

Language: English  
Original: English



## AFRICAN DEVELOPMENT FUND

### **PROGRAMME: POVERTY REDUCTION STRATEGY SUPPORT PROGRAMME PHASE IV (PRSSP-IV) COUNTRY: RWANDA**

#### **APPRAISAL REPORT**

*Date: 27/05/2011*

<b>Appraisal Team</b>	Team Leader: : Michel Mallberg, Principal Economist, OSGE.2 Team Members: Orison Amu, CPO, RWFO Edward Sennoga, Country Economist, RWFO Jean-Philippe Kayobotsi, Private Sector Specialist, RWFO Godfrey Kaijage, Financial Management Specialist, TZFO Hassane Moctar, Procurement Specialist, KEFO Sector Director: Ndoumbe Lobe, Director, OSGE Regional Director: Gabriel Negatu, Director, OREA
<b>Peer Reviewers</b>	Damoni Kitabire, Lead Economist, ORSA Shirley Chinien, Principal Economist, OSGE.1 Peninah Kariuki, Principal Country Economist, UGFO Richard Walker, Country Economist, KEFO Laurette Dade, Senior Financial Management Specialist, ORPF

## TABLE OF CONTENTS

CURRENCY EQUIVALENTS	ii
FISCAL YEAR	ii
WEIGHTS & MEASUREMENTS	ii
ACRONYMS & ABBREVIATIONS	iii
LOAN/GRANT INFORMATION	v
PROGRAMME EXECUTIVE SUMMARY	vi
RESULT-BASED LOGICAL FRAMEWORK	vii
I – THE PROPOSAL	1
II – COUNTRY AND PROGRAM CONTEXT	2
2.1 Government overall development strategy and medium-term reforms priorities	2
2.2 Recent economic-social developments, perspectives, constraints and challenges	3
2.3 Bank Group portfolio status	6
III- RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY	6
3.1 Link with the CSP, country readiness assessment and analytical works underpinnings	6
3.2 Collaboration and coordination with other donors	8
3.3 Outcomes of past and on-going similar operations and lessons	9
3.4 Relationship to on-going Bank’s operations	10
3.5 Bank’s comparatives advantages and value added	10
3.6 Application of good practice principles on conditionality	11
3.7 Application of Bank Group non- concessional borrowing policy	11
IV – THE PROPOSED PROGRAMME	11
4.1 Programme’s goal and purpose	11
4.2 Programme’s pillars, operational policy objectives and expected results	11
4.3 Financing needs and arrangements	16
4.4 Programme’s beneficiaries	16
4.5 Programme’s and impact on gender	16
4.6 Environmental and Social Impacts - sustainability of the programme	17
V. – IMPLEMENTATION, MONITORING AND EVALUATION	17
5.1 Implementation arrangements	17
5.2. Monitoring and evaluation arrangements	18
VI – LEGAL DOCUMENTATION AND AUTHORITY	19
6.1 Legal documentation	19
6.2 Conditions Associated With Bank’s Intervention	19
6.3 Compliance with Bank Group policies	19
VII- RISK MANAGEMENT	19
VIII – RECOMMENDATION	20

## Appendixes

- Appendix 1 Letter of development policy
- Appendix 2 Operation policy matrix
- Appendix 3 IMF Country relation note
- Appendix 4 Recent evolution in macro-economic and financial key indicators and perspectives

## Technical annexes (separated from the PAR)

- Technical Annex I Principles on Conditionality
- Technical Annex II Overview of PEFA assessment
- Technical Annex III Analytic Work used in the Framework of the PRSSP-IV Preparation
- Technical Annex IV Institutional and Financial Management
- Technical Annex V Situation of the Public Procurement System
- Technical Annex VI Progress towards the achievement of the Millennium Development Goals
- Technical Annex VII Division of Labour Matrix

## Boxes

- Box 1 Prior actions for the PRSSP-IV

## Tables

- Table 1 Key Macroeconomic Indicators
- Table 2 Medium Term Budget Sector Allocations
- Table 3 Prerequisites for General Budget Support
- Table 4 Key Lessons
- Table 5 Budget Projections

### **Currency Equivalents**

*As of May 2011*

1 UA	=	952.14 RWF
1 UA	=	1.62 US\$
1 UA	=	1.09 Euro

### **Fiscal Year**

July 1<sup>st</sup> – June 30<sup>th</sup>

### **Weights and Measures**

1 metric tonne	=	2204 pounds (lbs)
1 kilogramme (kg)	=	2.200 lbs
1 metre (m)	=	3.28 feet (ft)
1 millimetre (mm)	=	0.03937 inch (")
1 kilometre (km)	=	0.62 mile
1 hectare (ha)	=	2.471 acres

## Acronyms and Abbreviations

ADF	African Development Fund	IFMIS	Integrated Financial Management and Information System
AfDB	African Development Bank Group	IFR	International Financial Reporting
AG	Auditor General	IFRS	International Financial Reporting Standards
AU	African Union	IMF	International Monetary Fund
BFP	Budget Framework Paper	INTOSAI	International Organization of Supreme Audit Institutions
BNR	Banque Nationale du Rwanda (Central Bank)	IPI	Investor Perception Index
BSHG	Budget Support Harmonization Group	IPPS	integrated personnel payment information system
CDF	Community Development Fund	ISA	International Standards of Auditing
CFAA	Country Financial Accountability Assessment	JBSR	Joint Budget Support Review
CG	Central Government	JSR	Joint Sector Review
COMESA	Common Market for Eastern and Southern Africa	LMIS	Labour Market Information System
CPAF	Common Performance Assessment Framework	MDA	Ministries, Departments and Agencies
CPI	Consumer Price Index	MDG	Millennium Development Goal
CSP	Country Strategy Paper	MDRI	Multilateral Debt Relief Initiative
DB	Doing Business	MFI	Micro Finance Institutions
DBI	Doing Business Indicator	MIFOTRA	Ministry of Public Service and Labour
DBSL	Development Budget Support Lending	MINECOFIN	Ministry of Finance and Economic Planning
DfID	Department for International Development	MINEDUC	Ministry of Education
DoL	Division of Labour	MINICOM	Ministry of Trade and Industry
DP	Development Partners	MTEF	Medium Term Expenditure Framework
DPCG	Development Partner's Coordination Group	NA	Not Applicable
DPM	Development Partner's Meeting	NDP	National Development Plan
DSA	Debt Sustainability Analysis	NES	National Export Strategy
EAC	East African Community	NISR	National Institute of Statistics Rwanda
EDPRS	Economic Development and Poverty Reduction Strategy	NPL	Non-Performing Loans
ESSP	Education Sector Strategic Plan	OAG	Office of the Auditor General
FDI	Foreign Direct Investment	OBR	Online Business Registration
FRA	Fiduciary Risk Assessment	ODA	Official Development Aid
FSDP	Financial Sector Development Programme	OPEV	Operations Evaluation Department
GAP	Governance Action Plan	ORSA	Regional Operation Department South A
GDP	Gross Domestic Product	OSGE	Governance, Financial and Economic Reforms Department
GoR	Government of Rwanda	PBO	Policy Based Operations
HIPC	Heavily Indebted Poor Countries	PCR	Programme Completion Report
ICGL	International Conference of the Great Lakes	PEFA	Public Expenditure and Financial Accountability
ICT	Information and Communication Technology	PER	Public Expenditure Review

PFM	Public Financial Management	RPPA	Rwanda Public Procurement System
PPP	Public-Private Partnerships	RRA	Rwanda Revenue Authority
PRSL	Poverty Reduction Strategy Loan	RWFO	Rwanda Field Office
PRSP	Poverty Reduction Strategy Paper	SACCO	Savings and Credit Co-operative/Micro Finance Institution
PRSSP	Poverty Reduction Strategy Support Programme	SCBP	Strategic Capacity Building Programme
PS	Private Sector	SME	Small and Medium Enterprises
PSCBP	Public Sector Capacity Building Programme	SN	Sub-National
PSDS	Private Sector Development Strategy	SWG	Sector Working Group
PSF	Private Sector Federation	TVET	Technical and Vocational Education Training
PSI	Policy Support Instrument	TZFO	Tanzania Country Office
QAG	Quality Assurance Group	UA	Unit of Account
RAMA	Rwanda Mutual Health Insurance	UGFO	Uganda Country Office
RDB	Rwanda Development Board	UN	United Nations
RES	Rwanda Expertise Scheme	US\$	United States of America Dollar
RIPPS	Rwanda Integrated Payment Processing System	WDA	Workforce Development Authority
RISP	Regional Integration Strategy Paper	WGI	World Governance Indicators
RLDSF	Rwanda Local Development Support Fund		

## Grant Information

Client's information

**BORROWER:** Government of Rwanda (GoR)

**EXECUTING AGENCY:** Ministry of Finance and Economic Planning (MINECOFIN)

Financing plan

---

Source	Amount (UA)	Instrument
ADF	23.19 million	Grant
World Bank	59.20 million	Grant
European Union	41.60 million	Grant
DfID	37.20 million	Grant
Germany	6.20 million	Grant

ADF key financing information

---

ADF Grant currency	Unit of Account (UA)
Interest type*	NA
Interest rate*	NA
Commitment fee*	NA
Other fees*	NA
Tenor	NA
Grace period	NA

\*Not applicable (NA)

Timeframe - Main milestones

---

Concept Note approval	May 27 <sup>th</sup> 2011
Programme approval	July 13 <sup>th</sup> 2011
Effectiveness Grant	August 2011
Disbursement Grant	August 2011
Completion	January 2012

## Programme Executive Summary

<p><b>Programme overview</b></p>	<p>The Poverty Reduction Strategy Support Programme phase IV (PRSSP-IV) is a UA 23.19 million general budget support grant. It is supporting the implementation of a multi-year reform programme with one tranche to fund the Rwanda National Budget of fiscal year 2011/12. It could be followed-up by a new operation in 2012 to continue support to the multi-year reform programme and fund the National Budget of fiscal year 2012/13 The operation is part of parallel general budget support operations amounting to UA 167.39 million funded by the World Bank, The European Commission, DfID and Germany. Key expected outputs, presented in the Log-Frame, include the implementation of the National Export Strategy, the establishment of online business registration, the establishment of an electronic land registry, the finalization and implementation of an SME policy and strategy, the review and simplification of collateral requirements to encourage rural banking, finalize and operationalize the National Human Capital and Skills Development Strategy as well as ESSP strategies and implementation framework.</p>
<p><b>Programme outcomes</b></p>	<p>The aim of the PRSSP-IV is to contribute to the implementation of the EDPRS in general and to achieve the strategic outcomes of the EDPRS flagship programme Growth for Jobs and Exports as articulated in the CSP. Its operational policy objectives are: i) improved business environment and deepened financial markets; and ii) improved institutional capacity to deliver quality services. It has the following expected outcomes: i) credit to private sector will reach 11.7% of GDP in 2011, the Investor Perception Index (IPI) will improve to 71.2% in 2011, the index on business environment (based on the World Bank's Doing Business will progress to 63.4% in 2011, 30% of planned outputs are expected to be achieved in the 4 selected SCBI priority areas in 2011, 45% of internal audit reports are submitted in 2011 and the proportion of employers who are satisfied with the performance of TVET graduates. Direct beneficiaries will be private sector operators and in particular SMEs, financing institutions and Government institutions, including Ministry of Finance and Economic Planning (MINECOFIN), Ministry of Trade and Industry (MINICOM) and Rwanda Development Board (RDB).</p>
<p><b>Needs Assessment</b></p>	<p>Significant results have been achieved under the implementation of the EDPRS. To achieve the EDPRS targets the Government of Rwanda (GoR) must nonetheless maintain its reform momentum, in particularly in the area of private sector and financial sector development and public sector capacity building. To this end the Bank's programme will contribute in keeping this momentum. The Bank will also be chairing the Budget Support Harmonization Group (BSHG) as of July 2011 and will, thus, through the PRSSP-IV show a firm commitment to General Budget Support and its overall engagement in Rwanda. Furthermore, the PRSSP-IV will contribute in closing the budgetary fiscal gap for 2011/12. This will allow the GoR to continue the implementation of its ambitious Public Investment Programme (PIP) which it has been implementing since 2010. Through the PRSSP-IV, the Bank will continue to play an active role in policy dialogue on Rwanda's development and reform agenda. The Bank will also be contributing to the implementation of the Paris Declaration and Accra Agenda by increasing the level of aid on budget, using of national systems and joint missions, avoiding parallel PIUs, and enhancing aid predictability.</p>
<p><b>Bank's Added Value</b></p>	<p>The major value addition from the Bank's participation in PBOs in Rwanda is the additional funding that it has provided to the government budget in conjunction with other DPs. The Bank also participates actively in joint analytical work including the recent PEFA assessment, Public Expenditure Reviews and Fiduciary Risk Assessments. The Bank continues to play a key role in the on-going PFM steering Committee and the Joint Governance Assessment. The Bank through RWFO is scheduled to co-chair the Budget Support Harmonization Group (BSHG) in the second half of 2011. Through the PRSSP-IV, the Bank will continue to play an active role in policy dialogue on Rwanda's development and reform agenda.</p>
<p><b>Institutional development and Knowledge budding</b></p>	<p>The PRSSP-IV will contribute to strengthen institutional capacity development in Rwanda through the sub-component "consolidation of public sector capacity". Knowledge building will be promoted through the preparation of the programme completion report and through the Bank's participation in joint analytic works.</p>

## VII. Results Based Logical Framework

Country and project name: Rwanda: Poverty Reduction Strategy Support Programme phase IV (PRSSP-IV)						
Purpose of the programme : Economic and Financial Reforms to support the implementation of the EDPRS						
RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (including CSI)	Baseline	Target		
IMPACT	Impact Sustained level of Investments; increase in exports and contribution to poverty reduction	Gross Investment/ Gross private investment	23.4%/12.6% of GDP (2010)	Above 20%/12% of GDP over 2011-2013	JBSR/JSR; BNR RDB reports	<b>Risk 1:</b> Regional Political Instability  <b>Mitigating measures 1:</b> Enhanced International and regional cooperation and efforts to promote peace and regional stability with the framework of the International Conference of the Great Lakes (ICGL) and the East African Community (EAC)
		Projected revenues from NES targeted sectors <sup>1</sup>	US\$ 342 million (2009)	US\$ 491m (2011) and US\$ 574m (2012)		
		Poverty reduction	56.9% (2005/6) below the national poverty line	46% (2012) below the national poverty line		
		Credit to private sector (% of GDP)	11.4 (2008)	11.7 (2011)	BNR reports and IMF staff reports/JBSR	
OUTCOMES	Outcome A.1 Improved business environment and deepened financial markets	Investor Perception Index (IPI) <sup>2</sup>	70.5% (2009)	71.2% (2011)	IPI annual report /JBSR/JSR	<b>Risk 2:</b> Macroeconomic instability including reversal of the global economic recovery and external shocks, including international price increase of oil and other commodities  <b>Mitigating measures 2:</b> Continued implementation of IMF PSI programme and Government's commitment to sound fiscal and monetary policies, ongoing efforts to diversify the economy, and promotion of intra-regional trade
		Index on business environment (Based on World Bank's DBI)	60% (2009)	63.4% (2011)	JBSR/JSR	
		Outcome A.2 Improved institutional capacity to deliver quality services	Percentage of planned outputs achieved in the 4 selected SCBI priority areas	-	30% (2011) 60%(2011/12)	
Percentage of internal audit reports submitted	40% (2009)		45% (2011)	JSR/JSBR		
OUTCOMES	Outcome A.2 Improved institutional capacity to deliver quality services	Proportion of employers who are satisfied with the performance of TVET graduates	67% (2009/10)	68% (2011/12)*	JSR/JBSR	
		<b>A. Enhancing the investment climate</b> <b>A.1 Strengthening the private sector environment and deepening the financial sector</b>				
OUTPUTS	Prepare, adopt and implement the National Export and Domestic Production Strategy (NES)	NES and NES implementation reports	-	NES adopted in 2011 and implemented in 2011-2013	Implementation reports of the NES; JBSR/JSR	<b>Risk 3:</b> Fiduciary risk is estimated to be
	Establish use of online business registration (OBR) and other services	JBSR/JSR report confirms that the measure has been implemented	-	OBR and other services have been established by en 2011	JBSR/JSR	

<sup>1</sup> Tourism, Tea, Coffee, Minerals and Mining Services, Business Process Outsourcing, Horticulture, Home Décor and Fashion, Greenfield Industries

<sup>2</sup> Survey prepared by Ministry of Trade and Industry (MINICOM) in collaboration with the Private Sector Federation (PSF) and Rwanda Development Board (RDB)

\* the indicator is measured every 2 years and will only be available in October 2012

	Operationalize the electronic single window project for trade facilitation	JBSR/JSR report confirms that the measure has been implemented	-	Electronic single window project for trade facilitation operational by end 2011	JBSR/JSR	low-moderate.
	Construct impact analysis of Doing Business (DB) reforms in terms of perception and investment levels	JBSR/JSR report confirms that the measure has been implemented	-	Impact analysis of Doing Business available by end 2011	JBSR/JSR	<b>Mitigating measures 3:</b> Continued implementation of the PFM reform strategy, strong commitment by the Government including policy on zero tolerance on corruption.
	Establish electronic land registry	JBSR/JSR report confirms that the measure has been implemented	-	Electronic land registry established by end 2011	JBSR/JSR	
	Finalize and implement SME Policy and Strategy	SME Policy and Strategy/JBSR/JSR report confirms that the measure has been implemented	-	SME Policy and Strategy finalized and implementation started by end 2011	JBSR/JSR	<b>Risk 4:</b> Implementation capacity and reform implementation delays including insufficient aid predictability and debt distress
	Review and simplify collateral requirements to encourage rural banking system	JBSR/JSR report confirms that the measure has been implemented	-	Collateral requirements simplified by end 2011	JBSR/JSR	
	Strengthen the regulatory frame work for Umurenge SACCOs	JBSR/JSR report confirms that the measure has been implemented	-	Regulatory Framework strengthened by end 2011	JBSR/JSR	
	<b>A.2 Consolidation of public sector capacity</b>					<b>Mitigating measures 4:</b> Implementation of the Strategic Capacity Building Initiative, adoption and implementation of Pay and Retention strategy. Donor commitment to enhance aid predictability. Continued implementation of the IMF PSI will contribute to manage the debt sustainability.
	System to collect labour market data operational using LMIS and manpower survey	JBSR/JSR report confirms that the measure has been implemented	-	System to collect labour market data operational using LMIS and manpower survey by end 2011	JBSR/JSR	
	Finalize and operationalize the National Human Capital and Skills Development Strategy	Strategy available and JSR report confirms that the measure has been implemented	-	The National Human Capital and Skills Development Strategy operationalized by end 2011		
	Conduct system based audits and value for money and computer aided audits	JSR report confirms that the measure has been implemented	-	Audits conducted by end 2011	JSBR/JSR	
	Pilot Establishment of Audit Committees	JSR report confirms that the measure has been implemented	-	Audit Committees established on pilot basis by end 2011	JSBR/JSR	
	ESSP strategies and implementation framework on skills development, including TVET finalized and approved by MINEDUC	JSR report confirms that the measure has been implemented	-	ESSP strategies and implementation framework approved by end 2011	JSBR/JSR	
	TVET costed strategic plan finalized and approved by WDA	JSR report confirms that the measure has been implemented	-	TVET costed strategic plan finalized and approved by WDA by end 2011	JSBR/JSR	
<b>ACTIVITE</b>	<b>COMPONENTS</b>				<b>INPUTS</b>	
					ADF: UA 23.19 million Grant World Bank: UA 59.20 million Grant European Union: UA 41.60 million Grant DfID: UA 37.20 million Grant Germany: UA 6.20 million Grant	

**REPORT AND RECOMMENDATIONS OF THE MANAGEMENT OF THE ADB  
GROUP TO THE BOARD OF DIRECTORS ON A PROPOSED GRANT FOR THE  
RWANDA POVERTY REDUCTION STRATEGY SUPPORT PROJECT PHASE IV  
(PRSSP-IV)**

## **I – THE PROPOSAL**

1.1 Management submits the following report and recommendation for a proposed grant of UA 23.19 million to finance the Poverty Reduction Strategy Support Programme phase IV (PRSSP-IV). The latter will be the Bank's fourth general budget support operation and is designed as a multi-year operation: It is supporting the implementation of a multi-year reform programme with one tranche, to fund the National Budget of fiscal year 2011/12. A subsequent operation could be presented to the Board in 2012, to continue supporting the reform programme and to fund the National Budget for fiscal year 2012/13. The programme was appraised in May 2011 and results from a request of the Government of Rwanda (GoR) made in April 2011.

1.2 The PRSSP-IV is aligned to Rwanda's Economic Development and Poverty Reduction Strategy (EDPRS), 2008-2012, and the Bank's Country Strategy Paper (CSP), 2008-2011 that was adopted in November 2008<sup>3</sup>. The programme is fully aligned to key Bank strategic documents including the Governance Action Plan (GAP); the Private Sector Development Strategy (PSDS); the Bank's 2008-2012 Medium Term Strategy and the Bank's ADF-12 priorities. Donors endorsed the EDPRS in September 2008. The design of this programme took into account good practice principles on conditionality and the Bank Group's non-concessional debt accumulation policy.

1.3 Significant results have been achieved under the implementation of the EDPRS. To achieve the EDPRS targets, the Government of Rwanda (GoR) should maintain its reform momentum, particularly in the area of private sector and financial sector development and public sector capacity building. To this end, the Bank's programme will contribute towards maintaining this momentum. The aim of the PRSSP-IV is to contribute to the implementation of the EDPRS in general, and to the achievement of the strategic outcomes of the EDPRS flagship programme: Growth for Jobs and Exports, as articulated in the CSP. Its operational policy objectives are: i) improved business environment and deepened financial markets; and ii) improved institutional capacity to deliver quality services. It has the following expected outcomes: i) credit to private sector will reach 11.7% of GDP in 2011; the Investor Perception Index (IPI) will improve to 71.2% in 2011; the index on business environment (based on the World Bank's Doing Business) will progress to 63.4% in 2011; 30% of planned outputs are expected to be achieved in the 4 selected SCBI priority areas in 2011; 45% of internal audit reports are submitted in 2011; and the proportion of employers who are satisfied with the performance of TVET graduates will reach 68% in 2011/12.

1.4 The Bank will also be chairing the Budget Support Harmonization Group (BSHG) as of July 2011, and will, thus, through the PRSSP-IV show a firm commitment to General Budget Support and its overall engagement in Rwanda. Furthermore, the PRSSP-IV will contribute in closing the budgetary fiscal gap for 2011/12. This will allow the GoR to continue the implementation of its ambitious Public Investment Programme (PIP) which it has been implementing since 2010.

---

<sup>3</sup> ADB/BD/WP/2008/162 /ADF/BD/WP/2008/112 of November 11<sup>th</sup> 2008

## II – COUNTRY AND PROGRAM CONTEXT

### 2.1 *Government overall development strategy and medium-term reforms priorities*

2.1.1 **Rwanda’s long term development priorities are articulated in the Rwanda Vision 2020.** The goal of Vision 2020 is to transform Rwanda into a lower middle income country (US\$900 per capita) by 2020, while ensuring unity and equitable distribution of development. The vision has six pillars: (i) good governance and a capable state; (ii) human resource development and a knowledge-based economy; (iii) a private sector-led economy; (iv) infrastructure development; (v) productive and market-oriented agriculture; and (vi) regional and international economic integration. It also places emphasis on the role of four cross-cutting issues: (i) gender equality; (ii) natural resources; (iii) the environment; and (iv) science, technology and ICT.

2.1.2 **The Economic Development and Poverty Reduction Strategy (EDPRS) is Rwanda’s second generation PRSP and covers the period 2008/09-2012/13.** The EDPRS provides a medium-term framework for achieving the country’s long term development goals, articulated in the Rwanda Vision 2020. The EDPRS focuses on growth and has several key targets including an annual real GDP growth rate of 8% and reduction in poverty from 57% in 2006 to 46% by 2012. The strategy also prioritizes decentralization of public service delivery combined with improvements in local government’s accountability mechanisms; food security; and scaling up investments in water, health and basic education. Another key priority of the EDPRS is redressing binding infrastructure bottlenecks to bolster private sector development and to facilitate regional and global economic integration.

2.1.3 **The EDPRS priorities are contextualized via three flagship programs:** Sustainable Growth for Jobs and Exports (flagship 1); Vision 2020 *Umurenge*<sup>4</sup> (flagship 2); and Governance (flagship 3). These flagship programmes serve as a vehicle for prioritizing Government’s actions, so as to sustain progress towards achieving the targets of the MDGs and Rwanda Vision 2020; facilitate communication, mobilize resources for development; and improve policy implementation through more coordinated interventions across sectors. The sustainable growth flagship programme supports policy and investment interventions aimed at: (i) developing skills and capacity for productive employment; (ii) improving economic infrastructure especially transport, power and communications; (iii) promoting science, technology and innovation; and (iv) strengthening the financial sector. Vision 2020 *Umurenge* prioritizes the achievement of shared growth and the creation of opportunities for the poorest Rwandans while the Governance flagship seeks to strengthen political governance, economic governance, and build institutions and capacity of the state.

2.1.4 **The implementation period of the EDPRS has been marked by improvements in economic governance and economic management, socioeconomic improvements, and noteworthy achievements in the doing business environment.** In spite of these achievements, the GoR has underscored the need for further improvements in economic infrastructure and, private sector development as well as capacity enhancement over the medium term. Strategic capital-investments were identified in 2010 in order to address Rwanda’s economic infrastructure deficit. These include: (i) energy rollout programme to increase household grid connections from 6% at end-2008 to 16% by 2013; (ii) building core ICT infrastructure for high-speed broadband connectivity; (iii) construction and rehabilitation of a regional railway linking Rwanda to Burundi and Tanzania; iv) construction of the Kigali Convention Centre to boost conference tourism; and (vi) construction of the Bugesera Airport. These investments are expected, in the medium term, to improve overall competitiveness,

---

<sup>4</sup> Village development programme

support additional employment creation, contribute to the diversification of the export base, and thus contribute to poverty reduction and growth.

## 2.2 *Recent economic-social developments, perspectives, constraints and challenges*

### 2.2.1 **GDP growth picked-up in 2010 and medium term growth prospects are favorable.**

Real GDP growth rebounded significantly to an estimated 7.5% in 2010, from 4.1% in 2009, mainly driven by a rebound in exports, services (mainly telecommunications) and construction sectors, in addition to continued growth in agriculture. In the medium term, real GDP growth is expected to be sustained at an annual rate of 7%, as the economy benefits from: i) the government's strategic investments; ii) increased investments in improved agricultural infrastructure and inputs (fertilizers, and seeds); iii) an improving business-friendly environment; iv) stronger external demand of Rwanda's export products; and v) an increase in credit to the private sector.

**2.2.2 Macroeconomic management is anchored on the new three-year IMF PSI-supported programme approved in June 2010 to support the implementation of the EDPRS while ensuring macroeconomic stability.** The first review under the PSI was completed in December 2010 and indicated that the programme was on track.

**2.2.3 Monetary policy stance is aimed at promoting credit expansion while cognizant of the underlying inflation pressures from rising food and fuel prices.** The National Bank of Rwanda (BNR) pursued a policy of monetary easing in 2010, cutting the policy rate and lowering the reserve requirements on bank deposits to boost credit growth to the private sector and support economic recovery. The interest rate pass-through was, however, weak due to Rwanda's shallow financial sector and the conservative stance adopted by banks which led to accumulation of excess reserves rather than lending. Broad money growth, an indicator of financial depth, is projected to grow by about 13.8% in 2011, up from an estimated 12.9% growth in 2010, on account of a strong recovery in credit growth.

**2.2.4 Inflation decreased markedly between 2008 and 2010 but there are significant risks for a renewed increase due to rising food and fuel prices.** Headline inflation slowed sharply to 2.3% in 2010, from a peak level of 22.3% at end-2008, driven mainly by the decrease in import prices, improved domestic food production and a stable exchange rate. Inflation is expected to increase to 7.5% at end- 2011, but stabilize around 6% in the medium term. The BNR will continue to apply an appropriate mix of monetary policy instruments to achieve its objective of maintaining low and stable inflation while supporting economic growth.

**Table 1: Rwanda: Key macroeconomic indicators**  
(% of GDP, unless otherwise indicated)

	2009*	2010*	2011*	2012* Proj
Real GDP growth (%)	6.1	7.5	7.0	7.2
Consumer prices annual average rate in (%)	10.3	2.3	3.9	6.5
Current account, incl. official transfers	-17.3	-17.7	-19	-15.5
External public debt, gross	14.7	14.9	16.8	19.2
Gross international reserves (months of	5.4	5.3	5.6	4.9
Fiscal balance incl. grants (Fiscal year)	-2.6	-1.3	-4.2	-1.8
Fiscal balance, excl. grants (Fiscal year)	-11.5	-13.2	-15.0	-13.5

Source: BFP, April 2011; \* 2009 is presenting fiscal year 2008/9, 2010 is presenting fiscal year 2009/10 etc.

**2.2.5 Fiscal policy remained expansionary in 2010/11 to support economic recovery in line with the 2009/10 fiscal stimulus, but the Government is committed to gradual fiscal consolidation over the medium term.** The overall fiscal deficit (including grants) decreased

from 2.6% of GDP in 2008/9 to 1.3% of GDP in 2009/10, on account of an increase in grants<sup>5</sup>. The deficit (including grants) is projected to increase to 4.2% of GDP in 2010/11, to finance the Government's strategic investments, before decreasing to 1.8% in 2011/12, in light of the expected fiscal consolidation and gradual withdrawal of the fiscal stimulus.

**2.2.6 The Budget Framework Paper (BFP) for 2011/12 to 2013/14 is built on EDPRS priorities and a prudent macroeconomic framework.** Fiscal policy in the medium term aims at sustaining funding for the EDPRS priority areas of economic infrastructure, productive capacities, human development and social sectors (see table 2). The share of the budget for these sectors is thus projected to average 70% between 2011/12 to 2013/14 and in line with the EDPRS targets. GoR is targeting zero net domestic financing in the medium-term, to avoid crowding-out the private sector. Accordingly, the budget policy for 2011/12 to 2012/13 seeks to further accelerate pro-poor growth within a sustainable framework.

**Table 2: Rwanda: Medium Term Budget Sector allocations**  
(% of total budget,)

EDPRS Budget allocations	2011/12	2012/13	2013/14	EDPRS Target
Infrastructure	21.7	19.3	19.0	19.7
Productive Capacities	17.9	19.9	21.1	16.7
Human Development and Social	30.5	31.1	30.6	34.2
Governance and Sovereignty	29.9	29.6	29.2	29.4
Total	100	100	100	100

Source: BFP, April 2011

**2.2.7 Domestic revenue mobilization will form a central part of the Government's fiscal consolidation strategy.** Domestic revenues are projected to increase from 12.5 in 2009/10 to 13.7% in 2010/11, and growth by 0.3 percentage points per annum to 14.8% in 2014/15, on account of improvements in tax administration efficiency and implementation of key tax policy changes, including improvements in fuel taxation and introduction of a flat tax regime. In 2011/12 domestic revenues is funding 49.9% of the National Budget while the remainder is funded through budget support and project financing. The revenue shortfalls (amounting to 0.2% of GDP) in 2009/10 were mainly, due to lower trade taxes and corporate income taxes and were accommodated through budget re-allocations and the EU-COMESA grants. The EU-COMESA grants are expected to continue to provide temporary relief from trade tax revenue losses in parallel with longer terms solutions, including broadening the tax base, improvements in tax administration, and the intensification of tax arrears collection.

**2.2.8 The external current account deficit (excluding official transfers) continued to widen in 2010,** increasing to 17.7% of GDP, up from 17.3% in 2009, largely driven by rising imports and weaker growth in exports. Projections are for further increases in the current account deficit over the medium term, particularly on account of increased capital imports associated with government's strategic investments. However, the current account deficit was offset by the increased official and private capital flows, which contributed to a balance of payments surplus and an increase in international reserves. International reserves are projected to remain strong at over 5 months of import cover over the medium term. A limited export base remains a significant risk to Rwanda's external position and to this end Cabinet has approved (April 2011) the Country's National Export Strategy to guide export diversification.

**2.2.9 The 2010 Debt Sustainability Analysis (DSA)<sup>6</sup> indicates that Rwanda's debt sustainability has improved to a moderate risk of debt distress.** Central Government debt

<sup>5</sup> Grants increased from 9.3% of GDP in 2008/09 to 13.1% of GDP in 2009/10 but are projected to decrease to 10.2% of GDP in 2010/11

<sup>6</sup> Source: Joint World Bank/IMF Debt Sustainability Analysis, May 2010

levels declined from 85% of GDP in 2000–04 to 14.4% of GDP in 2009, as a result of substantial HIPC/MDRI debt relief. Debt levels are expected to increase somewhat over the medium term, as Rwanda implements key strategic investments. Thus a judicious prioritization and sequencing of the implementation of large investment projects by GoR, as well as strengthening of its debt management capacity, will be essential in maintaining debt sustainability over the medium term.

**2.2.10 A Public Expenditure and Financial Accountability (PEFA) update was completed in 2010 and shows remarkable improvements compared to the 2007 PEFA.** Rwanda complies with international best practices in the areas of budget credibility, transparency and comprehensiveness. Commendable strides towards improving the procurement environment have been made and the existing legal and regulatory procurement framework is generally consistent with international standards. The areas of external scrutiny and auditing have also been highly rated in the 2010 PEFA. Continued implementation of the Public Financial Management (PFM) action plan will address remaining challenges, including in the areas of policy-based budgeting, in accounting, recording and reporting and in resource mobilization. Institutional capacity remains a challenge, but necessary actions to address this challenge are being taken and implemented, which is leading to a continuous improvement of the fiduciary framework.

**2.2.11 Rwanda has made significant progress in the area of governance and anticorruption.** The World Governance Indicators (WGI) show an overall positive trend with significant progress in areas such as government effectiveness, rule of law, regulatory quality and anticorruption. Progress in the area of anticorruption is also reflected in the positive trend of the Corruption Perception Index (CPI) of Transparency International. Rwanda was ranked 66 in the 2010 CPI (score 4.0), up from rank 89 in the 2009 CPI (score 3.3). The Government has a policy of zero tolerance to corruption and allegations regarding public officials are routinely investigated and brought to the courts. Continued implementation of a credible reform programme, including in the area of PFM, will likely contribute to further improvements the Country's governance situation.

**2.2.12 The GoR has also adopted a new holistic approach to capacity strengthening, with a focus on identifying the main capacity constraints in priority sectors for export promotion and growth.** Interventions here will address staffing and skills gaps in these sectors and strengthen central government operations by redressing low retention, high turnover, and skills gaps currently plaguing the civil service.

**2.2.13 Although poverty levels remain high, Rwanda has continued to register progress in terms of social development.** Poverty levels remain high with an estimated 57% of the population living below the national poverty line in 2006 compared to 60.4% in 2000/2001. Over 90% of poor people live in rural areas. Inequality increased between 2001 and 2006, with the Gini coefficient rising from 0.47 to 0.51. The on-going household survey will provide updated data by 2012. A key growth driver over the past years has been the agriculture sector. This is likely to have had a positive impact on poverty reduction, given the high proportion of poor living in rural areas. In the case of Rwanda, simulations indicate that agriculture growth has a strong impact on poverty reduction, benefits the majority of the households and that the distribution of benefits is relatively equal<sup>7</sup>. The April 2011 Joint Budget Support Review noted that Rwanda has made notable progress in the areas of health, education, water and sanitation, youth and social protection (see progress towards the achievement of the Millennium Development Goals (MDGs) in Technical Annex VI). The 2010 HDI increased to 0.39

---

<sup>7</sup> Agricultural Growth and Investment Options for Poverty Reduction in Rwanda, International Food Policy Research Institute, 2010

(ranking 152 out of 169 countries) up slightly from 0.38 in 2009. Rwanda is on course to meet and even surpass the MDG targets on infant mortality, while equality between boys and girls in primary education and participation of women in politics have already been achieved. Sustained improvements are required to meet the MDG targets on maternal mortality.

**2.2.14 Key challenges in the medium-term comprise promotion policies to sustain higher and inclusive growth, to accelerate the process of poverty reduction and the attainment of the remaining MDGs.** According to the IMF<sup>8</sup>, Rwanda has a growth potential of about 8.5% in the medium term, provided that: i) investment is scaled up significantly; ii) productivity growth increases and remains elevated; and iii) there are no adverse exogenous shocks. To reach the EDPRS growth targets of 7-8% per annum, achieve significant reductions in poverty and achieve the targets of the MDGs, GoR will have to continue implementing policies that address the major constraints to growth and promote social development. Such policies include strengthening overall competitiveness, scaling up public investments and supporting private sector investments. These investments will be funded through a combination of Foreign Direct Investment (FDI), Public-Private Partnerships (PPP) and domestic revenues. Measures to improve public sector capacity and efficiency in service delivery are also central to GoR's reform agenda.

### **2.3 Bank Group portfolio status**

2.3.1 There are currently 17 active Bank Group operations in Rwanda, comprising of 12 national operations of which 2 are private sector operations (PSOs), and 5 multinational operations. The overall total commitment is UA 271.56 million. Cumulative disbursement level stands at 35% (April 2011) (excluding private sector and multinational operations). Key indicators of the portfolio, excluding PSOs and multinational operations, are: i) Potentially Problematic Project: 20%; ii) Portfolio at Risk: 20%; iii) Commitment at Risk: 28%; and iv) Proportion of PBL at risk: 0.

## **III- RATIONALE, KEY DESIGN ELEMENTS AND SUSTAINABILITY**

### **3.1 Link with the CSP, country readiness assessment and analytical works underpinnings**

3.1.1 **The CSP is full aligned to the EDPRS:** As indicated earlier in the proposal (para. 2.1.3), the EDPRS is framed around three flagship reports. In this context, the Bank's CSP 2008-2011 is aligned, in particular, to the flagship 1 (Sustainable growth for jobs and Exports) and this is articulated through its two pillars: i) infrastructure; and ii) competitiveness. The CSP also identifies capacity building and institutional support as a key area of the Bank's intervention in Rwanda with a special focus on improving key functions of the public sector. Thus the PRSSP-IV is strongly linked to the EDPRS and the Bank's CSP, with its focus on private sector development reforms, financial sector reforms and capacity building reforms. It is also fully aligned to the priorities of the Bank's ADF-12 priorities, the Medium-Term Strategy, the Private Sector Development Strategy (PSDS) and the Governance Action Plan (GAP).

3.1.2 **Full compliance with Bank Group safeguards policy:** Rwanda fulfils all general and technical prerequisite conditions for a Development Budget Support Loan (DBSL) (see table 3 for a detailed presentation). In summary, Rwanda enjoys overall political and economic stability; the EDPRS is well designed and is being implemented within a viable macro-economic and financial framework with multi-year commitments of resources from Development Partners (DPs), over a medium-term period; there is a strong partnership and policy dialogue between the GoR and DPs and an effective aid coordination mechanism is in

---

<sup>8</sup> Source : IMF Country Report 11/19, January 2011

place. Furthermore, several satisfactory fiduciary reviews have been carried out, including a Fiduciary Risk Assessment (FRA) in 2008 and a PEFA in 2010. As indicated in para. 2.2.10, the PEFA assessment indicated significant progress in PFM scores in many areas, including the adoption of best practices in procurement policies, better monitoring and control of payment arrears, and improvements in the legal framework for budget preparation and its legislative oversight.

**Table 3: Prerequisites for General Budget Support**

<b>Prerequisites</b>	<b>Comments on the current situation</b>
<b>Economic stability and Government's commitment</b>	Rwanda is characterized by overall political stability. Presidential elections were organized in 2010 in a calm atmosphere and with a high turnout. Most international observers found the elections to be free. Local elections, organized in February 2011, were also conducted in a peaceful atmosphere. GoR's commitment to reforms and economic stability is strong. The reform implementation track-record is strong as noted in the October 2010 JBSR and successful implementation of the first year of the IMF's PSI indicates overall economic stability.
<b>Existence of well-designed PRSP or NDP</b>	The EDPRS 2008-2012 is a second generation PRSP with well-defined objectives and targets. It was designed using a participatory approach with extensive stakeholder consultations. The Bank's CSP 2008-2011 as well as the World Bank's Strategy Progress report of January 2011 found that it provides an adequate framework for poverty reduction in Rwanda.
<b>Availability of resources over the medium term period</b>	Availability of resources over the medium-term is adequate. Grants are expected to reach 11.0% of GDP in 2011/12 and 10.2% of GDP in 2012/13. Continued improvements in domestic resource mobilization are expected to result in a projected increase in total government revenues to 13.7% of GDP in 2011/12 and 14.3% of GDP in 2012/13, from 12.5% of GDP in 2010/2011.
<b>Viable macro-economic and financial framework</b>	The medium-term macro-economic and financial framework is viable. Overall fiscal balance will reach -3.6% of GDP in 2011, and is projected to gradually decline to -0.7% of GDP in 2013. The current account balance is also projected to gradually narrow from -9.0% of GDP in 2011 to -4.6% of GDP in 2013. Growth is expected to be maintained between 6.5 and 7% per year over the 2011-2013 period. Inflation is projected to stay in the range of 5-6% (in the scenario of no external shock).
<b>Strong partnership between RMC and donors ;Strong partnership among donors; Effective implementation mechanisms</b>	There is a strong partnership between the GoRs and DPs, particularly budget support donors, as evidenced by the well-functioning Budget Support Harmonization Group (BSHG), Joint Budget Support Review (JBSR) and the DPs' Coordination Group. PRSSP-IV will benefit from effective implementation aid coordination mechanisms, including the BSHG's, JBSRs and Sector Working Group (SWG) meetings. A secretariat in MINECOFIN is responsible for the overall coordination of budget support. The JBSR and the SWGs are co-chaired by high-level government and budget support donor representatives. The Bank's budget support operation will also benefit from a well performing and improving PFM system.
<b>Satisfactory fiduciary review of the public financial management system</b>	Several satisfactory fiduciary risk reviews have been undertaken in Rwanda, including a Country Financial Accountability Assessment (CFAA) in 2005, a FRA in 2008 and a PEFA in 2008 and 2010. The 2008 FRA found fiduciary risk to be at a moderate level. The recent PEFA assessment found that significant improvements had been achieved in strengthening the public financial management system. A joint FRA is being prepared for 2011 and the Bank is participating in the exercise. The PFM strategy that is currently being implemented is being updated to address the remaining challenges. Key PFM reforms are part of the CPAF and will be supported by the PRSSP-IV

**3.1.3 The PRSSP IV has been prepared using several key analytical works:** The EDPRS and related implementation reports, JBSR reports, the 2011/12 – 2012/13 budget framework paper (BFP), reports from the BNR, the CSP, the Regional Integration Strategy Paper (RISP) for Eastern Africa; the Domestic Resource Mobilization Study for poverty reduction in East Africa – case study for Rwanda, the PCR of the PRSSP-III, the 2010 PEFA, PERs, the World

Bank Doing Business 2010 country report, and the recent IMF article IV report are some of the analytical works that have been used in the preparation of the PRSSP-IV (see Technical Annex III for a complete list). Key conclusions drawn from the analytical works include: i) macroeconomic policies conducive to improved competitiveness and increased private sector investment should continue to be implemented; ii) pro-poor levels of expenditures should be sustained, in line with the EDPRS priorities; iii) multi-year fiscal planning and, domestic fiscal mobilization should be improved, whilst PFM reforms should continue to be implemented, in order to address issues, identified in the 2010 PEFA; iv) investments in areas that are bottlenecks for growth (including energy, transport and agriculture productivity) need to be promoted; v) implementation of reforms to enhance the investment environment and the business enabling environment need to be consolidated, notably in areas, such as trade facilitation and promotion, Small and Medium Enterprises (SME) development, dealing with construction permits, closing a business, and increasing access to qualified labour; vi) financial sector reforms to deepen the financial market should be consolidated; vii) Institutional capacity should be strengthened to deliver quality services in particular in strategic priority areas; and viii) strategic sectors to enhance exports (tourism, tea, coffee, mining, business process outsourcing, horticulture and Greenfield industries) should be promoted.

### **3.2 Collaboration and coordination with other donors**

**3.2.1 The level of coordination in Rwanda is high.** Budget support operations are coordinated within the framework of the Budget Support Harmonization Group (BSHG)<sup>9</sup>. It is co-chaired by high-level representatives of GoR and a budget support donor. GoR plays a lead role in donor coordination, as co-chair of the BSHG and JBSR.

**3.2.2 Development partners' activities in the country:** Official Development Assistance (ODA) amounted to US\$ 945 million in 2009/10 and was funded by 17 development partners. General budget support amounted to 36% of total ODA and has more than doubled since 2007. A division of labour (DOL) matrix was adopted in 2010 and limits each development partner's activities to three sectors. The DOL aims to reduce transactions costs and improve aid effectiveness amongst the development agencies in Rwanda. The Government mapped donors to particular sectors by taking into account donor's preferred aid modality, mandate, comparative advantage and track record. The DOL matrix is presented in Technical Annex VII, and maps the Bank to three sectors including energy, transport and ICT, and water and sanitation, which are in line with the strategic thrust of the Bank's current CSP. Certain areas of intervention are considered to be cross-cutting including private sector development and capacity building activities in the area of PFM and financial sector reforms.

**3.2.3 The Bank, through Rwanda Field Office (RWFO), is scheduled to co-chair<sup>10</sup> the BSHG again starting July 2011 and was previously co-chair in 2008.** The BSHG is a technical working group of the Development Partners Coordination Group (DPCG) and its membership is exclusive to donors that provide budget support. The BSHG monitors implementation progress of the EDPRS, using the joint GoR/budget support donors Common Performance Assessment Framework (CPAF), which has been in place since end-2008. Joint Budget Support Reviews (JBSRs) and regular Sector Working Group (SWG) meetings are organized to discuss sector and thematic issues and to monitor progress on the CPAF indicators.

**3.2.4** The Bank participates actively in the bi-annual JBSRs and regular Sector Working Group (SWG) meetings for the social, economic and governance clusters as well as energy,

<sup>9</sup> The BSHG includes DPs providing general and sector budget support including African Development Bank, World Bank, the European Commission, DfID, USAID, Belgium, the Netherlands and Germany

<sup>10</sup> The co-chair of the BSHG rotates between the donors

transport, agriculture, education and water and sanitation sectors. Budget support donors are increasingly jointly undertaking analytical work, such as including the recent PEFA assessment, Public Expenditure Reviews (PERs) and the upcoming FRA.

**3.2.5 Key stakeholders have been consulted:** During the preparation of the operation, key stakeholders were consulted, including the Ministry of Finance and Economic Planning (MINECOFIN), the Ministry of Trade and Industry (MINICOM), the National Bank of Rwanda (BNR), the Rwanda Development Board (RDB) and development partners, including the World Bank, the IMF, the European Commission and bilateral donors. The operation also benefited from stakeholder consultations, including private sector, civil society, Non-Governmental Organizations (NGO), undertaken within the framework of the JBSR and SWG meetings.

### 3.3 *Outcomes of past and on-going similar operations and lessons*

**3.3.1 Previous PRSSP I-III have achieved significant results and key lessons learned have been integrated in the design of the PRSSP-IV.** All Programme Completion Reports (PCR) for previous PRSSP operations in Rwanda have been finalized. The three PRSSPs supported the Government's development of socio-economic infrastructure, trade liberalization reforms, capacity development in PFM, financial sector reforms, and improvements in the business climate. The Bank's previous budget support programmes have contributed to the improvement of Rwanda's position in the Doing Business ranking, which reached 58/183 in 2010 up from 139/155 in 2006. Reforms supported by the Bank in the financial sector have also had positive results, including a deeper financial. PFM has also improved significantly, as the recent PEFA exercise indicates (See Technical Annex II). One of the reform areas under the PRSSP III, public procurement, registered significant results, and the October 2010 JBSR found that 100% of public procurement was undertaken in conformity with national legislation. Although considerable progress has been made, the authorities agree that further reforms are needed to continue improving the business environment, deepen the financial market, and strengthen institutional capacity for deliver quality services. Lessons learned from previous operations, summarized in table 4, have been incorporated in the design of the PRSSP-IV. Lessons from operations in other countries<sup>11</sup> have also been taken into account, such as: i) performance targets must be clearly set; ii) disbursement conditions must be realistic; iii) the operations should focus on some key sectors/areas; and iv) the operations should use mechanisms for harmonization and alignment with DP's operations.

*Table 4: PRSSP I-III Key Lessons*

<b>PRSSP I to III Lessons</b>	<b>Actions Taken to integrate lessons in the PRSSP-IV</b>
Reduce the number of conditions precedent to disbursements, in line with country implementation capacity	The PRSSP-IV will focus on a selected number of key triggers selected from the CPAF that was developed by the Government in collaboration with budget support donors. The PRSSP-IV has 3 prior actions for the disbursement compared to 4 prior actions for the disbursement of the first tranche of the PRSSP-III and 4 conditions precedent to disbursement of the second tranche of the PRSSP-III.
The Bank should monitor and supervise budget support operations, more closely	The operation will be supervised within the framework of JBSR and RWFO will actively participate in Budget Support Harmonization Group (BSHG) meetings, JBSR meetings, and SWG meetings. RWFO staff strength has been improved with a field-based country economist, a local macroeconomist and a private sector development expert. The Bank's country office will also monitor and supervise the PRSSP-IV. This will also contribute towards facilitating the Bank's co-chairing of the BSHG and the organization of the JBSR.
Enhance GoR implementation capacity	PRSSP-IV will support enhancement of GoR's implementation

<sup>11</sup> PCR, Ghana, Second Poverty Reduction Support Loan (PRSL); PCR, Tanzania, Second PRSL; PCR, Mozambique, PRSL-I

PRSSP I to III Lessons	Actions Taken to integrate lessons in the PRSSP-IV
for reforms and strengthen coordination of donor budget support.	capacity and budget support donor coordination through use of the JBSR, SWG meetings and the CPAF.
Strengthen the alignment between the Bank CSP and the PRSSP IV	The CSP and the PRSSP-IV alignment has been strengthened through the latter's focus on reforms to enhance the business environment, the financial sector, and capacity building.
Maintain the multi-year dimension of the operation to improve aid predictability	The operation is designed as a 1 tranche operation that will fund the National Budget of fiscal year 2011/12 and support multi-year reform programme. It could be followed up with a new 1 tranche operation to fund the National Budget of fiscal year 2012/13 and continue the Bank's support to the GoR's reform programme.

### **3.4 Relationship to on-going Bank's operations**

3.4.1 **There is a strong relationship with other Bank operations.** The PRSSP-IV's focus on improved competitiveness through enhancement of the business enabling environment, continued financial sector reform, and capacity building, has potentially strong synergies with other Bank funded projects. There are strong links with the on-going Competitiveness and Enterprise Development Project phase II (CEDP-II), the Support for Policy and Strategy Development (SPSD) project, a FAPA funded capacity building project to the Private Sector Federation and the Bank's recent operations in the financial sector and energy sector<sup>[1]</sup>. The on-going financial sector reforms, which aim at deepening and expanding financial services, will complement the Bank's private sector operations, particularly the recently approved Lines of Credit in favor of two banks in Rwanda. The support for capacity building policy reforms and activities, particularly the strengthening of the PPP framework and related capacity building in the Rwanda Development Board, will contribute towards enhancing the development effectiveness of the Bank's existing and planned investments in the infrastructure sector, particularly in the energy and transport sector. There are also synergies with the Bank's sector budget support in agriculture, the Livestock infrastructure support programme, which is targeting an improved environment for private sector participation in the agriculture sector. Finally, a technical assistant recruited by ESTA under an AfDB/World Bank arrangement, as an in-country statistician to provide support to Rwanda's National Institute of Statistics (NISR), will contribute to strengthen Rwanda's monitoring and evaluation capacity which will benefit the PRSSP-IV.

### **3.5 Bank's comparatives advantages and value added**

3.5.1 **The Bank's value added:** An OPEV evaluation of General Budget Support conducted in 2010 reported that the major value addition from Bank's participation in PBOs in Rwanda has been the additional funding that it has provided to the government budget in conjunction with other DPs. This additional funding allowed the GoR to increase priority spending to 13% of the total budget in line with the EDPRS target. The Bank has also actively participated in joint analytical work including the recent PEFA assessment, Public Expenditure Reviews and Fiduciary Risk Assessments. The Bank continues to play a key role in the on-going PFM steering Committee and the Joint Governance Assessment. The Bank contributed to the establishment of the CPAF. RWFO is scheduled to co-chair the Budget Support Harmonization Group (BSHG) in the second half of 2011. Through the PRSSP-IV, the Bank will continue to play an active role in policy dialogue on Rwanda's development and reform agenda. The Bank will also be contributing to the implementation of the Paris Declaration and Accra Agenda by increasing the level of aid on budget, using of national systems and joint missions, avoiding parallel PIUs, and enhancing aid predictability.

---

■ <sup>[1]</sup> Credit lines to Bank the Kigali and the Rwanda Development Bank and Loan to the KivuWatt energy project

3.5.2 The Bank's comparative advantages: The Bank's main comparative advantage is through its role in policy dialogue within the framework of BSHG. It made an important contribution through participating in, and co-chairing, the BSHG in 2008, where the RWFO played an important role in facilitating agreement on the CPAF and other joint budget support processes. The Bank has continued to participate and contribute actively to subsequent BSHG meetings. The OPEV evaluation also notes that Bank benefitted from participating in aid coordination, particularly budget support. The Bank through RWFO has attained a central position in terms of policy dialogue both with GoR and DPs, allowing the Bank an opportunity to provide technical advice on GoR priorities, and facilitate dialogue between GoR and DPs and support the in-country aid coordination mechanism effectively.

### ***3.6 Application of good practice principles on conditionality***

3.6.1 **Good practice principles on conditionality have been applied:** The PRSSP-IV is fully aligned to the EDPRS and its prior actions have been drawn from the Common Performance Assessment Framework (CPAF), focusing on critical actions relevant and achievable within the programme's time-frame. The use of a CPAF will contribute to the: i) reinforcement of country ownership; ii) use a coordinated accountability framework customized to country circumstances and the EDPRS results and monitoring framework; and reduce transaction costs (See Technical annex I).

### ***3.7 Application of Bank Group non- concessional borrowing policy***

3.7.1 Rwanda is classified as an ADF country, eligible for only ADF financing. The country is also a beneficiary of the Heavily Indebted Poor Country (HIPC)/Multilateral Debt Relief Initiative (MDRI). Consequently, the public sector has restricted its funding request from the Bank to only the ADF window in recent years. The design of the programme has taken into account the Bank Group non-concessional borrowing policy adopted in 2008 and the 2010 amendments to the Bank Group Policy on Non-Concessional Debt Accumulation.

## **IV – THE PROPOSED PROGRAMME**

### ***4.1 Programme's goal and purpose***

4.1.1 The overall goal of the proposed Poverty Reduction Strategy Support Programme phase IV (PRSSP- IV) is towards achieving sustained investments, stimulating exports, and reducing poverty levels. This is fully in line with the strategic objectives of the Sustainable Growth for Jobs and Exports flagship programme of the EDPRS. The programme will support the GoR's policies to maintain a favorable macroeconomic environment, build economic infrastructure to overcome growth bottlenecks and implement structural and institutional reforms that enhance the private sector environment. It is expected that the implementation of the PRSSP-IV will contribute to maintaining overall investment levels above 20% of GDP and increasing the value of exports in strategic priority areas from US\$ 342 million in 2008, to US\$ 491 million in 2011. Further, because of its focus on outcomes that would benefit the poor and through funding of pro-poor expenditures in the National Budget, it is expected that the programme will support Rwanda's EDPRS goal of reducing poverty to 46% by 2012, from 56.9% in 2006.

### ***4.2 Programme's pillars, operational policy objectives and expected results***

4.2.1 The PRSSP-IV is structured around one pillar, enhancing the investment climate, with two sub-components: i) Strengthening the private sector environment and deepening the financial sector; and ii) Consolidation of public sector capacity

## **Enhancing the investment climate**

### *Strengthening the private sector environment and deepening the financial sector*

4.2.2 Rwanda has achieved significant progress in the area of business enabling environment and financial sector reforms. The Doing Business ranking placed Rwanda 58/183 in 2010, up from 139/155 in 2006. This was achieved through significant reforms in areas such as starting a business, protecting investors, and getting credit. One of the impacts of the reforms has been an increase in Foreign Direct Investments (FDI), which reached a peak of US\$119 million in 2009, up from US\$ 11 million in 2005. The investment levels and growth in exports have nevertheless not been commensurate with the progress in the business environment. The financial sector has been strengthened through reforms relating to the legal and supervisory framework, the establishment of a private credit reference bureau, the licensing of new banks and microfinance institutions, the launching of the Rwanda stock exchange and the introduction of the Rwanda Integrated Payments Processing System. In the banking sector, the non-performing loans (NPL) net ratio improved, from 10.0% in Dec. 2009 to 9.3% in Dec. 2010, and the number of deposit accounts operated by commercial banks has increased by 33.5%. However, large segments of the population are unbanked. About 80% of the population, mostly in the rural areas does not have formal access to financial products.

4.2.3 In order to achieve a higher rate of sustainable growth and reduce poverty significantly, it is necessary to deepen reforms to attract higher levels of investments, increase and diversify exports, and stimulate enterprise and create jobs. Key challenges and barriers to further enhancement of the business environment, as identified in studies and analytical work include: i) delays in obtaining construction permits; ii) limited access to credit; iii) very low access to electricity; iv) trading across borders; v) registering property and vi) lack of qualified labour. Low capacity in public institutions, to promote and manage public-private partnership transactions as well as support quality services delivery to the strategic sectors was also identified as a key constraint to growth and poverty reduction.

4.2.4 In response to the need for an overall coherent strategy addressing cross-cutting issues, a national export strategy (NES), aligned to the EDPRS has been developed, and will be implemented with the support of the PRSSP-IV, to diversify the export base, boost export growth and create jobs. To this end, the NES will identify and prioritise actions to improve the overall business environment. The aim is to identify actions that improve a broad range of sectors and boost the competitiveness of firms operating throughout Rwanda. The NES identifies several best practices from countries where attention to cross cutting issues has had dramatic impact on exports. The strategy identifies specific actions to develop prioritised export sectors and reviews issues that inhibit sectoral growth and leveraging cross - cutting issues in sector-specific detail to achieve an industry's export potential. The short and medium-term targeted sectors for the National Export Strategy are: i) traditional export sectors of tourism, tea, coffee, and mining, focusing on increased production and value addition; ii) non-traditional export sectors of Business Process Outsourcing and horticulture (with focus on agro-processing); and iii) potentially high growth export sectors of home décor and fashion (including crafts, textiles and silk) and Greenfield industries (such as cloud computing and biotech).

4.2.5 Small and medium sized enterprises (SMEs) have been identified as an important driver of growth, job creation and poverty reduction. To promote the growth of, and attend to, the specific needs of SMEs, a specific SME Policy and Strategy is being finalized and will be implemented during the PRSSP-IV. The policy will address both the structural and resource challenges faced by previous government initiatives, as well as the challenges faced by SMEs. The initiative has been formulated through a participatory approach and takes into account the

process the GoR will undergo to become a better enabler of SME development and mirror the needs of developing businesses from the inception of a business idea to the payment of taxes and compliance with regulations. This approach ensures that the needs of all businesses are taken into account. It ensures start-ups can be sustainable and struggling SMEs find ways to grow. Start-ups receive particular support in this policy through entrepreneurship training and special start-up funding opportunities. Struggling SMEs will benefit from an improved and simplified regulatory environment and from the opportunity to work in clusters promoted in these policy objectives. Established SMEs on the other hand will reap particular benefits to expand their market by accessing market information and innovative technologies. The key policy objectives are: i) promote a culture of entrepreneurship among Rwandans; ii) facilitate SMEs access to development services, including business development services, access to local, regional and international markets and market information and the promotion of innovation and technological capacity of SMEs for competitiveness; iii) put in place mechanisms for SMEs to access appropriate business financing; iv) simplify the fiscal and regulatory framework for SME growth; and v) develop an appropriate institutional framework for SME development.

4.2.6 In order to consolidate the achievements in the area of improving the business environment, the authorities will implement a business enabling environment reform programme that will be supported by the PRSSP-IV. The operationalization of an online business registration (OBR) will further simplify the process of starting a business. Other services and processes will also be redesigned to stimulate enterprise creation, including the establishment of a one-stop centre to process construction permit applications for mid-size and small enterprises, implementation of a client charter, and the establishment of an electronic land registry. Registering property has been identified as one of the remaining bottlenecks for doing business. The establishment of an electronic land registry will be a significant contribution to facilitate property registration and will contribute significantly towards improving the business environment. This measure, has therefore, been identified as a prior action for the PRSSP-IV. To improve cross-border trade conditions and stimulate exports and imports, the authorities intend to operationalize an electronic single window and automated systems of import-export clearance. To identify the remaining business obstacles, the reasons for lower than expected levels of investments and inform further reform programmes, an impact analysis of Doing Business (DB) reforms, in terms of perception and investment levels, will be conducted.

4.2.7 In the financial sector, reforms will be deepened to develop the financial market. Adequate policies will be implemented to increase credit to the private sector, as identified in an on-going Financial Sector Assessment. In 2010, 416 SACCOs (microfinance institutions-MFI) were granted provisional licenses and the licencing programme will be completed over 2011. This is expected to improve access to finance in rural areas as well as to SMEs. The PRSSP-IV will contribute to consolidating the sustainability of the MFI sector by supporting the strengthening of the regulatory framework for the SACCOs. A parallel measure, supported by the IMF's PSI, that will also contribute to enhance BNR's supervision capacity of the SACCOs is the recruitment of 60 additional supervisors. A feasibility study will be undertaken during the PRSSP-IV, which will inform further policy reforms to establish adequate structures for the supervision of SACCOs and to ensure that they are viable MFIs. The PRSSP-IV will also support the completion of the on-going review and simplification of collateral requirements to encourage the rural banking system. Access to finance has been identified as a key challenge to improve the business environment. A measure that will increase access to credit, in particular in rural areas, is simplifying the use of collateral to get credit. Thus the review and simplification of collateral requirements, to encourage the development of the rural banking system is considered a critical measure to implement and has been included as a prior

action for the PRSSP-IV. Its implementation is expected to directly contribute to increase access to credit.

4.2.8 Reforms to deepen the financial sector through the improvement of national and regional payment systems have been on-going in Rwanda since the National Payments Strategy was adopted by the Cabinet in September 2008. The Bank, through its PRSSP-III, supported the reforms towards improving the payments infrastructure and developing basic payment services in Rwanda. Continued support to this reform process will be provided through the PRSSP-IV, which will support the implementation of the Rwanda integrated Payment Processing System (RIPPS). The system will be used by the Banks and MINECOFIN so that government payment orders are sent electronically and settled in real time, which will improve and quicken Government payments to their suppliers. BNR will, in addition, work with the Rwanda Revenue Authority (RRA) so that all tax payments are sent electronically and settled in real time. BNR will also continue to work with other COMESA Central Banks on a Regional Payment and Settlement System.

4.2.9 Expected outcomes from the reforms to improve the business environment and the financial market depth will be measured by an increase in the ratio of private sector credit to GDP from 11.4% in 2008, to 11.7% in 2011; by progress in the investor perception index from 70.5% in 2009, to 71.2% in 2011; and by an improvement in the index on business environment from 60% in 2009, to 63.4% in 2011.

#### *Consolidation of public sector capacity*

4.2.10 In the area of institutional capacity building, Rwanda has made considerable progress in the area of Public Finance Management (PFM). Between 2007 and 2010 Rwanda recorded an increase from 3 to 9 in the number of PEFA indicators at the level of A and a total of 19 of 28 PEFA indicators above the level of B. The creation of the Rwanda Development Board has contributed, to the marked improvement of the capacity of public institutions capacity to deliver quality services to the private sector. There is, however, a need to consolidate the public sector's capacity to deliver services to the private sector, including capacity to provide direct services to the private sector, capacity to attract and manage investments, and capacity to develop human capacity and skills adapted to the need of the private sector. There is also need to increase the spending level and to improve the quality of the services in the social sector.

4.2.11 The PRSSP-IV will support the implementation of the Strategic Capacity Building Program (SCBP). This programme focuses on the Government of Rwanda's delivery priorities, which combines delivery of services and capacity building at the same time. It will build on other capacity building initiatives including the reforms undertaken in the area of PFM. The SCBP is based on two fundamental principles: i) focus on the GoR's own deliver priorities; and ii) combination of delivery of services with capacity building at the same time. To implement the principles, GoR has developed an innovative framework for capacity building. Capacity gaps analysis is undertaken for the targeted public institution and followed up by technical assistance and training tailored to respond to the specific capacity needs. Technical assistance is embedded in the institutions, with technical assistants working alongside with their Rwandan counterparts to deliver and build, local capacity, supported with supplementary training. The GoR has identified four priority areas for the SCBP: i) agriculture productivity; ii) electricity generation and distribution; iii) mining sector development; and iv) increased investment attraction and conversion. The capacity building reforms envisaged will also include the strengthening of the Rwanda Development Board's (RDB's) capacity to originate and manage PPP transactions, as well as other investment transaction including joint ventures and concession based transactions.

4.2.12 Enhanced information and knowledge of the labour market is considered as a priority to enable public institutions to better target and design policies to increase employment and to better respond to private sector requirements. The PRSSP-IV will therefore support the design and implement a system to collect labour market data using Labour Market Information Systems (LMIS) and manpower survey. To enable public sector institutions to deliver training services better adapted to the private sector demand, the PRSSP-IV will support the finalization and operationalization of the National Human Capital and Skills Development Strategy. This will be combined with the completion and implementation of the Education Sector Strategic Plan (ESSP) which will include a framework for skills development through Technical and Vocational Education Training (TVET). The latter measure has been identified as a critical measure, as it will significantly contribute towards enhancing institutional capacity to deliver education services. This will contribute towards overcoming a critical bottleneck in promoting investments and stimulating exports, which is the lack of qualified labour. Furthermore, to have an efficient and rapid implementation of the TVET the PRSSP-IV will support the finalization and approval of a costed strategic plan, which will be implemented over the medium-term.

4.2.13 Deepening of PFM reforms is a critical aspect of the consolidation of public sector capacity to deliver quality services in an efficient and effective manner. The PFM reform areas supported by the PRSSP-IV will be selective and focus on strengthening the internal audit capacity. Specific measures that will be supported by the PRSSP-IV include the conduct of system based audits and value for money audit using computer aided audit techniques. The establishment of audit committees will also be supported by the PRSSP-IV and will provide valuable experience and lessons learned before being rolled out to all public agencies.

4.2.14 The PRSSP-IV will also support policy measures that will sustain the levels of budget spending in conformity of the EDPRS priorities. Consequently the resources of the PRSSP-IV will contribute to increase spending on priority areas, including social and infrastructure expenditures.

4.2.15 Expected outcomes of this component, include improved institutional capacity to deliver quality services, as measured by the percentage of planned outputs achieved in the four selected SCBP priority areas and the percentage of internal audits submitted. It is expected that 30% of planned outputs in the four selected SCBP priority areas will be realized in 2011, while 45% of internal audit reports are expected to be submitted.

4.2.16 In addition, it is expected that the proportion of employers who are satisfied with the performance of TVET graduates will increase to 68% in 2011/12.

4.2.17 **Prior action:** During country consultations and in accordance with good principles of conditionality a set of prior actions to be fulfilled before Board presentation were identified jointly by the GoR and the Bank. The prior actions are presented in box 1. All the prior actions have been drawn from the CPAF and are considered to be critical measures to reach the expected development objectives of the PRSSP-IV.

4.2.18 The PRSSP-IV could be followed

#### **Box 1: Prior actions for the PRSSP-IV**

##### ***Strengthening the private sector environment and deepening the financial sector:***

- 1) Establish electronic land registry (*Proof that the prior action has been fulfilled: Electronic Land Registry LUNCHING minutes and a progress report*)
- 2) Review and simplify collateral requirements to encourage rural banking system (*Proof that the prior action has been fulfilled: Land Tenure Reform and Land Registration Programme Report*)

##### ***Consolidation of public sector capacity***

- 3) ESSP strategies and implementation framework on skills development including TVET finalized and approved by MINEDUC (*Proof that the prior action has been fulfilled: ESSP with its National Implementation and Monitoring and Evaluation (M & E) Framework*)

up by a new operation to fund the National Budget of fiscal year 2012/13. The areas of concentration have been identified and are presented in detail in the operational policy matrix in annex II. Key areas would include continued support to enhance the investment environment including strengthening of the business enabling environment and financial sector reforms (PPP, trade facilitation, implementation of the Microfinance institution strategy). Capacity building including the adoption and implementation of a pay and retention strategy, implementation of the SCBP and implementation of policies to increase availability of qualified labour will also be focus areas. A special focus on youth employment will be considered.

### **4.3 Financing needs and arrangements**

4.3.1 As presented in table 5 the Government Budget for fiscal year 2011/12 is fully funded.

The Bank's general budget support will contribute to fund the budget for fiscal year in the form of a grant totalling about 4.74% of total grant resources. Other development partners including the World Bank, the European Commission, DfID, Germany, the Netherlands and Belgium will contribute to fund the Budget for fiscal year 2011/12 with general budget support and sector budget support grants. The Bank will also contribute to fund the financing requirements of GoR through its sector budget support in agriculture. Other resources funding the Budget for fiscal year 2011/12, include capital grants (projects) and project loans. Government tax revenues and non-tax revenues amount to RwF 538.4 million and domestic borrowing will be limited to RwF 12.5 million.

<b>Table 5: Budget projections in billion RwF</b>	<b>2011/12</b>
<b>Revenues and grants</b>	993.9
Total revenues	538.4
Tax revenue	530.4
Non-tax revenue	28.0
Total grant	455.5
Budget support grants (GBS)	271.2
of which African Development Bank	21.6
Capital grants	184.4
<b>Total expenditure and net lending</b>	1062.8
Current expenditure	557.9
Capital expenditure	503.3
Net lending	1.6
Deficit (Cash basis)	-77.0
<b>Financing</b>	77
Foreign financing	64.5
Drawings	87.5
Project loans	75.4
Amortizations (due)	-10.9
Domestic financing	12.5

Source: Budget Framework Paper and IMF estimates

### **4.4 Programme's beneficiaries**

4.4.1 The main beneficiaries of the programme will be private sector operators, in particular SMEs and financing institutions, and Government institutions, including Ministry of Finance and Economic Planning (MINECOFIN), Ministry of Trade and Industry (MINICOM), Ministry of Education (MINEDUC) and Rwanda Development Board (RDB). Given the expected positive impact on export growth, job creation, and poverty reduction, it is likely that the entire population will benefit from the program indirectly. The implementation of the National Budget, supported with funds from the PRSSP-IV will also have direct impact on the population through spending on social services, including health and education and on infrastructure. The GoR is also implementing a fiscal decentralization strategy, which will in the medium-term increase the levels of funds transferred to decentralized entities.

### **4.5 Programme's and impact on gender**

4.5.1 Rwanda has made significant progress to promote gender and the number of seats held by women in the Rwanda's parliament increased from 17% in 1994 to 56% in 2008, the highest in the world. Gender budgeting is currently being implemented, which is expected to further promote gender equality. In the overall reform programme of the GoR, supported by DPs through the CPAF there are several targeted measures which will promote gender equality

including increased primary school completion for girls and percentage of assisted births in an accredited health facility. The EDPRS and the Vision 2020 indicate Government's strong commitment to promote gender equality and women's economic empowerment.

#### ***4.6 Environmental and Social Impacts - sustainability of the programme***

4.6.1 The PRSSP-IV has been classified as a Category III program, according to the procedures for the environmental and social impact assessment. Given that PRSSP-IV is a budget support operation, the policy reforms it will support will not have any direct negative impact on the environment.

4.6.2 The social impact of the PRSSP-IV is expected to be positive. The reform programme the Government is implementing and the execution of the National Budget, supported through the PRSSP-IV, will contribute towards reaching the MDGs and have a positive impact on poverty reduction. The GoR, supported by the Bank and DPs through the CPAF, is implementing special programmes targeting vulnerable groups. These programmes include targeted public works, direct transfers and access to health and education to vulnerable groups.

4.6.3 The GoR's programme, supported by the Bank through the PRSSP-IV, is designed and implemented to promote sustainable and shared growth. Investments in key infrastructure, financial sector reforms, capacity building and private sector environment reforms will likely create a sustainable environment for growth and development. The PFM reform programme will enhance GoR's capacity to both increase its fiscal resources and improve efficiency and effectiveness of public expenditures as well as to contribute to making the PRSSP-IV a sustainable operation in the medium-term.

## **V. – IMPLEMENTATION, MONITORING AND EVALUATION**

### ***5.1. Implementation arrangements***

**5.1.1 Responsible Institution:** MINECOFIN will be the executing agency of the PRSPP-IV. It will work in close collaboration with relevant institutions, including the MINICOM, the (National Bank of Rwanda - Central Bank (BNR) and the Rwanda Development Board (RDB).

**5.1.2 Disbursement and Funds Flow:** The proposed grant of UA 23.19 million will be made available to the Government of Rwanda (GoR) in one tranche to fund the Budget execution of the fiscal year 2011/2012 upon satisfactory achievement of disbursement conditions. The Bank will disburse the funds into an account at the BNR where the GoR receives budget support resources from other Developing Partners (DPs). The equivalent local currency will be transferred to the Consolidated Fund (Treasury Account) of the government that is used to finance budgeted expenditures and appropriately accounted for in the financial management system of the Government. The Government will use the Single Treasury account, which is part of the Integrated Financial Management and Information System (IFMIS), to disburse funds to various service deliveries.

**5.1.3 Procurement:** As this operation is a general budget support operation, the funds will contribute to financing the national budget. National systems, including procurement systems, will therefore apply. The GoR has made notable strides towards improving the country's procurement environment, notably by the enactment of the Public Procurement Law in 2007, the decree of associated Regulations, and the establishment of the regulatory body, Rwanda Public Procurement Authority (RPPA). The existing legal and regulatory procurement framework is generally consistent with international standards. The procurement institutional framework is equally sound. The major challenge is about the capacity of the procurement entities to deliver in conformity with the law and regulations. But necessary actions to address this challenge were being taken and implemented leading to a continuous improvement of the

procurement framework. The procurement system is reasonably adequate to support the proposed intervention.

**5.1.4 Financial Management arrangements:** The existing financial management systems of the GoR will be used to manage the resources of the PRSSP-IV. The fiduciary risk assessment (details in the annex) concluded that the GoR has adequate financial management capacity to account, record, and report the financial transactions of the programme although there are some challenges including (i) recruitment and retention of qualified professional accountants and auditors (ii) ineffective internal audit unit and (iii) absence of a blue print to guide and evaluate the implementation of the IFMIS. These Challenges will be addressed by the ongoing reforms and Bank's intervention in this program. The Accountant General will be responsible for proper maintenance of accounting records, timely provision of financial reports and ensuring proper accountability of public funds in accordance to International Public Sector accounting Standards (IPSAS - cash and modified) and applicable government policies and procedures. The financial reports will be subject to both internal and external audits. The budget execution is monitored through the Integrated Financial Management Information System (IFMIS) which has now incorporated the approved new Chart of accounts. It involves the active participation of line ministries, departments and Sub national (SN) Government. The MINECOFIN provides guidelines with clear description of the budget requirements and budget time table and process. The Cabinet of Ministers set the ceiling of the budget and both Chamber of the Parliament consider the budget proposal.

**5.1.5 External Audit:** The 2010 PEFA assessment found a marked improvement in external audit and legislative scrutiny of audit reports. The scope, quality and follow-up of audit by the Office of the Auditor General (OAG) has improved substantially through better organization, increased audit coverage and follow-up on the recommendations. External audit will be conducted statutorily by the Auditor General (AG) of Rwanda in accordance with both ISA and INTOSAI requirements. The MINECOFIN through the External Finance Unit will be responsible for submission of audit reports to the Bank within two months after their approval by the Parliament

## ***5.2. Monitoring and evaluation arrangements***

**5.2.1 Institution responsible:** The External Finance unit in MINECOFIN will be responsible for monitoring and evaluation of the PRSSP-IV. The unit is also in charge of the secretariat of the BSHG and has demonstrated its capacity to monitor the implementation of the Bank's previous budget support operations as well as the budget support operations of other donors effectively.

**5.2.2 Monitoring system:** The PRSSP-IV will use the existing institutional arrangements for monitoring the implementation of the EDPRS and the CPAF. The supervision of the PRSSP-IV will be done through the bi-annual Joint Budget Support Review (JBSR) meetings and through the meetings of the Sector Working Groups (SWG). The Bank, through its field office in Rwanda (RWFO), is scheduled to assume the co-chair of the BSHG and the Joint Budget Support Review (JBSR) starting July 2011.

**5.2.3 Evaluation system:** To promote mutual accountability, a Partnership Agreement was signed by the Government and the key budget support donors in October 2008. Accordingly, all key budget support donors are expected to fully align their monitoring and evaluation framework to the CPAF. At the end of the program's implementation, the Bank and the Government will prepare a joint PCR.

## VI – LEGAL DOCUMENTATION AND AUTHORITY

### 6.1. Legal documentation

6.1.1 The financing instrument that will be used for this operation is an ADF Grant of UA 23.19 million in the form of budget support to the Republic of Rwanda from the ADF-12 allocation. A Protocol of Agreement will be concluded between the Fund and the Republic of Rwanda.

### 6.2 Conditions Associated With Bank’s Intervention

6.2.1 **Prior Actions:** Before the Grant proposal is presented to the Board for approval, the Government of Rwanda shall provide evidence to the Fund that the measures outlined in Box 1 have been implemented.

6.2.2 **Entry into force of the Grant Agreement.** The Grant shall enter into force upon its signature by the Fund and the Republic of Rwanda.

6.2.3 **Conditions precedent to disbursement of the tranche of UA 23.19 Million:** The disbursement of the tranche of the Grant will be subject to the beneficiary maintaining an appropriate macroeconomic framework, and fulfillment of the following specific condition:

- Transmission to the Fund of the bank references for a Treasury account with the National Bank of Rwanda – Central Bank (BNR), for purposes of receiving the resources of the Grant.

### 6.3. Compliance with Bank Group policies

6.3.1 The PRSSP-IV complies with all applicable Bank Group policies and guidelines, including: i) the Bank’s “Guidelines on the Development Budget Support Lending (2004)”; ii) the “Annotated Format for Policy Based Lending Operations (July 2008)”; iii) the Bank’s Governance Strategic Directions and Action Plan, 2008–12; and iv) the Strategy Update for the Bank’s Private Sector Operations.

## VII- RISK MANAGEMENT

Risks	Mitigating measures
<b>Regional Political instability:</b> Instability in the Great Lakes Region remains a risk to Rwanda’s economic stability and to the consolidation of the development process. Several elections are scheduled in the region in 2011-2012 and instability that could arise in neighbouring countries could have a spill-over effect on Rwanda	Stakeholders have demonstrated strong commitment to maintain peace and stability. At the international level (United Nations -UN) and African Union -AU) and the regional level (International Conference on the Great Lakes Region – ICGLR and East African Community - EAC) there is continued support to the promotion of peace and stability in the region.
<b>Macroeconomic instability due to external shocks:</b> Rwanda remains vulnerable to external shocks, which could include an unforeseen rise in the international price of oil and other commodities. Indeed, the recent increase in the international price of oil and other commodities increases the risk of external shocks.	Rwanda has a strong track-record of maintaining macroeconomic stability, including successful implementation of the IMF PSI programme. Support from DPs and continued strengthening of the institutional capacity will enhance the country’s capacity to manage adverse external shocks.
<b>Fiduciary risk:</b> The 2008 Fiduciary Risk Assessment (FRA) found the fiduciary risk to be moderate. Successful implementation of the comprehensive reform program has strongly improved the PFM system as demonstrated by the recent PEFA. A new FRA is currently being prepared. Due diligence of the fiduciary risk was undertaken by the Bank during the appraisal mission and concluded that: i) the procurement system is reasonably adequate to support the proposed intervention; (ii) the internal audit is ineffective	The GoR continues to implement a PFM reform program with support from the DPs, which will further minimize fiduciary risk. The PRSSP-IV has specific measures concerning internal audit. The GoR’s zero tolerance with respect to corruption and commitment to enhance public financial transparency and accountability will also contribute in minimizing this risk.

Risks	Mitigating measures
<p>(iii) accounting curricula in higher education accounting degree programme are not focusing on the IFRs and ISA and (iv) there is no blue print to guide and evaluate implementation of the IFMIS. The financial statement and budget use computerized systems to capture and report financial activities and are integrated in the IFMIS.</p>	
<p><b>Implementation capacity and reform delays:</b> Implementation capacity and reform delays is a risk. Retention of staff in the civil service is a challenge and a relatively high turn-over may contribute to the weakening of institutional capacity. Low Predictability of donor funding and pursuing a non-prudent debt management policy could also have a negative impact on the implementation of the EDPRS and the PRSSP-IV.</p>	<p>The SCBP and a pay and retention strategy will be implemented, which will contribute to strengthening the GoR's implementation capacity and reducing staff turnover. Delays in implementation of reforms will be mitigated by the very strong commitment by the GoR to pursue its reform agenda. Debt sustainability is being monitored under the IMF's PSI programme. Most budget support donors make multi-year budget support commitments aligned to the Government's medium-term fiscal framework (MTEF). Predictability of funding will be improved through the donor efforts to honour their commitment to adhere to the strengthened coordination between GoR and DPs as well as enhanced efforts by DPs to adhere to the Paris Declaration Principles and the Accra Agenda for Action</p>

## VIII – RECOMMENDATION

8.1 Management recommends that the Board of Directors approve the proposed Grant of UA 23.19 million from the resources of ADF-12 to the Republic of Rwanda in the form of general budget support for the purposes and subject to the conditions stipulated in this report.

## Letter of development policy

**H.E. Donald KABERUKA**  
**President - The African Development Bank Group**  
**15 Avenue du Ghana**  
**B.P.: 323 – 1002**  
**Tunis – Belvédère**  
**Tunisia**

Your Excellency,

### **Subject: Letter of Development Policy for the General Budget Support**

1. On behalf of the Government of Rwanda, I am requesting financing in the amount of 38.19 million Units of Accounts (UA) from the African Development Fund, of which 23.19 million UA will be disbursed in FY 2011/12 and 15 million UA to be disbursed in FY 2012/13, to support the continuing reform program under the proposed Poverty Reduction Strategy Support Program. The aforementioned grant will help to meet financing requirements that Rwanda faces to implement its Economic Development and Poverty Reduction Strategy (EDPRS).

2. This Letter of Development Policy provides a summary of the Government's development program and reinforces the commitment of the Government of Rwanda to foster economic growth and accelerate poverty reduction.

### **The Program**

3. Rwanda is mid implementing its medium term planning tool, the EDPRS designed in line with its 2020 Vision and International commitment including the Millennium Development goals (MDGs) to set out the national strategy and action plan for poverty reduction and form the basis for the allocation of public resources to development activities. The GoR jointly with all its Development Partners implement, monitor and review the EDPRS's three flagship programs, namely (i) Sustainable Growth for Jobs and Exports, which includes agriculture, infrastructure, and private sector development; (ii) Vision 2020 Umurenge (a decentralized integrated rural development program designed to address extreme poverty); and (iii) Governance. A picture of progress of the Strategy is portrayed through the EDPRS's formal monitoring and assessment tool, the Joint Budget Support Reviews (JBSR).

4. The recent JBSR, held in April 2011, concluded that Rwanda is making good progress in terms of EDPRS implementation as targeted through indicators of the Common Performance Assessment Framework (CPAF). The CPAF is the basis for

assessment of the Government's performance in the implementation of the EDPRS by the Development Partners providing budget support.

5. Rwanda presents a unique case in development and in the progress towards achieving the MDGs. Whereas many countries were on course to implement the MDGs in the 1990s and beyond, Rwanda has been recovering from the tragic and devastating genocide and civil war of 1994. All MDGs indicators in Rwanda were dramatically reversed during and as a consequence of the 1994 genocide and fell far below 1990 levels. Therefore, Rwanda's "starting line" for working towards the MDGs begins much later and much lower than in many other countries. This said, Rwanda has good and much more championship progress in Millennium Development Goals including number of seats held by women in the in Rwanda's parliament increased from 17 percent in 1994 to 52 percent in 2008, the highest in the world. Rwanda is very likely to meet—and possibly even surpass—the MDG targets for child and maternal mortality by 2015; the rate of births attended by skilled staff increased from 39 percent to 52 percent between 2005 and 2008 and proportion of children under five sleeping under insecticide-treated bed nets increased from 4 percent in 2000 to 56 percent in 2008/09.

6. Rwanda has achieved high growth and macroeconomic stability over the last decade despite the global financial and economic crisis, Rwanda's economic growth remains relatively strong, the growth has averaged about 8 percent per year. However, much effort is still needed to translate the growth into reducing extreme poverty and to meet the Vision 2020 targets.

7. Rwanda's economic performance has been slowly increased comparatively to 2008 achievement. This decrease in growth is a result of the global financial and economic crisis and domestic liquidity issue. Five years average real GDP growth was 8.8 percent during 2005-2009, exceeding the EDPRS target of 7 percent. In 2008, the economy registered its highest growth rate in last five years of 11.2 percent. After a somewhat slower growth in 2009, a slight recovery has taken place in 2010. Real GDP growth is estimated at 7.5 percent in 2010.

### **Economic Development and Macroeconomic Management**

8. In 2010, GDP growth reached 7.5% compared to 6.1% in 2009. Inflation has gone down to 0.2% in December 2010, from 5.7% in December 2009. This was caused by low import prices, a good agriculture harvest, a stable nominal exchange rate against the US dollar, and a modest increase in money supply. Another positive outcome was an increase in private sector credit of about 11% in 2010, compared to a decline of 4% in 2009. The exchange rate of the Rwanda franc to the US dollar saw a depreciation of the former by 4.1% in 2010. The total value of exports was significantly higher than in 2009, at US\$ 298.3 million.

9. The Government of Rwanda remains committed to achieving sustained economic growth and poverty reduction and consolidating macroeconomic stability. The strategies to achieve these goals are set out in the Economic

Development and Poverty Reduction Strategy (EDPRS) for 2008–2012 as well as in the Vision 2020 development plan.

10. In recognition of its track record of high growth and generally prudent macro-economic management, including achievement of low fiscal and current account deficits and maintenance of a comfortable level of international reserves, Rwanda was approved for a Policy Support Instrument (PSI) by the IMF in June 2010. The PSI is designed to address certain key vulnerabilities, including weaknesses in monetary and exchange rate policies, which have at times led to high levels of inflation; low levels of fiscal revenues and exports; and continued high aid dependence. The Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support prudent macroeconomic policies and structural reforms that underlie strategies in the EDPRS and Vision 2020. The Government has taken strong steps to improve debt management practices by reviewing the existing Medium Term Debt Strategy and Debt Policy with limits to loans, to assess costs and benefits of scaled-up non-concessional financing and analyze fiscal risks associated with PPPs.

11. The 2010 Public Expenditure and Financial Accountability (PEFA) assessment indicates significant increases in PFM scores in many areas Rwanda has made significant progress in PFM reforms. Since 2007, progress has been achieved in the adoption of best practices in procurement policies, better monitoring and containment of payment arrears, and improved transparency of tax payer obligations and liabilities.

### **Overview of Recent Developments**

12. The aforesaid JBSR appreciated recent developments in a) the macroeconomic framework for 2011/12 and the medium term, b) Budget proposal and sector allocations up to 2013/14, and c) Budget reforms.

13. The macroeconomic framework projects GDP growth to go down slightly to 7.0%, largely due a withdrawal of fiscal stimulus and adverse impact of rising global food and fuel prices. These external risks are also likely to push up inflation in 2011 to 7.5%, from a target of 6%. In order to monitor the risks to economic growth, Government of Rwanda has put in place a technical committee that will monitor the risks and make recommendations if necessary. In the same time, the monetary programme in the medium term will seek to accommodate the Government of Rwanda's financing requirement for the budget without crowding out the private sector. Credit to the private sector is going up and is expected to grow by 19.4% over the year in 2011. Reserve money and broad money growth in the medium term are projected to grow in line with nominal GDP growth. The monetary and exchange rate policies in the medium term are expected to be more proactive to support the country's economic growth by stimulating lending to the economy, and contain underlying inflation.

14. With regards to the budget proposal and sector allocations, the JBSR found overall resource allocation, which is the culmination of consultations with sector

ministries during budget consultations, being broadly consistent with EDPRS sector priorities but also taking into consideration changing conditions. During the discussions, the increased emphasis on infrastructure and productive capacities was noted, but equally the need was highlighted to continue adequate funding of the social sectors.

15. As for the Budget reforms carried out recently, the new Chart of Accounts was found to be in line with International Public Sector Accounting Standards (IPSAS) and GFS 2001 and is aimed at facilitating uniform recording and reporting of Government transactions by harmonizing definitions. The recent developments as regards to the fiscal decentralization comprise the undertaking of district level revenue potential study – which is currently on going – and the diversification of local government sources of revenue. An important change has also been made to the Common Development Fund (CDF), with funds for capital expenditures previously managed by the CDF now being transferred to the districts directly under the new structure of the Rwanda Local Development Support Fund (RLDSF), which will also provide technical support and training to the districts.

16. The 9<sup>th</sup> Government of Rwanda and Development Partners Meeting (DPM) held early November 2010 agreed to progressive actions and measures with the view to meet the principles agreed in Paris and Accra on aid effectiveness. In addition, the Government of Rwanda and Development Partners concluded the Division of Labour (DoL), one of the most progressive agreements made in line with the Accra Agenda for Action. The GoR welcomes the approval by the Bank to use the country's procurement systems and its cooperation in implementing the commitments jointly endorsed at the DPM including; improving in-year and medium-term predictability, increased use of country systems (such as channeling projects/programme funds through Treasury Single Account), and phasing out of PIUs while strengthening the Single Project Implementation Units in various Ministries.

## **Conclusion**

17. In closing, the Government of Rwanda expresses its gratitude to the Bank for its continued support to the development of Rwanda and reiterates its strong commitment to reduce poverty and foster sustainable growth. The Government would greatly appreciate the approval of the Grant to assist in the implementation of the Program.

Yours Sincerely,

**John RWANGOMBWA**  
**Minister**

**Operation policy matrix – Common Performance Assessment Framework - CPAF (areas relevant for the PRSSP operation)<sup>12</sup>**

Medium term objectives	Policy actions (outputs)			Institution responsible	Outputs indicator	Outcomes indicators	Targets outcome			CSP goals
	2010/11 (PRSSP-IV)	2012/13 (PRSSP-V)	2013/13				2010/11	2011/12	2012/13	
<b>Component: A. Enhancing the investment climate/ The Growth for Jobs and Exports flagship programme</b>										<b>Competitiveness and enterprise development</b>
<b>Sub-component A.1 Strengthening the private sector environment and deepening the financial sector</b>										
Enhanced business climate	Establish and use of online business registration and other services	One-stop border services at four out of seven main borders	Complete move from DB focus to investment climate focus	MINICOM/ RDB/ RRA	Measures implemented as confirmed in JBSR/JSR	Index on business environment	63.4%	65.6%	74%	Create an enabling environment for private sector and export development
	Operationalize electronic single window project for trade facilitation		Integrated border management services provided			Score of Investor Perceptions of regulatory issues, licencing, burden, corruption and dispute resolution	71.2%	72%		Reduce the cost of doing business
	Conduct impact analysis of DB reforms in terms of perception and investment level	PPP law adopted by cabinet	Ensure a more efficient public – private dialogue in the implementation of business reforms							
	Establish electronic land registry	Complete an online registry for business licences	Improved structured communications of existing reforms	FSDP	Measures implemented as confirmed in JBSR/JSR	Credit to private sector	11.7	13.9	14.7	Deepen the financial sector
	Review and simplify collateral requirements to encourage rural banking system	Ensure full implementation of the MFI strategy	Full implementation of Capital Market Laws by issuing and implementing regulations that will promote insurance of commercial paper and other debt instruments by the PS							
	Sign contract with a supplier for the implementation of the RIPPS	Implement Rwanda mortgage refinance strategy	Prepare a draft securities law for capital markets							
<b>Sub-component A.2 consolidation of public sector capacity</b>										
Improved public accountability	System to collect labour market data operational using LMIS and manpower study	Counterparts in place for all SCBI international practioners with positive feedback on skills transfer.	New career grid structure submitted to cabinet	MIFOTRA/ PSCBS	Measures implemented as confirmed in JBSR/JSR	Percentage of planned outputs achieved in the 4 selected SCBI priority areas	(20-30% indicatively)	60%	70%	Cross-cutting objective of strengthening institutional capacity
	Finalize and operationalize National Human capital and skills development strategy	Pay and retention policy and implementation plan submitted to cabinet for approval and discussed	Second annual state of capacity building report produced and its implementation plan							

<sup>12</sup>The CPAF is covering all areas of the EDPRS and includes 45 indicators and 81 measures. The PRSSP-IV is focusing on certain aspects of the CPAF which are presented in the operation policy matrix

Medium term objectives	Policy actions (outputs)			Institution responsible	Outputs indicator	Outcomes indicators	Targets outcome			CSP goals	
	2010/11 (PRSSP-IV)	2012/13 (PRSSP-V)	2013/13				2010/11	2011/12	2012/13		
Enhanced public financial management	Revise the program structure and sector classification of the budget to strengthen the link between budgeting and planning	Revise the program structure and sector classification of the budget to strengthen the link between budgeting and planning	Enhance capacity building of budget agencies in gender budget mainstreaming, performance budgeting, budget classification and MTEF	MINECOFIN/Budget Unit	Measures implemented as confirmed in JBSR/JSR Measures implemented as confirmed in JBSR/JSR	Index for multiyear perspective in fiscal planning, expenditure policy and budgeting	C+ - PEFA 2010	Next PEFA due in 2013 (Target B)	Next PEFA due in 2013 (Target B)		
	Mainstream Gender Budgeting across all sectors	Increase transparency and accountability of the budget process by posting on the MINECOFIN website key budget documents as follows: a) Approved Budget by 31st July 2011; b) Citizens Guide by 31st August 2011; c) Pre-budget Statement by 31st October 2011; d) 1st Budget Call Circular by 31st October 2011; e) 2nd Budget Call Circular by 31st December 2011; f) In-year Budget Execution reports-within 60 days after each quarter; g) Annual Budget Execution report by 30th September 2011; h) Revised Budget by 31st March 2012; i) Budget Framework Paper by 30th April 2012	Publish information on resource available to primary service units, for example health, education								
	Rollout IPPS to CG ministries & agencies and Districts following prioritization sequence	IPPIS achieves full coverage of civil servants by end of FY 2011/12	Upgrade IPPIS system including finalization of new modules	MIFOTRA		Index of effectiveness of payroll controls	B – PEFA 2010	Next PEFA due in 2013 (Target B+)	Next PEFA due in 2013 (Target B+)		Cross-cutting objective of strengthening institutional capacity
	Interface/Link IPPS with Smartgov	Full integration of data from Civil Servants Census to IPPIS data base.	Link IPPIS to RRA, RAMA and National Social Security Fund								
Enhanced public financial management	RES for Accountants and Internal Auditors adopted and implemented	Consolidated financial statements generated from the IFMIS	Ensure 50% of all budget agencies maintain a fixed assets register	MINECOFIN/Public account unit	Index on quality and timeliness of annual financial statements	C+- PEFA 2010	Next PEFA due in 2013 (Target B+)	Next PEFA due in 2013 (Target B+)			
	Rollout core IFMIS modules to all budget agencies and interface with IPPS	Implement the IFMIS blueprint action plan and latest QAG recommendations	Complete roll out of IFMS to Districts and IFMS produces financial statements for all CG ministries and agencies and all districts								

Medium term objectives	Policy actions (outputs)			Institution responsible	Outputs indicator	Outcomes indicators	Targets outcome			CSP goals
	2010/11 (PRSSP-IV)	2012/13 (PRSSP-V)	2013/13				2010/11	2011/12	2012/13	
	Conduct system based audits and value for money and IT audits (Computer aided audit techniques)	Internal audit unit at MINECOFIN prepares at least 3 value for money audit reports acceptable to the Audit Committee of the Ministry	Conduct performance IT (Computer- aided audit techniques) audits	MINECOFIN/Internal audit	Measures implemented as confirmed in JBSR/JSR	Percentage of internal audit reports submitted	45% of all budget agencies	50% of all budget agencies	55% of all budget agencies	
	Pilot Establishment of Audit Committees	Pilot establishment of audit committees in Ministries and Districts								
	Continue training of all auditors in IT audit techniques and sampling	Implement electronic working papers (EWP) software43.2 Implement staff retention strategy	Continue improving quality control	OAG		Percentage of Government expenditure audited by OAG	65% both CG and districts	70% both CG and districts	75% both CG and districts	
	Implement staff retention strategy	Implement staff retention strategy								
	Update the existing laws establishing GBEs fully-owned by the GoR to increase the pay-out ratios	Implement and monitor the revised law on management of GBEs fully owned by GOR.	Continue implementing and monitoring the revised law on management of government business enterprises fully owned by GoR	MINECOFIN/Treasury		Percentage of Public enterprise submitting fiscal report	100% of GBE	100% of GBE	100% of GBE	
	Recruit procurement coaches to provide on-the-job training to MDAs	RPPA IEC strategy is developed and approved by the Board of Directors	Establish the association of professional procurement personnel.	RPPA		Proportion of the value of procurement tendered competitively	88%	89%	90%	
	Enter into a twinning arrangement with School of Finance to introduce professional training in Procurement.	Disseminate public procurement code of ethics to stakeholders in the private sector, .e.g. association of contractors, civil service society, suppliers, accounting firms, etc	Provide professional training to procurement officers across government at diploma level							
	ESSP strategies and implementation framework on skill development, including TVET finalized	Design a minimum of 5 TVET curricula with private sector participation	Carry out impact evaluation of TVET on economic development	MINEDUC		Proportion of employers who are satisfied with the performance of TVER Graduates	N/A	68%	69%	
TVET costed strategic plan finalized and adopted by WDA	Establish and implement the TVET qualification framework									

**IMF/Country relations note****IMF Executive Board Concludes 2010 Article IV Consultation with Rwanda**

Public Information Notice (PIN) No. 11/3

January 11, 2011

On December 20, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Rwanda.<sup>1</sup>

**Background**

Rwanda's economy is showing clear signs of recovery from the external and domestic shocks of the past two years, while inflation has remained low.

After slowing to 4.1 percent in 2009 from 11.2 percent in 2008, real GDP growth for 2010 is expected to reach 6.5 percent, driven by a rebound in exports and stronger-than-expected growth in services (mainly in telecommunications) and construction—sectors that were adversely affected by the global recession and tight liquidity. High-frequency macroeconomic indicators for the first three quarters of 2010 confirm the pickup in economic activity.

Higher export performance, reflecting a rebound in international prices and stronger-than-expected volumes of coffee, tea, and non-traditional exports, has contributed to a narrowing of the external current account deficit (excluding grants) to 17.3 percent of GDP in 2010 from 18.6 percent in 2009, while international reserves remain at comfortable levels.

For the first time in many years, annual inflation has remained below 5 percent in 2010, reflecting in large part the benign external environment, especially stable food and fuel prices.

Monetary policy has been accommodative, but private sector credit has been slow to respond, despite three cuts in the central bank's policy rate (the key repo rate) since November 2009 by 300 basis points.

Fiscal performance in Fiscal Year 2009/10 was better than projected, reflecting better than projected domestic revenue collection while total expenditure including net lending remained on target.

In general, Rwanda's economy has a higher growth potential of about 8½ percent over the medium term, provided that (i) investment is scaled up significantly; (ii) productivity growth increases and remains elevated; and (iii) there are no adverse shocks. Achieving and maintaining this high growth rate, however, is challenging as it will require additional investments of at least US\$350 million (or 7 percent of GDP) a year. Risks to the outlook are on the downside, reflecting mainly slower pickup in external demand and domestic credit. Donor flows are expected to remain strong, but decline gradually over the medium term. Over the longer term, risks to potential growth include lower levels of investment financing and smaller productivity gains. There are also upside risks to inflation from higher global food and fuel prices.

Rwanda's macroeconomic policies are supported by the IMF's Policy Support Instrument (PSI), which was approved in June 2010 (see Press Release No. 10/247). The proposed three-year PSI program aims to consolidate macroeconomic stability while reducing Rwanda's aid dependency by: (i) maintaining a sustainable fiscal position through improved revenue mobilization; (ii) strengthening monetary and exchange rate policies to ensure low and stable inflation; (iii) reducing financial sector vulnerability by strengthening banking supervision, and deepening the financial sector by enhancing access to credit; and (iv) diversifying the export base and improving the business environment.

**Executive Board Assessment**

Executive Directors commended the Rwandan authorities for satisfactory implementation of the economic program supported under the PSI. Countercyclical fiscal and monetary policies

helped to mitigate the impact of the global economic downturn and contributed to a rebound in economic activity. Directors noted that the recovery remains fragile.

Continued prudent policies, improved infrastructure, increased agricultural productivity, and deepened financial markets will be needed to sustain growth and reduce poverty.

Directors welcomed the authorities' intention to gradually unwind fiscal stimulus and to embark on a medium-term path toward fiscal consolidation. They encouraged the authorities to consider complementing revenue mobilization efforts with tax policy reforms and supported further strengthening of the medium-term fiscal framework underlying the planned fiscal consolidation. Such improvements include better costing of government spending plans in the Medium-Term Expenditure Framework, improved alignment of external grants with a medium-term domestic debt strategy, and quarterly dissemination of fiscal data.

Directors commended the authorities for their progress in reforming public financial management, and emphasized the importance of further enhancing public expenditure accountability and efficiency. They noted that strengthening of public investment planning and evaluation and of debt management capacity would be critical for scaled-up infrastructure spending, in particular when using nonconcessional financing.

Directors underscored the importance of regular review of the monetary policy stance to enable timely response to any underlying inflationary pressures. They recognized the challenges involved in strengthening the monetary transmission mechanism, and encouraged more active use of the policy rate and development of an active debt market with longer-dated instruments. Directors emphasized the importance of continued analytical support for the Monetary Policy Committee deliberation process and supported continuation of reforms toward greater exchange rate flexibility.

Directors noted staff's assessment that Rwanda's real effective exchange rate was broadly in line with economic fundamentals. They underscored the importance of continued improvements in the business environment and stepped up efforts on structural reforms to broaden the export base.

Directors welcomed efforts to improve access to finance, but cautioned that accelerating the expansion of micro finance institutions and savings and credit cooperatives should be balanced by having in place the necessary supervisory capacity. They emphasized the importance of developing and implementing a plan to build and retain banking supervision staff. Directors stressed the importance of enhancing competition in the banking sector.

Directors encouraged the authorities to improve quality of statistics, particularly in the areas of the national accounts and the balance of payment.

**Rwanda: Selected Economic and Financial Indicators**

	2007	2008	2009	Prog.2010	Est.2010	2011	2012	2013	2014	2015	2016
<b>Output and prices</b>	(In percent changes, unless otherwise indicated)										
Real GDP growth	5.5	11.2	4.1	6.5	7.5	7.0	6.8	7.0	6.8	6.5	6.5
Real GDP (per capita)	3.3	8.9	2.0	4.3	5.3	4.8	4.6	4.8	4.6	4.3	4.3
GDP deflator	13.2	12.6	11.0	3.8	2.1	4.7	6.1	5.3	5.2	4.9	4.9
Consumer prices (period average)	9.1	15.4	10.3	3.2	2.3	3.9	6.5	5.3	5.0	5.0	5.0
Consumer prices(end of period)	6.6	22.3	5.7	4.6	0.2	7.5	5.5	5.0	5.0	5.0	5.0
<b>External sector</b>											
Export of goods, f.o.b (in U.S.dollars)	19.9	51.4	-12.2	48.1	26.5	26.3	9.5	5.9	7.9	5.7	9.1
Imports of goods, f.o.b (in U.S dollars)	30.2	51.5	13.5	11.9	8.5	29.2	-4.5	0.2	6.2	6.5	6.9
Export volume	-0.2	21.8	-20	16.5	11.6	5.6	12.9	9.4	13.1	10.0	10.0
Import volume	31.0	6.4	7.4	8.8	3.8	14.6	0.4	1.7	6.8	6.5	5.7
Terms of trade(deterioration =-)	20.9	-12.8	3.8	23.6	8.5	6.1	2.0	-1.7	-4.1	-3.9	-1.9
<b>Money and credit</b>											
Net domestic assets	7.6	10.3	4.9	11.8	2.2	7.0	19.1	10.0	13.4	15.5	13.7
Domestic credit	12.0	20.5	3.8	16.2	9.4	4.7	23.1	5.4	13.9	16.0	13.7
Government	0.2	-18.1	0.2	8.6	2.4	-7.9	16.2	0.0	0.0	0.0	0.0
Economy	11.9	38.6	3.6	7.6	7.0	12.6	6.9	5.4	13.9	16.0	13.7
Broad money(M2)	30.8	24.2	13.1	12.9	16.9	16.0	15.3	13.7	13.3	12.8	12.8
Reserve money	30.7	23.5	0.3	11.7	12.5	16.0	15.3	13.7	13.3	12.8	12.8
Velocity(GDP/M2,end of period)	5.5	5.5	5.6	5.5	5.3	5.1	5.0	5.0	4.9	4.9	4.8
<b>National income accounts</b>	(Percent of GDP)										
National savings	8.3	9.1	5.1	6.1	4.2	7.0	7.7	7.9	8.2	9.2	10.1
Gross investment	20.2	23.5	22.4	23.4	21.9	25.1	23.3	21.8	20.9	20.9	20.7
Of which : private (including public enterprises)	12.4	13.1	12.4	12.6	10.9	11.1	11.4	11.9	12.2	12.5	12.8
<b>Government finance)</b>											
Total revenue (excl.grants)	12.4	12.6	14.9	12.5	12.6	13.7	13.9	14.3	14.6	14.8	15.2
Total expenditure and net lending	22.0	22.6	26.4	25.8	25.9	28.7	27.4	25.9	24.2	23.6	22.8
Capital expenditure	7.0	8.2	11.1	10.1	10.2	13.1	13.0	11.0	8.8	8.5	8.2
Current expenditure	14.2	15.1	14.5	14.7	14.8	14.9	14.4	14.4	14.8	14.6	14.5
Primary fiscal balance	-1.6	-3.3	-2.2	-5.2	-5.2	-5.2	-4.6	-3.6	-4.1	-3.8	-3.1
Domestic fiscal balance	-4.6	-5.6	-5.3	-8	-8.1	-8.1	-6.7	-5.8	-6.2	-5.8	-4.8
<b>Overall fiscal balance(payment order)</b>											
After grants	-1.4	-0.2	-2.2	-0.1	-0.1	-4.2	-1.8	-0.9	-0.3	-0.3	-0.3
Before grants	-9.6	-10	-11.5	-13.2	-13.3	-15	-13.5	-11.6	-9.6	-8.8	-7.6
External current account balance											
<b>External Sector</b>											
Including official transfers	-2.2	-4.9	-7.3	-6.7	-6	-5.2	-9.1	-5.5	-4.4	-4.5	-4.2
Excluding official transfers	-11.9	-14.4	-17.3	-17.3	-17.7	-18.1	-15.7	-13.8	-12.6	-11.7	-10.7
External debt(end of period)		15.2	14.8	14.8	14.9	14.9	17.7	19.2	17.7	16.5	15.2
NPV of external debt (%of exports goods and services)	57.7	49.9	0.0	92.5	99.7	98.1	108.7	110.7	100.3	91.1	80.9
Scheduled debt services ratio											
(percent of exports goods and services)	2.4	1.3	1.7	3.6	2.7	5.1	4.5	7.1	7.5	6.6	
Gross reserves(in months of imports of goods and services)	4.7	4.7	5.4	4.6	5.2	5.7	5.3	5.4	4.8	4.2	3.5

Source: May 2011: IMF and Rwandan authorities