	0.67	4.856	5188	79.288	84702	31.988	34172	-27.132	-28984	**-30.375 Net tax collected**
	9.91				**51.401**		**121.237**	**129.306**	**51.402**	**54.741**			

Source: Own Calculations.

169 Refer to table 17 for an illustration of the net impact in dollar terms.
170 PPP- stands for Purchasing Power Parity.

The figures below (figure 16,17,18,19 & 20) shows the benefit and costs of a UIG of Rwf 432 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid as in table 17 above. The first five deciles pay very little VAT and other indirect taxes. As a consequence their net benefit is quite high. Then from the 8th, 9th and 10th deciles, their contribution towards VAT and other indirect taxes is high. However, the tax burden is felt only by the 9th and 10th deciles.

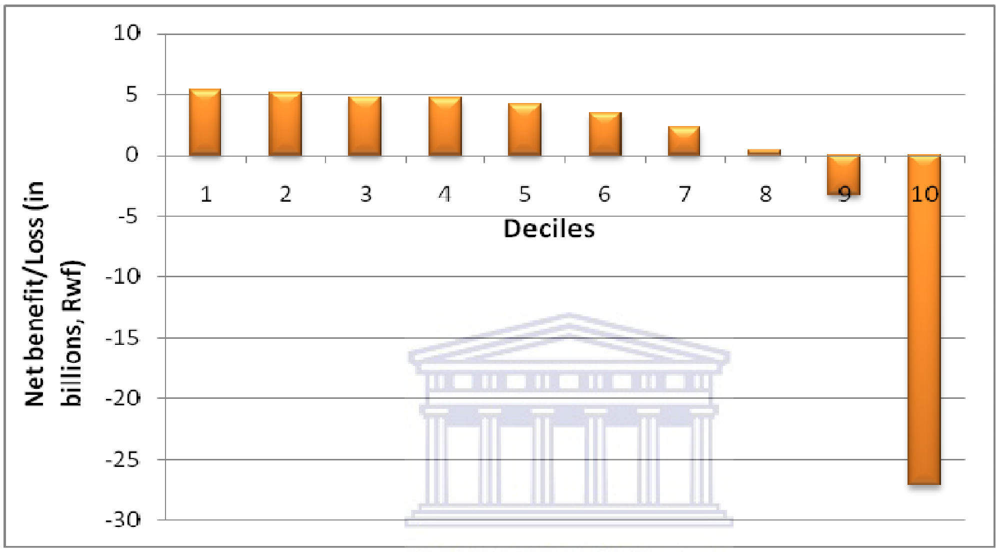

Figure 16 The net benefit or cost per decile of a monthly UIG of Rwf 432 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 17 below shows the annual grant per decile in terms of benefit and cost. Again as it is illustrated by the graph, the lower deciles benefit more than the higher deciles from the grant. The reason for this still is the fact that the number of people per household decreases from the 1st to the 9th decile. In the case of the 10th there is an increase in the household size over that of the 9th decile.

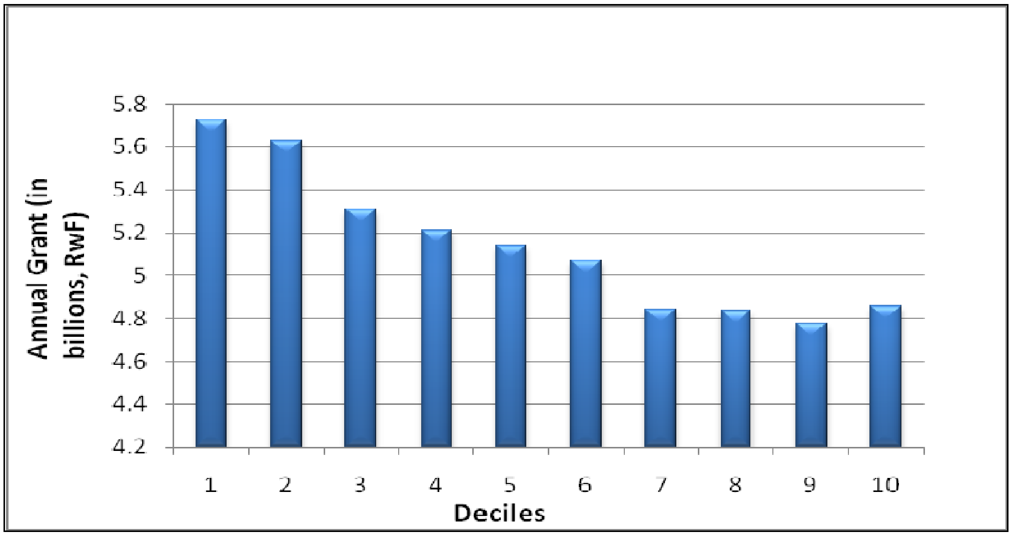

Figure 17 The Total annual net costs of the grant per decile of a Rwf 432 grant per person combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 18 below shows the indirect tax paid per deciles in billions. The higher deciles are contributing much more than the lower deciles because of the fact that their expenditure is much higher.

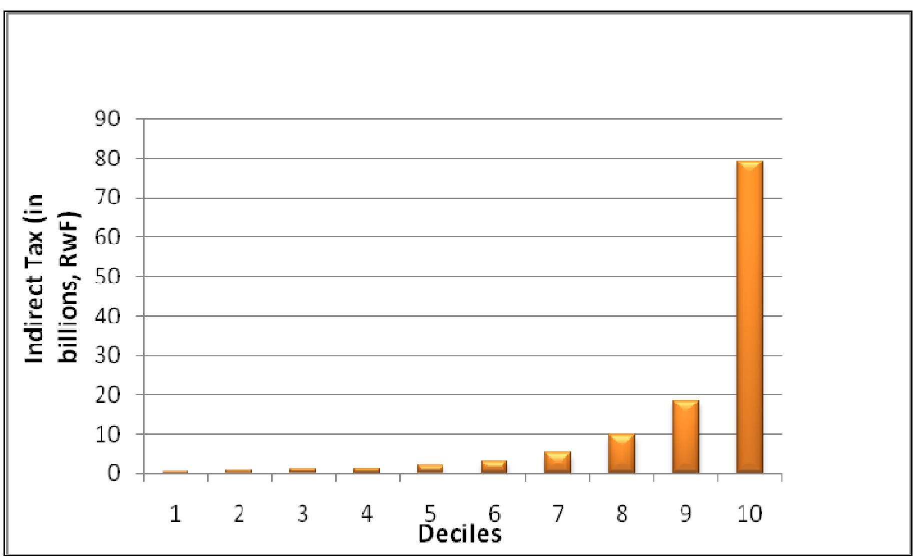

Figure 18 The total indirect taxes paid per decile of a monthly UIG of Rwf 432 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 19 below shows the additional VAT and other indirect taxes paid per deciles in billions. The higher deciles are contributing much more than the lower deciles because of the fact that their expenditure is much higher.

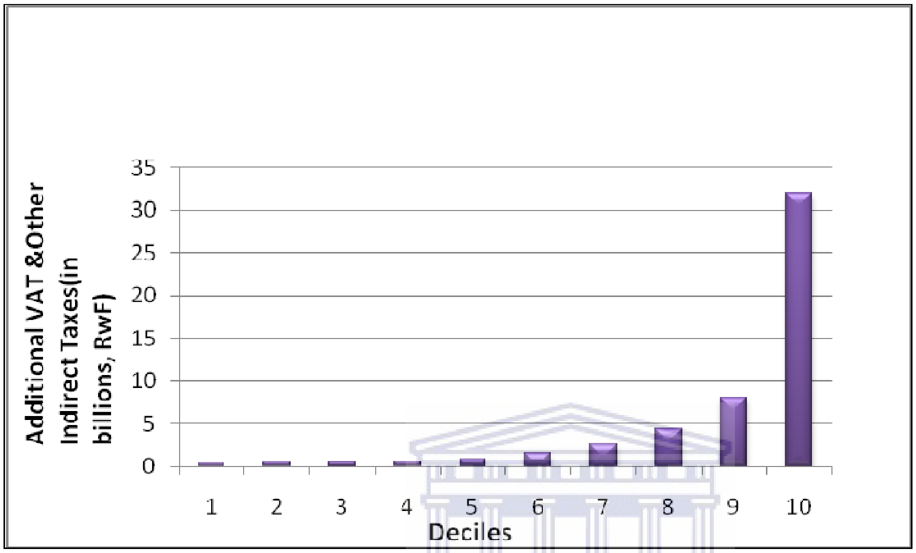

Figure 19 The total additional indirect taxes paid per decile of a monthly UIG of Rwf 432 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

Figure 20 below illustrates the Net Benefit/Loss incurred as a result of redistributing the Universal grant of Rwf 432. It is clear from the graph that from the 1st decile to the 8th decile, they receive a benefit. However, from the 9th and the 10th decile, there is a loss that is experienced.

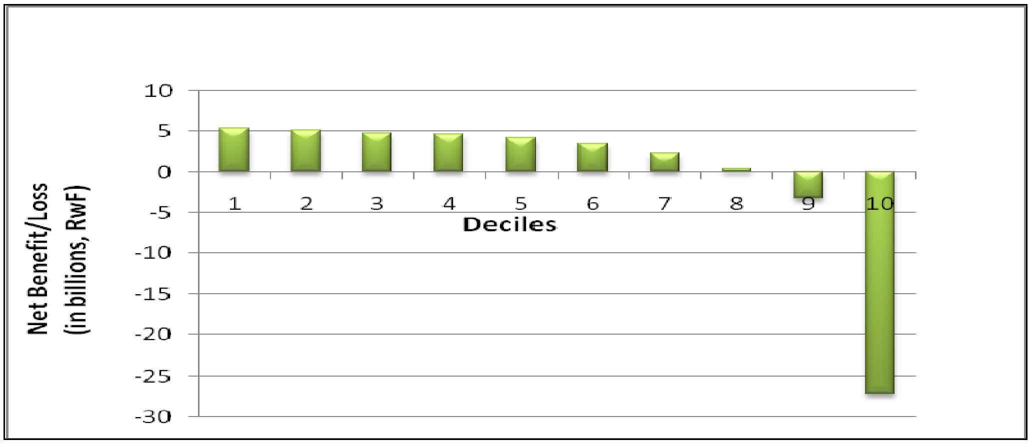

Figure 20 The net benefit or cost per decile of a monthly UIG of Rwf 432 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with zero foreign aid.

Source: Own Calculations.

In Table 18 below, the net impact of an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 432 is shown in dollar terms. In exchange rate terms a UIG of Rwf 432 is merely US$ 0.74 per month. However, in terms of Purchasing Power Parity this grant is equal to US$ 1.79 per month. Thus even in terms of PPP the UIG per month that can be afforded if we increase VAT by 7% and other indirect taxes proportionally is very low. Because per capita expenditure is so low, this very modest UIG nevertheless has a significant impact on the per capita expenditure of the bottom 7 deciles, increasing the monthly per capita expenditure in PPP terms of the poorest decile by an average of 27%. On the other hand the members of the richest decile pay on average a net tax of 6%.

Table 18: The Net impact of an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 432 illustrated in dollar terms but with Zero Foreign Aid.

House Hold Deciles	Daily US$ per person expenditure at PPP	Daily US$ per person after benefit	Daily US$ per person net benefit PPP	Percentage increase in per person expenditure: Grant
1	0.21	0.26	0.06	27%
2	0.34	0.40	0.05	16%
3	0.45	0.50	0.05	12%
4	0.56	0.61	0.05	9%
5	0.68	0.73	0.05	7%
6	0.82	0.86	0.04	5%
7	1.00	1.03	0.03	3%
8	1.29	1.29	0.01	0%
9	1.85	1.81	-0.04	-2%
10	5.63	5.30	-0.33	-6%
Average	0.75	0.75	0.00	0%

Source: Own Calculations.

Although the impact of this grant is not dramatic, one may at first glance argue that it is nevertheless an improvement in income distribution. However, it comes at a price for some of the poor, for in this scenario the average household in the 9th decile with an income of only US$0.76 at exchange rate or US$1.85 at PPP is also taxed. Although a VAT increase of 7% thus seemed feasible *a priori*, this is an increase which will tax households who are already considered to be under the poverty line.

Figures 21 & 22 below demonstrates the dynamics that we have just discussed above in table 18 confirming the fact that at a grant of Rwf432, we shall be taxing households that are below US$ 2 and are already below the poverty line. What is visible though is the fact that the 1st to the 8th deciles experience a benefit from the grant of Rwf 432, while the 9th and 10th deciles bear the cost because they have a higher expenditure.

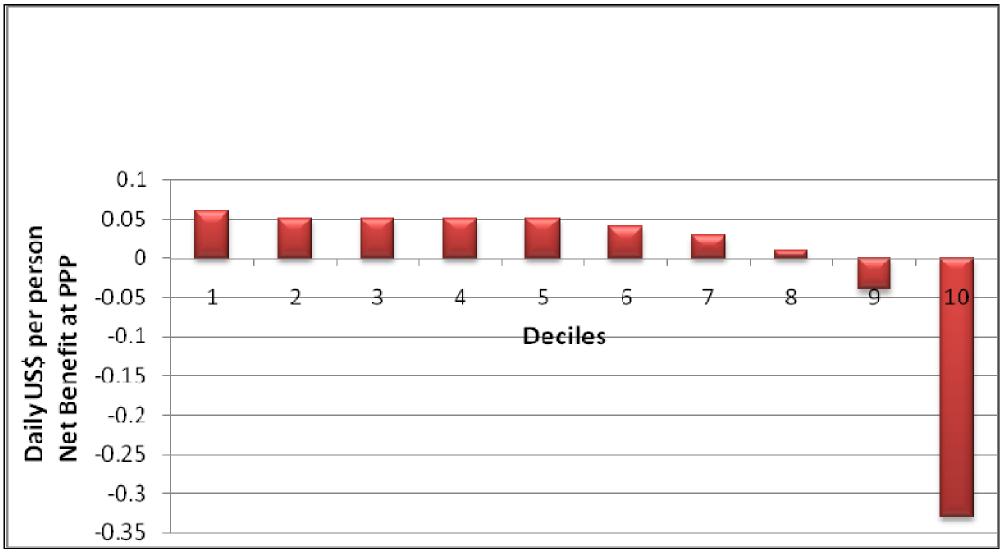

Figure 21 The net benefit of cost of an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 432 illustrated in dollar terms, with Zero Foreign Aid.

Source: Own Calculations.

We can see from the table 18 above and figure 22 below that a grant of Rwf 432 has a positive impact on the poorest six households. It increases the expenditure of the poorest decile by 27% while imposing a net tax burden on households in the top decile of 6%. See figure 22 below for an illustration.

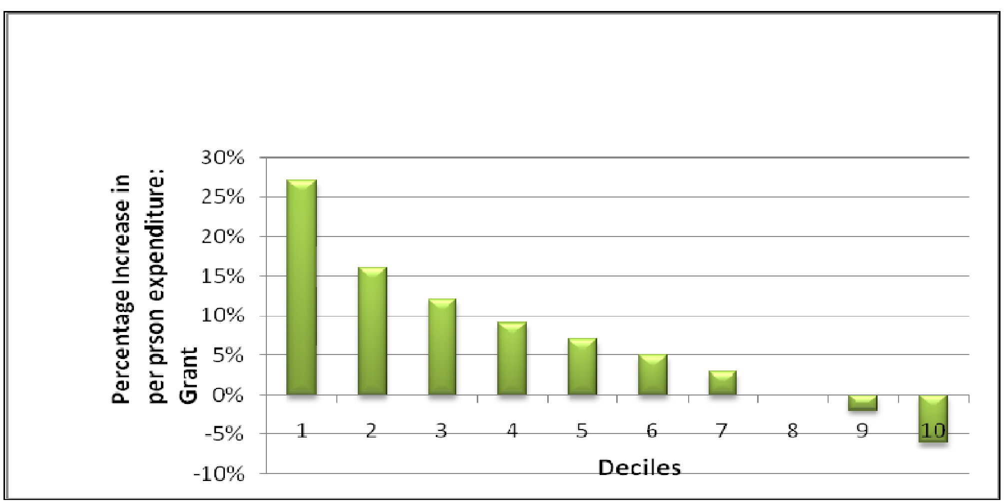

Figure 22 The percentage increase or decrease in per person expenditure caused by an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 432 with Zero Foreign Aid

Source: Own Calculations.

If one in addition considers that there will inevitably be some costs in distributing the UIG, there are clearly strong arguments against a UIG financed only by increasing the indirect taxes in a country such as Rwanda. However, would this option become realistic if one also uses a proportion of the Foreign Aid for the UIG?

4.6. Proportion of Foreign Aid used for grant.

In this second instance, we run a simulation in which we tried to fund a grant of Rwf 1,200 by also drawing on part of the foreign aid. Table 19 below shows that if VAT is increased by 7% and all other indirect taxes proportionally, and 21% of the foreign aid is allocated for the grant, it is possible to finance a monthly UIG at the level of Rwf 1200, which is equal to US$ 2.05 at the exchange rate or US$ 4.98 at PPP. The net benefits paid out will be equal to Rwf 104.271 billion and the net additional indirect tax imposed will be Rwf 20.557 billion. If one adds the amount of foreign aid of Rwf 83.715 billions, then the grant is fully paid for. In this scenario all those in the poorest bottom 9 deciles are made better off while those in the top decile are made worse off , paying on average a net annual tax of about Rwf 22,000 which is equivalent to US$ 37.61.

Table 19: Benefit and cost of a monthly income grant of Rwf 1200 combined with an increase in VAT of 7% and a proportionate increase in excise and levies but with 21% foreign aid.

HH Deciles	*Population*	*HH Per Person expenditure maximum*	*HH Per person expenditure Average*	*Vatable expenditure*	*Annual Grant Rwf (billions)*	*Per capita Grant*	*Indirect tax Rwf (billions)*	*Per capita indirect tax*	*Additional VAT &other indirect taxes Rwf (billions)*	*Per capita Additional VAT &other indirect taxes*	*Net benefit/loss Rwf (billions)*	*Per capita Net benefit/loss*	
1	**1.10**	**25489**	**18362**	**0.086**	**15.891**	**14400**	**0.445**	**404**	**0.658**	**597**	**15.233**	**13803**	
2	**1.09**	**34981**	**30281**	**0.086**	**15.629**	**14400**	**0.722**	**666**	**0.758**	**698**	**14.871**	**13702**	
3	**1.02**	**44079**	**39407**	**0.086**	**14.734**	**14400**	**0.886**	**866**	**0.794**	**776**	**13.940**	**13624**	
4	**1.00**	**54286**	**49112**	**0.08689**	**14.465**	**14400**	**1.096**	**1091**	**0.872**	**868**	**13.593**	**13532**	
5	**0.99**	**65610**	**59788**	**0.121834**	**14.262**	**14400**	**1.844**	**1862**	**1.334**	**1347**	**12.928**	**13053**	
6	**0.98**	**79311**	**72363**	**0.179002**	**14.078**	**14400**	**3.236**	**3310**	**2.153**	**2202**	**11.925**	**12198**	
7	**0.93**	**98572**	**88097**	**0.258678**	**13.444**	**14400**	**5.437**	**5824**	**3.349**	**3587**	**10.095**	**10813**	
8	**0.93**	**131867**	**113331**	**0.361722**	**13.427**	**14400**	**9.769**	**10476**	**5.523**	**5923**	**7.904**	**8477**	**104.271 Net Benefit**
9	**0.92**	**207779**	**162596**	**0.483866**	**13.260**	**14400**	**18.514**	**20106**	**9.477**	**10292**	**3.783**	**4108**	**-20.557 Net tax collected**
10	**0.94**	**14042339**	**495255**	**0.67**	**13.480**	**14400**	**79.288**	**84702**	**34.036**	**36360**	**-20.557**	**-21960**	**83.715 (21%) Total foreign aid**
	9.91				**142.669**		**121.237**	**129.306**	**58.955**	**62.651**			

Source: Own Calculations.

Figures (23,24,25,26 & 27) below are an illustration of what was calculated in Table 19 above. They demonstrate what happens on average in each decile when a grant of Rwf 1200 is introduced and funded by increasing VAT by 7% and other indirect taxes proportionally and paying the shortfall out of foreign aid.

Figure 23 below shows the annual grant per decile in terms of benefit and cost. As it is illustrated by the graph, it is clear that the lower deciles benefit more than the higher deciles from the grant. The main reason for this is that the number of people per household decreases from the 1st to the 9th decile. In the case of the 10th decile, there is an increase in the household size over that of the 9th decile.

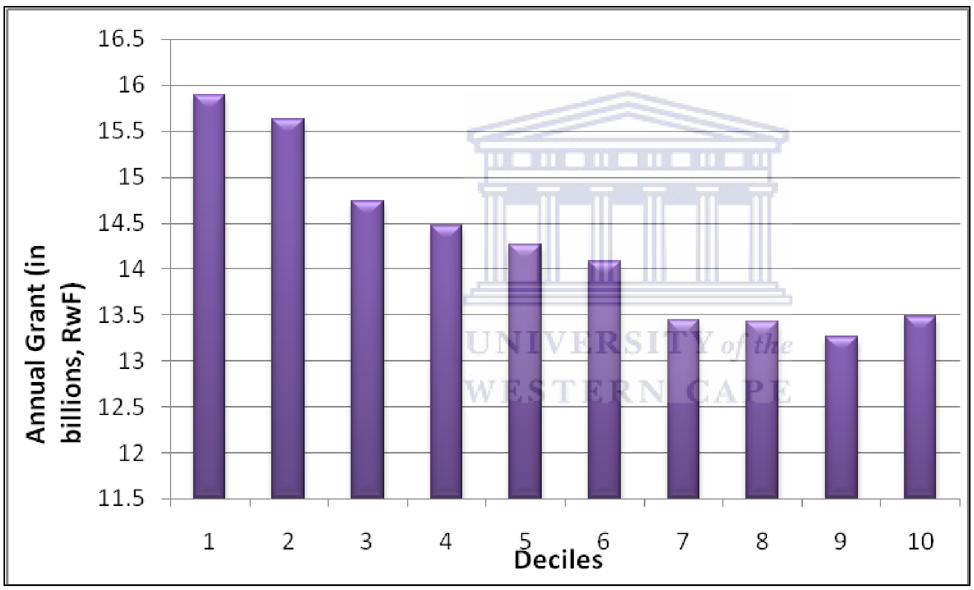

Figure 23 Annual grant paid per decile when a UIG of Rwf 1200 is combined with an increase in VAT of 7% and a proportionate increase in excise and levies and using 21% of foreign aid.

Source: Own Calculations.

Figure 24 below shows the indirect tax paid per deciles in billions. The higher deciles are contributing much more than the lower deciles because of the fact that their expenditure is much higher.

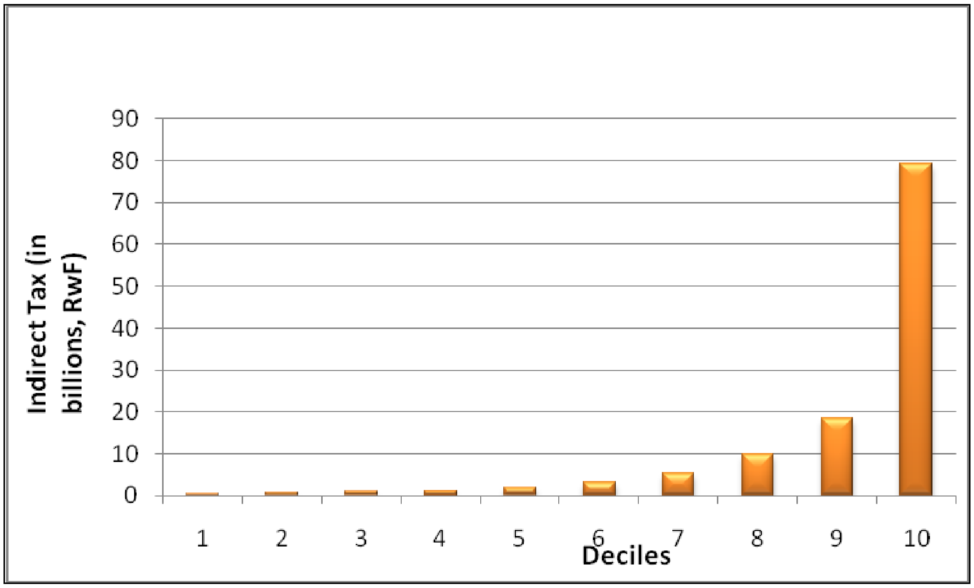

Figure 24 The total indirect taxes paid per decile of a monthly UIG of Rwf 1200 is combined with an increase in VAT of 7% and a proportionate increase in excise and levies using 21% of foreign aid.

Source: Own Calculations.

Figure 25 below shows the additional VAT and other indirect taxes paid per deciles in billions. The higher deciles are contributing much more than the lower deciles because of the fact that their expenditure is much higher.

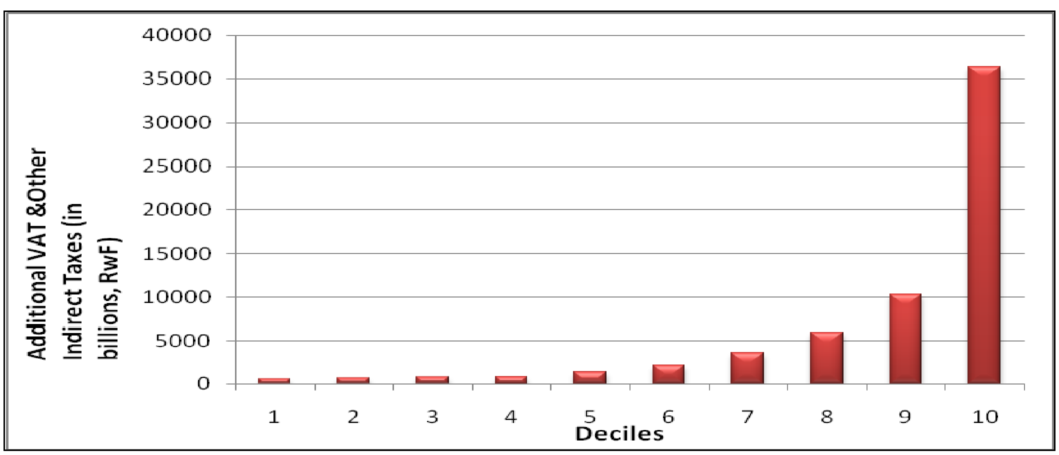

Figure 25 The total additional indirect taxes paid per decile of a monthly UIG of Rwf 1200 combined with an increase in VAT of 7% and a proportionate increase in excise and levies using 21% of foreign aid.

Source: Own Calculations.

Figure 26 below illustrates the Net Benefit/Loss incurred in billions as a result of redistributing the Universal grant of Rwf 1200. It is interesting to note this time though that from the graph that from the 1st decile to the 9th decile, they receive a benefit. However, there is a tax burden that is experienced by the 10th decile.

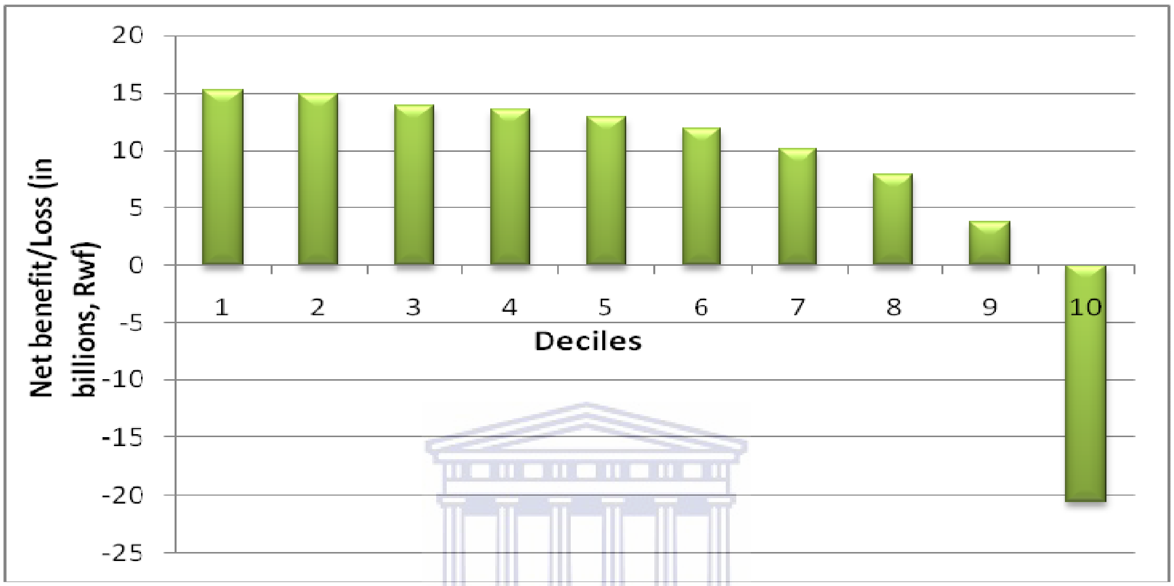

Figure 26 Net annual benefit or cost per decile of a monthly income grant of Rwf 1200 combined with an increase in VAT of 7% and a proportionate increase in excise and levies using 21% of foreign aid.

Source: Own Calculations.

As can be seen from Table 20 below, in Purchasing Power Parity terms, the average daily net tax in the 10th decile pay amounts to 0.25c (US$) per person, which is an average expenditure tax of 4.4%. In this scenario we seem to have a desirable outcome because all the households in the 9th deciles with an average income of less than US$2 per day are made better off and it is only the households in the 10th decile who have to bear the tax burden.

Table 20: The Net impact of an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 1200 illustrated in dollar terms with 21% Foreign Aid.

House Hold Deciles	Daily US$ per person expenditure at PPP	Daily US$ per person after benefit	Daily US$ per person net benefit at PPP	Percentage increase in per person expenditure: Grant
1	0.21	0.37	0.16	75%
2	0.34	0.50	0.16	45%
3	0.45	0.60	0.15	35%
4	0.56	0.71	0.15	28%
5	0.68	0.83	0.15	22%
6	0.82	0.96	0.14	17%
7	1.00	1.12	0.12	12%
8	1.29	1.38	0.10	7.5%
9	1.85	1.89	0.05	2.5%
10	5.63	5.38	-0.25	-4.4%
Average	0.75	0.75	0.00	0.0%

Source: Own Calculations.

In table 20 above, the net impact of an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 1200 is shown in dollar terms. In exchange rate terms a UIG of Rwf 1200 is equivalent to US$ 2.05 per month. In terms of Purchasing Power Parity this grant is equal to US$ 4.98 or virtually $5 per month. In terms of PPP the UIG per month that can be afforded if we increase VAT by 7% and other indirect taxes proportionally is significant. And because the per capita expenditure of the poor is so low, this has a significant impact on the per capita expenditure of the bottom 6 deciles, increasing the monthly per capita expenditure in PPP terms of the poorest decile by an average of 75%. This is a meaningful impact especially if we are talking of getting people out of poverty and destitution. For those in the 7th, 8th and 9th deciles, though the impact is low, these households still benefit from the UIG and the households in the richest decile pays on average a net tax of 4.4%. It is also clear that in terms of PPP the 10th decile all have an income which is above US$2 (US$2.32). One thus taxes the relatively well off, and everyone else benefits. See figures 27, 28, 29 &30 for an illustration.

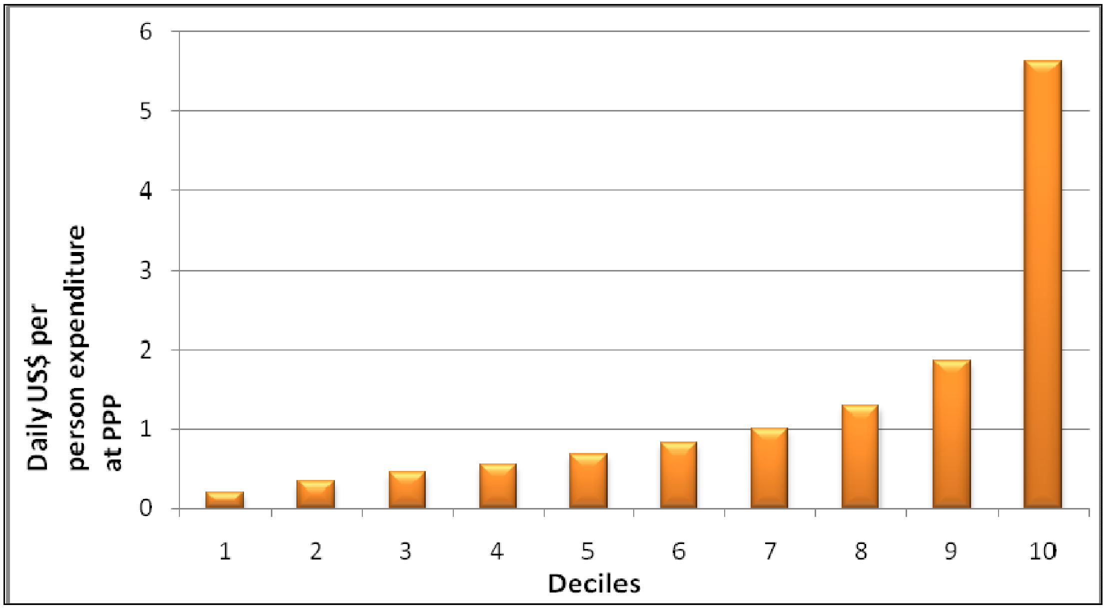

Figure 27 The daily US$ per person expenditure with an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 1200 illustrated in dollar terms and using 21% of Foreign Aid.

Source: Own Calculations.

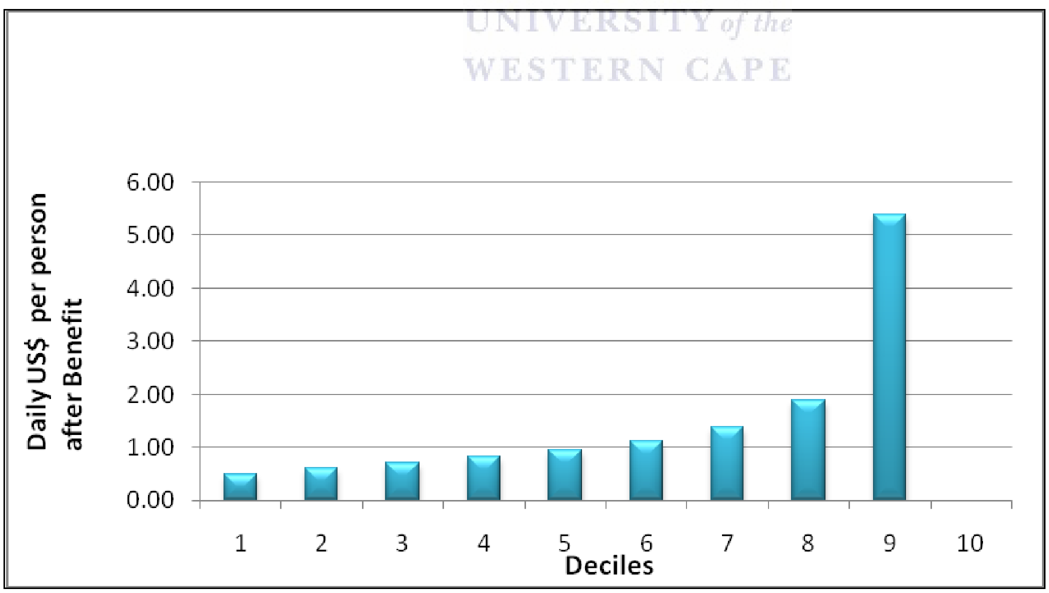

Figure 28 The daily US$ per person after benefit with an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 1200 illustrated in dollar terms and using 21% of Foreign Aid.

Source: Own Calculations.

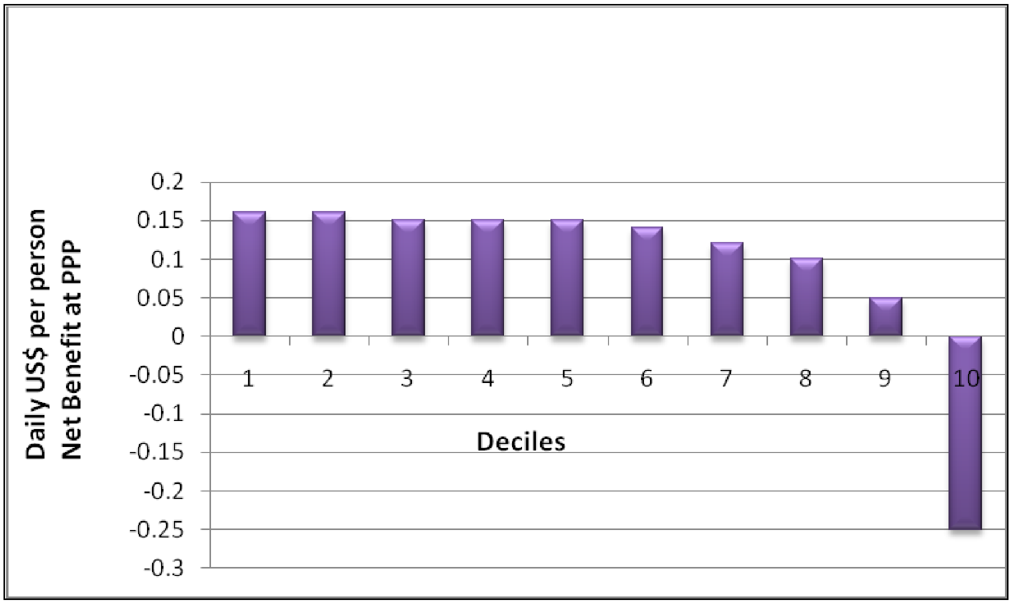

Figure 29 The net benefit or cost of an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 1200 illustrated in dollar terms, and using 21% of Foreign Aid

Source: Own Calculations.

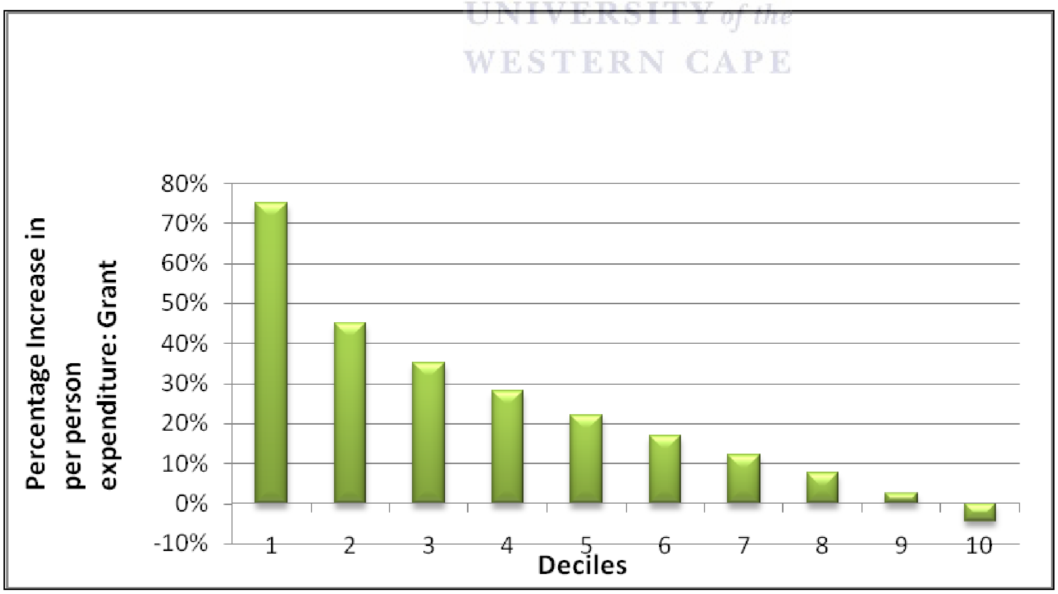

Figure 30 The percentage increase or decrease in per person expenditure caused by an increase in VAT of 7% (and a proportional increase in other indirect taxes) and a monthly UIG of Rwf 1200 illustrated in dollar terms and using 21% of Foreign Aid.

Source: Own Calculations.

We can see from the table 20 above and figure 30 above that a grant of Rwf 1200 has a positive impact on the poorest six households. It increases the expenditure of the poorest decile by 75% while imposing a net tax burden on households in the top decile of 4.4%. See figure 30 above for an illustration.

In figures (27, 28, 29 &30) above, we see that in terms of increases in US$ PPP expenditure, the first nine deciles benefited from the UIG and then the 10^{th} decile got a negative net impact because they bear all the net loss. The grant is thus able to better the lives of all those in poverty and destitution when partly financed out of foreign aid. This is the reason why we recommended this option.

It should be noted however that for all this to be attained, the tax system in the country must be efficient and effective in terms of its tax collection. Is it the case with the Rwanda Revenue Authority?

4.7. Revenue Performance in Rwanda

There are challenges in the implementation of an efficient VAT system in Rwanda as mentioned by Ntibanyurwa in her master's thesis[171] in 2001 and these are still present today. But by this it is not implied that there are no improvements in the tax system, since its inception in 2001. See table 21 below.

It is clear that there has been a great improvement in the revenue collection despite the challenges. Table 22 below shows that the tax collected in 2004 was 136.2 billion, then in 2005 it increased to 183.96 billion (increase of 35%) and in 2006 it rose to 204.9 billion (increase of 50% on 2004). What this means is that the Rwandan tax system has a potential to collect more revenue as long as the challenges are addressed. See also table 24 which shows the sources of revenue for 2007 and the data we used in this thesis for the purposes of running the simulations.

[171] Ntibanyurwa (2001).

Table 21: Challenges encountered by Rwanda Revenue Authority

High energy prices affected business performance and necessitated Government subsidization on petroleum products
Poor record keeping especially amongst the medium and small tax payers
Low compliance levels has persisted
Smuggling and other forms of tax evasion
Retaining competent staff
Big and growing informal sector
Continuous modernization of the processes and procedures
Continuous capacity building
Sustaining the information technology systems
Initiating the innovative ways of reforming and modernizing the tax system
Investing in human resource reorganization and development
Building both regional and local partnership with various stakeholders and taxpayer groups

Source: Adopted from Annual Reports (2004, 2005 &2006) of the Rwanda Revenue Authority. See also (www.rra.gov.rw

Table 22: Official tax collected from 2004 -2007

Year	Amount of Revenue collected in Rwf (billions)
2007	252.6
2006	204.9
2005	183.96
2004	136.2

Source: Annual Reports (2004, 2005 &2006) from the Rwanda Revenue Authority. www.rra.gov.rw

It is clear from table 23 below that although the tax base is still small, the contribution of tax on goods and services on total revenue has been impressive despite the fall which could be attributed to several factors as elaborated in table 21. In 2004 the contribution was 52.1 percent, and then in 2005 it was 51.3 percent. In 2006 it dropped to 48.6 percent and in 2007 it dropped further to 48.3 percent.

Table 23: Contribution of Tax on Goods and Services on Total Revenue collection from 2004-2007

Year	Percentage contribution on Total Revenue
2007	48.3%
2006	48.6%
2005	51.3%
2004	52.1%

Source: Rwanda Revenue Authority Annual Reports of (2004, 2005, 2006) (www.rra.gov.rw & MINECOFIN Annual Performance Report, (2007).[172]

Table 24: Revenue sources in Rwanda in 2007

Total Tax Revenue	Rwf- **121,087,000.000**	Rand-[173] **2,233,249,723**
VAT	**85,286,000,000**	**1,572,962,006**
On Imports	*36,010,000,000*	664,146,0471
On Domestic	*49,276,000,000*	908,815,935
Excises	**29,524,800,000**	**544,537,071**
On Imports	*8, 909,400,000*	164,319,439
On Domestic	*20,615,400,000*	380,217,632
Road Fund	**6,276,000,000**	**115,750,646**

Source: Rwanda Revenue Authority (www.rra.gov.rw)

[172] Republic of Rwanda (2005). Annual Report 2004. Rwanda Revenue Authority,
Republic of Rwanda (2006). Annual Report 2005. Rwanda Revenue Authority, Republic of Rwanda (2007). Annual Report 2006. Rwanda Revenue Authority, Republic of Rwanda (2007). MINECOFIN ANNUAL PERFORMANCE REPORT.

[173] To get this column I used the exchange rate from BNR of R1 is equal to Rwf 54.22 in 2008 prices. See: http://www.bnr.rw (accessed on 19/11/2008).

4.8. Conclusion

This chapter has tried to develop a micro-simulation model for Rwanda using household deciles as opposed to household quintiles that were used by Musahara when he was investigating the viability of a UIG in Rwanda.

In the first simulation where a monthly grant of Rwf 432 was introduced, was an increase in VAT of 7% and a proportionate increase in other indirect taxes were required to finance this grant. In this case it was assumed that there was no foreign aid. The results of the simulation indicated that much as the poor are made better off and the rich bear the tax burden, even the relatively rich, it is those in the 9th decile, who are expected to help finance this grant are themselves below the poverty line.[174] In terms of PPP, the bottom decile experienced a net benefit from the grant of 27% while the top decile had to pay a net tax of 6%. This net impact of this policy change was thus desirable. When we reduce VAT to 3.5% which meant that we could only finance a grant of Rwf 213, it made matters even worse for those in the 9th decile

This is why we opted for the second simulation where we could finance a grant of Rwf 1200 by also using 21% of foreign aid for the grant. The impact here was very positive. The bottom decile could increase their expenditure by 75% and the top decile incurred a tax burden of 4.4%, whereas those in the 9th decile were not worse off. Those in the top decile is above the poverty line having an expenditure at the very least of above US$2, and on average well above that.

It was shown by the simulation that the net benefit for the poor was high. In the case of the affluent, because they contribute most to VAT and other indirect taxes as a result of their relatively high level of expenditure, they suffer a net loss (in that, in spite of the also getting the grant, they have an additional tax burden significantly higher than the grant).

Whether a UIG will stimulate the economy on a macro level, is a contentious issue. However it is likely that this grant will stimulate the rural economy, where there will now be a greater demand from the poor who have more to spend.[175] And this supports one of the flagships of the

[174] They were earning less than US$2.
[175] See Le Roux (2002:31).

EDPRS, the Vision 2020 Umurenge because it advocates for integrated rural development programmes to eradicate extreme poverty and release the productive capacities of the poor.[176] This should enhance confidence in the government by the people, the investors and the workers because it will be addressing their concerns.[177] It is clear that growth has favoured the better off from the 2000/01 to 2005/06 Living Household Survey. There is therefore a need to ensure that this growth also benefits the poor.

176 IMF country Report (2008:i); Republic of Rwanda (2007).
177 Le Roux (2002:31).

Chapter Five: Conclusion and Recommendations

5.1 Introduction

The researcher in this dissertation showed the possible impact of a universal income grant (BIG) in alleviating poverty in Rwanda. He considered how a part of the existing foreign aid may be channelled into a UIG, with the funding effectively being recouped from those who do need support by an increase in the indirect taxes, e.g. in VAT. He developed a micro-simulation model which showed the impact of the combination a UIG, partly financed out of foreign aid and partly by increases in indirect taxes, on poverty and income distribution in Rwanda.

The literature review revealed that a UIG, if successfully implemented, has the potential to restore the social capital that was destroyed by the genocide in 1994, stimulate aggregate spending, increase economic activity, bring investor confidence, promote economic growth and job creation and consequently would lead to poverty alleviation.

This thesis has provided a platform for policy makers, non-governmental organisations, multilateral organisations, governments and the scholars that it is possible to adopt a UIG even in low-income countries as long as their country dynamics are clearly understood.

This chapter presents a summary for the findings of this study. It is then considered whether the stipulated aims were attained. The chapter is concluded by a summary of some of the recommendations.

5.2 Concluding Summary

The thesis begun by looking at Poverty and the extent to which it has persistently not been able to be contained. Based on the existing literature, it is evident that poverty is still rampant in Rwanda though there is a slight reduction from 60 to 57 percent, as shown in the 2000/01-2005/06 households living conditions survey. However, the most disquieting feature is the fact that in spite of this reduction in poverty level the total numbers of people living in poverty increased from 4.8 in 2000/01 to 5.4 in 2005/06.

As far as poverty alleviation is concerned, a number of social policies have been adopted in Rwanda but all have failed to address the poverty issue once and for all. It was observed that Rwanda preferred pursuing an approach which targets certain groups, such as the genocide survivors, child-headed households, widows and orphans as opposed to a universal grant, which if combined with indirect tax increases targets all the poor.

The literature also shows that in middle-income countries the rich are able to fund the grant. This was argued clearly in the Taylor commission report where scholars such as Le Roux came out strongly to say that due to the inequalities that existed, a universal income grant (BIG) would be the remedy for destitution.[178]

The literature from the developed countries puts emphasis on provision of basic services. This approach has its own limitations because it is very expensive and has a lot of administrative costs as a result of trying to identify the basic needs of each individual in a household. It is also means-tested in nature which renders it inept of dealing with poverty and destitution.

The concept of what is an appropriate social policy was shown to be controversial. This was clear in the literature where every scholar came up with his/her definition of social policy. It could be argued that may be this marked the beginning of its failure in addressing issues of poverty and inequality. Of course, different modes of social production did exist both in Europe and Africa. But the most common factor was the involvement of the family, the church and the monarchy, when it came to dealing with the poor in the society. Probably one could put the blame for the dismantling of the original social policy on decomodification.[179]

[178] Le Roux (2001).
[179] Esping-Andersen, G. (1990:13).

The thesis has its foundation in development studies and it is because of this that research in social policy and poverty had to be pursued due to the fact that they are pertinent issues as far as development studies are concerned.

The debates surrounding a UIG as is shown in the literature review clearly have their origins in developed countries. However this does not mean that developing countries did not have ways of looking after their own poor. There is agreement that both in Europe and Africa, families, churches and the monarchy played a vital role in getting people out of poverty and destitution. It should be noted however that scholars in the developing countries have failed social and economic development because they are so locked up in disagreeing on which ideological trend to follow at the expense of development. It is indeed very important if one wants to try and adopt any social policy that they feel may get populations out of poverty, create jobs and in the end bring economic growth to be mindful of the existing ideologies and their impact.

Apart from the issue of ideology, there is also the view that a UIG could work in middle –income countries but cannot work in low-income countries. Well, this thesis has tried to show that it is possible to introduce a UIG even in low-income countries. This was done using the micro-simulation model and the potential of the UIG was visible because the poor were made better off by redistributing from the affluent, and also drawing on one fifth of the available foreign aid.

Rwanda after the 1994 genocide proposed a very ambitious plan to get out of the low-income bracket and rise up the ladder to the middle-income countries. However it's Vision 2020 cannot be attained if emphasis is just on growth at the expense of the poor. It is from this background that the researcher has come out very strongly with the argument that it is possible to adopt the UIG especially if it is to facilitate Rwanda achieve the per capita income of $900.

The aims of this research were achieved in as far as this thesis is concerned. This was done by the micro-simulation model that was presented in chapter four. It is clear that a UIG has the potential to alleviate poverty because of the fact that it is the poor households that gain from the grant because they spend less and the affluent bear the increase tax burden, because they spend more. It was also shown by the simulations that when one uses no foreign aid, a 7% increase in

VAT and a proportional increase in other indirect taxes can finance a grant of Rwf 432, with, most of the poor benefiting but those in the 9th decile, because they are spending less than a dollar a day, are below the poverty line but nevertheless have to bear the net burden of the tax. If one reduces VAT to 3.5%, and still no foreign aid, the grant amount that can be financed will be as low as Rwf 213. When we introduced foreign aid was added into the simulation, a grant of Rwf 1200 could be financed and all those in the bottom 9 deciles were made better off. It was only those in the 10th decile that experiences a net burden. This option was therefore recommended.

5.3. Recommendations

Rwanda needs to be able to achieve its Vision 2020 so that it can move from a low-income into a middle-income country swiftly. However for this to happen it has to have a growth rate of 7 percent and a per capita income of $900 per annum,

The researcher made the following recommendations:

- In order for Rwanda to achieve sustainable growth, it must allow redistributive justice to prevail and actively enhance the trickle-down process by introducing a UIG. This will enable the growth to be translated into poverty alleviation.
- Policy makers must be careful with respect to the kind of macro-economic policy followed because it could hamper development in the long-run. Currently, although it is argued that Rwanda is following a pro-poor growth, in actual fact it is implementing the neoliberal model which benefits the better-off more.
- The structural problems that were caused by genocide in 1994 led to the current poverty-conflict trap. The only way to get out of this trap is by introducing a UIG.
- Although the Rwanda Revenue Authority is transforming the tax system and raising more revenue, a number of problems with regard to the tax system that were identified in chapter four need to be addressed. Failure to do this will lead to Rwanda incurring losses in tax income, which could be used for investment. If Rwanda is to introduce the UIG, it will need a better infrastructure to enable the grant to take off. This is why the researcher

is suggesting the introduction of a Ministry in charge of social development so that it is able to coordinate the massive resources and also be able to solicit funding from donors.

- In Rwanda every district has a people's bank which is good news for the implementation of the UIG. However, as Le Roux suggested in his paper to the Taylor commission, payment of the UIG requires a financial sector that is digitalised so that HANIS identity cards are used. There is a need to improve the banking sector digitally in order to be able to accommodate the UIG.

5.4. Future research areas

This study hopes to make a contribution to social policy and poverty in Rwanda. It should be noted that each country can attain economic growth and also get its populations out of poverty as long as the revolutionary ideas are country specific. Researchers need to be well informed of the dynamics at play and not just be slaves of the ideologies from either the IMF or the World Bank. It is the conviction of the researcher that if the UIG is introduced in Rwanda it would facilitate the attainment of Vision 2020 together with the MDGs. The research areas for future research are as follows.

- For Rwanda to get its population out of poverty, create jobs and above all be able to achieve its Vision 2020 together with the MDGs, it needs to think seriously about adopting the UIG as an appropriate social policy that will fill the gap that currently exists as the discussion has shown. Although growth is paramount in any economy or country, it must have redistributive justice in order for it to translate into economic and social development. The researcher proposes future research to be on the impact of UIG on economic growth in Rwanda especially now that the country wants to move from a low-income into a middle-income country.

- In the literature it is argued that the implementation of a UIG requires political will which I believe exists in Rwanda except that one has to take it one step at time due to the different ideological backgrounds among the policy makers. The researcher proposes future research to be on the role of political will and how it will affect the implementation of a UIG in Rwanda.

- The government is promoting public-private partnership as a means to attain growth and also get its people out of poverty. The researcher therefore proposes future research to be on how the UIG can be funded by funds from big corporations in the form of social responsibility towards poverty alleviation.

- Lastly is the contentious issue of what the macro-economic impact of a UIG will be. Will it be economic such as a demand stimulus or an impact on savings potential and investment or will it change the perceptions of workers, the poor and investors? There is indeed reason to do research on this.

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APPENDICES

Appendix A: Formulas used in the Micro Simulation on Excel.

Average Household per person expenditure ='F: \[Rwandan, decile calculations.xls] Sheet2'!$H2

Maximum Household per person expenditure ='F: \[Rwandan, decile calculations.xls] Sheet2'! $G2

Expenditure per capita per month =C8/365

Daily US $ per person expenditure =D8/U$29

Monthly US $ per person expenditure at PPP =E8*'F: \[Rwandan, decile calculations.xls] Sheet2'! Q16

Monthly US$ per person per month after benefit =F8+ (P8/12/U$29)*'F: \Documents and Settings\Administrator\Application Data\Microsoft\Excel\[Rwandan, decile calculations (version 1).xls]Sheet2'!R16

Percentage increase in per person expenditure = (G8/F8-1)

Proportion Vatable expenditure =0.1-R4416/1.174+ (R4416+0.2) ^2.1

Population ='F: \[Rwandan, decile calculations.xls] Sheet2'! $E2/1000000

Annual Grant ==I$4*12*J8/1000

Annual Grant per capita =(L8/J8)*1000

Indirect tax = (C8*I8*J8*I3*K27)/1000

Indirect tax per capita = (N8/J8)*1000

Net Benefit per Household member = (S8/J8)*1000

Additional VAT and other indirect taxes (Excise tax, Sin tax and levies) = (C8*I8*J8*K3*K27)/1000+ (L8*I8*L3*K27)

Per capita additional VAT and other indirect taxes (Excise tax, Sin tax and levies) = (Q8/J8)*1000

Net Benefit =L8-Q8

Per capita Net Benefit = (S8/J8)*1000

Net Benefit =SUM (S8:S16)

Total Foreign Aid =SUM (T23:T24)

VAT =M28+M29

Excise tax =M31+M32

Total Indirect tax =M27+M30+M33

Ratio of VAT to Excise + Road Fund +VAT =M34/M27

Table 25: Appendix B: CALCULATIONS ON A UNIVERSAL INCOME GRANT IN RWANDA (Excel File is available from the Author).

					Additional VAT	New total VAT							
			18%		7%	25%							
			1,200	2.0512821									
Monthly US$ per person expenditure at PPP	Monthly US$ per person per month after benefit	Percentage inrease in pp expenditure: Grant	14400 Vatable expenditure	Population (Millions)	Annual Grant Rwf (Billions)	Rwf pc grant	Indirect tax Rwf (Billions)	Rwf pc indirect tax	Net benefit per household member Rwf	Additional VAT & other Indirect taxes Rwf(Billions)	Rwf Pc additional Vat etc	Net Benefit Rwf (Billions)	Rwf p.c.
0.21	4.98	2287%	0.086	1.10	15.891	14400	0.445	404	13803	0.658	597	15.233	13803
0.34	5.08	1376%	0.086	1.09	15.629	14400	0.722	666	13702	0.758	698	14.871	13702
0.45	5.16	1052%	0.086	1.02	14.734	14400	0.886	866	13624	0.794	776	13.940	13624
0.56	5.24	838%	0.086890496	1.00	14.465	14400	1.096	1091	13532	0.872	868	13.593	13532
0.68	5.19	664%	0.121834003	0.99	14.262	14400	1.844	1862	13053	1.334	1347	12.928	13053
0.82	5.04	513%	0.179002231	0.98	14.078	14400	3.236	3310	12198	2.153	2202	11.925	12198
1.00	4.74	373%	0.258677773	0.93	13.444	14400	5.437	5824	10813	3.349	3587	10.095	10813
1.29	4.22	228%	0.361721779	0.93	13.427	14400	9.769	10476	8477	5.523	5923	7.904	8477
1.85	3.27	77%	0.483865916	0.92	13.260	14400	18.514	20106	4108	9.477	10292	3.783	4108
5.63	-1.96	-135%	0.67	0.94	13.480	14400	79.288	84702	-21960	34.036	36360	-20.557	-21960
0.75	0.75	0%		9.91	142.669	14400	121.237	12237		24.918	2515		
												Rwf (Billions)	Rwf (Billions)

Ratio Vat to excise + RF + VAT 1.419773 **VAT**

2007

on imports	*36.01*	Total Foreign Aid
on domestic	*49.276*	% Aid for grant
Excises	**29.5248**	
on imports	*8.9094*	
on domestic	*20.6154*	
Road Fund		**6.276**
Total indirect tax	**121.087**	

-20.557 Net tax collected\
83.715 Total foreign Aid

70

Rwf (billions) 406 Exchange rate

21% 83.715 585

85.286 Foreign aid per capita

Population

Updated to 2006

				2006	
2003	2004	2005	2006	2007	2.36
1.074	1.12	1.092	1.055	1.065	2.08
					1.83
21084					1.58
36555					1.24 (9.91)