

# **Creating the Institutional Foundation for Development in Nigeria: Lessons from Rwanda**

**By**

**Kilishi A. Abdulhakeem**  
**Department of Economics**  
**University of Ilorin**  
**Phone: 08050221980**  
**e-mail: [meetkilishi@yahoo.com](mailto:meetkilishi@yahoo.com)**

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## **Abstract**

There is general consensus that institutions matter for economic performance. However, little is known about how countries with weak institution can build strong institutions. This paper examines one of the success stories in Africa, Rwanda, while drawing lessons for Nigeria. The analysis shows that there are many areas in which Nigeria must make significant improvement so as to experience positive change. It was identified that decentralization is central to Rwanda success. The decentralization did not only transfer administrative power and resources to the sub-national government but also transfer political power to elect and remove politicians to the citizens. The main lesson is that decentralization of political power that allow citizens to participate in government decision and policymaking is a necessary condition to building strong, efficient and effective institutions that will ensure inclusive growth in Nigeria.

**Keywords:** Nigeria, Rwanda, Institutions, Decentralization,

## 1. Introduction

The economic problems in Africa are similar across countries, infrastructure deficits, prevalence of mass corruption, weak institutions, natural resource/foreign aid dependent, low tax revenue, underdeveloped financial system, non-inclusive growth, and so on. The question is, why are these problems more prevalent and somehow persistent for many decades in most Africa countries including Nigeria? One of the principal reason unanimously acknowledged by scholars, policymakers, international organizations and donor agencies is that all these problems persist because of prevalence of weak institutions and bad governance in Africa. A voluminous literature has shown that the quality of institutions and governance affect the growth of per capita income, investment, inflow of Foreign Direct Investment (FDI), and other measures of economic performance (see for example, North 1981, 1987, 1990, 1991, 1994, 2005; Mauro, 1995; Hall & Jones, 1999; Acemoglu, Johnson & Robinson, 2001; Easterly & Levine, 1997, 2002; Rodrik, Subramanian & Trebbi, 2004, Kaufmann, Kraay and Mastruzzi 2007, Ndulu and O'Connell 1999, Olson, Sarna and Swamy 2000, Knack 2002, Gradstein 2004, Persson and Tabellini 2009; among others). This raises a more difficult questions, why are institutions weak in Africa? Why is there bad governance in most Africa countries?

The literature on determinants of institutional quality is limited, however, pioneering works by Lopez-de-Silanes, Shleifer and Vishny (1999), Straub (2000), Knack (2001), Islam and Montenegro (2002), Eyerusalem (2008), Kandil (2009), Alonso and Garcimartin (2013), La Porta, Javed (2013), Lehne, Mo and Plekhanov (2014) for example established some correlation between six set of factors and differences in institutional quality as well as governance across countries. These include Economic factors; Geographical condition; Socio-cultural factors; Historical events; Openness to Trade and Investment; and Political factors. Other control variables often included are natural resource endowment and foreign aid among others. However, the literature is not very explicit on how countries with weak institutions can acquire strong and efficient institutions since most of these factors are not policy variables.

Interestingly, some countries in Africa have made significant progress in building good institutions in recent time. One of the big success stories is Rwanda. Since there is no established theory of determinants of institutional quality and the empirical literature is still feeble, the best way to learn

how to build good institutions is to learn from success stories. Therefore, this paper discusses the recent transformation of Rwanda vis-a-vis drawing lessons for Nigeria.

The paper is arranged in six sections, following the introduction in section 1, section 2 consists of brief assessment of the quality of institutions and governance in Rwanda. Section 3 draws comparison of Nigeria and Rwanda using economic competitiveness indicators. A brief discussion of Rwanda reform is presented in section 4, while lessons for Nigeria are drawn in section 5, and section 6 concludes the paper.

## **2. Institutions and Governance in Rwanda**

Rwanda is a country that has recreated itself after the genocide of 1994. All measures of institutional quality and governance have shown that Rwanda has made significant progress in recent time. Table 1 presents rankings of Rwanda in the world and Africa using different measures of quality of institutions and governance. In the ranking of Economic Freedom by Heritage Foundation Rwanda was ranked number 125 out of 157 countries as at year 2005. In a period of ten years Rwanda moved to number 71 out of 178 countries. In the Africa region Rwanda moved from number 29 to number 4 in ranking of Economic Freedom. Similarly, the World Bank Governance Index shows that Rwanda has made significant progress, from number 162 out of 200 in 2005 to 90 in 2014 and from number 47 in Africa to number 7. In ten years Rwanda gained forty places in ranking of governance quality. The Global Competitive Index computed by World Economic Forum equally reveals that Rwanda has made significant progress in recent time. Rwanda is one of the countries with high competitive index in the world today. It is important to mention here that Rwanda has equally made progress in economic and social development (see Human Development Report 2015).

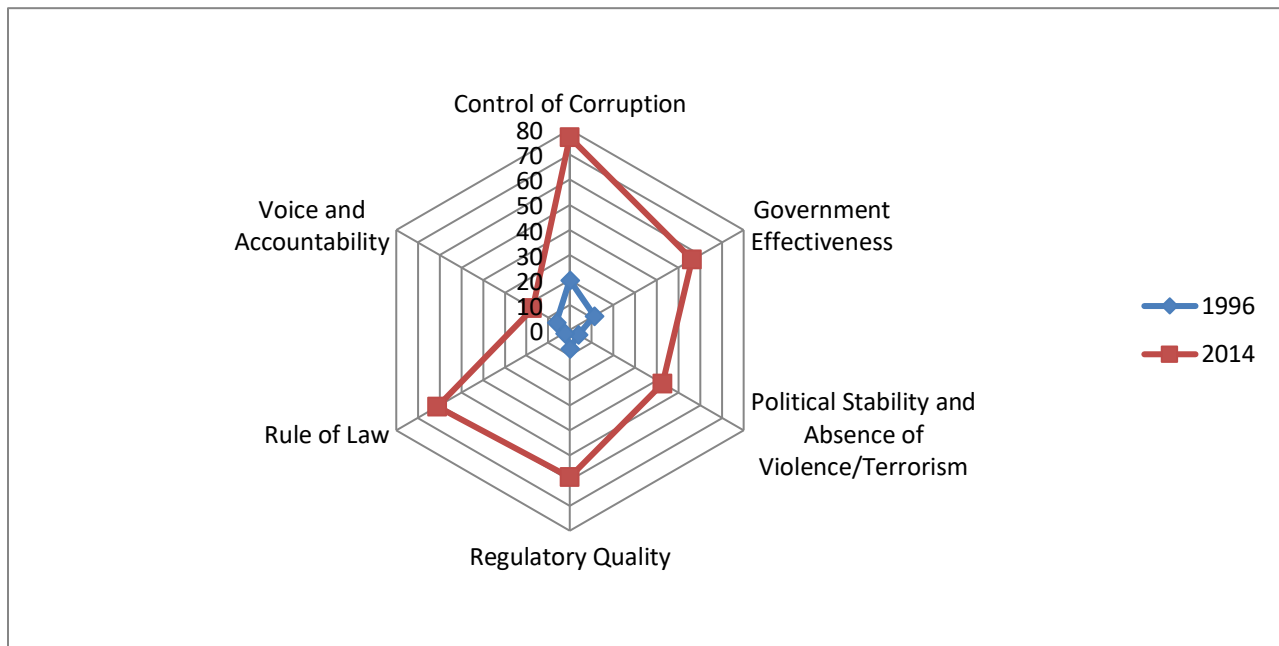
Figure 1 depicts the performance of Rwanda in the six World Bank Governance Indicators between 1996 and 2014. It is evident in the figure that Rwanda recorded significant progress in all the six governance indicators. The progress is more in Rule of Law, follow by Control of Corruption, Regulatory Quality, Government Effectiveness, Political Stability, and Voice and Accountability in that order. Rwanda has succeeded in improving the quality of governance tremendously within one and half decades. The country has transited from a country with poor governance to a country with good governance.

**Table 1: Ranking of Rwanda Institutional Quality**

		Rank in the World	Rank in Africa
Heritage Foundation Economic Freedom	2005	125 (out of 157)	29 (out of 44)
	2016	71 (out of 178)	4 (out of 52)
Mo Ibrahim Governance Index	2000	"	26 (out of 54)
	2014	"	11 (out of 54)
World Bank Governance Index	2005	162 (out of 200)	47 (out of 54)
	2014	90 (out of 200)	7 (out of 54)
Economic Freedom of Fraser Institute	2005	98(out of 123)	17 (out of 32)
	2013	38 (out of 123)	4 (out of 32)
Global Competitive Index	2010	80 (out of 139)	
	2015	58 (out of 140)	3 (out of 37)

Source: computed by author from different sources

**Figure 1: The Six World Bank Governance Indicators**



Source: plotted by author using World Bank Data Set

### 3. Nigeria versus Rwanda

To foster economic and social development there are set of interrelated institutions, policies and other factors that government should focus on. For instance, to achieve inclusive growth, two things are important according to McKinley (2010): (i) creates and expands economic opportunities, and (ii) ensures broader access to these opportunities so as to allow majority including the vulnerable to participate in and benefit from growth. It is clear therefore, that for

growth to be inclusive it must translate to greater access to productive resources to majority of people in the economy. This can be achieved by expanding human capabilities, such as investing in education, health, and basic social services as well as providing productive employment opportunities. In addition, inclusive institutions are necessary prerequisite, as argued by Acemoglu and Robinson (2012), and Iwayemi and Kilishi (2015) that it is inclusive economic institutions which create inclusive growth and inclusive growth will further enhances inclusive institutions. World Economic Forum designed and computed competitiveness index using set of institutions, policies and factors driven indicators that ensure inclusive economic activities. The composite index known as Global Competitiveness Index (GCI) consists of twelve pillars computed from 114 indicators. The twelve pillars include: institutions, infrastructure, macroeconomic environment, health and primary education, higher education and training, goods market efficiency, labor market efficiency, financial market development, technological readiness, market size, business sophistication, and innovation. These twelve pillars focus on three key drivers which are factors drivers, efficiency drivers and innovation drivers.

The idea of competitive institutions measured by first pillar is that good and efficient public and private institutions that guide human interaction, either social, economic and political interactions are essential factors that influence incentive of investors, protect the property and assure profit maximization. The second pillar focuses on availability and efficiency of basic infrastructure which matter much in shaping the business environment. Third pillar emphasized that stability of macroeconomic variables such as inflation, fiscal deficits and business cycles are essential for the operation of firms as well as performance of government. Accessibility and affordability to sound health and quality education is fundamental to high productivity of the workforce is the focus of fourth pillar, while fifth pillar is concerned with skill acquisition and training that provide important imputes to productivity of labour. The argument in the sixth pillar is that market efficiency is necessary for effective transaction between supply and demand of goods and services. Efficient market is essential for effective interactions of producers and consumers in an economy.

The labour market pillar (the seventh pillar) measures how the demand and supply of labour ensure clear strong incentives for employees so as to give their best at the workplace. The availability, accessibility and affordability of financial services is important to investment in any economy. This is measured by financial development pillar (the eighth pillar). The ninth pillar captures

indicators of technology particularly information and communication technologies (ICTs) that are key drivers of modern economy. The ability of a nation to adopt, domesticate and utilize modern technologies is important to productivity, growth and development. The size of domestic and international market influence performance of firms in many ways including economies of scale, hence indicators of market size are captured by the tenth pillar. The eleventh pillar which measures business sophistication consists of two elements that are intricately linked: the quality of a country's overall business networks and the quality of individual firms' operations and strategies. Finally, the twelfth pillar emphasize that ability and the incentive of entrepreneurs to create new product, new process, new production processes, or new marketing strategies are important for economic performance.

To allow some comparisons, the 2016 ranking of Nigeria and Rwanda in the GCI scores, the twelve pillars and a number of the indicators are presented in Tables 2 to 4. The overall GCI shows that Nigeria is ranked number 124 out of 140, while Rwanda is number 58 in the world. Rwanda has made continuous progress in the past five years in all the twelve pillars. However, Rwanda made more progress in the area of labour market efficiency with the assistance of high female participation. Between 2015 and 2016 Rwanda gains 15 places in quality of institutions to be ranked 17th. The country ranked among the first ten in the world in nine indicators of institutions as presented in Table 3. Rwanda succeeded in increasing public trust in politicians, transparency of government policymaking, government efficiency, and reducing wasteful spending in government, favouritism in government decision making, burden of government regulation, business costs of crime, violence, organized crime and insecurity. However, there is more room for improvement in areas of Higher Education and Training, Market Size and Technological Readiness.

Though, Nigeria gained three places between 2015 and 2016 it is still ranked number 124 in the overall index of GCIs out of 140 countries. However, Nigeria is ranked high in market size (25th) which is facilitated by GDP rebasing. The country also did well in ranking of labour market efficiency (35th). On the other hand, the country takes the last place in health and primary education due to poor quality of primary education and low scores in health indicators. Thus, there is need to improve in the quality of primary education beyond the emphasis on just enrollment. Accessibility and affordability of health services also need improvement. Related to this is higher

education and training where the country is ranked 128 out of 140 countries. This is largely due to inability to retain and effectively use talents, poor scientific research as well as limited linkage between Universities, research institute and industries.

Nigeria is equally ranked low in institutions and infrastructure, falling to 124 and 133, respectively. Ranking on indicators of institutions presented in Table 3 shows that despite the way against corruption in recent time, diversion of public funds, irregular payments, bribes, and corruption are still high in the country. There is so much wasteful spending in government and favouritism in government decisions is very common. Though, the military has recorded huge success in fighting insurgency particularly book-haram, security is still a major threat to business in the country. Government policies are less transparent and less effective, the public have little or no trust in policymakers. The Nigerian police is among the least reliable police in the world. Quality of infrastructure particularly power supply is one of the lowest in the world. Nigeria is second to last in ranking of quality of electricity supply.

Nigeria is ranked number 81, 100, 79, 106, 94 and 117 out of 140 countries in macroeconomic environment, goods market efficiency, financial market development, technological readiness, business sophistication and innovation pillars respectively. Relative low government deficit and debt lifted the country ranking in macroeconomic environment while inflation rate pulled it down. The domestic market environment of goods is less competitive which outweighs the improvements made in foreign market competition. Financial services are available and adjudged to be relatively sound but majority of people do not have access or could not afford. Financial inclusion is sine qua non to achievement of inclusive growth and this goes beyond just availability of banks. The poor quality of research institutions, low spending in R&D (Research and Development), poor university – industry collaboration in R & D dragged down the country performance in innovation. Poor access to internet in schools and inadequate research and training services to workers are main concern in technological development.

Table 2: Global Competitiveness Index and Twelve Pillars (2016)

Index	Nigeria	Rwanda
Global Competitiveness Index	124	58
1st pillar: Institutions	124	17
2nd pillar: Infrastructure	133	97
3rd pillar: Macroeconomic environment	81	92
4th pillar: Health and primary education	140	88
5th pillar: Higher education and training	128	120
6th pillar: Goods market efficiency	100	44
7th pillar: Labor market efficiency	35	8
8th pillar: Financial market development	79	28
9th pillar: Technological readiness	106	103
10th pillar: Market size	25	126
11th pillar: Business sophistication	94	69
12th pillar: Innovation	117	46

Source: Global Competitive Indicators

Table 3: Institutions, Infrastructure, Financial, Labour Market and Doing Business Indicators (2016)

Quality of Institutions	Nigeria	Rwanda	Quality of Infrastructure	Nigeria	Rwanda
Property rights	100	20	Quality of overall infrastructure	133	52
Intellectual property protection	119	28	Quality of roads	125	37
Diversion of public funds	132	18	Quality of air transport infrastructure	111	64
Public trust in politicians	132	8	Transport infrastructure	124	68
Irregular payments and bribes	132	24	Quality of electricity supply	139	88
Ethics and corruption	136	14	<b>Doing Business Indicators</b>	<b>Nigeria</b>	<b>Rwanda</b>
Judicial independence	96	26	No. procedures to start a business	103	93
Favoritism in decisions of government officials	132	10	No. days to start a business	30.8	6.5
Undue influence	109	19	No. days to start a business	115	36
Wastefulness of government spending	131	4	Burden of customs procedures	135	16
Burden of government regulation	109	4	Degree of customer orientation	123	71
Efficiency of legal framework in settling disputes	83	12	<b>Financial Indicators</b>	<b>Nigeria</b>	<b>Rwanda</b>
Efficiency of legal framework in challenging regs	91	18	Affordability of financial services	122	54
Transparency of government policymaking	121	9	Availability of financial services	86	67
Government efficiency	111	4	Ease of access to loans	135	42
Business costs of terrorism	135	17	Venture capital availability	128	30



Business costs of crime and violence	125	4	Labour Market Indicators	Nigeria	Rwanda
Organized crime	109	6	Country capacity to retain talent	90	23
Reliability of police services	134	21	Country capacity to attract talent	50	15
Security	130	5	Women in labor force, ratio to men*	87	3
Public institutions	129	13	Efficient use of talent	68	8

Source: Global Competitive Indicators

Table 4: Health, Education, Innovation and Market Size Indicators (2015 – 2016)

Health Indicators	Nigeria	Rwanda	Education Indicators	Nigeria	Rwanda
Business impact of malaria	61	38	Quality of primary education	128	64
Malaria cases	70	50	Quality of the education system	125	45
Tuberculosis cases	129	80	Quality of math and science education	132	59
HIV prevalence	126	125	Quality of management schools	102	74
Infant mortality, deaths	137	109	Internet access in schools	124	66
Life expectancy, Value	52.50	63.99	Availability of research and training services	106	93
Life expectancy, Rank	133	112	Extent of staff training	62	57
Innovation Indicators	Nigeria	Rwanda	Market Size Indicators	Nigeria	Rwanda
Capacity for innovation	82	62	GDP (PPP\$ billions)	21	122
Quality of scientific research institutions	129	68	Exports as a percentage of GDP	126	133
Company spending on R&D	108	65	Domestic market size index	21	124
University-industry collaboration in R&D	122	64	Foreign market size index	42	132
Gov't procurement of advanced tech products	117	6			
Availability of scientists and engineers	98	71			
Innovation and sophistication factors	114	55			

Source: Global Competitive Indicators

#### 4. The Rwanda Reform

As shown in section 3, Rwanda has made progress in many areas of competitiveness indicators. The policy steps taken by Rwanda to achieve major turn-around in governance and quality of institutions is discussed in this section. A careful study of the social, economic and political history of Rwanda shows that the recent success in Rwanda is the fruit of conscious planning that started around year 2000. Rwanda Vision 2020 is the official document of the long term plan which is implemented in a series of medium-term strategies; initially a three-year Poverty Reduction Strategy (PRS 2002-2005), followed by a five-year Economic Development and Poverty Reduction Strategy (EDPRS 1, 2007-2012) and then reviewed to EDPRS 2 (2013-2017). The

AfDB (African Development Bank) Country Strategy Paper (CSP) of Rwanda 2012 – 2016 acknowledged that Rwanda has recorded exemplary progress in design and implementation of public policies. The UNDP Human Development Report 2015 mentioned some of the implementation strategies that led to the great reform success in Rwanda.

The central reason for the success in Rwanda reform is decentralization policy. It was identified during the post–conflict Urugwiro consultations that one of the root causes of the conflict that led to 1994 genocide was concentration of power in few hands and the misuse of such power (UNDP Report 2015). Hence, one of the strongest policy recommendations to the Transitional Government of National Unity is decentralization of power. Though, the decentralization policy was implemented in phases, the Rwanda decentralization policy comprises of four interrelated components vis-à-vis political decentralization, administrative decentralization, fiscal and financial decentralization, as well as sectoral and service delivery decentralization.

Without much details discussion on each of the component, (for details see; Rwanda Five-Year Decentralization Implementation Programme 2004 –2008, Decentralization Implementation Plan 2011-2015) decentralization policy in Rwanda involve transfer of resources and service delivery responsibility to sub-national entities particularly at local government and district levels. Key ministries such as Agriculture, Health and Education established service delivery units at the local government levels. The local governments have been given power and responsibility to prepare comprehensive and integrated development plans incorporating the needs and taking into account the priorities of the local communities. Political decentralization ensures that citizens are fully involve in all aspect of policymaking starting from planning, implementation, monitoring and evaluation. The involvement of the citizens at that level makes the whole planning system participatory, transparent, effective and efficient.

The political decentralization propelled achievement in two major areas, first, transfer to the citizens the power to elect and remove leaders at local level. Second, it gives and encourage citizens to participate in all aspect of governance and process of service delivery. Citizens participation is strengthen over time and local government planning becomes inclusive and local ownership of development process was achieved. Hence, demystifying the concept of government. Politicians are made to sign performance contract known as *Imihigo* in traditional parlance and serve as mechanism to measure performance of politicians. The whole process of governance and

policy making as well as implementation becomes more transparent, and politician became more accountable to the people. Consequently, accountability and transparency as well as effectiveness and efficiency in governance and service delivery processes were enhanced.

A quick highlight of the key components of Rwanda decentralization policy are:

- a. Service delivery units of key ministries are established at local governments
- b. Responsibility to deliver services is transferred to the local units
- c. Resources to finance service delivery are transferred to local units
- d. The mandate to prepare development plan and budget is given to local administrators
- e. Citizens are fully involved in the planning and implementation process
- f. Citizens have the power to remove non performing politician.

### **5. Lessons for Nigeria**

One of the main obvious focus of the current federal government administration in Nigeria is war against corruption. Some of the major steps taken are the arrest of looters and the recovery loots. Meanwhile, this is just short-term solution to corruption because there is no measure to prevent looting in the future. In the case of Rwanda, corruption has drastically reduced since the beginning of the reform without necessarily arresting people. This was achieved by operating transparent and participatory government. The citizens and the civil society are directly involved in the design of policy, monitoring and appraiser of implementation. Thus, accountability and transparency as well as effectiveness and efficiency in governance and service delivery processes were enhanced.

The structure of government in the Nigerian Federal system is similar to the decentralization structure in Rwanda. Mainly, there are three tiers of government; Federal, State and Local Governments. There is also the district administrative units in both countries which is a sub-entity within local government. In Rwanda decentralization policy, resources and responsibility of service delivery are transfer to the sub – national entities including the districts. Units of key ministries such as Agriculture, Health and Education were established at the local government as discussed early. Local government administrators are more like field workers who are always in the communities talking to people, and implementing government policies, programmes and projects.

Similar decentralization structure exist in Nigeria where departments of Agriculture, Health, Education, Works and so on are established at the local governments. However, the form and nature of decentralization in Nigeria is different from the Rwanda case in a number of ways. One, the units of key ministries at the local governments in Nigeria are more of administrative units rather than service delivery units as it is in Rwanda. Politicians at local government level are basically administrators who may not implement a single project through out the life time of a regime. Two, fiscal and financial decentralization is restricted particularly with the operation of local government joint allocation account. Three, people are not involve in the activities of local governments in Nigeria. The local government is far to the people, though geographically located close to them. Four, citizen have little or no power to elect and remove local government administrators. Local government chairmen in Nigeria today are more like political appointees of the state governors. Hence, rather than people having control of local government activities, the governors are in control.

Given these peculiar characteristics of decentralization structure in Nigeria, more transfer of financial resources to the local government is not likely to deliver more service to the people. Rather, more corruption and diversion of funds are likely to be seen at the local government level. Therefore, local government autonomy that people are agitating for should be considered with care. If at all it should be considered, attention must be given to who owns the political power to elect and remove local government administrators. In addition, mechanism should be designed to allow and encourage citizens participation and involvement in all aspects of governance at least at the local government level.

It is important to mention here that the reform and progress in Rwanda happened without discriminating the female gender. In the space of the reform, Rwanda had also made significant progress is gender parity. Today, Rwanda has the highest number of female parliamentarians in the world and is among the top three countries with more proportion of women participating in labour force. Thus, the country is able to maximized women contribution to development process as well as ensures they befits from the process. Closing up gender disparity in politics, schooling and labour force participation is very important particularly in addressing gender discrimination and generally in nation building.

Though, there are a number of lessons Nigeria can learn from Rwanda as enumerated in this section, it is important to mention what Nigeria should not learn from Rwanda. The central government in Rwanda is less democratic with a seat tight president holding on to power. Ironically, the institutions of the constitution has been distorted recently to allow the president continue to stay in power.

## **6. Concluding Remarks**

Nigeria is facing many economic, social and political challenges in recent time mainly due to decline in oil revenue, cultural fractionalization, long failure of government to meet the needs of people and political dominance. Many countries in Africa are faced with similar challenges. One of the main reasons for the prevalence and persistence of these problems in Africa and other developing countries is presence of weak institutions and bad governance. Unfortunately, both theoretical and empirical literature could not clearly explain how strong institutions and good governance can be acquired. However, few countries in Africa including Rwanda have made significant progress recently in building strong and efficient institutions as well as good and effective governance. Therefore, this paper discussed building good institutions and governance drawing lessons from Rwanda experience.

The Rwanda experience has demonstrated that decentralization which give political power to the people is central to building effective institutions and good governance. This experience is in line with the argument of Acemoglu and Robison (2012) which states that economic institutions depend on political institutions and political institutions are in turn function of distribution of political power.

The main conclusion from this study is that for Nigeria and other countries in Africa to be able to build strong, effective and growth enhancing institutions, decentralization of political power is a necessary policy. However, decentralization should be back up with sanctions so as to ensure check and balances. It is also important to mention that decentralization structure such as local administrative entities and trained personal are necessary condition. Local government administrators should have the requisite knowledge and skills of planning and budgeting. The sufficient condition is to get people involve in the entire process of decision making, formulation,

implementation, monitoring and evaluation. Finally, the power to discipline non performance should belong to the citizens not state governor or de facto political elite (*political godfather*).

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