

INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

RWANDA

**Joint Staff Advisory Note of the Second Poverty Reduction Strategy Paper
Economic Development and Poverty Reduction Strategy**

Prepared by the Staffs of the International Monetary Fund and
The International Development Association

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I. OVERVIEW

1. **Rwanda's second Poverty Reduction Strategy Paper (PRSP)--the Economic Development and Poverty Reduction Strategy (EDPRS)--covers calendar years 2008-2012.** The EDPRS builds on the strong achievements in human capital development and promotes three flagship areas to mobilize resources, and improve policy implementation and coordination across sectors. These flagship areas are: (i) sustainable growth for jobs and exports; (ii) Vision 2020 Umurenge which is a decentralized integrated rural development program to accelerate reduction in extreme poverty; and (iii) governance, which aims to build on Rwanda's reputation as a country with a low incidence and tolerance of corruption and that has launched innovative home-grown mechanisms for conflict resolution, unity and reconciliation. This JSAN analyzes the key elements of the EDPRS, including (i) the participatory approach; (ii) donor coordination; (iii) growth-enhancing policies; and (iv) accountability and governance.

2. **Preparation of the EDPRS involved extensive consultation over a period of 18 months with a wide range of stakeholders.** The national coordination mechanism involved provincial and district level steering committees with representatives from district staff, local civil society organizations and the private sector. The work of these provincial and district level committees fed into discussions of 15 sector working groups (SWG), which are now the implementation mechanism for the main EDPRS sectors: agriculture, infrastructure, social sectors, and governance. Each SWG is chaired by a lead Government institution and co-chaired by a Lead Donor. Discussion and identification of priorities by the sector working groups was informed by the cross-sectoral themes of growth, rural development, human development and governance. Results of discussions among the sector working groups fed into the work of a technical steering committee (TSC), which played the principal coordinating role for the EDPRS, pulling together the work of the different SWGs, and making high level recommendations to the national steering committee (NSC) as appropriate. The NSC consisted of Ministers and Provincial Governors which provided high-level guidance on prioritizing across sectors.

3. **The Government has aimed to incorporate the lessons learned during implementation of the first PRSP (2002-2007) in the EDPRS preparation and areas of focus.** Results from the evaluation noted the need to: (i) strengthen the focus on the productive sectors (particularly infrastructure and agriculture) and the enabling environment for growth, and emphasized the importance of distributional issues, considering that the distribution of growth is likely to matter as much as the level of growth over time; (ii) intensify capacity building (relative to the first PRSP) to facilitate increased absorption of aid particularly at lower technical levels of the Government; (iii) increase the engagement of civil society and Parliament (particularly the Chamber of Deputies and the Senate Parliamentary Commissions) in the EDPRS process. For example, using the MTEF as a basis for wider consultation on the Government's EDPRS (both among Parliamentarians and civil society) could be an effective means of both strengthening the MTEF process and engaging civil society in the identification of priorities. This would promote a stronger basis for monitoring and evaluation (M&E) and accountability.

4. **Over the period of the first PRSP, GDP growth averaged 5 percent per annum, lower than the average of 7.7 percent between 1998 and 2002.** In addition, comparison of poverty reduction rates based on the household consumption survey (EICV) between 2001 and 2005 indicated that the poverty rate had declined marginally from 60.4 percent to 56.9 percent, while the number of poor increased from 4.82 to 5.38 million. Moreover, there was a faster decline in poverty rates in the Eastern Province. This has been driven by a rapid growth in consumption arising from: rapid growth in cereals, trade with neighboring countries and low population density. Poverty reduction in the Southern Province has been marginal or negative, despite strong growth in consumption of 4 percent per annum. Some of these results may be explained by the movement of population and returning refugees since the genocide, most of whom have been poor and in the rural areas. Results from subjective assessments of poverty by communities indicate over half of the households sampled felt that their income had not improved in the past three years.

5. **Overall, there has been rapid growth in the non-farm paid employment sector with an estimated increase of 200,000 new jobs created out of a total of 480,000 such jobs.** The share of the labor force working in formal employment increased from 5 to 10 percent. Also, the proportion of the employed labor force engaged in agricultural occupations declined by 9 percent nationally to 80 percent between 2000/01 and 2005/06. Most of this decline occurred among men, and the domestic service and retail trade sectors absorbed most of the workers.

6. **Agriculture is another key area where progress was somewhat below targets in the PRSP.** It is a critical sector to focus on in order to promote faster poverty reduction. The initial low level of growth was also related to the delays in adopting the Strategic Plan for Agricultural Transformation (PSTA) under PRSP-I. The PSTA has since been adopted. In the course of the EDPRS it will be critical for Government to follow through with strong implementation of the PSTA with an emphasis on the key areas that have been a constraint to growth in the sector: improving water management,

increased availability and use of fertilizers, and greater focus on conservation and integrated soil and water management.

7. **Social protection was not a strategic area identified under the first PRSP and therefore has suffered from a lack of strategic planning, consolidated budget and monitoring framework.** Budget allocation to social protection related activities is substantial at about 7 percent. However, activities are disparate and not strategically defined in an overall comprehensive framework. Adoption of a Social Protection Policy at end of 2005 was an important step to addressing this issue, but rapid development of a strategic plan is now needed.

8. **Deepening capacity building is an ongoing process and mechanisms are needed to strengthen the participation of civil society in designing, implementing and monitoring the EDPRS.** Through its Human Capacity Development Program coordinated by the Human Resource and Institutional Capacity Development Agency (HIDA), the Government continues to support efforts to build its implementation capacity, and will draw on experience and lessons learned so far in its scaled up effort to address this issue under the EDPRS. In the case of engagement of civil society and Parliament, a policy on civil society that partly addresses this issue was recently drafted. At national level, several initiatives are underway such as the Governance Framework, the Millennium Challenge Corporation and the creation of independent think tanks to improve harmonization with regard to assessment of governance in Rwanda. The establishment of a political party forum and of the Rwanda Civil Society Platform will help to reinforce free political competition.

9. **In terms of gender, Rwanda has the highest proportion of female parliamentarians in the world at 49 percent.** However, violence against women remains a problem and often goes unreported and therefore unpunished. There are also problems with the Land Law whereby women who are not legally married have no entitlement to their husband's land. Efforts through communities to encourage couples to legalize their marriage are bearing fruit. However, local mechanisms will be needed to deal with the issue of violence against women. Also, although net primary enrollment rates are now slightly higher for girls (87 percent) than boys (85 percent), girls still lag behind boys in completion rates and on exam scores. Gender disparities emerge after the third grade and in upper secondary and higher education.

10. **The focus of the EDPRS on increased economic growth and poverty reduction with greater efficiency in tackling the problem of extreme poverty is appropriate.** However, as with the last JSAN for the PRSP-I, staff emphasize the need to have a comprehensive reporting system on the state of rural development, particularly given the increased focus on this area under the EDPRS.

II. MACROECONOMIC AND FINANCIAL MANAGEMENT

11. **The macroeconomic framework is based on an ambitious acceleration of economic growth.** Real GDP is projected to grow on average by 7.6 percent a year between 2007 and 2012. This is ambitious considering an average annual growth of

5.4 percent between 2000 and 2006. Staffs' own projection of growth is somewhat lower at 6 percent. Correspondingly, exports are projected to increase by a high 15 percent a year. Investment in energy, infrastructure, and agriculture is expected to increase, but most growth-enhancing effects of this investment are likely to become evident after 2012. The ambitious projections in the EDPRS leave little room for adverse exogenous shocks.

12. **The overall fiscal stance should not undermine macroeconomic stability over the next few years.** Public investment is planned to be a key driver, inducing private investment, and is projected to reach 10 percent of GDP in 2009 and then remain unchanged as a percent of GDP, while public current expenditure is projected to decline as a percent of GDP. The combined net effect is that total fiscal spending would decline by about 2 percent of GDP until 2012. This fiscal path should not create greater challenges to the macroeconomic stability than the increase in fiscal spending that has already occurred during the last few years. Nevertheless, the ministry of finance and the central bank need to continue working closely together to contain fiscal pressures. The aim should be to maintain debt at sustainable levels, and avoid rekindling inflation, depleting reserves, and crowding out of private sector growth. The required coordination of fiscal and monetary policies would become even more critical in the event that economic growth were to fall short of projections.

13. **Achieving Rwanda's development objectives will require strong mobilization of resources, beyond those currently identified.** The planned expenditure path is driven by the Government's conservative assessment of forthcoming aid flows and would require hard-to-achieve spending prioritization, considering likely spillovers from the investment program, pressures on the wage bill, and increasing transfers to the provinces and districts. This underscores Rwanda's dependence on additional foreign grants. Furthermore, the EDPRS does not project an increase in the revenue-to-GDP ratio; aiming for more ambitious revenue targets would be important to reduce Rwanda's dependence on aid over the long term.

14. **The long-term debt sustainability warrants close monitoring.** Staffs' estimates of the financing plan are less optimistic than the EDPRS. To complement current and projected donor commitments, the Government estimates an additional financing requirement of Rwf 352 billion (about US\$660 million) over five years or about US\$130 million a year. Additional borrowing of this size would rapidly worsen the medium-term outlook for debt indicators. Thus in staffs' view, the debt sustainability analysis indicates that Rwanda remains at a high risk of debt distress. Therefore, the financing plan will require a significant scaling up of grant financing in order to ensure debt sustainability. Staffs welcome government efforts to develop a debt management strategy (embedded in a medium-term macro framework) and the related institutions and processes, and are prepared to provide technical assistance as needed. Staffs encourage the authorities to accelerate implementation of their export promotion strategy to strengthen and diversify the export base.

15. **The EDPRS does not include contingency planning.** The EDPRS is intended to be a guiding tool for the preparation of the medium-term expenditure framework, annual

budgets, and more detailed work plans, but it provides little guidance in the form of alternative scenarios. For contingency planning, the document could have included alternative scenarios with lower economic growth and less external financing. In the case of lower economic growth, the discrepancy between annual budgets and the expenditure projections in the EDPRS is likely to grow. Staffs note that in the face of constrained resources, Government has in the past identified and prioritized spending that would take place should additional grants materialize and there is no risk to macroeconomic stability. However, to ensure that priority areas of the EDPRS are protected from potential shortfalls in resources it is recommended that Government formally include contingency items in its budget and MTEF process.

16. **Fiscal policy needs to be based on well-prepared MTEFs** and the annual budget should be aligned with the Government's medium-term planning goals, such as the EDPRS. Staffs note with concern that the MTEF process appears to have been weakened by government staff turnover and retrenchment. After the initial gains made in this area, strong effort is needed to reinforce capacity and move the reforms forward. Ambitious sectoral strategies could put the overall fiscal balance at risk, if they are not based on a well-defined MTEF process. To this end, staffs note that progress toward putting in place mechanisms for project appraisal and investment prioritization will be critical. Efforts along these lines are being launched in the energy, agriculture and transport sectors, and the Bank is ready to coordinate with other donors to provide technical support.

17. **The problem of low capacity related to the public financial management (PFM) system persists.** There is strong political will to improve the PFM system and decentralize authority, but absence of robust accounting information limits the identification of problems in budget execution, particularly for the monitoring of activities at sub-national levels. The PFM system provides the aggregated data that is needed to monitor and meet aggregate spending targets. However, there are a number of weaknesses in the system emerging from the public expenditure and financial accountability (PEFA) assessment, which is soon to be finalized. Although the expenditure management system can produce the disaggregated information that is needed to monitor allocation and use of resources at the program level, reports are not always produced in a timely manner. As a result, spending decisions during the course of the year are based on incomplete information and the final composition of expenditure out-turns at the program level deviates significantly from the originally approved budget. Low capacity in financial accounting has also led to weak internal and payroll audit systems.

18. **Further prioritization and sequencing would help to improve the effectiveness of Rwanda's PFM reform initiatives.** Capacity constraints continue to pose particular challenges during the implementation of the reform agenda, and limit the amount of technical assistance that the Government can effectively receive. Effective coordination of donor funded initiatives is important for the realization of the reform agenda. Staffs encourage the authorities to establish a more systematic mechanism to guide the following: analysis of problems; identification and review of short/medium/long-term objectives of the reforms; examination of sequencing and cross-

cutting issues; promotion of linkage with other parallel reforms; and addressing capacity constraints. Effectively coordinated and monitored reforms will enhance understanding among stakeholders, increase ownership of the reforms, and therefore improve the chance of achieving the intended result.

III. STRATEGIC PILLARS OF THE EDPRS

Growth for Jobs and Exports

19. **The EDPRS analyzes the factors that have been most binding to growth and based on this prioritizes four key areas** to: (i) develop skills and capacity for productive employment; (ii) improve economic infrastructure; (iii) promote science and technology; and (iv) deepen and strengthen the financial sector. It also makes particular note of the need to link these areas to efforts to raise agricultural productivity and ensure food security, increase the contribution of the manufacturing sector to growth, and increase opportunities in the service sector. As over 80 percent of the population is currently engaged in the agriculture sector, Government's strategic approach under the EDPRS is job creation in the nonagricultural sectors as an important means of drawing labor out of subsistence and agriculture production.

20. **The emphasis of the EDPRS on improving the availability of skilled labor is appropriate.** However, it will be important to ensure that programs cover the skills needed not only in the rapidly growing service sectors but also include measures to improve the capacity of farmers to engage in higher valued added production and exports. In addition, implementation of the Strategic Plan for Agricultural Transformation (PSTA) is critical and the medium-term expenditure framework should be strengthened to ensure it reflects available resources and trade-offs. Staffs commend the Government on the progress made in promulgation of the land law, and stress the need to step up land registration and titling, particularly in the rural areas. In this regard, staffs note the work to pilot titling systems that has been launched with assistance from DFID.

21. **Staffs also commend the Government on increasing the quality of nine year basic education, strengthening Technical and Vocational Education and Training (TVET), and improving the quality of tertiary education.** The effectiveness and complementarities of reforms in these areas would be greatly facilitated by the formulation of an overall strategy on post-basic education. In addition, the proposed focus on Science, Technology, and Innovation (STI) is welcomed, and would preferably be encompassed in all levels of post-basic education, while basic education would lay the foundation to enable individuals to respond more readily to the skills and competency demands of the labor market.

22. **Compared to PRSP-I, the EDPRS puts greater emphasis on improving infrastructure services, particularly in transport and energy and continues to stress the importance of improved agricultural productivity for growth and poverty reduction.** Staffs welcome this increased focus on growth in the EDPRS compared to PRSP-I, but stress the importance of ensuring that measures to improve infrastructure services and strengthen the financial sector should pay particular attention to the needs of

the rural sector. In urban areas, attention is also needed to the needs of the informal sector and the poor as it relates to transport, water, energy and services in the financial sector. The authorities' efforts to develop the financial sector, following the steps outlined in their Financial Sector Strategy, should have a positive impact on stimulating private sector investment.

23. **A particular constraint to overall economic growth and private sector development has been the low level of generation and high cost of energy.** To address this issue, Government will need to outline a comprehensive strategic framework. Along those lines, an agreement has been reached within the energy cluster to move to a Government led sector wide approach (SWAp). This will provide a framework for long-term sustainable financing, emphasizing public-private partnerships and prioritization of investments. Staffs note the efforts being made by Government in these areas, and emphasize the need to ensure that policy actions in both the infrastructure and financial sectors address the needs of the poor in the urban and informal sectors as well as in the rural areas in order to support a higher reduction in poverty and inequality.

Vision 2020 Umurenge

24. **Staffs commend the Government on the efforts made through this flagship area to ensure the poor also share in the growth benefits.** Vision 2020 complements the Growth flagship area of the EDPRS with its aim to eradicate poverty by 2020. It is a pro-poor, growth-for-job-and-exports program, which has been launched as a pilot in one of the poorest villages in each district, in specific rural areas. The Vision 2020 balances central guidelines for growth and poverty reduction with local participatory mechanisms to ensure the best possible use of local resources while ensuring local incentives for sustainable progress. The programs to be implemented will include public works for able bodied poor, micro-enterprise development to foster entrepreneurship and off-farm employment, greater targeted access to social services for labor poor households such as community child care centers, adult literacy and numeracy, artisan and handicraft activities. The challenge will be implementation of this initiative in a way that does not undermine already ongoing reforms in decentralization nor diverts resources. It will be critical for implementation arrangements to be strongly coordinated and linked to existing institutional structures and delivery mechanisms. In addition, staffs recommend establishing up front a mechanism for evaluation of the programs to guide the scaling up of the program at the end of the pilot period.

Governance

25. **This component focuses on strengthening relations with neighboring countries to maintain peace, promotion of unity and reconciliation among Rwandans, reforms to the justice system to uphold human rights and the rule of law and empowering citizens to participate in their own social, political and economic development.** This component also covers a range of public sector reforms including decentralization and accountability at all levels of government, civil service capacity, strengthening public financial management and improving procurement, performance-based budgeting and increasing transparency and predictability of policy making.

26. **Substantial improvements in accountability related to service delivery in the education and health sectors have been achieved, along with strong implementation of an output-oriented MTEF.** Higher education transfers to districts, on a per student basis, have helped to strengthen participation of parent-teacher associations in the education system. In the health sector, increased delivery of services through the performance contracting system with service providers has improved outcomes related to the use of bed nets for malaria and assisted deliveries. Moreover, significant progress in implementing the MTEF approach has been achieved for the education and health sectors. Staffs note the substantial progress made in the social sectors with the adoption of an education sector wide approach (SWAp), and the recent agreement to adopt a SWAp approach in the health sector.

27. **Similar progress in the adoption of the MTEF is needed for the social protection sector and particularly for the infrastructure and agriculture sectors.** Staffs also note progress in these areas with a recent agreement in principle among the key stakeholders to adopt a SWAp in the energy sector, and with discussion for the approach to be adopted in the transport, and agriculture sectors. The emphasis should be on elaboration of a well costed MTEF based on the EDPRS, reflecting available resources and trade-offs.

28. **The need to build on achievements during PRSP-I in service delivery and improve capacity remains an issue to be addressed.** Efforts in the areas of capacity building and civil service reform are critical, particularly given decentralization reforms and weak administrative capacity which is a major obstacle for the reform agenda. Reforms in the civil service to promote increased incentives and staff retention will be critical for the successful implementation of the EDPRS. Staffs note that progress has been made since the last JSAN with the completion of the review of wage structure of the civil service, including fringe benefits. In addition, functional reviews of 6 key ministries will be completed by the beginning of 2008. These will enable the design of incentives and a pay and retention policy, and support capacity development of the civil service.

IV. TARGETS, INDICATORS, AND MONITORING

29. **The EDPRS outlines a framework for monitoring along with indicators and targets.** The indicators are generally considered to be appropriate, given the assessment of poverty and institutional capacity. However, the link between the outcome indicators and the policy matrix needs to be made more explicit. Also, given the differences in regional poverty rates (where the Eastern region has contributed most to poverty reduction and the South the least), staffs would recommend that the monitoring framework also present indicators by regions to monitor the effectiveness of interventions. Along these lines, more work is needed to understand the reason for the differences in poverty outcomes between the Eastern region and the rest of the country. Staffs note that the EDPRS highlights the role of cross-border trade in the East and lower population density, but more rigorous analytical work in this area would help to improve understanding and implications for measures and targeting to accelerate poverty reduction. Staffs also commend the Government on its decision to lead the development

of a Common Performance Assessment Framework (CPAF), which all budget support donors will draw from for their respective fiduciary requirements and reporting.

V. CONCLUSION

30. **Bank and Fund staffs believe that the EDPRS provides an adequate framework for poverty reduction in Rwanda.** The strategy builds on lessons learned in implementation of PRSP-I, primarily that a greater focus on the rural areas is needed for sustained poverty reduction. Also, Vision 2020 Umurenge has been included as a key pillar to ensure the poor also benefit from economic growth. However, issues related to capacity remain an issue for implementation of the EDPRS, as it did for PRSP-I.

31. **The immediate risks to growth and poverty reduction are shocks related to regional conflict and unpredictable weather patterns –i.e. late rains or excessive rains, or regional droughts.** Staffs note the emphasis placed on integrated water and soil management in the EDPRS. Successful implementation of programs to improve water management and use of improved inputs, particularly fertilizer should help mitigate this risk. However, disaster management should be also strengthened given the country’s susceptibility to regional droughts and floods. In terms of regional conflicts, the main risk to Rwanda is potential shocks to imports, exports and related inflationary pressures. This is particularly important for key imports related to energy and fuel. For example, Government would need to examine its strategic fuel reserve policy to ensure it provides adequate room to mitigate this type of risk.

32. **In view of the above, staffs recommend the following actions in order to strengthen implementation of the EDPRS:**

- Further **analysis to explain the modest progress in poverty reduction** compared to the strong economic growth during the course of the PRSP-I. This would then be used to inform the design of programs and improve targeting.
- Continued **efforts directed at building capacity** in the area of public expenditure management, particularly performance based budgeting as it pertains to the infrastructure and agriculture sectors. Progress in this area has been a key factor that contributed to the achievements in the education and health sectors.
- Further **prioritization of public expenditures** and involvement of the private sector may be warranted given limited resources.
- **To prepare contingency plans**, the staffs recommends including alternative scenarios with lower economic growth and lower external financing. A clear prioritization would also indicate programs that would have to be cut, if spending cuts were to be necessary.

33. **Bank-Fund staffs would encourage the Government to monitor the long-term debt sustainability carefully and to develop and implement a strategy for debt**

management. Rwanda has a small export base and exogenous shocks to exports or imprudent borrowing could rapidly deteriorate the medium-term outlook for debt indicators. Developing a comprehensive debt management strategy will be a step towards ensuring debt sustainability.

34. In considering Rwanda's Economic Development and Poverty Reduction Strategy and the associated JSAN, Executive Directors may wish to consider the following issues:

- Do Directors agree with the staffs' view that the EDPRS provides an adequate framework for poverty reduction?
- Do Directors concur with the areas identified by staffs as priorities for strengthening implementation of the EDPRS?