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# Rwanda's Miracle: From Genocide and Poverty to Peace and Economic Prosperity

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FLORIDA INTERNATIONAL UNIVERSITY

Miami, Florida

RWANDA'S MIRACLE: FROM GENOCIDE AND POVERTY TO PEACE AND  
ECONOMIC PROSPERITY

A thesis submitted in partial fulfillment of

the requirements for the degree of

MASTER OF ARTS

in

INTERNATIONAL STUDIES

by

Laura H. Wicks

2014

To: Interim Dean Michael R. Heithaus  
College of Arts and Sciences

This thesis, written by Laura H. Wicks, and entitled Rwanda's Miracle: From Genocide and Poverty to Peace and Economic Prosperity, having been approved in respect to style and intellectual content, is referred to you for judgment.

We have read this thesis and recommend that it be approved.

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Jin Zeng, Major Professor

Date of Defense: April 14, 2014

The thesis of Laura H. Wicks is approved.

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Interim Dean Michael R. Heithaus  
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ABSTRACT OF THE THESIS  
RWANDA'S MIRACLE: FROM GENOCIDE AND POVERTY TO PEACE AND  
ECONOMIC PROSPERITY

by

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Florida International University, 2014

Miami, Florida

Professor Jin Zeng, Major Professor

The purpose of this thesis was to examine how liberalization and the introduction of pro-poor policies can be successful in post-conflict countries using the Rwanda coffee market as a case study. My research supports the notion that economic development, political stability and peace can be a result of liberalization when policies that are pro-poor and focus on the largest sector of the population are created. The study examines why and how Rwanda chose to liberalize their economy in the way they did by focusing on the intentions of the actors and the effects their actions have had on the coffee market and country as a whole. The findings suggest that Rwanda's coffee market liberalization has been successful and has contributed to stability and economic development in Rwanda. The conclusion indicates that pro-poor liberalization policies with the assistance from a variety of actors and institutions can lead developing countries on the path to development in ways the international community has not seen before.

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## ABBREVIATIONS AND ACRONYMS

ACDI-VOCA	Agricultural Cooperative Development International/Volunteers Overseas Cooperative Assistance
ADAR	Agribusiness Development Assistance Project in Rwanda
APRM	African Peer Review Mechanism
COMESA	Common Market for Eastern and Southern Africa
CWSs	Coffee Washing Stations
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy
FDI	Foreign Direct Investment
FFS	Farmer Field School
FW	Fully Washed (coffee)
GIS	Geographical Information System
GOR	Government of Rwanda
IMF	International Monetary Fund
IOs	International Organizations
LCDs	Least Developed Countries
NAEB	National Agricultural Export Board
NEPAD	New Partnership for Africa's Development
NGOS	Nongovernmental Organizations
PEARL	Partnerships for Enhancing Agriculture in Rwanda through Linkages
PRSP	Poverty Reduction Strategy Paper
RCMA	Rwanda Coffee Marketing Alliance

RPF Rwanda Patriotic Front

USAID United States Agency for International Development

# **CHAPTER 1**

## **INTRODUCTION**

Rwanda has been a topic of conversation since the 1994 genocide. The genocide has been captured by movies and documentaries, analyzed by researchers of all fields. It will forever be a scar in many of the minds of the citizens who lived through the conflict. However, two decades after the genocide, it is time to look at Rwanda in a new light. Since the end of the genocide, Rwanda has made great strides to rebuild the country and raise levels of economic development, remove ethnic conflict, and instill both political stability and peace throughout the country. The government, with the help of many international organizations (IOs) and non-governmental organizations (NGOs), has established a variety of policies and goals to help move Rwanda from one of the least developed countries (LDCs) into a middle-income country by 2020. One major initiative that Rwanda has taken has been to revive and liberalize the coffee industry within the country. The revival and liberalization has been an important step as the coffee industry employs over 500,000 smallholder farmers and their families, both Hutu and Tutsi, and accounts for a significant share of the country's annual export earnings. Liberalizing the coffee market has been crucial to the development of Rwanda because the policies directly target the rural poor population, which makes up 90% of the country.

The present study, therefore, undertakes an analysis of the different policies and practices that were put in place following the end of the genocide and over the past two decades. Using three different theories/models (the rational actor model, liberal peace theory, and intergroup contact theory), I analyze why the country and government chose to liberalize their markets in the way they did and how the liberalization of the coffee

market has contributed to ensuring political stability, economic development, and peace within the country. The goal of my study is to provide an example for other post-conflict countries that want to avoid increasing internal conflicts, which is often the case, when liberalizing their markets.

### The Puzzle

The study of post-conflict countries and their reconstruction has long been an area of research for many scholars. At the end of World War II the international community widely accepted the liberal notion that economies with free and open markets would be able to increase their economic development and recover their losses from war. But this is a lot easier said than done and many countries who embark on liberalization end up exacerbating tensions between different factions of the society as one group benefits more from the liberalization process than others.

The destruction of Rwanda after the civil war and 1994 genocide would lead most scholars to believe that recovery, reconstruction, and reconciliation would be difficult to establish, especially in a short amount of time. Reducing violence and ethnic hatred, the root of Rwanda's problem for decades, has proven to take considerable effort on the parts of not only the government, but also institutions within and out of the country as well as the citizens. A variety of incentives must be put into place in order for the costs of war to outweigh the benefits of remaining peaceful. Once there are more costs associated with conflict, the citizens will stray away from violent acts and try to sustain peaceful relations.

The incentives necessary in Rwanda are mainly economic in form. By raising citizens' annual income they recognize that working together for the common goal of

increased profits outweighs violence. But economic incentives have other benefits for the nation as well. Increasing a country's productivity level in all areas of the economy will lead to an increase in their economic status. Countries are able to pull themselves out of poverty when they focus economic policies in areas that target large portions of the population. However, focusing policies on these populations is a difficult task.

Incentives for the government, other than gaining the most profits for the elites, must provide them with a reason to focus policies on areas of the country that may not be, in the long run, the most lucrative to them. But in order to rebuild a country it will be necessary to ensure that the income gap between the rich and poor does not grow any larger.

How countries can truly liberalize with the end goal of reconciliation, economic development, and political stability is still up for debate. Many different countries over the past three decades have embarked on liberalization, with the majority of them having a similar result: increased conflict and an increase in the income gap. While many of the countries have raised their Gross Domestic Product (GDP) in the short term, they end up not being able to sustain their growth as a consequence of lack of innovation within their liberalization policies.

But Rwanda's transformation has proven to be different as they have been able to sustain their growth and, in the last decade, have had an average growth rate of over 7%. GDP per capita in 1994 fell to just 133.43 US dollars from \$329.44 just the year before. By 1995 total exports totaled just \$44 million and the country was continuing to rely heavily on foreign aid in order to survive (Index mundi 2011). Most of the country's infrastructure had been destroyed and the future looked bleak. 70% of the women that

were raped during the genocide and civil war had contracted HIV, resulting in a 7% prevalence rate in 1995 and also leaving many children and orphans with the disease (Friends of the Global Fight 2008, pg 1). The total fertility rate in 1995 was at 8.12 leaving Rwanda with serious population and health issues that needed to be addressed immediately. But Rwanda has since recovered at an unheard of pace, with GDP per capita increasing to \$582.56 in 2011 and total exports coming in at \$538.3 million (Index mundi 2011). HIV prevalence rate has since been reduced to just 3% (UNFPA 2010, pg 5) and the total fertility rate has dropped to 4.71 as of 2013 (CIA World Factbook 2013). How the transformation from genocide and poverty to peace and economic prosperity has happened in a country that had one of the worst humanitarian disasters in recent history is the puzzle that many scholars are trying to put together.

### Argument

Rwanda's liberalization story has been remarkable compared to the many other countries that have embarked on market liberalization. Prior to the civil war and genocide, Rwanda recognized the need to liberalize at least parts of their economy, however liberalization efforts were halted until the conflict was over and a new government was in place in 1995. In 1995, Rwanda started to open the market and remove price controls on tariffs and producers of goods. But just doing that would not be enough to allow Rwanda to recover economically.

By 1998 Rwanda started creating policies that would help bring the country into middle-income country status by 2020 with the hopes of having a knowledge-based economy. But when 90% of the population is rural poor, jumping straight into industrialization and the knowledge sector would not lead Rwanda toward the goal. So

the government chose policies that would directly benefit the rural poor, specifically the agricultural and coffee market. Creating pro-Poor policies is unusual for an African country, which Robert H. Bates notes in his 1981 study *Markets and States in Tropical Africa: The Political Basis of Agricultural Policies*. He states,

Agricultural policies in Africa are characterized by attempts to set prices in markets in a way that is harmful to the interests of most farmers. The economies of Africa are overwhelmingly rural in nature, but the government elites of Africa seek to industrialize. It is hardly surprising, therefore, that these elites should attempt to extract resources from agriculture and channel them into manufacturing and industry. All nations seeking to industrialize have done this. The African policies are thus notable not as exception but as examples of a larger class. (Bates 1981, p. 119)

Yet, Rwanda has taken a completely different strategy toward liberalization than most countries. Instead of industrializing at the cost of agriculture they tried to develop the agriculture and coffee market to benefit the rural poor. But there are other incentives involved with targeting this market and community as well. Most of Rwanda's conflicts stem from growing grievances in the rural areas and in order to keep a peaceful, politically stable country they need to address those grievances head on. With the help of IOs and NGOs, Rwanda has used market liberalization in concert with pro-Poor policies and the help of institutions to increase economic development, political stability and peace throughout the country. The outcome would not have been possible without the increased investment into the sector by the international community and government. Liberalization alone would not result in the type of success Rwanda has seen over the past two decades. The incentives behind liberalization and how the Rwandan government and institutions chose to implement policies supporting those incentives is where Rwanda's liberalization differs from that of most developing countries.

## Chapter Outline

The following chapters show why and how Rwanda has liberalized its market by focusing on pro-Poor policies and the coffee market, and why this is important for other post-conflict countries embarking on liberalization. After this section, Chapter 1 will continue with the methodology for the study and a literature review of liberal peace theory and intergroup contact theory. The literature review will also demonstrate how institutions are equally important to the success of those theories, which is an area most scholars fail to recognize.

Chapter 2 will be a brief overview of the history of Rwanda and the role the coffee market has had in the country since its introduction in 1904. The history of the coffee market is critical to the study because without the history we would not understand why Rwanda's development in the last two decades is as impressive as it is. While Chapter 2 will not detail the government transitions throughout the last century, it will show how the tensions between the two main ethnic groups have been exacerbated during that time period.

Chapter 3 will discuss Rwanda's market liberalization and the policies that were constructed to support the liberalization. Here, the focus will be on the incentives of the actors involved using the rational actor model. The government of Rwanda, President, multinational corporations (MNCs), NGOs, IOs, farmers, and cooperatives will all be discussed. Each of the policies were enacted because of the incentives of these actors and have also provided incentives for farmers, IOs, and NGOs to continue their work in the coffee market.

Chapter 4 will provide an analysis of the effects the liberalization and policies have had on the country and the coffee market. It will provide insight as to why these have been as successful as they have been as well as show how the nation's focus on the coffee market has been truly beneficial for the country as a whole. Chapter 4 will prove Rwanda's market liberalization has led to an increase in political stability, economic growth and peace throughout the country by building off of liberal peace theory and intergroup contact theory.

The final chapter, Chapter 5, will be the conclusion and will summarize the findings of the study while also discussing the limitations of the study. It will then discuss why the liberalization of Rwanda's coffee market can be a good example for other post-conflict countries in the process of liberalization. Chapter 5 will conclude with a brief discussion of what must be done in order for Rwanda to continue on its path to become a middle-income country by 2020 and if the coffee market is the only answer.

### Methodology

The present study uses qualitative methods to examine the liberalization of the Rwandan coffee market, and how it contributed to economic development, political stability, and peace. The qualitative data were gathered through books, journals, newspapers, government documents, and documents provided by the Rwanda Coffee Company. By using process tracing methods, I analyze the various documents to form a detailed and informed correlation between the liberalization of the Rwandan coffee market to economic development, political stability, and peace since 1998 as well as the causality of the success the coffee export market has had on the country.

## Literature Review

### *Liberal Peace Theory*

Why nations, and groups within nations, decide to go to war or to sustain peaceful relations has been a consistent question throughout scholarly research in International Relations. Immanuel Kant was one of the first scholars to question why these relationships form in his 1795 work *Perpetual Peace*. Kant theorized that nations that combined moral autonomy, individualism and social order, kept a pacific union, and established a cosmopolitan law that treated all individuals, both citizens and foreigners alike, with the same respect would be able to establish peaceful relations both within their country and with other nations with the same values (Doyle 1986, p. 1157-1158). Many scholars have expanded on Kant's notion and today the idea is known as the liberal peace theory. Liberal peace recognizes that democratic, or at least liberal governments, who focus on human rights, citizen participation and a free, open market are less likely to go to war with each other because ruining their ties through aggression would be more detrimental to the nation than any benefits gained through a conflict.

While liberal peace theory is typically used to explain why two different nations have peaceful relationships with each other it can also be taken down to the national level. Factions within a society often go to war with each other because they feel one group is given unfair advantages over the other. Once the environment is changed, and they can mutually benefit with the same level of political and entrepreneurial participation, the two factions will also recognize that warring with each other will be more detrimental to their society than keeping the peace.

As stated above, Immanuel Kant was one of the first theorists to analyze why nations are either warring or peaceful in their interactions with other states. But many other theorists have used his theory to explain how having an open economy, a shared ideology about human rights, and political participation and stability will typically form good relationships with one another. The reason the good relationships are formed is because the country is able to mutually benefit by forming trade ties and can better analyze the other's actions and threats. As a result of the formed relationships, the nations are also able to open up a dialogue that can reduce the chance of conflict because they can discuss their grievances in a mutually respected setting while also developing solutions with better comparative advantages than armed conflicts.

The same notion is also true at the national level. Without changes in policy at the national level to help increase productivity for increased trade, the liberal peace will not be able to be accomplished because one state would be more dependent on the other. Accordingly, Harvard Hegre states,

Classic liberals argue that an increase in free trade will diminish the frequency of war. This is supposed to happen both through processes within the individual state that moved toward free trade and laissez-faire economies, and through changes in the relations between the trading states. Thus, the argument involves both the dyadic and the nation level. (Hegre 2000, p. 6)

Other theorists then go on to explain that a side effect of increased trading and peaceful relations with other nations will be an increase in peaceful relations within the state.

These increased peaceful relations are a result of the trade liberalization policies that were put in place. When governments use a bottom-up approach, where everyone who is involved in, and benefiting from, the production of exports, the warring factions in a society will have more incentives to work together outweighing the costs of warring

against each other. Installing a bottom-up approach can then lead to political stability, as the government must instill policies that allow the warring groups to benefit from cooperating and working with each other. The same approach will also foster increased economic development for the citizens partaking in the production and the country as a whole, while also raising the level of peace within the nation.

The liberal policies within the nation will then lead international liberal states to feel confident and trust in the liberalizing country and increase their trading with them, which leads to an increase in economic development. An increase in economic development occurs because, “Trade promotes peace through communication and transnational ties that increase understanding among societies and the potential for cooperation” (McDonald 2004, p. 547). Once the cooperation is established both within the nation and internationally, liberal peace theory suggests that there are more benefits, incentives, and means for continuing cooperation than there are with increased conflict.

Another aspect of liberal peace theory that is important to my study is the idea of constitutional peace. “The constitutional peace rests upon the liberal Kantian argument that peace rests upon democracy, free trade, and a set of cosmopolitan values that stem from the notion that individuals are ends in themselves, rather than means to an end” (Richmond 2006, p. 293). Therefore, it is not just free trade alone that will allow for liberal peace to occur, the country must also portray democratic beliefs, although they may not be defined as a truly democratic entity, and create policies that give its citizens ways to create the economic stability they desire without assistance from another entity. The aspects of constitutional peace will be necessary to sustain political stability while also ensuring that economic development through free trade will increase the benefits of

both the citizens and other nations to cooperate with each other, therefore creating peace within and between nations.

Patrick McDonald focuses his emphasis of liberal peace by identifying that it is free trade, and not just trade that promotes peace. He explains,

Free trade, and not just trade, promotes peace by removing an important foundation of domestic privilege – protective barriers to trade – that enhances the domestic power of societal groups likely to support war, reduces the capacity of free-trading interests to limit aggression in foreign policy, and creates a mechanism by which the state can build supportive coalitions of war. (McDonald 2004, p. 549)

McDonald's insights are important because free trade allows all factions of society to participate in the production of the export product, if they so choose, and one group will not have unfair advantages over the other in terms of earnings. By creating an environment where all domestic groups can mutually benefit from the opportunities surrounding free trade it will be less likely that one group will resort to conflict over cooperation.

Finally, the peace through trade literature follows along with the liberal peace theory. Peace through trade is very similar to the liberal peace theory in that it hypothesizes that states who trade will be peaceful because they will lose more comparatively by going to war than continuing their relationship. Karol C. Boudreaux brings peace through trade down “to a commercial, intra-state context, whereby members of previously warring factions within a nation are brought together in a commercial environment as the result of institutional stimulation of such entrepreneurial activity” (Boudreaux 2009, p. 3). The new commercial environment, in turn, would result in an

increase in economic development due to the entrepreneurial environment that would be more costly to lose than going to war with other members within that group.

The liberal peace theory in both the international and national context can help explain how the liberalization of Rwanda's coffee market has proven to be extremely beneficial for the country's society as well as their relationships with other nations. Keeping a peaceful society with liberal values has provided Rwanda with the opportunity to gain the trust and recognition from other nations which has helped increase its exports and has increased its economic development, political stability and peace throughout the country. But portraying liberal values is only part of the story, in order for the liberal peace theory to be successful it must work in connection with intergroup contact theory to explain what environment must be constructed to reduce prejudice and promote reconciliation in order for the country to truly benefit from liberalization.

### *Intergroup Contact Theory*

Conflict between groups has been studied widely since the end of World War II (Allport 1979). But in order to study conflict between groups it is first necessary to understand how groups are formed. Henri Tajfel and John Turner are two of the leading theorists on this subject. Turner (1981) explains why individuals join social groups through his Social Identification Model. He states that,

It [the Social Identification Model] proposes that a social group can be defined as two or more individuals who share a common social identification of themselves, or, which is nearly the same thing, perceives themselves to be members of a social category. This definition stresses that members of a social group seem often to share no more than a collective perception of their own social unity and yet this seems to be sufficient for them to act as a group. (Turner 1981, p. 15)

Because the individual is forming or joining a social group purely to be part of the group, Turner goes on to explain that the individuals within the group “structure their perception of themselves and others by means of abstract social categories, that they internalize these categories as aspects of their self-concepts, and that social-cognitive processes relating to these forms of self-conception produce group behavior” (Turner 1981, p. 16). These perceptions then lead the individuals to form biases to their ingroup and stereotypes and prejudices towards outgroups. The need to maintain a positive self identity within a group can then lead to ingroups discriminating or competing “against outgroups not because there is any realistic conflict of group interests but simply to differentiate themselves and maintain a positive social identity for their members” (Turner 1981, p. 34). The discrimination is only exacerbated once a threat is perceived.

Once the intergroup discrimination is formed it is very hard to find ways that will promote reconciliation between the two social groups. Tajfel, Turner, and Mercer have all noted that reducing intergroup conflict is a very difficult task and while they have noted it is possible, it usually takes a long period of time for groups to overcome their differences. The difficulty with reconciliation is heightened even further when the prejudices are deeply rooted because of a history of conflict or repression experienced by one or both of the groups. Gordon Allport provided one of the first major theories on how to reduce intergroup conflict in the early 1950s. He developed a contact hypothesis by researching the changes in attitudes, beliefs, and perceptions between whites and blacks post World War II. Allport asserted that positive contact that provides for a solid acquaintance between two groups’ members is necessary in order to reduce prejudice noting that “solid acquaintance may depreciate a person’s standing if it brings to light realistic defects in his

nature” (Allport 1979, p. 266). Contact, therefore, provides the prejudiced with more knowledge about the outgroup which can lead to a reduction of those prejudiced feelings. Unfortunately, Allport laid out four necessary conditions in order for this contact to occur which have turned out to be a difficult environment to create. Allport’s contact hypothesis thus states,

Prejudice (unless deeply rooted in the character structure of the individual) may be reduced by equal status contact between majority and minority groups in the pursuit of common goals. The effect is greatly enhanced if this contact is sanctioned by institutional supports (i.e., by law, custom or local atmosphere), and provided it is of a sort that leads to the perception of common interests and common humanity between members of the two groups. (Allport 1979, p. 281)

Therefore, Allport is saying that in order for a reduction of prejudice to occur, the two groups must meet in an environment where each member has equal status, they share a common goal that can only be achieved through intergroup cooperation and with the support of an overarching body. Most areas that have conflicting social groups cannot guarantee that all of these conditions are met making it difficult to reconcile differences.

Thomas Pettigrew has therefore expanded Allport’s theory into the intergroup contact theory. His theory comprises all of the components that Gordon Allport laid out however Pettigrew has found that, most importantly, the environment needs to be conducive for building acquaintances and friendships between the differing group members. In a meta-analysis of Allport’s hypothesis, Pettigrew revealed that, “Allport’s optimal conditions have significantly greater prejudice reduction effects (-.29) than those without these conditions. But note that even when Allport’s conditions are not met, intergroup contact on average still diminishes prejudice (-.20)” (Pettigrew 2011, p. 275). The reason for the diminished prejudice is a result of the fact that the more contact an

individual has with an individual of a different group the more likely they will gain new knowledge about that individual which could diminish the prejudices and stereotypes once held. Therefore, introducing an environment that can lead to close bonds between the two groups is necessary for the reduction of prejudices. Accordingly, Pettigrew notes that there are “four interrelated processes [that] operate through contact and mediate attitude change: learning about the outgroup, changing behavior, generating affective ties, and ingroup reappraisal” (Pettigrew 1998, p. 70). These processes take a lot of time and willingness of each group member to have contact with the other group. The group members also have to accept that their attitudes and beliefs may conform to the new group situation and be willing to do so.

Contact between two groups helps change the way the groups perceive each other. When there are strong intergroup prejudices, especially when there is a history of conflict, it is likely that the initial contact between the groups will cause anxiety for each individual partaking in the contact. Through continued contact, the anxiety will diminish slowly as long as the contact is positive. Often, once the anxiety is diminished, the individuals from the groups will begin to empathize with the outgroup members and eventually form a bond with them. Pettigrew has found that individuals who have friends from the outgroup will be less prejudiced towards other members of that group even though they don't know them personally. Their friendships can also provide for other ingroup members to have increased levels of trust and reduced prejudices towards that particular outgroup. However, Pettigrew has also pointed out that, “situations are embedded in social institutions and societies. Thus, institutional and societal norms structure the form and effects of contact situations (Kinlock 1981, 1991)” (Pettigrew

1998, p. 78). In order for any contact to take place, a normative change that will provide for a change in attitudes between the groups must occur.

There have been many critiques regarding intergroup contact theory over the past four decades. The main critique stipulates that individuals with deep-rooted prejudice will not engage in contact with the outgroup and therefore a reduction of the prejudice cannot take place. Both Pettigrew and Allport have noted that critique and recognize that some people will never be able to reconcile their differences. That being said, both theorists have also noted that when their optimal contact environment does occur, even with those who seem defiant in changing their attitudes, some of their perceived threat and anxiety towards the outgroup will diminish. Another critique of the study is that when two conflicting groups are forced to interact with each other it is possible that their prejudices will be heightened. Pettigrew labels the heightening of prejudices with increase contact as negative contact and states that it “typically involves situations where the participants feel threatened and did not choose to have the contact (Pettigrew & Tropp, 2011). These situations frequently occur in work environments where intergroup competition exists as well as in situations involving intergroup conflict” (Pettigrew 2011, p. 277). The possibility of intergroup competition is why intergroup contact theory provides for situations where the two groups need to work together to achieve a common goal.

It has also been seen that many times during market liberalization prejudices will be heightened. The heightening of prejudices is because of the fact that the increase in resources is, often times, not distributed evenly between the ingroup and the outgroup. Most market liberalizations will benefit the wealthier of the two groups which can

increase the differences between the two groups. Liberalization of a country can also add to perceived threats between the two groups in terms of security, power, and economic standing. These perceived threats could thus heighten tensions even further and lead to greater conflict between the social groups. It is, therefore, extremely important for the authorities in charge of the liberalization process to ensure that the experience is beneficial to both the ingroup and the outgroup.

### *Critique*

Both the liberal peace theory and intergroup contact theory formulate their hypotheses on the notion that increased economic opportunities will lead to peaceful relations both within and between nations, but they fail to emphasize the need for institutions to help produce these environments. While intergroup contact does recognize the role of the authorities in creating the optimal environment for reconciliation, that can typically mean the role of the government, but other institutions may also fill that role.

The role of institutions can be truly beneficial. When embarking on liberalization, governments are often overwhelmed with the amount of policies and markets that must be targeted. Many times certain sectors of the economy are lost in the chaos. By allowing IOs, NGOs, and other institutions to contribute to and facilitate part of the liberalization process the governments will be more successful in their goals: increased profits to the nation and citizenry, economic development, and peace. Allowing other actors into the picture also provides the government with more transparency, which leads to higher levels of trust from foreign investors. The more investment into the country therefore leads to more production and profits, which in turn can lead to reconciliation and peace. Liberal peace theory recognizes that an increase in trade, and therefore

profits, will lead to an increase in peace and intergroup contact theory realizes that an unbiased environment that provides for people to cooperate together towards a common goal will also lead to an increase in peace, but both fail to recognize that this is not possible without help from other institutions. In order to expand these theories it will be shown that market liberalization alone cannot support these theories but rather market liberalization with the assistance of institutions is necessary in order for the greatest results.

The following chapter will provide a brief overview of the history of Rwanda and the coffee market. It will show how Rwanda experienced one of the worst ethnic genocides in recent history and how the role of the coffee market contributed to it. The history of the country lays the foundation for the rest of the study, because without an understanding of what the environment and conditions were prior to liberalization we would not be able to demonstrate why the market liberalization and reforms have been extraordinary compared to other countries in similar situations.

## **CHAPTER 2**

### **RWANDA'S PAST**

#### Introduction

Rwanda's past has been distorted by the recent history of the civil war and genocide, but it is important to understand what happened in the country prior to 1991. The country experienced many different changes throughout the 20<sup>th</sup> century that have increased tensions between the two main ethnic groups, the Hutus and Tutsis. There have been many conflicts and changes within the government that have created an environment consisting of severe ethnic tensions and conflict. Chapter 2 will start with an overview of Rwanda's political history and then be followed with an overview of the history of the coffee market. The chapter is meant to lay the foundation for the rest of the study, explaining why liberalization, and a focus on the coffee market, has been critical for Rwanda to establish a peaceful, political stable nation with a continued increase in economic development.

#### Political History of Rwanda

Rwanda has not always been a nation defined by ethnic conflict. Prior to colonization, Hutus, Tutsis, and Twas lived in harmony. The three ethnic groups have a long, shared, cultural history, sharing the same language, intermarrying, and working and living together. By the 19<sup>th</sup> century until colonization the minority Tutsi elite, who only comprised 10% of the total population, were in control of the government however there were little to no ethnic divisions. But that all changed when colonization occurred.

In 1890, the Germans colonized Rwanda and incorporated it into German East Africa but after World War I the League of Nations required Germany to transfer control

of Rwanda (and Burundi, formerly known as Ruanda-Urundi) to the Belgians. The transfer of power is when ethnic hostility was institutionalized within the country.

“Under Belgian rule, the government issued citizens identity cards that specified their ethnicity as Hutu, Tutsi, or Twa. These distinctions enabled Belgian administrators to fill civil service jobs and school positions with Tutsis, leaving Hutus with little education and political power” (Boudreaux 2007, p. 3). The Belgian elite had decided that Tutsis were the superior ethnic group and treated them that way. Therefore, the Belgian elite’s actions slowly led to a growing ethnic hatred between the Hutus and Tutsis<sup>1</sup>.

When the Belgian colonial government recognized the increasing tensions in the 1950s they tried to introduce reforms that would provide the Hutus with better access to education, civil service jobs, and political power. These actions, however, has been speculated to have been done in order to regain political support for the colonial government. Unfortunately, the now, Tutsi elite were not in favor of these reforms and ended up calling for independence from Belgian rule. Meanwhile, the Hutus were also calling for more political power. That calling resulted in the first of many ethnic conflicts between the Hutus and Tutsis in 1959 where over 100,000 Tutsis were displaced and thousands were killed. The first conflict did not end until the summer of 1962 when Rwanda gained independence from the Belgian government and a Hutu president, from the South, was instituted. The Hutus ended up holding power until 1994 however the country was plagued with ethnic conflict with major atrocities occurring in 1963, the early 1970s, and culminating with the civil war and genocide.

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<sup>1</sup> The Twa ethnic group composes less than 1% of the total population of Rwanda and did not feel the same discrimination as the Hutus.

Rwanda is most known for its genocide of the Tutsi ethnic group that took place in 1994. From a period of April to June up to a million people were killed, mostly ethnic Tutsis and about 30,000 moderate Hutus. The genocide was the culmination of the four-year long civil war which had originally started as a Tutsi attempt to overthrow the ruling Hutu government. When the Rwandan Hutu president's plane was shot down after signing a peace accord in April 1994, the "Hutu hard-liners quickly seized power and mobilized the state's civilians and military machinery as well as the Hutu civilian population in a bid to eliminate the Tutsi minority, win the civil war, and maintain Hutu control of the state" (McDoom 2012, p. 132-3). While there was no reason for the Hutu elite to call for a mass genocide, they had perceived a threat to their power from the Tutsi minority. The perceived threat caused mass anxiety among the Hutu ingroup towards the Tutsi outgroup and they believed the only way to control the threat was to exterminate it.

Obviously, the result of the genocide was that ethnic tensions between the Hutu ingroup and Tutsi outgroup were at their highest. While McDoom (2012) notes that group polarization between the Hutus and Tutsis was responsible for the genocide and that fear was a driver of this polarization. The genocide ended when the Tutsis were able to defeat the Hutus without the help of the international community. The country was left in ruins with very little economic revenue and a lack of incentive for the two social groups to work together to rebuild. It was not until the government and international community stepped in to help promote the development of the country that rebuilding occurred.

The first government established after the genocide was also Hutu led but, when elections were held in 2003, President Paul Kagame of the Tutsi led Rwanda Patriotic

Front (RPF) won with 95% of the votes. He has since been reelected as president in 2010. One major difference about the government today is that every political party (that is not defined by ethnic lines) is represented within the parliament, whereas prior to 2003, the political party in control had a monopoly over all aspects of the government. The result of this has been that each party now has a voice within the government and can contribute to the policies and practices that are being put into place while also ensuring that some form of governance is occurring. Today, the RPF, with the help of many NGOs and IOs, has been working toward reducing ethnic tensions, by making discrimination illegal in the new constitution, and rebuilding and developing the country in order to improve the lives of all its citizens as well as lifting the country out of the least developed country (LDC) status.

Unfortunately, in recent years international observers and watch groups are noticing that Kagame and the RPF are exhibiting increasingly authoritarian tendencies within the government. While Rwanda's government is indeed showing very liberal tendencies, it is still not truly democratic. The government still has a hold over the military and police force in the country, along with other public entities, which can be portrayed as authoritarian. President Kagame and the RPF are also being accused of restricting freedom of expression and committing crimes against humanity outside of Rwanda's borders. However, because Rwanda has had two successful democratic elections, is ensuring that discrimination is outlawed, and has focused on pro-poor policies, it can be assumed that the government can still transition into a democratic entity. Another important insight regarding this is that when countries have a big middle class, who have a large political voice, it is likely that they will start to demand that the

government turns completely democratic and with the track Rwanda is on due to the liberalization of the coffee market, citizens will and have expressed their interests as their incomes grow.

### Rwanda's Coffee History

Coffee has a long history in Rwanda with its introduction from missionaries in 1904 and its first exportation in 1917. After World War I, the newly installed Belgian government recognized that coffee production in Rwanda could be very beneficial financially for the country and started introducing laws that forced Rwandans to grow compulsory crops which included coffee for export. Starting in the 1930s the government started requiring “farmers to plant at least one fourth of their land with coffee trees. The Belgians imposed individual taxes on the local people and export taxes on coffee sales” (Boudreaux 2007, p. 4). These taxes were collected and used to support the government, which ultimately led to decades of increased control over the industry.

The control over coffee exports continued after Rwanda gained its independence and became even stricter. The first installed government enacted a law that forbade farmers to interplant other crops with their coffee. They also set up Rwandex, a government agency that purchased all of the coffee grown in Rwanda and had control of a separate export company to sell it on the market. The government was therefore paying the farmers much less for the coffee they produced than they were receiving on the world market.

But the control over the market was not a problem at first. Coffee was commanding a high price on the world market and it continued to go up until the late

1980s. The high price allowed the government to pay the farmers enough to keep them happy while reaping the benefits from the taxes and price it was receiving on the market. “By the 1970s, coffee exports generated between 60 and 80 percent of the country’s export revenue, and the law required smallholder producers to cultivate coffee” (Boudreaux 2007, p. 5). Then by the early 1980s the government increased its control over the industry by creating OCIR-Café, a state-run coffee agency. The Hutu president at the time, President Habyarimana, elected relatives and friends to run OCIR-Café which resulted in having a complete monopsony over the country’s most lucrative industry.

However, the benefits all came to a screeching halt in the late 1980s when the international coffee market was liberalized. Coffee prices started falling drastically on the international market and the government was losing a significant amount of its revenue. There was then a domino effect as the government started paying farmers much less for their coffee production. The lack of revenue the farmers were receiving caused the farmers to start supporting a change in the laws and policies because they wanted to start producing other cash crops that would be more lucrative. However the government refused to make any changes to the current laws at the time because they would lose more of their own profits. The increasing loss of profits led to farmers becoming increasingly unhappy with the situation and the government started losing their support. Farmers started uprooting their coffee crops and by the early 1990s the government could no longer support itself.

According to Karol C. Boudreaux,

The Hutu governments of Kayibanda and Habyarimana deeply politicized the coffee sector. This politicization empowered some elites and enabled some to use a portion of the coffee revenue to perpetrate violence. The consequence of

extensive government involvement in this key sector were not simply economic. They were deeply political and, ultimately, catastrophic for many. (Boudreaux 2007, p. 7).

The Rwandan government had to rely on foreign aid and did not allow coffee producers to contract with other buyers. They were still unable to interplant crops and a threat of famine occurred. By 1992 the country had entered into a horrific civil war that resulted with the genocide. Much of the killings occurred in the rural areas and many Tutsi and moderate Hutu farmers were targeted by their neighbors. The result was that coffee production was completely halted and many of the trees were destroyed.

After the genocide the newly installed government started to liberalize the coffee market and in 2002 introduced a coffee strategy for the country. The coffee strategy was created with the help of many IOs and NGOs but most notably the United States Agency for International Development (USAID). Prior to the genocide, the coffee being produced was low grade and low quality. The farmers did not have the means or the incentives to produce high quality, specialty coffee even though Rwanda is home to a close to perfect environment for just that. The Rwandan government and USAID started helping the smallholder farmers learn the right skills and provided the right resources to start producing high quality coffee, which can command a very high price on the international market. Plus, today, specialty coffee falls second, only to oil, in international exports. Renewing the coffee industry was, and still is, seen as a way to help Rwanda rebuild after the country was destroyed by the civil war and genocide.

### Conclusion

The policies and strategies that have been put in place in Rwanda have helped raise the incomes of many and renew a sense of community in areas that were plagued by

ethnic hatred. They have also helped increase the nation's level of economic development while also helping keep it politically stable. The history of Rwanda shows that many changes had to be made throughout their economic and social policies in order to reduce the likelihood of another major conflict occurring.

An analysis of the effects of the liberalization, the policies and strategies enacted, and the impacts it has had on helping the country maintain political stability, peace, and economic development will follow in the next chapters.

## **CHAPTER 3**

### **THE JOURNEY**

#### Introduction

Understanding why economic and social policies are enacted in a country has long been an area of study for scholars throughout the social sciences. It is often a mystery why some actors, whether they are a nation, government, ethnic group, or individual, choose to go a certain route. Many scholars have the belief that the actor making the decision is a rational human being who will base their decisions on the perceived consequences they have about that decision and alternative decisions and will likely choose the option with the least amount of costs to them (Eriksson 2011).

Choosing the option with the least amount of costs to them is deemed as a rational choice.

The country of Rwanda is an example of how the actors in policy and decision-making have greatly considered the consequences to their actions. More often than not, post-conflict and developing states that are embarking on liberalization will choose policies that will target the middle and upper class sectors, where the decision-makers reside, and typically ignore the poor. The belief here is that by raising the income and productivity of the most lucrative sectors, the rest of the country will be able to reap the benefits. Unfortunately, however, this belief typically leads to an increased polarization between the rich and poor and can lead to further conflicts within the country. Rwanda has recognized these consequences, and in doing so, has decided to liberalize its economy with an emphasis on the rural agricultural workers. The way they have liberalized has

helped them maintain political stability and peace in the country while also raising the income levels in the poorest, yet densest, portion of the country.

The following chapter will analyze Rwanda's liberalization along with the incentives each actor had and what policies they used in order to target the rural poor coffee farmers. In order to achieve the analysis, the various policies and strategies that the government of Rwanda (GOR) and various international organizations (IOs) and non-governmental organizations (NGOs) have enacted will be examined. The examination will give the reader knowledge of the various goals these actors have set out for themselves and will help explain why the decisions they have made are indeed rational and in the best interest for them as well as the rest of the nation.

### Rwanda's Liberalization

Rwanda started to liberalize its economy in 1995 by reducing tariffs, reforming the tax system and introducing a value-added tax, removing the price control on trade, decentralizing the central bank, and privatizing state enterprises. Much of this was due to the state of the economy after the genocide. Prior to the genocide Rwanda relied heavily on the agricultural market, specifically the coffee industry. But as a result of the civil war and genocide, "agricultural exports declined 73% in 1994 in Rwanda...while coffee exports plunged by 94%" (Ndikumana 2001, p. 3). The country was, therefore, in ruins and needed to increase their export production quickly and in a sustainable way.

In order to quickly speed up their export production, Rwanda undertook substantial reforms. Prior to liberalization tariff rates were as high as 34.8% and Rwanda had 5 tariff bands that ranged from 0-60% (World Bank 2007, p. 6). Once the country started liberalizing, by 2011 the tariff rates were down to 10.19% with the lowest rate

occurring in 2003 at 8.97% (Index mundi 2011). The number of tariff bands were also reduced to 4 by 2003 and ranged from 0-30%. In concurrence with the liberalization of the tariffs, Rwanda has introduced a flexible exchange rate, all of which have increased investment into the country.

Through liberalization, Rwanda has also privatized many of its state-owned enterprises, most notably the coffee export agency, Rwandex, and the central bank. The government has also created private commercial banks and liberalized their account operations on imports, exports, and services. The privatization led to the removal of certain restrictions on capital flows, which “included the transfer of capital and revenues related to foreign direct investment (FDI), and free withdrawal from foreign exchange accounts in commercial banks” (World Bank 2007, p. 8). The country has introduced a value-added tax that stood at 18% in 2002 and also made income tax reforms in 2003, which have improved their revenue.

All of these reforms were made in order for Rwanda to increase their economic capacity and stabilize their economy. The initial reforms resulted in an economic boom, which was not surprising as the country had halted almost all of their economic output in 1994, but the government and international community recognized that they needed other policies to help sustain their economic growth. However, the policies and strategies that have been enacted are unusual for most liberalizing countries as they don't target the elite but rather the rural poor agricultural workers. Since the beginning of its liberalization in 1995, the Rwandan government has removed tariffs and protectionist policies, promoted citizens' participation in civil and political life, outlawed discrimination, created opportunities for increased employment and income for the poorest citizens, and created

environments where individual cooperation with all groups throughout the society is mutually beneficial. While it has taken time for all of these different measures to take hold, the outcome of these changes in policies has been nothing but remarkable. The following section will discuss the policies and show that they were created on the basis of many rational decisions by each of the actors involved with the goal of continuing economic development while also promoting peace and political stability.

### Pro-Poor Policies and Incentives

Once the main components of liberalization were put in place, the first of major reforms and strategies followed in 1998 with the first National Coffee Strategy, which was then reformulated in 2002 following the country's Vision 2020 strategy and the Poverty Reduction Strategy Paper (PRSP). While Vision 2020 and PRSP do not target coffee specifically, they both have a significant focus on the agricultural sector in the nation. It is of no surprise that following the civil war and genocide the newly installed government aimed its focus on rebuilding the country through economic development initiatives that would ultimately lead to political stability and peace throughout the country. These pro-Poor strategies all aim to attain these goals, however by focusing on the agricultural community and specifically the coffee market the government of Rwanda (GOR) has been able to achieve these goals at a remarkable pace.

Vision 2020 was developed by the GOR and adopted in 2000. It was developed with the Millennium Development Goals (MDGs) in mind and its overarching goal is to bring Rwanda into a middle-income country by the year 2020. Bringing Rwanda into a middle-income country means that the average per capita income per year would be \$900 compared to \$290 at the time of its conception. In order for Rwanda to achieve middle-

income country status, a series of policies that provide multiple incentives for the economic actors throughout the country had to be installed. Vision 2020 recognizes that in order to achieve their goal of becoming a middle-income country they must move the country away from a subsistence agricultural economy into a knowledge-based economy with a focus on information and communications technology (ICT). However, the GOR also realized that the majority of the population was involved in the subsistence agricultural economy and would need to create policies and initiatives that would target that sector before they could focus solely on the knowledge-based economy. Therefore, Vision 2020 notes, “To vanquish hunger and poverty, growth must be Pro-Poor, giving all Rwandan’s the chance to gain from the new economic opportunities. Vision 2020 aspires for Rwanda to become a modern, strong and united nation, proud of its fundamental values, politically stable and without discrimination amongst its citizens” (Republic of Rwanda 2000).

The Vision focused on six different pillars, which include:

1. Reconstruction of that nation and its social capital anchored on good governance underpinned by a capable state;
2. Transformation of agriculture into a productive, high value, market oriented sector, with forward linkages to other sectors;
3. Development of an efficient private sector spearheaded by competitiveness and entrepreneurship;
4. Comprehensive human resources development, encompassing education, health, and ICT skills aimed at public sector, private sector and civil society. To be integrated with demographic, health and gender issues;
5. Infrastructural development, entailing improved transport links, energy and water supplies and ICT networks;
6. Promotion of regional economic integration and cooperation. (Republic of Rwanda 2000)

All of these pillars are affected by the liberalization of the coffee market because in order to build that into a competitive, sustained market, the country along with IOs have

provided multiple ways for the producers to gain more knowledge, work with others, and transfer that knowledge to other sectors of the economy. Many managers and farmers have been trained in a variety of skills because of the liberalization leading to an increase in knowledge transfer. The coffee market liberalization has also allowed all the actors involved to raise their incomes and provide other opportunities and jobs for others within their community.

By targeting agriculture, Vision 2020 notes that,

Agriculture will have to be developed to permit spin-off effects, beginning with the development of agro-businesses that can then provide spill-overs into other sectors of the economy. Furthermore, it can be very much expected that the above priority policy areas will not only be supportive to agriculture, but will also benefit the whole of the rural economy. (Republic of Rwanda 2000, p. 18)

By designing a Vision that will focus on a sector that will not greatly benefit the government, it can only be seen as a rational action being taken. President Kagame and the RPF realized that in order for them to attain all of their goals, their individual preferences needed to be set aside for the time being because those can only be realized if the whole country is economically stable.

Following the inception of Vision 2020 was the PRSP, which later turned into the Economic Development and Poverty Reduction Strategy (EDPRS) 1 and 2. The PRSP was first outlined by the GOR with help from the World Bank and International Monetary Fund (IMF) in 2000 and then accepted in 2002 as a viable strategy. It originally was built on the idea that the country needed to “transition from emergency relief to rehabilitation and reconstruction. Six broad areas were identified as priorities for action: rural development and agricultural transformation; human development; economic infrastructure; governance; private sector development; and institutional

capacity-building” (Republic of Rwanda 2013, p. 2). Once again, the development of the PRSP is a prime example of the GOR’s decision to focus on pro-Poor policies, because while reducing aid and redeveloping a sustained economy is an outcome that they wanted, it was necessary to focus on the areas that didn’t bring full profit-maximization to them.

The EDPRS 1 followed the PRSP and set goals for another four years (2008-2012). In the EDPRS 1 the focus was to “(a) accelerate growth and diversification by giving a bigger role to the private sector, and (b) further decentralize governmental functions to take developmental decision-making closer to the people, accompanied by strengthened accountability mechanisms” (Republic of Rwanda 2013, p. 3). The EDPRS has then been reformatted with the creation of the EDPRS 2, targeting 2013-2018, which evolved from the first two strategies. Now the areas of priority are focused on four thematic areas, which include, economic transformation for rapid growth; rural development; productivity and youth employment creation; and accountable governance. The focus has now moved away from rebuilding to becoming an economically stable country that targets FDI. EDPRS 2 highlights three different opportunity areas in which the country’s efforts need to be involved. These include, existing export-oriented sectors (tea, coffee, mining, horticulture, etc.); emerging opportunities (logistic services, ICT-related services, private equity fund base for regional investments, etc.); and, future areas of opportunity (‘green economy’ initiatives and exploring the potential of greenfield investments in new sectors). Once again, the GOR has recognized that targeting the coffee sector (among others) is very beneficial for the country. The EDPRS 2 explains,

To increase productivity in the coffee sector, capacity building and research will be intensified. The biggest constraint in the coffee sector is low productivity, largely caused by sub-optimal agronomic practices and diseases/pests. The National Agricultural Export Board (NAEB) is already in the process of extending training to 10,000 coffee farmers per year using the Farmer Field School approach (FFS). Replicating capacity building models that have worked can lead to transformational change in the coffee sector. Capacity building will also be targeted at coffee washing stations, extending the 2010 Turnaround Programme and building its initial successes to support cooperatives. (Republic of Rwanda 2013, p. 27)

By focusing attention and providing resources to this sector, the GOR, along with the NAEB have come to the rational conclusion that this sector is key for its continued transformation to a middle-income country. And because of the continuous attention to these strategies, the EDPRS 2 estimates, based on current trends, that the country will reach its goal and have an estimated GDP per capita of \$1,306 by 2020, therefore, realizing (and surpassing) the overarching goals the GOR set out for itself in Vision 2020 and with the first PRSP.

While Vision 2020, the PRSP and EDPRS 1 and 2 do not have full focus on the liberalization of the coffee market they do lay out the government's motivations for the actions they have taken within that sector. By providing pro-Poor policies, they have been able to reduce the level of poverty within the rural region while also increasing the level of trust between them and the population. These actions by the government have led to an increase in political stability as well as resulted in a more peaceful nation as the citizens now have incentives to work together and become sustained economic actors, which has led to an increase in overall life satisfaction (Boudreaux 2009). The Rwanda National Coffee Strategy, first implemented in 2002 but also reformulated every four years, targets the market liberalization and provides the incentives that show how the

GOR has acted rationally with certain incentives in mind throughout the liberalization process.

The Rwanda National Coffee Strategy was implemented because, as mentioned in the second chapter, prior to the civil war, coffee made up the majority of the revenue for Rwanda. Unfortunately, following the war the coffee market was almost non-existent as many of the crops were destroyed due to the fighting and the international market price plummeted. However, specialty high-grade coffee started to become a key commodity export and Rwanda realized that by targeting this market they could, once again, increase their overall export revenues in this sector. The Rwanda National Coffee Strategy was developed with this assumption and originally “targeted investments of \$70 million in order to raise projected total receipts of above \$600 million by 2010” (Republic of Rwanda 2008, p. 4). Because of the original strategy, “coffee has again become one of the country’s foremost exports, with receipts growing at an average of 30% per year during the period of 2002 to 2006” (Republic of Rwanda 2008, p. 4). The original strategy set out goals to invest and build coffee washing stations (CWSs) throughout the country, provide managerial and technical support to cooperatives, create a market and recognizable brand, and engage in long-term relationships with foreign investors. The strategy has resulted in many multinational companies investing in the product, some of which include, Starbucks, Costco, Green Mountain, and Marks & Spencer.

The latest Rwanda National Coffee Strategy targets the years 2009-2013 and provides a new vision for the sector. The main goal is to increase the quantity and quality of the coffee being produced in Rwanda by targeting “production of 33,000 tons of coffee by 2012, with 19,000 tons of this fully washed. This should generate exports of \$115

million by 2012” (Republic of Rwanda 2008, p. 6). In order for the goal to be realized, the strategy has laid out five priority programs, which include:

- Improving the use of good farming practices and integrated pest management systems through focused agronomist support;
- Providing a voluntary turnaround support program for Coffee Washing Stations that have the potential to become profitable;
- Improving sales and distribution mechanisms through capacity building of private exporters;
- Implementing a census and GIS [geographical information system] study of all coffee producing regions; and,
- Implementing value addition activities including Toll Roasting in China, Toll Roasting in Middle East, and a partnership with M&S [Mark & Spencer]. (Republic of Rwanda 2008, p. 4)

The five priority programs are then supported by a variety of actions that fall under “production, processing, sales and marketing, research and development and infrastructure” (Republic of Rwanda 2008, p. 6).

Focusing the strategy and liberalization on specialty coffee has allowed Rwanda to combat the volatile international market. Ordinary grade, semi-washed coffee, follows a standard price, known as the C-price on the international market. The C-price fluctuates greatly based on the amount of coffee available so, while semi-washed coffee is still profitable, it does not bring in as much as fully washed specialty coffee. Specialty coffee prices do not fluctuate as violently as the C-price and can often attain more than \$1 over the C-price per kilogram sold. By the end of the first strategy,

In 2006, prices gained by CWS for their coffee translated to a premium of 45 cents per lb over the C-Price, placing Rwanda firmly in the fine coffee and specialty price range. Almost 16% of export receipts were from specialty coffee (US\$8.5 million from US\$0 in 2002) even though it was less than 7% of total production. The prices gained by these stations for their coffee averaged \$3.60/kg in 2007, translating to a premium of almost \$1 per kg over the C-price. (Republic of Rwanda 2008, p. 18)

The increase in coffee production has led to a substantial increase in export revenues for all parties involved in the coffee market, including the GOR, thus providing strong incentives for each party and actor to continue working towards producing high-grade specialty coffee.

Other than national strategies and visions, other initiatives have been put in place by IOs. These organizations, specifically USAID, have also recognized that Rwanda needed to get out of its aid dependency and become an economically viable nation. The United States Agency for International Development, with the help of various universities in the United States, conducted many studies in order to target the sector they believed would have the best returns on investment. Their findings, also, led to the specialty coffee market and the creation of three programs to support it through technical assistance, financial support, and training. The newly created programs included the Partnership for Enhancing Agriculture in Rwanda through Linkages (PEARL), the Agricultural Cooperative Development International/Volunteers Overseas Cooperative Assistance (ACDI-VOCA), and the Agribusiness Development Assistance Project in Rwanda (ADAR).

PEARL helps organize rural cooperatives and helps cooperative members improve the quality of their product. ACDI-VOCA also works with cooperatives, helping them develop business plans, obtain credit where needed, navigate Fair Trade certification processes, and develop new and expanded market connections. ADAR works with private sector investors who are interested in building washing stations, and it assists them in carrying out feasibility studies, creating business plans, developing supervisory services, and training coffee processing. (Boudreaux 2007, p. 13-14)

These three programs have helped farmers increase their overall revenues and created an additional 4,000 jobs in the first five years of implementation. The results were mainly

because of the increase in coffee washing stations throughout the country and the new ability cooperative members have to market and brand their product. All of this would not have been possible without the GOR acting as a rational actor and realizing that targeting this industry and accepting the help from other organizations would provide the most value-maximizing benefits to everyone involved.

### GOR and President Kagame's Incentives

Many analysts have focused a lot on the actions taken by President Paul Kagame and the RPF when trying to understand why he focused his policies on the agricultural sector and the coffee market liberalization more specifically. Focusing on policies that are pro-Poor is not typical for most post-conflict governments. However, with a constant threat to the political stability of the country, Kagame and the RPF realized that increasing the incomes of the poor and reducing the economic gap would be the most beneficial to sustain their leadership. Vision 2020 and the PRSP and EDPRS 1 and 2 all called for measures of good governance. The good governance measures have been truly beneficial for the coffee sector. Prior to the liberalization and development of these strategies Rwanda's foreign investment climate was not ideal. There was not a lot of accountability, which limited foreign investment. However,

According to the World Bank's Doing Business Report for 2012, Rwanda progressed from 58<sup>th</sup> to 45<sup>th</sup> position in the ease of doing business rankings worldwide. This performance makes Rwanda the second most reformed economy in the world over the last five years and the third easiest for doing business in Africa, as well as being the first in the East African Community (EAC). (Republic of Rwanda 2013, p. 5)

Because of their increased governance and accountability measures, Kagame and the RPF have been able to create business relationships that are now crucial to the amount of

foreign direct investment in the country. The enacted policies and strategies have also allowed Rwanda to join and participate in the East African Community (EAC), the Common Market for Eastern and Southern Africa (COMESA), and the New Partnership for Africa's Development (NEPAD) including its African Peer Review Mechanism (APRM). "In June 2005 Rwanda, along with Ghana, was one of the first states to submit an APRM report, which demonstrates its willingness to produce a self-critical and consultative evaluation about conditions in the country" (Kigabo 2010, p. 94). By making the decision to partake in the APRM, Rwanda has portrayed itself as a country in which its business relationships with the international community are crucially important and are making decisions in order to ensure that investors will feel comfortable investing in the country.

President Kagame has also shown continued support for the work of the coffee cooperatives. According to a report assessing USAID and PEARL's performance, which focused greatly on the building and managing of CWSs and cooperatives, "President Kagame was an early and vocal supporter of USAID's work in the coffee sector, promoting development of a quality coffee industry by inaugurating recently constructed CWS, visiting USAID-funded projects, and encouraging farmers and investors to improve product quality" (Chemonics International Inc. 2006 p. 25). Kagame's support is not surprising given the increased export revenues coming to the country from the coffee sector, especially the specialty coffee sector. However, the government has done more than this to support the role of cooperatives. In the Rwanda National Coffee Strategy 2008-2013 it is noted that part of the strategy is to improve "sales and distribution mechanisms and coordination through building the capacity of private

exporters” (Republic of Rwanda 2008, p. 52). In order to achieve this, according to the strategy,

The government has proposed the establishment of a Rwanda Coffee Marketing Alliance (RCMA) to bring together cooperatives and companies involved in the exportation and marketing of Rwandan coffee. The aim of this Alliance is to provide effective sales support for cooperatives to ensure the respect of buyers’ requirements; to effectively price coffees at a profit; to build visibility of the Rwandan coffee; to provide access to professional cupping services; to directly support sales transactions and explore new market ventures. The RCMA should also be able to provide guarantees to banks that there is some coffee to be exported through “warehouse receipts” that will show that such CWS has a certain amount of FW [fully washed] coffee ready to be exported. (Republic of Rwanda 2008, p. 52-53)

As a result of these strategies, the GOR has been able to not only raise its citizen’s participation throughout the market but also increase its international coffee trade and revenues both at the national and domestic level. The policies have led to an increase in the government’s transparency both at the national and international level, which has allowed the citizens to trust that they will receive the revenues from their production. Other nations also trust that Rwanda is operating a liberal, free market that encourages citizen participation economically and politically. All of this has led to an increase in economic development, a key motivation for the GOR’s policies, as well as an increase in peaceful economic relations within the nation and abroad.

However there are other factors that need to be looked at in order to determine the motivations of the GOR and President Kagame. First, the identity of the government is crucially important to understand why these policies have been enacted. It should be noted that, “Women representation in decision making positions makes Rwanda the world leader in the proportion of women in Parliament (56.3%)” (Republic of Rwanda 2013, p. 6). Women’s representation within the government has had a strong affect on

the policies, because Rwanda has put a lot of focus on increasing gender rights and women in decision-making positions. Doing this is necessary for the agricultural sector because, due to the genocide around “38% of households are headed by a single woman” (Booth 2012, p. 5). The GOR has changed their land law so that land is now private property, owned by families, not just the male head of household, allowing women to keep and use their land in the way that they want. Many women have been trained through the different coffee initiatives and are able to be highly productive participants within their communities. Karol C. Boudreaux and Puja Ahluwalia have discussed how women’s participation in coffee cooperatives has been truly beneficial. When discussing this, they state,

Evidence suggests that opportunities present in the liberalized coffee sector are benefiting women. Women are enjoying greater economic empowerment and a political voice. Eighty-six percent reported that participation of women in decision-making had improved since joining the cooperative or, alternatively, in the past five years in the community. Seventy-one percent believed that women could participate in decision-making as much as men. (Boudreaux 2009, p. 192)

Therefore, because the GOR has stressed gender rights, decentralization, and wanting a more active citizen political participation, focusing on this sector is crucially important to reach those goals. And, because of the fact that there is such a high representation of women within the parliament, it would be expected that those decision-makers would want to make the decision that best contributes to the continuation of working towards those goals. By attaining greater economic empowerment and providing a political voice for those women headed households, women within the coffee farming communities are given the incentives to make the rational decision to participate within the specialty coffee market.

Political stability is also a crucial factor within the strategies put in place. Here it can be argued that President Kagame and the RPF are acting as self-interested actors. President Kagame has received many benefits by liberalizing the market in the way that he has. He has focused a lot on his personal relationships with international investors, making it difficult for others to maintain these types of business and personal relationships. One example of this, noted by researcher Andrew Friedman, is Kagame's personal relationship with Costco's CEO. The personal relationship with Costco's CEO has provided Kagame with many benefits never seen by a President of Rwanda in the past. When Kagame came to the United States to visit, the CEO of Costco held a gala reception and introduced him to other foreign buyers. But this relationship has only been developed because of the liberalization of the coffee market. The first time the CEO of Costco visited Rwanda and President Kagame he came to analyze the coffee market. The new relationship has led to Costco being the main purchaser of Rwanda's specialty coffee, buying 25% of all sold coffee within the country. The connection also led to a business relationship with Starbucks, which is now the second largest purchaser of Rwandan coffee (Friedman 2011, p. 266). The business relationship has burgeoned into even more benefits for the country when Starbucks opened their first East Africa Farmer Support Center in the capital, Kigali, in 2009. So, while President Kagame may be making some self-interested decisions, they have all been very strategic and rational in that they are crucial to the increased investment and development within the specialty coffee market while also ensuring that he and his government maintain their control of the country. Losing those relationships would be detrimental to the continued development of Rwanda.

### Farmer's Incentives

Through the liberalization process of the coffee market, the GOR has provided incentives for farmers to participate within the market. Prior to the liberalization, the controls the government had over the market made participation within the market very difficult, that is, there were more costs than benefits to the farmers. Today, that has changed, farmers who work with cooperatives are more economically stable, are able to provide better health care and education to their families, are able to learn and pass on their knowledge to others, and are working with other farmers in their community, ensuring that the community as a whole is more productive. Most theorists believe that all people want to increase their economic capacity if given the opportunity, and due to this, and the increased benefits, the farmers are making a rational decision to increase their cultivation of coffee and join cooperatives.

### Conclusion

All of the actors that have contributed to the liberalization of the coffee market have made rational decisions based off a variety of incentives that have proven extremely beneficial to every aspect of the society. The increased revenues have led to an increase in rural infrastructures, education, and knowledge throughout the country. The farmers are able to better provide for their families as well as participate in local political decisions. Women have been given a larger voice throughout the population and, by working together, Hutus and Tutsis have been able to work toward reconciliation.

The liberalization has also led to increased confidence in the government, as now each ethnic group believes that the government is focusing its efforts on projects that do not allow for discrimination. Confidence in the government has allowed outside actors to

start and continue investing in the coffee market with a spill over into other markets. The policies enacted have been beneficial to all involved as there are more opportunities for a greater level of exports due to their participation in COMESA and the EAC.

By acting rationally and focusing on pro-Poor policies the GOR has reduced the chance of increased conflict because the economic gap between the rich and poor is not growing as it usually does in post-conflict, liberalizing, developing countries. The policies have provided incentives for the farmers, investors, and GOR to realize that participating in, and focusing on, the specialty coffee market is the most rational decision as it has the greatest value-maximizing potential for the country as a whole and the communities in which need it most. The specialty coffee from Rwanda is now highly sought after and coffee investors now have the confidence that the product they are receiving is worth the higher costs and investment into the country. USAID acted rationally by investing in the market as well, after conducting a variety of studies concluding that targeting this market would be the most beneficial use of their investment as well as for the country.

However, much more needs to be done. While Rwanda is on track to meeting many of its Vision 2020 goals, it is still falling behind on the level of production of specialty coffee. The GOR needs to continue its investment into the market and continue developing business relationships throughout the world. According to the NAEB, at the end of 2012 Rwanda's coffee production provided the country with a total revenue of 60.8 million US dollars which was only 69.98% of the goal. However, 42.18% of the revenue came from specialty, fully washed coffee even though it accounted for only 34.56% of the coffee produced for the year (Republic of Rwanda 2012). Liberalizing the

coffee market and continuing its focus on its success will provide the GOR and Rwandan citizens with greater opportunities to advance their economic standing. While the motivations of each actor can be analyzed in different ways, whatever they may be, the actors are all making rational decisions in line with their goals and incentives when they decide to participate in this sector, as it has led to an increase in political stability, peace, and economic development throughout the nation. The following chapter will fully analyze all of the effects the liberalization and focus on the coffee market has had on the country.

## **CHAPTER 4**

### **THE MIRACLE**

#### Introduction

Rwanda's liberalization, and its intense focus on the coffee market, has had remarkable results. A major result of the economic liberalization and market and political reforms, was that the country was allowed to register for the highly indebted poor countries (HIPC) debt cancellation. "Under the enhanced HIPC, Rwanda gained an estimated \$1.4 billion out of \$1.5 billion as a result of the adoption of strict measures in public debt management" (Kigabo 2010, p. 83). The results of registering for HIPC status had tremendous effects for the growth of the economy and national GDP. During the time period of the PRSP the country's economic growth rate was between 6% and 8% much of this being contributed to the increased economic activity within the coffee market.

Following the debt cancellation, GDP per capita increased by \$142 and GDP growth averaged 8.2% annually (Republic of Rwanda 2013, p. 3). Agriculture was a major contributor to this growth accounting for "32.7% of GDP and 28% of total growth" (Republic of Rwanda 2013, p. 4). Once again, it is easy to understand why the GOR would rationally target agriculture and the coffee sector specifically because of the amount of revenue gained from these industries.

The market liberalization has also provided farmers with a variety of incentives to participate within it and now they have contributed to a reduction in the rural poverty rate. One study states, "Recent estimates find that there are 500,000 coffee farmers in Rwanda. It is projected that they will experience a higher income growth (almost 4% per

year) than other farmers who do not cultivate cash crops” and that “a 20% increase in coffee producer prices could reduce the poverty incidence among coffee farmers by almost 6% points which corresponds to about a half percent reduction in national poverty incidence...A double of the price received by half of coffee farmers could reduce the incidence of national poverty by about 5%” (Kazoora 2011, p. 9). From 2005 to 2011 alone, the poverty rate in Rwanda was down 13.2%, much of this can be attributed to the liberalization of the coffee market.

Along these lines, the new resources and opportunities provided by the liberalization and policies have led to an increase in 50,000 jobs throughout the coffee sector and the ability for all farmers to increase their revenues. The increase in revenue has led to greater financial security and as Boudreaux and Tobias (2009) found, an increase in the farmers’ livelihoods. And, because the CWSs are located in the areas where some of the worst conflicts occurred during the civil war and genocide, many of the cooperatives that have been formed contain both members of the Hutu and Tutsi ethnic groups. Therefore, the establishment of the CWSs, has provided for the individuals from each of the social groups to interact with each other on a daily basis and form friendly bonds. Karol C. Boudreaux (2011) points out that, “by working together in cooperatives and at washing stations, Rwandans are experiencing both social and economic benefits from liberalization. They feel greater economic satisfaction, which is correlated to lower levels of distrust, higher levels of forgiveness, and reduced ethnic distance” (Boudreaux 2011, p. 197).

However the liberalization has had other long lasting effects. Through the new environment created by the various institutions involved in the coffee market, farmers are

working together and creating new identities. They have increased profits and incentives to continue to be peaceful with each other. Now that the government and institutions have created an environment of increased trade and communication, they have been able to not only increase the nation's economic development but also sustain political stability and peace throughout a once volatile region.

While liberal peace theory is typically used to explain why two different nations have peaceful relationships with each other it can also be taken down to the national level in regards to Rwanda. Factions within a society often go to war with each other because they feel one group is given unfair advantages over the other. Once that ideology is changed and they can mutually benefit with the same level of political and entrepreneurial participation, as intergroup contact theory stipulates, the two factions will also recognize that warring with each other will be more detrimental to their society than keeping the peace and start building relationships in order to be more profit maximizing as is happening throughout the Rwandan coffee market.

Through the liberalization of the coffee market, Rwanda has been able to change the dynamics of the society and, as noted in the previous chapter, has created many policies that target all of the citizens in the country. The introduction of the new policies have led to a peaceful nation with many economic advantages as long as the two groups continue to work together to better their lives. Discrimination has been outlawed and the economic benefits from increased trade through the coffee market have been key factors in establishing an optimal contact environment and maintaining peace.

## Coffee, Peace, and Trade

As stated above, the liberalization of the coffee market in Rwanda has been a catalyst for creating peaceful relations throughout the country while also ensuring that Rwanda portrays the right qualities for other liberal nations to form peaceful, cooperating trade relations with the nation. By liberalizing a market that directly affects the largest portion of the society, Rwanda has been able to reduce conflicts and increase economic development throughout the nation through increased trade relations.

Having increased trade relations requires a variety of processes, as laid out by liberal peace theory. The first of the three main factors that liberal peace theory is based upon is having a republican representation or a liberal government. Having a republican representation or liberal government implies that a government needs to be democratically elected, representative of its citizens with the possibility of a change in elites, and be very transparent. Transparency is essential because it “may provide for effective signaling, assuring foreign decision makers that democratic commitments are credible because rash acts and exposed bluffs will lead to electoral defeat” (Doyle 2005, p. 464). The government of Rwanda (GOR) noted this and worked very hard to ensure that all of the government-private sector interactions were transparent. The government was able to do this through the policies it created using Vision 2020 and the Economic Development and Poverty Reduction Strategy Papers (EDPRS 1 and 2). EDPRS 2 noted that, “Prudent and stable macro-economic and market-oriented policies sustained business confidence. Regulatory frameworks were improved and enforced, thereby facilitating business activity, providing transparency in government-private sector interactions. A strong anti-corruption stance simplified and reduced the cost of business

transactions” (Republic of Rwanda 2013, p. 5). The GOR focused many of its initial policies on creating an environment in which the government was seen as liberal and open while also focusing on creating entrepreneurial activities that would enhance the economic opportunities for each citizen alike.

Through the liberalization of the coffee market, the GOR was able to help create jobs and higher incomes for farmers that had previously been unable to participate in the cash crop market. A main aspect of the liberalization was the GOR’s role in supporting the formation of cooperatives that were formed around coffee washing stations (CWSs). Coffee washing stations are areas where different farmers can bring their coffee cherries to get fully washed and turned into specialty coffee. By forming a cooperative, the farmers involved with the CWS cooperative can work together to enhance their economic opportunities. Collecting coffee from trees and then transporting it to a CWS is very labor intensive, and when citizens form a cooperative, the amount of money that they make greatly depends on how much the cooperative as a whole produces. The way the cooperative runs, in turn, provides incentives for each member of the CWS to help the other members, regardless of their ethnicity, in order to obtain the most benefits. The more coffee cherries that are washed and sold the greater the increase in each farmer’s income, which leads to benefits to the community through the construction of more roads, schools, health centers, and other public works.

But cooperatives are doing much more than that. They provide each member with an opportunity to learn how to produce the highest priced coffee while also teaching them how to best market their product. Marketing through cooperatives has been extremely beneficial, as the cooperatives are better able to enter into markets that a smallholder

farmer would not be able access. Because of the increased revenue from the increased exports from the cooperative, and smallholder farmers, an incentive has been built for the farmers to join and work together regardless of their ethnic background. These new incentives have produced many reconciliation tendencies within cooperatives that have members that are both Hutu and Tutsi. Forming an entrepreneurial relationship has provided for members of the society who have a long history of conflict to realize that their economic sustainability is now more important than war.

The second aspect of liberal peace theory involves the government's commitment to fundamental human rights. The idea here is that no liberal country will want to form any ties, especially economic ties, with a country that violates human rights. Committing to the support of fundamental human rights means, that every individual will be treated equally and provided with the same opportunities regardless of their race, ethnicity, or nationality. According to Michael W. Doyle,

Liberal principles add the prospect of international respect. Liberal principles, or norms, involve an appreciation of the legitimate rights of all individuals. Connecting these principles to public policy requires publicity. Domestically, publicity helps ensure that the officials of republics act according to the principles they profess to be just and according to the interests of the electors they claim to represent. Internationally, free speech and the effective communication of accurate conceptions of the political life of foreign peoples are essential to establish and preserve the understanding on which the guarantee of respect depends. (Doyle 2005, p. 464).

Through the liberalization of the coffee market, the GOR has allowed citizens to have more political representation, which has increased their representation throughout all aspects of the government. Because the government outlawed discrimination, it is against the law for any cooperative or company to ask the ethnicity of any individual. Thus, the outlaw of discrimination has provided the opportunity to both Hutus and Tutsis

to freely join cooperatives and other organizations regardless of their ethnicity, which, in turn, has increased their political participation in their communities. By increasing their political participation, each citizen has the ability to stand up for what they want and are provided with the same individual rights as every one else.

Internationally, because of the liberalization, farmers, along with their cooperatives are able to partake in international trade and form relationships with investors from other countries. The exporters are able to form partnerships abroad, increasing the communication between Rwanda's producers and their trade partners. Because of the increase in communication, it is easy for both the citizens of Rwanda and the other nations to identify when human rights violations are being committed. However, human rights violations have not been a major problem within Rwanda due to the GOR's active and strong stance against any discrimination and support of fundamental human rights. The GOR understands that their past will not be soon forgotten by the international community and are determined to maintain a peaceful, equal nation in order to continue on the path toward sustainable economic development and trusting relationships.

Creating policies and incentives through the coffee market liberalization has given an economic voice to the poorest citizens of Rwanda. While once suppressed by the government, today they are recognized as the biggest and most important faction of the society. The majority of Rwanda's strategies have been focused on this sector of the population, as they are the ones that will determine Rwanda's future. By increasing their political participation and economic performance, the GOR has provided each citizen with the same fundamental human rights as most liberal states. These actions have been

recognized by other states and because of this, an increase in trade, especially with the United States and Europe, has occurred. If Rwanda were to violate its citizens' human rights, according to liberal peace theory, the liberal states would sever their trade ties or go to war with them.

The final aspect of liberal peace theory that must be discussed is transnational interdependence. Transitional interdependence stipulates that, "material incentives sustain interliberal normative commitments. The 'spirit of commerce' spreads widely and creates incentives for states to promote peace and try to avert war" (Doyle 2005, p. 464-5). This notion can be analyzed both internationally and nationally. The export revenue that the country of Rwanda is receiving from the coffee market increases the incentives for Rwanda to continue strong trade relationships with the countries that are importing and investing in the coffee market. However, in order for the country to maintain these relationships, they need to keep producing enough specialty coffee to meet the buyers' requirements. Rwanda continues to fall short on meeting the buyers' requirements, but most of their international trading partners understand that the country is still reviving its coffee production and are willing to work with what they are able to attain for now due to the fact that they are able to see the continued progress in the industry.

At the national level, the spirit of commerce has been a leading factor in maintaining peace between the Hutus and Tutsis. As each individual's income rises they have increased incentives to work cooperatively together. The reason for the new incentives to work cooperatively is because of the fact that the farmers are seeing greater economic stability from working together. The increase in profits has led to an increase

in cooperation, which has led to other benefits for everyone in the community. For example, as one study explains about the benefits of working in a coffee cooperative,

First, cooperatives offer easier access to inputs such as fertilizer, pesticides and seedlings...Second, cooperatives are giving farmers credit as reported by 46% of the members (average amount borrowed was 55,000 RWfs). Third, in partnership with OCIR, cooperatives are able to organize trainings for their members on production practices towards improving the coffee quality...Finally, cooperatives give farmers market assurance; cooperative members are almost sure that the cooperative will accept their berries if they meet the quality specifications. (Mujawamariya et al 2013, p. 76).

Because of the amount of incentives and profits that belonging to a cooperative creates for each individual farmer, it is unlikely that they will go to war with each other because comparatively, there is too much to lose.

The liberalization of the coffee market has created an environment throughout rural Rwanda that provides each citizen with the opportunity to move from subsistence farming into a productive agricultural sector, a step toward the GOR's Vision 2020 goals. In doing so, the smallholder farmers who participate in the coffee market and CWS cooperatives have increased incomes and are building relationships with the individuals that they were previously warring with. Along with this finding, Karol C. Boudreaux and Puja Ahluwalia found that,

The Rwanda coffee sector has become a forum for people of all groups to engage in repeat dealing and to work jointly in pursuit of a common goal: making ends meet. Working together to achieve a goal that everyone desires – earning a better living – seems to be helping some farmers overcome animosities. People in Rwanda recognize that commercial activities generally, and the coffee industry specifically, are a potential path to reconciliation. (Boudreaux 2009, p. 192)

In this sense, the GOR must continue to focus on the liberalization of the coffee market and the support of the different institutions in order to keep peaceful relations throughout the country, which should occur as long as the farmers continue to see increased profits.

The commercial effects of the trade liberalization on the national community, bringing economic growth, political stability and peace, have led to increased benefits and new trade relationships with the international community. While all actors are mutually benefiting from each other, both nationally and internationally, peaceful and economically beneficial relationships will continue.

#### Peace and the New Coffee Market Environment

Creating an environment where all of the actors are mutually benefiting is more difficult in areas of increased prejudice. However, the reduction of prejudice has been slowly occurring throughout the Rwandan coffee sector largely because of the fact that the individuals who work at CWSs are now forming a new identity of themselves and a new social group altogether. They have to rely on each other in order to achieve their common goal to produce the best quality coffee they can for the highest economic returns. Because of the amount of time each cooperative member spends with the other members, it is not surprising that friendships would form and new attitudes towards members of the other group would be shaped. The constructions of the new relationships and images of the other has been helped by the amount of oversight that each CWS receives from the government, international organizations and NGOs. These authoritative bodies have provided an equal opportunity environment and have supported both social groups with increasing their production revenues. However, another outlying factor may be that the government of Rwanda has now banned discrimination and has not reported ethnicity in any of its censuses since the genocide.

The coffee market liberalization and the increased support from authoritative bodies and institutions have provided other benefits to the farmers and their communities as well. It has been reported that,

Higher incomes benefit farmers, their families, and their communities in a variety of ways: farmers can improve a home, pay medical expenses or school fees, or better ensure food security. And when cooperatives earn a profit they are able to hire workers, purchase capital, and support community projects such as improved schools. (Boudreaux 2011, p. 185)

The sheer amount of benefits that the Hutu and Tutsi farmers can attain by working cooperatively together provides them with an incentive to look past their old perceptions of the other group. The farmers are also learning about the other group while they work together which helps them change their attitudes, and anxious feelings while in contact with the outgroup is thus reduced. The changes in attitudes and economic status are remarkable for a country that faced one of the biggest tragedies in world history two decades ago.

Relieving prejudice between ingroups and outgroups is extremely important in order to maintain peaceful order. But relieving prejudice is not easy, as all of the intergroup conflict theorists have pointed out. Allport and Pettigrew have explained that an optimal contact environment needs to be in place for two conflicting groups to reconcile their differences. The optimal environment is hard to create and has many factors related to it. The main goal of optimal contact is to change the perceptions, attitudes and beliefs of individuals within one group towards those of an outgroup. Cognitive attitudes and beliefs are usually deeply rooted in an individual so there is a necessity for contact to be positive, on equal status, in pursuit of common goals that can only be accomplished by intergroup cooperation with the support of an authoritative

body, and where members of the two conflicting groups have an opportunity to build friendships.

Currently, as has been shown, Rwanda is the prime example of how well intergroup contact can work if these optimal conditions are in place. By liberalizing the coffee market, Rwanda has provided Hutu and Tutsi coffee farmers with the incentives to work together, in an equal environment with an overarching body to help guide them. The new, equal, environment has resulted in increased contact with members of the other group, which has led to the growth of friendships and the reduction of negative attitudes towards the other group members. In a country that housed one of the most deeply rooted ethnic conflicts in history, it is remarkable that the two ethnic groups attitudes, perceptions and beliefs about the other have been changing.

The environment that the government of Rwanda and USAID has created through the liberalization of the coffee market provides all of the necessary conditions for Gordon Allport's intergroup contact theory. Due to the success of the liberalization of the coffee market in regards to the reduction of prejudice, many researchers of Rwanda have stressed that the country's coffee market liberalization should be an example to all other regions dealing with similar group prejudices as it has proven to change the cognitive way of thinking for many of the ingroup and outgroup members while also increasing their productivity and income.

### Conclusion

Liberal peace theory and intergroup contact theory are greatly supported by the liberalization of Rwanda's coffee market. The coffee market has been experiencing great economic gains since the start of the liberalization which have provided the incentives for

both intra-state and interstate peace. Creating both intra-state and interstate peace is extremely important for the theories because if a country is not stable within its borders it will make investors both nationally and internationally wary of their ability to maintain order through international trade relations.

However, as stated above, trade is not the only variable necessary to maintain peace. Political stability and the security of each individual's fundamental human rights are also key components. But, as Thomas Kigabo notes, "Peace is a precondition for security, stability, and development. The leadership of Rwanda understands that it needs political stability to attract domestic and foreign investors, and it needs peace to implement development plans and growth" (Kigabo 2010, p. 87). The coffee market liberalization was a catalyst for the GOR because it has been able to bring peaceful conditions to seemingly volatile regions while also increasing its transparency and political stability due to the increased economic incentives seen by those affected by the liberalization. By providing equal opportunities and rights for the citizens of Rwanda that have promoted peace, economic cooperation and security, the GOR has established peaceful and economically motivated relationships with the coffee farmers and producers, other nations, and international investors who are investing in Rwanda's growing, specialty coffee market.

Once again, focusing on pro-Poor policies, specifically through the development and liberalization of the coffee market in Rwanda has provided new ways for a country to not only develop their country economically, but to also produce political stability and peaceful relations. However, the liberalization would not have been as successful as it is if the GOR did not realize that it must work towards being decentralized and transparent

while also providing the incentives and support for Hutus and Tutsis to work together. The GOR had to establish many policies and strategies along with monitoring mechanisms in order for both the national and international community to regain trust in them as well as be assured that the country will maintain liberal policies and political stability. Once that was achieved the GOR was able to focus its attention on the liberalization policies. Liberalization of the coffee market has helped the international community understand that Rwanda is now a liberal country with republican representation, respect for fundamental human rights, and a promoter of free trade, all of which fall in line with, Kant's original thesis regarding the construction of liberal peace.

The strategies and policies have also helped create the optimal contact environment using the coffee market as its backdrop. Institutions have played a critical role in the establishment and management of cooperatives and CWSs and it can be argued that without their support the market and Rwanda's overall development would not see the success that it has. Each actor has had a critical role in the liberalization process, and the effects the liberalization has had on the nation would not have been possible without each of their contributions.

## CHAPTER 5

### POSSIBILITIES FOR THE FUTURE

#### Introduction

My study has been completed in hopes that it would provide an example for other post-conflict, liberalizing countries that face a similar environment to Rwanda's after the end of the civil war and genocide. It has highlighted how the focus on the coffee market liberalization was a rational choice made by the government of Rwanda (GOR) and the other actors involved. Once the right environment was established, the smallholder farmers who partake in the coffee industry were also given the incentives to join the market, because by doing so, they have been able to increase their financial security, provide better opportunities for their families and communities, and reconcile with members of the other ethnic groups. The liberalization of the coffee market has played a major role in Rwanda's path towards development, political stability, and peace throughout the country.

Targeting the coffee market through liberalization policies was crucial to the success that Rwanda has seen over the past twenty years. Rwanda has surpassed many of the goals they set out for themselves, and at the current rate will reach and go beyond their targets of having a middle income country by 2020 with an average per capita income of \$900 per year. Because the market liberalization has created 50,000 new jobs and has policies set up to train managers and farmers on best practices the GOR has been able to target a sector of its economy that will be able to pass their new knowledge on to other sectors within the economy. And considering the main goal for Rwanda is to transfer from a subsistence agriculture economy into a knowledge-based economy with a

focus on information and communication technology, focusing on the coffee market has provided the resources for the population to start moving into that sector as well.

The following sections will discuss the limitations of the study, why Rwanda's coffee market liberalization could be a good example for other countries embarking on the same mission, and what the future may hold for Rwanda if they continue on their current track.

### Limitations of the Study

The biggest limitation for the study was the lack of funding for the author to go to Rwanda and measure the impacts of the liberalization of the coffee market first hand.

The study had to be completed using a variety of documents, including other researcher's materials on the coffee market liberalization and the GOR, government documents, news articles, and various studies provided by USAID and the Rwanda Coffee Company.

While these documents all provided sufficient information, it would have been beneficial for the author to have personal accounts of how the coffee market liberalization has affected the lives of the farmers involved.

The other major limitation, for the study is the fact that, Rwanda's government introduced other measures to help the success of the country that have not been discussed. The main, and most important of which, was the reintroduction of the Gacaca courts in 2001. The Gacaca courts are apart of a traditional community justice system where the communities and victims are responsible for the handing down justice to perpetrators of the genocide. The courts allowed both the victims and perpetrators to reconcile and work together towards an increased peace within their own communities. The installation of the courts also took a lot of pressure off of the GOR as many of the

perpetrators tried in the Gacaca system may still be awaiting trial today due to the amount of war crimes committed during the genocide. The outcomes of the courts have allowed many communities to reconcile and move forward in order to rebuild together and once again be a peaceful society.

Besides those two main issues, the study has aimed to cover all of the relevant material in order to provide the most informed study as possible. While it can never be assumed that the authors do not have some bias within their research, the study has tried to include all the various and relevant insights about Rwanda and the coffee market available.

#### A Good Example?

Throughout the study it has been noted that the most remarkable aspect of Rwanda's development over the past twenty years has been their strong focus on pro-Poor policies. The focus on pro-Poor policies is remarkable because, throughout history, most countries that embark on liberalization tend to focus their policies and strategies on areas of the market that target the industries of the elite. Nations will choose to do target the industries of the elite because they believe that those industries will bring in enough revenue to help jumpstart the economy and provide the necessary resources for them to focus on other markets down the road. That belief, however, typically leads to an even greater polarization between the rich and poor by increasing the income gap more than it had already been in the past. Once that happens, conflicts are bound to break out and the country can be worse off than it was prior to the liberalization.

But Rwanda's story is much different from the norm seen when studying International Relations. Because Rwanda's liberalization focused on the densest part of

the population, the rural poor, they were able to raise the income levels of that sector as well as see benefits through an increase in the export revenue from coffee. While it has taken a lot of effort on the part of the GOR, along with IOs and NGOs providing assistance, the liberalization of the coffee market has helped the country's development in ways unseen in the past.

The study discussed how the liberalization differed from most and why the GOR and other actors chose to focus their strategies on the rural poor. For the GOR the main goal was not only to increase the country's economic development but also to maintain political stability. Political stability is necessary for the government to gain the respect and trust of their constituents in order for them to want to participate in the newly defined sector. Maintaining political stability was crucial in Rwanda, as the coffee market had been in total control of the government for decades. Farmers were not in control of what they produced and did not receive the profits they deserved. Through the liberalization, the GOR provided new ways and incentives for farmers to increase their profits while also increasing their political participation. And, because the farmers are rational, value-maximizing individuals, their decision to reenter into coffee production and join cooperatives has led to greater benefits than they had ever experienced before.

Following the discussion of the liberalization, incentives and policies the effects they have had on the country were discussed. It was shown that the liberalization policies have provided Rwanda with increased economic development, which in turn has led to a more peaceful nation. Liberal peace theory stipulates that when a country has a liberal government, that values human rights and a free market they will be able to form trade ties with other liberal nations that will be more important to maintain than destroy

through conflict. The liberal peace theory can be brought down to the national level as well, because these trade ties within a country are just as crucial to the economic development, political stability, and keeping of the peace in that country. Rwanda is a prime example of liberal peace theory because they have set policies such as Vision 2020 and the Poverty Reduction Strategy Papers (PRSP) that have fostered great gains in trade, specifically the coffee trade, that have led the previously warring factions in the country to work together because they are gaining more profits while also creating an environment where other nations feel comfortable investing in Rwanda's products. Rwanda has successfully portrayed to the international community that they are able to participate in the international economic community and a large part is because of the focus on the liberalization of the coffee market. The focus on the coffee market has provided Rwanda the means to instill the basic pillars that the liberal peace theory stipulates and has thus provided for a more peaceful environment due to the increase in trade and therefore economic development throughout the whole country.

The environment that was created by the liberalization of the coffee market was also analyzed. Intergroup contact theory was used because, as it states, there must be an environment created where each member has equal status, they share a common goal that can only be achieved through intergroup cooperation, and with the support of an overarching body. The coffee market liberalization in Rwanda has been able to provide an environment where the Hutus and Tutsis are working closely together towards a common goal: a gain in profits. The new environment has provided the two ethnic groups with the opportunity to spend more time together, and through the increased contact their prejudices have slowly started to diminish. It has been found that the longer

a person works with a coffee cooperative with members of the other ethnic group the less prejudice they will feel towards the other groups. Creating a mutually beneficial environment in the rural areas has been crucial for the government to sustain peace within the country, which is another incentive for them to continue to support the liberalization process. The coffee market has provided the citizens of Rwanda a way to participate not only in the economic sector but has also increased their participation in community politics and decision-making. Providing an environment with equal group status and common goals has been essential for the development of Rwanda because the largest cohort has been given the opportunity to increase their profit-maximization potential while also reconciling with their neighbors.

The study provides examples for other countries showing that it is not just one aspect of a liberalization that can change the environment but rather a whole range of policies and strategies need to be in place for success. Rwanda focused on the liberalization of the coffee market because it affects 90% of the population in one way or the other. Because the GOR realized that they need the support of the whole country and various institutions in order to continue on the path of economic development the decisions they made were rational with a focus on the rural population while also creating a liberal order within the country. Without the focus on an increase in political stability and how the country was viewed by the international community, the coffee market liberalization may not have been as successful as it has. The reason Rwanda's transformation is an example for other post-conflict, liberalizing countries, is because the GOR and citizens of Rwanda have embraced the new policies and worked together as value-maximizing agents to ensure that they will continue to obtain the highest revenues

as possible while also maintaining political and social order. The liberalization of the coffee market has provided more incentives to both the citizens and GOR to remain peaceful and keep a focus on their development that will forever outweigh another major conflict, at least within the country.

### Conclusion

Rwanda's future is still unknown and the liberalization of the coffee market will not be the only answer for them to further their development, however, it was, and still is, a good step in that direction. But coffee is grown outside and is susceptible to various climate challenges, such as drought. A bad season can truly hinder the revenues both to the farmers and the country. The export of specialty coffee is also growing at 20% per year, which is remarkable, but as they continue to increase their levels of production more countries are starting to produce high grade, high quality coffee. As the market begins to become saturated with product, it is likely that the C-price will continue to fluctuate and potentially fall. The volatility of the market is another reason why Rwanda needs to continue focusing on its coffee market in order to ensure that they are able to produce some of the highest quality coffee on the market.

But Rwanda's overall goals for the development of their country do not rely on agriculture. As they continue to develop the country seeks to become a knowledge-based economy with a focus on information and communications technology. The liberalization of the coffee market has led to an increase in training and knowledge within the community and that knowledge has been shared and transferred to other sectors. The farmers are also able to use their profits for their children's education, which has helped increase the level of education in the country and will therefore help the country become

a more knowledge-based society. The liberalization of the coffee market has also opened up other opportunities as it now requires storage facilities, a better transportation network, and more management jobs to be created. All of the new necessary infrastructures will help pave the way for the country to move beyond relying on coffee and agriculture.

Unfortunately, only time will tell what will happen in Rwanda's future. If the GOR and President Kagame can maintain their political stability and continue working toward policies that ensure that the country as a whole is lifted out of poverty it is likely that the country will continue developing in the same way. However, the GOR needs to continue moving the country into an ICT based economy, and with the liberalization of the coffee market they will be able to help that process. By continuing to train managers and build new infrastructure for the growing market, the people affected by the coffee market will continue passing their knowledge on to other sectors within the country. However, it will be critical for the government to continue supporting the various institutions that are working with the coffee market in order to ensure that the liberalization and growth of that market continues while also maintaining peaceful relations throughout it.

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