# IMF-World Bank Policies and the Rwandan Genocide

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*In the context of recent revelations concerning the 1994 genocide and the covert role of the United States in triggering a humanitarian disaster, the role of the International Monetary Fund and the World Bank must be understood.*

*In September 1990 at the very outset of the US-UK sponsored RPF insurgency and invasion from Uganda, a devastating program of macroeconomic reforms was imposed on Rwanda by the IMF.*

**Michel Chossudovsky, October 20 2014**

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*The Rwandan crisis has been presented by the Western media as a profuse narrative of human suffering, while neglecting to explain the underlying social and economic causes. As in other 'countries in transition', ethnic strife and the outbreak of civil war are increasingly depicted as something which is almost 'inevitable' and innate to these societies, constituting 'a painful stage in their evolution from a one- party State towards democracy and the free market'.*

*The brutality of the massacres has shocked the world community, but what the international press fails to mention is that the civil war was preceded by the flare-up of a deep-seated economic crisis. It was the restructuring of the agricultural system which precipitated the population into abject poverty and destitution. This deterioration of the economic environment which immediately followed the collapse of the international coffee market and the imposition of sweeping macro-economic reforms by the Bretton Woods institutions – exacerbated simmering ethnic tensions and accelerated the process of political collapse .*

In 1987, the system of quotas established under the International Coffee Agreement (ICA) started to fall apart. World prices plummeted, the Fonds d'egalisation (the State coffee stabilisation fund) which purchased coffee from Rwandan farmers at a fixed price started to accumulate a sizeable debt. A lethal blow to Rwanda's economy came in June 1989 when the ICA reached a deadlock as a result of political pressures from Washington on behalf of the large US coffee traders. At the conclusion of a historic meeting of producers held in Florida, coffee prices plunged in a matter of months by more than 50%. For Rwanda and several other African countries, the drop in price wreaked havoc. With retail prices more than 20 times that paid to the African farmer, a tremendous amount of wealth was being appropriated in the rich countries.

### The legacy of colonialism

What is the responsibility of the West in this tragedy? First, it is important to stress that the conflict between the Hutu and Tutsi was largely the product of the colonial system, many features of which still prevail today. From the late 19th century, the early German colonial occupation had used them wami (King) of the nyiginya monarchy installed at Nyanza as a means of establishing its military posts.

However, it was largely the administrative reforms initiated in 1926 by the Belgians which were decisive in shaping socio-ethnic relations. The Belgians explicitly used dynastic conflicts to reinforce their territorial control. The traditional chiefs in a each hill (colline) were used by the colonial administration to requisition forced labour. Routine beatings and corporal punishment were administered on behalf of the colonial masters by the traditional chiefs. The latter were under the direct supervision of a Belgian colonial administrator responsible for a particular portion of territory. A climate of fear and distrust was installed, communal solidarity broke down, traditional client relations were tranformed to serve the interests of the coloniser.

The objective was to fuel inter-ethnic rivalries as a means of achieving political control as well as preventing the development of solidarity between the two ethnic groups which inevitably would have been directed against the colonial regime. The Tutsi dynastic aristocracy was also made responsible for the collection of taxes and the administration of justice. The communal economy was undermined, the peasantry was forced to shift out of food agriculture into cash crops for export. Communal lands were transformed into individual plots geared solely towards cash crop cultivation (the so-called cultures obligatoires).

Colonial historiographers were entrusted with the task of ‘transcribing’ as well as distorting Rwanda-Urundi’s oral history. The historical record was falsified: the mwami monarchy was identified exclusively with the Tutsi aristocratic dynasty. The Hutus were represented as a dominated caste….

The Belgian colonialists developed a new social class, the so-called negres evolues recruited among the Tutsi aristocracy, the school system was put in place to educate the sons of the chiefs and provide the African personnel required by the Belgians. In turn, the various apostolic missions and vicariats received under Belgian colonial rule an almost political mandate, the clergy was often used to oblige the peasants to integrate the cash crop economy… These socio-ethnic divisions – which have been unfolding since the 1920s – have left a profound mark on contemporary Rwandan society.

Since Independence in 1962, relations with the former colonial powers and donors have become exceedingly more complex. Inherited from the Belgian colonial period, however, the same objective of pushing one ethnic group against the other (‘divide and rule’) has largely prevailed in the various ‘military’, ‘human rights’ and ‘macro- economic’ interventions undertaken from the outset of the civil war in 1990.

The Rwandan crisis has become encapsulated in a continuous agenda of donor roundtables (held in Paris), cease-fire agreements, peace talks…These various initiatives have been closely monitored and coordinated by the donor community in a tangled circuit of 'conditionalities' (and cross-conditionalities). The release of multilateral and bilateral loans since late 1990 was made conditional upon implementing a process of so-called 'democratisation' under the tight surveillance of the donor community. In turn, Western aid in support of multiparty democracy was made conditional (in an almost 'symbiotic' relationship) upon the government reaching an agreement with the International Monetary Fund (IMF), and so on….

These attempts were all the more illusive because since the collapse of the coffee market, actual political power in Rwanda largely rested, in any event, in the hands of the donors. A communique of the US State Department issued in early 1993 vividly illustrates this situation: the continuation of US bilateral aid was made conditional on good behaviour in policy reform as well as progress in the pursuit of democracy….

The model of 'democratisation' based on an abstract model of inter-ethnic solidarity envisaged by the Arusha peace agreement signed in August 1993 was an impossibility from the outset and the donors knew it. The brutal impoverishment of the population which resulted from both the war and the IMF reforms, precluded a genuine process of democratisation. The objective was to meet the conditions of 'good governance' (a new term in the donors' glossary) and oversee the installation of a bogus multiparty coalition government under the trusteeship of Rwanda's external creditors. In fact multipartism as narrowly conceived by the donors, contributed to fuelling the various political factions of the regime… Not surprisingly, as soon as the peace negotiations entered a stalemate, the World Bank announced that it was interrupting the disbursements under its loan agreement.

### The economy since independence

The evolution of the post-colonial economic system played a decisive role in the development of the Rwandan crisis. While progress was indeed recorded since Independence in diversifying the national economy, the colonial-style export economy based on coffee (les cultures obligatoires) established under the Belgian administration was largely maintained providing Rwanda with more than 80% of its foreign exchange earnings. A rentier class with interests in coffee trade and with close ties to the seat of political power had developed. Levels of poverty remained high, yet during the 1970s, and the first part of the 1980s, economic and social progress was nonetheless realised: real gross domestic product (GPD) growth was of the order of 4.9% per annum (1965-89), school enrolment increased markedly, recorded inflation was among the lowest in sub-Saharan Africa, less than 4% per annum.

While the Rwandan rural economy remained fragile, marked by acute demographic pressures (3.2% per annum population growth), land fragmentation and soil erosion, local-level food self-sufficiency had, to some extent, been achieved alongside the development of the export economy. Coffee was cultivated by approximately 70% of rural households, yet it constituted only a fraction of total monetary income. A variety of other commercial activities had been developed including the sale of traditional food staples and banana beer in regional and urban markets.

Until the late 1980s, imports of cereals including food aid were minimal compared to the patterns observed in other countries of the region. The food situation started to deteriorate in the early 1980s with a marked decline in the per capita availability of food. In overt contradiction to the usual trade reforms adopted under the auspices of the World Bank, protection to local producers had been provided through restrictions on the import of food commodities. They were lifted with the adoption of the 1990 structural adjustment programme.

### The fragility of the State

The economic foundations of the post-Independence Rwandan State remained extremely fragile, a large share of government revenues depended on coffee, with the risk that a collapse in commodity prices would precipitate a crisis in the State's public finances. The rural economy was the main source of funding of the State. As the debt crisis unfolded, a larger share of coffee and tea earnings had been earmarked for debt servicing, putting further pressure on small-scale farmers.

Export earnings declined by 50% between 1987 and 1991. The demise of State institutions unfolded thereafter. When coffee prices plummeted, famines erupted throughout the Rwandan countryside. According to World Bank data, the growth of GDP per capita declined from 0.4% in 1981-86 to – 5.5% in the period immediately following the slump of the coffee market (1987-91).

A World Bank mission travelled to Rwanda in November 1988 to review Rwanda's public expenditure programme… A series of recommendations had been established with a view to putting Rwanda back on the track of sustained economic growth. The World Bank mission presented to the government, Rwanda policy options as consisting of two 'scenarios'. Scenario I entitled 'No Strategy Change' contemplated the option of remaining with the 'old' system of State planning, whereas Scenario II labelled 'With Strategy Change' was that of macro-economic reform and 'transition to the free market'.

After careful economic 'simulations' of likely policy outcomes, the World Bank concluded with some grain of optimism that if Rwanda adopted Scenario II, levels of consumption would increase markedly over 1989-93 alongside a recovery of investment and an improved balance of trade. The 'simulations' also pointed to added export performance and substantially lower levels of external indebtedness. These outcomes depended on the speedy implementation of the usual recipe of trade liberalisation and currency devaluation alongside the lifting of all subsidies to agriculture, the phasing out of the Fonds d'egalisation, the privatisation of State enterprises and the dismissal of civil servants…

The 'With Strategy Change' (Scenario II) was adopted, the government had no choice… A 50% devaluation of the Rwandan franc was carried out in November 1990, barely six weeks after the incursion from Uganda of the rebel army of the Rwandan Patriotic Front.

The devaluation was intended to boost coffee exports. It was presented to public opinion as a means of rehabilitating a war-ravaged economy. Not surprisingly, exactly the opposite results were achieved exacerbating the plight of the civil war. From a situation of relative price stability, the plunge of the Rwandan franc contributed to triggering inflation and the collapse of real earnings. A few days after the devaluation, sizeable increases in the prices of fuel and consumer essentials were announced. The consumer price index increased from 1.0% in 1989 to 19.2% in 1991. The balance-of-payments situation deteriorated dramatically and the outstanding external debt which had already doubled since 1985, increased by 34% between 1989 and 1992.

The State administrative apparatus was in disarray, State enterprises were pushed into bankruptcy and public services collapsed. Health and education collapsed under the brunt of the IMF imposed austerity measures. Despite the establishment of 'Social Safety' (earmarked by the donors for programmes in the social sectors), the incidence of severe child malnutrition increased dramatically, the number of recorded cases of malaria increased by 21% in the year following the adoption of the IMF programme largely as a result of the absence of anti-malarial drugs in the public health centres. The imposition of school fees at the primary school level was conducive to a massive decline in school enrolment.

The economic crisis reached its climax in 1992 when Rwandan farmers in desperation uprooted some 300,000 coffee trees. Despite soaring domestic prices, the government had frozen the farmgate price of coffee at its 1989 level (125 RwF a kg), under the terms of its agreement with the Bretton Woods institutions. The government was not allowed (under the World Bank loan) to transfer State resources to the Fonds d'egalisation. It should also be mentioned that a significant profit was appropriated by local coffee traders and intermediaries serving to put further pressure on the peasantry.

In June 1992, a second devaluation was ordered by the IMF leading — at the height of the civil war – to a further escalation of the prices of fuel and consumer essentials. Coffee production tumbled by another 25% in a single year…. Because of over-cropping of coffee trees, there was increasingly less land available to produce food, but the peasantry was not able to easily switch back into food crops. The meagre cash income derived from coffee had been erased yet there was nothing to fall back on. Not only were cash revenues from coffee insufficient to buy food, the prices of farm inputs had soared and money earnings from coffee were grossly insufficient.

The crisis of the coffee economy backlashed on the production of traditional food staples leading to a substantial drop in the production of cassava, beans and sorghum… The system of savings and loan cooperatives which provided credit to small farmers had also disintegrated. Moreover, with the liberalisation of trade and the deregulation of grain markets as recommended by the Bretton Woods institutions, (heavily subsidised) cheap food imports and food aid from the rich countries were entering Rwanda with the effect of destabilising local markets.

Under 'the free market' system imposed on Rwanda, neither cash crops nor food crops were economically viable. The entire agricultural system was pushed into crisis, the State administrative apparatus was in disarray due to the civil war but also as a result of the austerity measures and sinking civil service salaries… A situation which inevitably contributed to exacerbating the climate of generalised insecurity which had unfolded in 1992…

The seriousness of the agricultural situation had been amply documented by the Food and Agriculture Organisation (FAO) which had warned of the existence of widespread famine in the southern provinces. A report released in early 1994 also pointed to the total collapse of coffee production due to the war but also as a result of the failure of the State marketing system which was being phased with the support of the World Bank. Rwandex, the mixed enterprise responsible for processing and export of coffee, had become largely inoperative.

### Military hardware

The decision to devalue (and 'the IMF stamp of approval') had already been reached on 17

September 1990 prior to the outbreak of hostilities in high-level meetings held in Washington between the IMF and a mission headed by the Rwandan Minister of Finance Mr Ntigurirwa. The ‘green light’ had been granted: as of early October, at the very moment when the fighting started, millions of dollars of so-called ‘balance-of-payments aid’ (from multilateral and bilateral sources) came pouring into the coffers of the Central Bank. These funds administered by the Central Bank had been earmarked (by the donors) for commodity imports, yet it appears likely that a sizeable portion of these ‘quick disbursing loans’ had been diverted by the regime (and its various political factions) towards the acquisition of military hardware (from South Africa, Egypt and Eastern Europe). These purchases of Kalachnikov guns, heavy artillery and mortar were undertaken in addition to the bilateral military aid package provided by France which included inter alia Milan and Apila missiles (not to mention a Mystere Falcon jet for President Habyarimana’s personal use).

Moreover, since October 1990, the Armed Forces had expanded virtually overnight from 5,000 to 40,000 men requiring inevitably (under conditions of budgetary austerity) a sizeable influx of outside money… The new recruits were largely enlisted from the ranks of the urban unemployed of which the numbers had dramatically swelled since the outset of the collapse of the coffee market in 1989. Thousands of delinquent and idle youths from a drifting population were also drafted into the civilian militia responsible for the massacres. And part of the arms purchases enabled the Armed Forces to organise and equip the militiamen…

In all, from the outset of the hostilities (which coincided chronologically with the devaluation and the initial ‘gush of fresh money’ in October 1990), a total envelope of some $260 million had been approved for disbursal (with sizeable bilateral contributions from France, Germany, Belgium, the European Community and the US). While the new loans contributed to releasing money for the payment of debt servicing as well as equipping the Armed Force, the evidence would suggest that a large part of this donor assistance was neither used productively nor was it channelled into providing relief in areas affected by famine.

It is also worth noting that the World Bank through its soft-lending affiliate, the International Development Association (IDA), had ordered in 1992 the privatisation of Rwanda’s State enterprise Electrogaz. The proceeds of the privatisation were to be channelled towards debt servicing. In a loan agreement co-financed with the European Investment Bank (EIB) and the Caisse francaise de developpement (CFD), the Rwandan authorities were to receive in return (after meeting the ‘conditionalities’) the modest sum of $39 million which could be spent freely on commodity imports. The privatisation, carried out at the height of the civil war, also included dismissals of personnel and an immediate hike in the price of electricity which further contributed to paralysing urban public services. A similar privatisation of Rwandatel, the State telecommunications company under the Ministry of Transport and Communications, was implemented in September 1993.

The World Bank had carefully reviewed Rwanda’s public investment programme. The fiches de projet having been examined, the World Bank recommended scrapping more than half the country’s public investment projects. In agriculture, the World Bank had also demanded a significant down-sizing of State investment including the abandonment of the inland swamp reclamation programme which had been initiated by the government in response to the severe shortages of arable land (and which the World Bank considered ‘unprofitable’). In the social sectors, the World Bank proposed a so-called ‘priority programme’ (under ‘the Social Safety Net’) predicated on maximising efficiency and ‘reducing the financial burden of the government’ through the exaction of user fees, lay-offs of teachers and health workers and the partial privatisation of health and education.

The World Bank would no doubt contend that things would have been much worse had Scenario II not been adopted. The so- called ‘counterfactual argument’… Such a reasoning, however, sounds absurd particularly in the case of Rwanda. No sensitivity or concern was expressed as to the likely political and social repercussions of economic shock therapy applied to a country on the brink of civil war… The World Bank team consciously excluded the ‘non-economic variables’ from their ‘simulations’.

While the international donor community cannot be held directly responsible for the tragic outcome of the Rwandan civil war, the austerity measures combined with the impact of the IMF-sponsored devaluations, contributed to impoverishing the Rwandan people at a time of acute political and social crisis. The deliberate manipulation of market forces destroyed economic activity and people’s livelihood, fuelled unemployment and created a situation of generalised famine and social despair…

## Economic Genocide

To lay the blame solely on deep-seated tribal hatred not only exonerates the great powers and the donors, it also distorts an exceedingly complex process of economic, social and political disintegration affecting an entire nation of more than seven million people… Rwanda, however, is but one among many countries in sub-Saharan Africa (not to mention recent developments in Burundi where famine and ethnic massacres are rampant) which are facing a similar predicament. And in many respects the Rwandan 1990 devaluation appears almost as a ‘laboratory test case’ as well as a threatening ‘danger signal’ for the devaluation of the CFA franc implemented on the instructions of the IMF and the French Treasury in January 1994 by the same amount, 50%.

It is also worth recalling that in Somalia iln the aftermath of ‘Operation Restore Hope’, the absence of a genuine economic recovery programme by the US Agency for International Development (USAID) mission in Mogadishu – outside the provision of short-term emergency relief and food aid – was the main obstacle to resolving the civil war and rebuilding the country. In Somalia, because of the surplus of relief aid which competed with local production, farmers remained in the relief camps instead of returning to their home villages.

What are the lessons for Rwanda? As humanitarian organisations prepare for the return of the refugees, the prospects for rebuilding the Rwandan economy outside the framework determined by the IMF and Rwanda’s international creditors seem to be extremely bleak. Even in the event a national unity government is installed and the personal security of the refugees can be ensured, the two million Rwandans cramped in camps in Zaire and Tanzania have nothing to return to, nothing to look forward to: agricultural markets have been destroyed, local-level food production and the coffee economy have been shattered, urban employment and social programmes have been erased.

The reconstruction of Rwanda will require ‘an alternative economic programme’ implemented by a genuinely democratic government (based on inter-ethnic solidarity and free from donor interference). Such a programme presupposes erasing the external debt together with an unconditional infusion of international aid. It also requires lifting the straitjacket of budgetary austerity imposed by the IMF, mobilising domestic resources, and providing for a secure and stable productive base for the rural people.

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