

Rwanda: Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report

The attached Joint Staff Assessment (JSA) of the Poverty Reduction Strategy Paper Progress Report for **Rwanda**, prepared by the staffs of both the World Bank and IMF, was submitted with the member country's Poverty Reduction Strategy Paper (PRSP) or Interim PRSP (IPRSP) to the Executive Boards of the two institutions. A JSA evaluates the strengths and weaknesses of a country's poverty reduction objectives and strategies, and considers whether the PRSP or IPRSP provides a sound basis for concessional assistance from the Bank and Fund, as well as for debt relief under the Enhanced Heavily Indebted Poor Countries (HIPC) Debt Initiative. The Boards then decide whether the poverty reduction strategy merits such support.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

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INTERNATIONAL MONETARY FUND AND
INTERNATIONAL DEVELOPMENT ASSOCIATION

RWANDA

**Poverty Reduction Strategy Paper Annual Progress Report
Joint Staff Assessment**

Prepared by the Staffs of the IMF and IDA

Approved by Juan Carlos Di Tata and John Hicklin (IMF)
and Callisto Madavo and Gobind Nankani (IDA)

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I. OVERVIEW

1. **Rwanda's Poverty Reduction Strategy Paper (PRSP) targeted the halving of poverty by 2015 through a private sector and rural-led growth strategy.**¹ The paper identified the following six priority areas—(1) rural development and agricultural transformation; (2) human development; (3) economic infrastructure; (4) good governance; (5) private sector development; and (6) institutional capacity building—as the focus for public actions on poverty reduction. This strategy was endorsed by the Boards of the IDA and the IMF on August 12, 2002.

2. **Rwanda's first annual Poverty Reduction Strategy Paper progress report (the progress report), which covers the period August 2002–June 2003, demonstrates substantial progress in human development (education and health), governance, and infrastructure development.** However, the achievement of poverty reduction targets will only be assured if sectoral strategies and programs in other areas are similarly articulated and implemented. The Progress Report also takes note of a number of gaps identified in the Joint Staff Assessment of the PRSP, including in the areas of the environment and capacity building.

3. **The progress report indicates that Rwanda's implementation of macroeconomic policies during 2002 was broadly satisfactory.** However, the staffs note that critical macroeconomic strategy elements, including increased agricultural productivity, export promotion, and a medium-term fiscal stance that relies on additional external borrowing, require the authorities' full attention.

¹For the purposes of the PRSP, the poverty line was established at an annual per capita expenditure level of RF 64,000 in 2000 prices (equivalent to US\$0.37 per day).

4. **Progress on structural and policy reforms has been broadly successful.** The authorities have showed continued commitment to privatization of public enterprises. Financial management reform is on track, as are established targets in the social sectors, particularly for education. As the government moves toward decentralization of service delivery, the challenge will be to maintain this momentum.
5. **Substantial progress has been made in establishing a political structure that can effectively strengthen social justice and stability.** A new constitution and a new president and legislators have been democratically elected. Advances toward achieving peace in the Great Lakes region will contribute to the implementation of the PRSP and the attainment of its objectives.
6. **The progress report is based on a range of supporting inputs.** It takes into account recommendations provided by development partners in the context of their annual meeting and by the October 2002 mission of the Strategic Partnership for Africa to Rwanda. Moreover, a participatory survey was undertaken to gauge the satisfaction of grassroots groups with public services and private initiatives targeted at poverty reduction. This Joint Staff Assessment of the progress report covers the first year of implementation of the PRSP.

II. PROGRESS IN POVERTY REDUCTION POLICIES AND PROGRAMS

A. Macroeconomic and Financial Management

7. **Rwanda's PRSP targets annual real GDP growth rates in the range of 7-8 percent a year over the next 15 to 20 years,** supported by improved agricultural productivity and an expansion in nonagricultural demand for goods and services. The progress report states that real GDP growth surged to 9.4 percent in 2002, driven by a construction boom and favorable rains. Inflation remained low. However, the external current account deficit deteriorated by about 1 percentage point of GDP during 2002, largely as a result of weak international markets for tea, coffee, and coltan.
8. **The progress report indicates that during 2002 and the first part of 2003 Rwanda's fiscal policy was broadly in line with the objectives under the Poverty Reduction and Growth Facility (PRGF) arrangement.** The 2002 budget targeted the containment of the deficit at 3.3 percent of GDP. Without unanticipated outlays for the withdrawal of Rwanda's armed forces from the Democratic Republic of Congo (DRC), the programmed government domestic fiscal deficit would have been achieved. It appears that the fiscal objective for 2003, however, may not have been achieved. Recent estimates suggest that domestic fiscal deficit for 2003 increased to 5.5 percent of GDP due to election overruns and other unanticipated spending, compared to a 4.4 percent target. The government's commitment to the PRSP was evidenced by an increase in allocations to priority programs from 25.3 percent of the total budget in 2001 to 26.3 percent in 2002 and 26.5 percent in 2003.
9. **The Progress Report notes that the ability to mobilize more resources to finance the PRSP strategy will partly depend on continuing improvements in fiscal revenue performance.** The staffs view that such improvement will be key, in the long term, to reduce

pressure on the deficit, and achieve macroeconomic stability and debt sustainability. In this regard, there is a critical need to resolve the tensions between a prospective rise in current spending over the near to medium term and the macroeconomic stability objectives set out in the PRSP. This debate is being informed, inter alia by the Poverty and Social Impact Analysis on the fiscal framework, financed by the United Kingdom's Department for International Development.

10. **The Progress Report details the advances made by the government in expenditure management and oversight.** Achievements in this area include improvements to the cash management system, the preparation of an organic budget law, further strengthening of the Auditor General's Office, and the issuance of guidelines for opening, closing, and monitoring government bank accounts. The office of Auditor General conducted audits of 10 ministries, including defense, and of 13 projects during 2002. Professional audit standards were set in place, and a new Auditor General Act was drafted. In addition, a new Division of Public Accounts was set up in the Ministry of Economic Planning and Finance to develop accounting structures and systems in line with the medium term expenditure framework (MTEF) and the budget.

11. **The staffs welcome the gains made in financial management and encourage the authorities to promptly begin the next phase of reforms.** Building on these advances, the next stage will include the integration of the development budget and the recurrent budget, the implementation of the financial accountability review and action plan, and the strengthening of reporting and auditing mechanisms at district levels.

12. **Although the Progress Report explains that monetary policy targets for reserve money and net credit from the banking system to government were met at end-2002, broad money grew more quickly than had been targeted, reflecting uneven policy implementation during the year.** While the central bank acted to tighten liquidity conditions toward the end of 2002, the attainment of inflation targets for 2003 proved difficult, in part owing to the lagged impact of the monetary expansion at end-2002, a significant increase in credit for the construction of a major hotel, and the relaxed observance of prudential regulations by some commercial banks. These developments led to an increase in inflation to 7.7 percent in December 2003 (compared with the targeted level of 3 percent), and a growth rate of broad money of 15.2 percent at end-2003. In order to strengthen the effectiveness of monetary policy in the period ahead, the staffs recommend that cooperation between the Ministry of Economic Planning and Finance and the central bank be strengthened. The enforcement of prudential regulations will need to be rigorous and the effectiveness of indirect monetary policy instruments should be improved.

13. **The progress report details significant reforms in the financial sector.** Banking supervision has been strengthened: an external audit of the central bank has been performed, and loan recovery procedures have been reinforced by the establishment of an arbitration center and a reform of the *voie parée* (foreclosure) system. The staffs encourage the authorities to move forward with pending reforms, including (i) privatization of the Commercial Bank of Rwanda; (ii) strengthening of the regulatory and supervisory framework; and (iii) enforcement of prudential regulations.

14. **Rwanda's dependence on good weather and limited progress on export promotion constitute critical challenges to its poverty reduction strategy.** As noted in the progress report, agricultural output remains vulnerable to adverse weather, underlying productivity has not improved significantly, and the development of new export markets has been slow. Moreover, implementation of the export promotion strategy is well behind schedule. The preparation of government-owned tea factories for privatization, the liberalization of the market for fertilizers, Rwanda's entrance into the Common Market for Eastern and Southern Africa (COMESA) free trade area in January 2004, and its qualification for benefits under the African Growth and Opportunity Act (AGOA) will contribute to addressing these concerns.

15. **As regards the mobilization of more foreign financing, it will be important to address the limited predictability and flexibility of budget support, which has complicated policy formulation and implementation.** In addition to high dependence on external assistance, the low level and slow speed of disbursements points to systematic capacity problems, donors' concerns over high program risks, and a reluctance to make disbursements even on committed grants. Government, with the support of development partners, is engaged in strengthening its command of donor procedures and its capacity to implement donor agreements. Similarly, donors will need to reinforce their institutional links to Rwanda.

B. Structural and Human Resource Policies

16. **Significant progress has been achieved in the education sector.** Primary enrollment rates have reached 82 percent in 2002 versus 75 percent in 2001. In addition, the Government has decided to: (1) provide 9 years of free primary education; (2) implement a trilingual language policy; and (3) subsidize private schools to promote girls' education. However, these new policies were not included in the PRSP and will need to be costed. In addition, the Progress Report points to improvements in quality as an important next step. Teaching and learning conditions remain very poor, with minimal learning materials in most classrooms, despite the fact that spending on education accounts for 25 percent of government non-interest recurrent expenditure.

17. **The progress report indicates that reforms in the health sector are well advanced,** reflecting a system of well-developed nongovernmental organizations (NGOs) anchored in grassroots activities. A micro insurance program established in cooperation with the NGOs serves 500,000 beneficiaries. As a result, great strides have been made in reducing the incidence of communicable diseases, such as malaria and childhood diseases, and in increasing the percentage of births attended by qualified health personnel by 3 percentage points. In the case of HIV/AIDS, a multisectoral approach has been adopted. Despite these advances, substantial additional progress is required, with malaria remaining the number one cause of morbidity and mortality. As the share of health outlays in the development budget has fallen steadily since 1998, the health sector is seriously underfinanced. The Poverty Reduction Support Credit (PRSC) operation, currently in preparation, will assist the government in addressing this problem.

18. **The staffs are encouraged by achievements in the social sectors, which should establish a strong base for future progress.** In moving forward, the government will need to develop a strategy for building institutional capacity to enhance the effectiveness with which public funds are used, and to improve the absorptive capacity in key sectors.

19. **The progress report points to considerable advances in private sector development,** with a focus on privatization and support to medium-sized and small enterprises. Out of 77 companies to be privatized, 37 have already been sold. In addition, a center for the development of small and medium-sized enterprises was restructured into a nonprofit institution that will become fully operational in 2004.

20. **The World Bank is finalizing a poverty and social impact analysis (PSIA) of reforms to privatize the tea sector.** The initial findings of this PSIA indicate that the potential for benefits from privatization is high, provided that farmers' access to credit and inputs (fertilizer, seeds, and pesticides) is improved. The PSIA also suggests that the quality of tea has declined as a result of the change in the state tea board's (OCIR-Thé) role from one of subsidizing input markets and marketing functions to one of regulator. This will need to be addressed when redefining the role of OCIR-Thé in its new capacity as regulator.

21. **Regarding economic infrastructure, the progress report points to achievements in road maintenance, the transition to private management for the electric utility, and private sector involvement in methane gas exploitation.** It also notes that a labor intensive public works (HIMO) program was recently launched to help address the pressing problem of infrastructure development and rehabilitation. The report recognizes the need for better targeting and prioritization of road maintenance, grassroots involvement in transport and communications development, rural electrification, and the development of alternative energy sources.

22. **Looking ahead, the authorities need to identify key priorities in the water and energy sectors that will contribute to improved income generation.** In particular, the staffs' view is that issues of water supply for rural production, sanitation and water for health, rural electrification, and the development of alternative energy sources should be among the key components in a comprehensive strategy for infrastructure development.

23. **The resolution of questions relating to land access and land policy will have significant implications for credit access, financial markets, and productivity in the rural areas.** In this regard, while the progress report indicates that a draft land law has been developed, the scarcity of land in the rural areas is a major constraint. Since land and resettlement issues continue to be controversial, efforts in reaching a consensus will need to continue.

C. Governance and Public Sector Management

24. **The progress report points to significant progress in the area of political and economic governance.** A new constitution was approved by referendum in May 2003, and a comprehensive review of legislation is in process. Progress has been made in the area of the demobilization and reintegration into civilian life of forces returning from the DRC. The

National and Unity Reconciliation Commission continues to progress with its work, while the Human Rights Commission has already published its annual report and opened offices in all the major provinces. The next step, following adoption of the new constitution, is to develop indicators for monitoring human rights. Finally, new organizational charts of civil servants in central government line ministries are being prepared.

25. **The progress report indicates that decentralization is advancing well.** The policy and legal frameworks for decentralization have been defined, and implementation is under way. Community-level work processes (*ubudehe*) will be used as the main planning tool for gathering information at the local level and informing districts. All districts have produced an MTEF and are completing their five-year plans. To establish a link between decentralization and sectoral strategies, a decentralization focal point has been established in each ministry to assist the decentralization unit.

26. **Because districts are not currently given a ceiling on their plans, these plans are not costed taking into account the available resources.** There is a need to ensure that district plans and MTEFs are integrated into the national level MTEFs and budget process. The staffs believe that this type of integration would facilitate the setting of appropriate targets, as well as better monitoring. Further analysis is also needed on the unpredictability of funds from donors and its impact on cash budgeting and target setting. To reduce the unpredictability of external financing, the government will need to improve the realism of its budget estimates and its capacity for implementing projects. Progress on budget support harmonization should also help to address current problems.

III. MONITORING, EVALUATION, AND DISSEMINATION OF THE PRSP

A. Participation and Ownership

27. **The government of Rwanda's ownership of the PRSP and the progress report draws on its grounding in the Government's Vision 2020 document.** A simplified version of the report was translated into Kinyarwanda and widely circulated among the population. The final draft of the full report was disseminated to donors and stakeholders in the country in June-July 2003, and subsequently submitted to parliament as background for the proposed 2004 budget. Ownership has been further strengthened through participatory processes to define, implement and monitor the PRSP process.

28. **Civil society, government agencies and ministries, and donors have all been actively involved in the PRSP process.** The engagement of civil society has taken place at the community and/or decentralized level. At the community level, the government has undertaken consultations to identify and prioritize problems, and to arrive at appropriate interventions set up and instituted by the communities themselves. The views of participants were reflected in the elaboration and implementation of the PRSP and have been credibly reflected in the progress report. In addition to basing priorities of the PRSP on consultations with local populations, the PRSP has been widely disseminated to the grass roots through translation into Kinyarwanda. The progress report has been prepared using a similar approach.

29. **The government has also used participatory processes and social inclusion mechanisms to promote reconciliation and conflict resolution**, including through regional conflict resolution, demobilization of ex-combatants, decentralization of decision-making, and the use of traditional court systems (*gacaca*) with community participation. The staffs commend the government for its efforts in this area.

B. Donor Coordination

30. **The progress report recognizes that existing institutions for donor harmonization and support will need to be strengthened for improved implementation of the PRSP.** Currently, the cluster thematic groups, whose objectives have been to facilitate the development and implementation of sector strategies, have played a major role in harmonization. These clusters are arranged around the main themes contained in the PRSP and meet on a regular basis, with the aim of harmonizing donor support around government priorities. There has been significant progress in the education and HIV/AIDS cluster. In the case of education, the sector-wide approach (SWAP) has played a major role in promoting participation and coordination among donors. A SWAP is also planned for the health sector.

31. **Progress in the development of clusters in areas other than education and health has been slower than planned, owing to limited capacity in some ministries.** There is a need to expand the mandate of the clusters to facilitate the development and continued reassessment of sector strategies, so as to achieve a better alignment with the PRSP review process.

C. Monitoring

32. **There are now adequate data sources for monitoring of outcome indicators.** A core welfare indicators questionnaire (CWIQ) household survey was carried out in 2001, and a broader survey is planned for 2005. A Public Expenditure Tracking Survey was completed in 1999, and another is planned in 2004. However, new surveys and analysis will be needed in the areas of labor markets and small and medium enterprise development to support the goals of the PRSP. The Progress report would benefit from incorporating indicators of progress in conflict resolution and reconciliation. Such quantitative indicators could include, for example, figures on the troops withdrawn from DRC, the soldiers demobilized and reintegrated, and the *gacaca* trials concluded. Regarding the monitoring of inputs and resources, a computerized budget system (SIBET) has been put in place in the Ministry of Finance to monitor transactions in budget preparation and execution. Additional work is in progress on connecting key departments to the SIBET system, including the revenue authority, the central bank, and the Central Public Investment and External Finance Bureau (CEPEX). It is expected that this will be completed in the second half of 2004. However, while records on expenditure transactions authorized by the Ministry of Economic Planning and Finance are maintained in SIBET, recordkeeping and accounting in ministries, agencies, and provinces remain uneven.

33. **The progress report states that, in addition to having an adequate database, the Poverty Observatoire (which coordinates the PRSP), continues to work with the various government departments to elaborate a system for monitoring and evaluation.** At the

district level, there is a system of reporting on a minimum set of indicators, comparable across districts, as well as other indicators of interest to inform the districts' own planning and monitoring activities. This enables feedback to circulate from the local levels up to the national level. The districts have been trained, and a procedures manual has been prepared for both ministries and districts to develop and monitor indicators, with medium- to long-term targets. The aim is to produce annual targets, and to closely monitor progress in implementing the PRSP.

IV. RISKS

34. **Over the last year, Rwanda's net present value (NPV) of debt-to-exports ratio has increased, relative to projections made at the decision point, and remains well above the thresholds that have been established under the Heavily Indebted Poor Countries (HIPC) Initiative. This is the result of a combination of factors such as lower than anticipated exports, adverse exchange rate movements and a decline in international interest rates.** Yet, the progress report asserts that a substantial increase in the level of current public spending financed by concessional borrowing would be appropriate. However, a significant increase in external indebtedness would increase the NPV of external debt-to-exports ratio and the debt-to-GDP ratio well beyond the levels envisaged in Rwanda's Decision Point document and could pose a risk to macroeconomic stability. In addressing this issue, the staffs urge the authorities to step up the implementation of the export promotion strategy, and to seek the support of the donor community in increasing the level of grant resources for PRSP related expenditures. At the same time, the staffs advise that implementation capacity and debt sustainability considerations be taken fully into account in budgeting spending increases.

V. SUMMARY EVALUATION

35. **As noted in the previous joint staff assessment, the successful implementation of Rwanda's PRSP will hinge on the achievement of peace and stability, strong policy implementation, and adequate financing.** The withdrawal of Rwanda's armed forces from the DRC, the establishment of a new constitution, and further steps in the transition to a plural democracy are highly encouraging. The policy of facilitating the return of members of hostile groups will also contribute to the social and political transition. The low level of social capital and limited institutional capacity are still potential obstacles to the success of economic and sociopolitical reforms. Wide participation and reconciliation—particularly in the form of the *gacaca* process—will facilitate the implementation of the PRSP.

36. **As the achievement of the poverty reduction objectives depends on sustained and rapid economic growth, it is imperative that coherent sectoral strategies and priority programs be developed and implemented.** In agriculture and infrastructure, which constitute key pillars for the economic strategy, reform measures need to be articulated and an effective management structure established. In particular, reforms of the land law will be critical in moving agricultural development beyond subsistence farming. In addition, in light of concerns regarding prospects for debt sustainability and given some slippages in macroeconomic policy performance during the six months subsequent to the issuance of the progress report, disciplined macroeconomic policy implementation and action to bring

external debt back onto the path towards sustainability will be required in the period ahead. In this connection, there should be a clear focus on (i) increased reliance on grant financing of development and PRSP related expenditures and (ii) improving export performance.

VI. OVERALL ASSESSMENT

37. The staffs of the Bank and Fund consider that the country's efforts toward implementation of the strategy provide sufficient evidence for its continuing commitment to poverty reduction, and that the strategy continues to provide a credible framework for Bank and Fund concessional assistance. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.