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**POVERTY REDUCTION BUDGET SUPPORT TO RWANDA
PROGRAMME MEMORANDUM FOR ROLLING PROGRAMME
FIRST THREE YEAR SEGMENT: 2006 TO 2008**

**DFID Rwanda
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1. SUMMARY

1. This document describes a rolling programme of Poverty Reduction Budget Support (PRBS) to the Government of Rwanda (GoR) commencing in April 2006. The programme is designed to run throughout the ten years of the recently signed UK-Rwanda Memorandum of Understanding (MoU), from 2006-2015. The programme will be managed in three year segments, the first of which runs from 2006 – 2008, and is the main focus of this Programme Memorandum. However, it is intended that the programme will be refreshed and rolled forward each year.

2. DFID has been providing multi-annual PRBS since 2000 and during that period we have seen considerable progress in policy and deliver, as well as improvements in public financial management systems and institutional capacity. Rwanda's first PRSP was approved in 2002. While implementation has been patchy, considerable progress has been achieved, especially in the social sectors (see Box 1 below). General budget support has made a major contribution, as confirmed by recent evaluation work (see **Annex 2**). DFID pioneered the introduction of general budget support in Rwanda and remains the main provider of budget support to Rwanda today.

3. Despite much progress, the development challenge in Rwanda remains huge. It is still one of the poorest countries in the world and despite significant falls in poverty rates from the peak created by the genocide in 1994, poverty levels are probably still higher than in 1990. The Living Conditions Household Survey due to report at the end of 2006 will provide an accurate update. Growth has faltered in recent years and exports are low. Rwanda appears to be peaceful and stable, but the risk of conflict remains significant, although reducing. GoR has recently launched work to prepare a second PRSP which will focus strongly on growth. This will be known as the Economic Development for Poverty Reduction Strategy (EDPRS). It looks likely that this will provide the best route towards continued progress towards national unity and reconciliation, economic growth and sustained poverty reduction.

4. DFID's Country Assistance Paper (CAP) has over the past three years focused on supporting delivery of the PRSP. PRBS has been the key programme component, utilising two thirds of the Rwanda aid framework, supplemented by technical assistance focused mainly on capacity building, and by policy dialogue on key issues. It is envisaged that the country programme will maintain this approach, channelling support towards preparation and implementation of the new EDPRS, but with an increased

focus on measuring and monitoring results. PRBS would remain a key element.

5. In helping to design and deliver the new EDPRS, DFID's sustained support will help GoR to make further progress in policy reform and development, in institutional development and capacity building, and in delivery of services: leading to sustained poverty reduction and continued national reconciliation. As well as continued progress in the social sectors - education, health (including fighting HIV/AIDS) and water supply and sanitation – renewed emphasis on agricultural transformation, export development, energy and infrastructure can be expected. This should deliver further progress towards the MDGs (and the new EDPRS should include quantified estimates of what is achievable over its five year life).

6. The **goal** of the new PRBS programme is to reduce poverty in Rwanda. Its **purpose** is to provide the GoR with the means to deliver Rwanda's PRSP. These objectives are consistent with our overarching country programme objectives and with commitments set out in the UK-Rwanda MoU. The main features of the new PRBS programme are:

- A rolling programme designed to run for the 10 years of the MoU (2006-2015) in 3 year segments; the first three year segment will run from 2006 to 2008;
- Programme to be refreshed annually on the basis of progress and performance: changes will be incremental.
- Single annual disbursement in April of each year, based on declarations agreed in the previous October;
- The Secretary of State to review the programme twice a year: in October, to approve the size of the commitment for the following year and to agree figures for the new outer third year; and in March to approve disbursement in April;
- There will be core and indicative components. The core component is set at £31 million per year for the first three years (2006-2008), with an indicative component of up to £4 million in the two outer years (2007, 2008). Subject to GoR performance and reducing risks, we see the proportion of PRBS of the total DFID framework rising steadily over this period from 67% now to around 75% (with a core to indicative split of 88:12).
- The upper limit of the resource envelope over the first 3 years will therefore be £93.25 million (given that PRBS worth £7.75 million has already been disbursed in 2006 under the previous PRBS programme, leaving only £23.25 for disbursement in 2006).

7. The UK has played a key role in taking forward harmonisation and alignment in Rwanda and in helping the government to reduce its transactions

costs in dealing with donors. The new PRBS programme will provide a platform for promoting increased alignment and harmonisation of donor support, making for greater aid effectiveness. This is significant, as Rwanda is heavily aid dependent.

8. This proposal has been prepared in close consultation with the GoR and with other budget support donor partners in country. The approach has been widely endorsed. It aligns strongly with the GoR's new Aid Policy, now being finalised, in which GoR reiterates its strong preference for budget support over aid in other forms. In particular the GoR appreciates the intra- and inter-year predictability that this programme will bring. Local and international NGOs represented in country were consulted and seem to appreciate the advantages of the approach.

9. Risk has been carefully considered (see discussion in **section 4** and **Annexe 1**). The overall risk to delivery is assessed overall as medium, but reducing; fiduciary risk likewise.

Box 1: Rwanda: key achievements under first PRSP

- Improved macroeconomic management and stability – controlling inflation which is now well under 10%;
- Macroeconomic stability has contributed to high economic growth rates - second highest in Africa between 1994 and 2004 and still averaging over 6% in the first half of this decade;
- Running of a tight fiscal policy with effective domestic resource mobilisation – this reached 14.5% of GDP in 2005 compared to 11.4% in 2001;
- Total resources to health and education have grown substantially whilst defence spending has declined;
- The removal of school fees in 2003 helped net primary school enrolment reach the highest in the region at 95% (with 100% gender equity);
- Direct improvements in public accountability – Transparency International ranks Rwanda in its Corruption Perceptions Index at number 83 out of 158, a better rating than all other countries in the region;
- Peace and security have been maintained and PRBS has contributed to the financing of reconciliation and justice programmes. These have allowed many Rwandans to be resettled and reintegrated into society (including ex-combatants) and the development of a community based justice and reconciliation process (*gacaca*) to deal with up to 750,000 cases of genocide-related crime;
- Following adoption of a new constitution in 2003, Rwanda held successful national Parliamentary and Presidential elections. Rwanda has the highest ratio of female parliamentarians in the world (49%).

2. PROGRAMME DETAILS

2.1 Programme Description

10. Rwanda has made a remarkable recovery from the devastation caused by the 1994 genocide and civil war. In the ten years after 1994, it achieved the second highest growth rate in Africa at over 10% per annum. Although Rwanda has largely moved on from the post-conflict stage, the legacy of the genocide nevertheless remains in important respects, from levels of poverty higher than in the late 1980s to massive capacity deficiencies in public and private sectors. The number of people below the poverty line stood at 60 percent in 2000. It was in this context that DFID first provided PRBS on a multi-annual basis in 2000. Continued economic growth since then in rural and urban areas will have brought that rate down, but not to the 48 percent in 1990. The 2002 Poverty Reduction Strategy (PRS) was based on a participatory poverty analysis and some solid poverty analysis that set priorities, including in rural development and the social sectors. Our PRBS has explicitly supported this strategy since the current programme was agreed in November 2003.

11. This new programme incorporates the lessons from the two earlier programmes and the recent development of UK policy on PRBS and on conditionality. In line with PRBS programmes elsewhere in Africa and the Government of Rwanda's (GoR) medium term expenditure framework (MTEF), it moves to a three-year rolling programme whereby a firm commitment is made each year to finance the next GoR budget and a mixture of core and indicative commitments for subsequent two years. The firm commitment in the first GoR budget (calendar) year of the programme will be two-thirds of DFID Rwanda's programme, or £31m. We will aim to increase the proportion of the programme allocated to PRBS predictably and subject to further progress in accountability, transparency and measurable progress in poverty reduction.

12. The **goal** of the programme is that the GoR delivers poverty reduction. The **purpose** is to provide increased means for the GoR to deliver the PRS. The initial core commitment will be £31m to Rwandan fiscal year 2006. The programme will be delivered with clear expectations that fundamental principles of our engagement will be fulfilled, particularly around transparency and accountability. The forward-looking indicative component will be partly linked to the quality of engagement. The fundamental principles about budget consultation, reporting and accountability are already contained in the Partnership Framework between the GoR and budget support donors (see Annex 5).

13. Rwanda remains a long way from achieving the MDGs and has a strong call in that regard on additional development assistance. Its policy environment is good (third quintile in the Country Performance and Institutional Assessment) but its absorptive capacity is limited in terms of designing and implementing policies and maintaining macroeconomic coherence. For this reason PRBS continues to play a strong role together with complementary dialogue and technical assistance to build capacity.

14. The PRS that has been at the centre of our PRBS is generally recognised as a strong document of its type but its implementation has been patchy. The education sector in particular has moved ahead quickly with a sector strategy, a framework for MDG-based resource commitments and development of a monitoring system. Other sectors have lagged behind, the most significant of which has been agriculture despite its importance for poverty reduction and broad based and pro-poor growth. An evaluation of the first PRS has been completed, development of a second PRS (the EDPRS) has commenced and the latest Household Living Conditions Survey will provide detailed poverty information by early 2007. The GoR feels strongly, with some justification, that the first PRS said too little about growth and that the EDPRS should address this deficiency.

15. Resources provided to health and education have grown substantially in absolute terms and as a proportion of the budget while those to defence have declined. Table 1 shows the trend. The social sectors make up around one-third of recurrent expenditure. Although their share of the recurrent budget has fluctuated, relative to GDP expenditure social sector spending has increased slightly with a significant increase planned for 2006. Defence expenditure is below half the size of the social sector.

Table 1: Trends in Education, Health and Defence Expenditure

	2002	2003	2004	2005 budget	2006 budget
% Recurrent budget					
Total Education and Health Expenditure	29.0%	31.2%	34.5%	28.8%	34.5%
Total Defence Expenditure	18.1%	16.0%	16.3%	13.3%	15.0%
% GDP					
Total Education and Health Expenditure	4.7%	5.2%	5.0%	5.0%	5.7%
Total Defence Expenditure	2.9%	2.7%	2.3%	2.3%	2.4%

Source: GOR

16. Given its recent history and the challenge of reconstruction since conflict within its borders finally ended in the late 1990s, the GOR, DFID and other budget support partners have focused attention on getting policies and processes in place. Much has been achieved in terms of getting budget systems in place, improving financial accountability, developing the PRS and sector strategies and building an institutional structure for policy-making and service delivery. Less attention has been given to measuring poverty reduction results. The recent establishment of an independent National Institute of Statistics should address this gap and DFID is providing substantial assistance. Table 2 below presents some key achievements. While the education sector has moved ahead strongly, other social sectors have lagged behind. Health is moving forward under World Bank support with the contracting out of basic health service packages. The water sector is

planning a number of donor-supported investments to improve rural water supply and sanitation.

Table 2 Social Sectors Changes in Expenditure and Outcomes

Sector and Inputs	Change in Outcomes
<p>Education</p> <ul style="list-style-type: none"> • School fees removed since 2003. • Primary education spending doubled to \$28m between 2002 and 2004, and set to increase another 50 percent by 2006. 	<ul style="list-style-type: none"> ○ On-track to meet MDGs provided continues to receive high levels of finance. ○ Net primary school enrolment one of the highest in the region. Number of primary school pupils exceeds pre-genocide. ○ % finishing primary school doubled over five year period but at 50% (2005) still below SSA average of 59%.
<p>Health</p> <ul style="list-style-type: none"> • Recurrent spending low at \$2.33 per head, but growing by 18% per annum. • Total health spending estimated at \$8.25 per head. 	<ul style="list-style-type: none"> ○ Immunisation coverage up to 85 percent (year). ○ HIV prevalence low at 3 percent and declining.
<p>Water</p> <ul style="list-style-type: none"> • Recurrent spending low at only US\$0.03 per head, but set to increase substantially to US\$0.30 per head in 2006. 	<ul style="list-style-type: none"> ○ On-track to meet the water MDG, though data unreliable largely due to maintenance deficiencies.

17. Contrary to some cross-country findings that aid is negatively associated with domestic revenue¹, Rwanda has made impressive progress in improving tax collection. It has achieved over 14 percent of GDP, which is better than its neighbours, acceptable according to international targets² and equivalent to 28 percent of GDP if subsistence production is excluded.

18. Harmonisation of PRBS in Rwanda is governed by a Partnership Framework (see **Annex 5**). Capacity weaknesses in the GoR prevented fully effective use of the Framework in the past, but a secretariat has recently been established in MINECOFIN to support activities of the Budget Support Harmonisation Group (BSHG). This has immediately made for much better use of the Framework. We now expect greater transparency, with the GoR taking the lead in pressing donors to reduce transactions costs and dealing openly with all budget support partners under the Partnership Framework. Harmonisation, alignment and reducing transactions costs are key objectives of the GoR's new aid policy: something to which DFID is fully committed.

¹ e.g. Gupta, Powell and Yang, *The Macroeconomic Challenges of Scaling Up Aid to Africa*, IMF Working Paper WP/05/179, September 2005.

² *ibid.*

2.2 Programme Appraisal

19. PRBS is the GoR's preferred aid instrument and a core element of DFID Rwanda's CAP. The OECD/DAC evaluation study in Rwanda strongly supported PRBS and found it more effective than other aid instruments across a range of criteria. Macroeconomic management has on-the-whole remained sound and although medium-term growth prospects are uncertain Rwanda scored 11th in a recent global survey of improvements in national business environments³. Undoubtedly it could progress much further in its planning and expenditure management, financial management and pro-poor orientation. However there are some encouraging signs and the fiduciary risk environment continues to improve.

20. The financing gap for achieving the MDGs is substantial and the best way to fill the gap is through finance for coordinated Government action under the policy umbrella of the PRSP. But GoR's absorptive capacity could limit the volume of PRBS we provide. We propose a measured increase in the volume of PRBS we provide (and hence the proportion of the Rwanda aid framework delivered through PRBS). This will allow a measured response to further improvements in policy, economic and financial management, and the commensurate reduction in risk.

2.2.1 Background

21. Rwanda has recovered rapidly since 1994. The structure of the economy has not changed significantly and there remains a reliance on rain-fed agriculture. Prospects for Rwanda breaking out of its previous medium-term growth rate of 4 percent are uncertain at best. The GoR has a more ambitious target of at least 6 percent growth.

22. Vision 2020 is Rwanda's overarching policy framework for reducing dependence on agriculture, improving skills and employment and harnessing ICT. The GoR considers the 2002 PRSP to be a shorter-term elaboration of Vision 2020. Operational documents lie at the sector level. However, the development of sound, costed sector strategies has been slow even in PRSP priority areas. While education and health sectors moved relatively quickly, a sector strategy for agriculture was only recently agreed. The PRSP Annual Progress Report has been the most important opportunity for performance review by Parliament and development partners. While the content has improved year by year, it still reports well on actions but poorly on results.

23. There has been a strong push to decentralise service delivery but results have not yet been reported. The GoR recently announced a rapid reorganisation from 12 provinces and 106 districts to four regions and 30 districts. Reflecting the increased emphasis on decentralised service delivery, the 2006 budget presents for the first time budget lines at district level, making up about 16 percent of recurrent spending. At present that consists only of health and education services, but it will be expanded. Development of the capacity in districts to plan, budget, manage expenditure and account for it will

³ 'Doing Business in 2006', the World Bank, 2005.

be critical indicator of efficient public spending: it will be a key area for co-ordinated non-PRBS capacity building.

24. PRBS has been a central element in the DFID Rwanda CAP over the past three years. We expect to continue at the level of at least two-thirds of our support when the new CAP is finalised in 2007. The new UK-Rwanda MOU also contains a commitment to maintain this level of PRBS unless there is a breach of the fundamental commitments contained in this. It forms part of a coherent approach of financial and technical support to the GoR. Alongside PRBS we will have a coherent and strategic capacity building and technical assistance programme to both increase PRBS absorptive capacity and to contribute directly to other poverty reduction goals and improving the growth environment. We have also taken a strategic decision to provide sector budget support in the education sector as a means both to leverage other donors into a more manageable form of assistance. Education sector donors have been project-oriented, leading to inefficiencies, but some are now ready to change. Sector budget support widens the spread of aid instruments in the DFID Rwanda programme and spreads risk arising from any interruption of PRBS.

25. Experience with the programme in 2004 was a salutary reminder of the volatility of the region and the way in which events can change very rapidly. While Rwanda has genuine security concerns over the presence of FDLR soldiers in eastern DRC, it has so far refrained from direct intervention (since withdrawing troops in 2002) whilst urging the international community to find a solution. It has also contributed troops to Africa Union peacekeeping efforts in southern Sudan.

26. DFID is one of five agencies providing PRBS in Rwanda⁴. Germany has announced that it will provide PRBS from 2006 and Canada is currently exploring the possibility of joining the group as well. Others including the Netherlands and Belgium will provide sector support for education. But the budget support group remains small and is unlikely to increase in the short to medium term. Some donors are unwilling to commit to PRBS because of concerns over political space, human rights and regional security risks. Some donors are procedurally unable to provide budget support. But a number may be persuaded to do so if they feel the environment is getting less risky and the benefits justify the risk.

2.2.2 Approach

27. Although some legacies of past conflict remain, Rwanda has in many ways moved beyond the post-conflict phase and now has to justify increased allocations on the basis of performance and development results. This is a key message for GoR. However, the design of this PRBS instrument also draws on our experiences with two previous PRBS programmes in Rwanda and particularly our experience with PRBS since 2003. It also draws heavily

⁴ The other four are the World Bank, EC, SIDA and the African Development Bank

upon the OECD/DAC evaluation of PRBS and recent developments in DFID and UK policy and practice in relation to PRBS and conditionality. Key lessons from the past few years include:

- Quarterly disbursements have been burdensome and unpredictable and have not provided the smooth flow of finance envisaged;
- Openness and transparency on the part of the GoR have not met our expectations; and
- The development of indicators on which to judge performance has been slower than anticipated.

28. In discussion with partners, we have identified five programme output areas, covering budgeting, transparency and accountability, and institutional development. These are set out in the logical framework (Annexe 9), as follows:

- Better links between planning, budgeting and expenditure reflecting PRS policies;
- Improving transparency and accountability of GoR to its citizens for public expenditure and financial management;
- Increased mutual accountability between GoR and donors;
- GOR institutions strengthened and capacity build;
- Reduced (GOR and donor) aid transactions costs.

29. We believe these address the key issues. These objectives have been discussed in detail with the main GoR stakeholder, the Ministry of Finance and Economic Planning (MINECOFIN), who have endorsed the approach. Secondary stakeholders include line ministries, decentralised units, service recipients and other development partners. Consultations with representatives of these stakeholders and others are reflected in the consultation record at **Annex 6**. These outputs correspond to key appraisal issues covered in the rest of this section.

2.2.3. Economic Appraisal

30. PRBS is the best instrument for aligning DFID's support for the GoR behind a coherent plan for economic development and poverty reduction. However, problems can arise with the development of a coherent pro-poor growth strategy and with the absorption of increasing aMoUnts of aid within a stable macroeconomic framework.

31. Macroeconomic absorptive capacity and growth are closely connected: higher growth allows higher public expenditure, while sound public programmes should generate economic growth. To date the GoR (with development partners) has been more successful at improving social sectors than at tackling the short-term structural constraints to growth. Better education and health improves lives but only increases economic growth over a long time scale. Sustainable financing of public services is limited by short-term economic growth. Recently there have been some important policy developments towards tackling the short-term constraints, including a new land law to enable land titling and consolidation, a new agriculture sector strategy and development of an action plan to tackle the main constraints to trade. Acknowledging that Rwanda is too land-scarce to depend economically on agriculture over the longer-term, World Bank research in 2005 provided evidence that policies to increase agricultural (particularly cash crop) productivity and reduce economic isolation offered the best prospects for pro-poor growth and poverty reduction.

32. The IMF remains pessimistic about the prospects for a short-term supply response to Government expenditure and is therefore encouraging caution, particularly in areas that might generate inflation such as large increases in the number and remuneration of teachers and health workers. This suggests a measured approach to increasing PRBS would be most appropriate. The IMF is encouraging nominal exchange rate appreciation as a means to absorb higher aid flows despite the potential disincentive to export production. The GoR could absorb more aid, including PRBS, through investing in productive infrastructure in rural areas while supporting sustainable growth in agricultural productivity.

33. Rwanda reached HIPC Completion Point in April and received topping up, worth around \$800m in NPV terms. In terms of debt service, Rwanda was already receiving interim relief of around \$40m per year, which has now been made permanent. Topping up provided an additional \$5m in 2005, rising to \$15m by 2008. The IMF has calculated that the country can afford only \$20 million of new borrowing per year, even at concessional rates, if it is to stay within its debt sustainability threshold. However, according to other standard debt measures (debt-to-GDP and debt-service-to-exports), Rwanda's external debt is very manageable. It has no significant problem with domestic debt.

34. The increase in world oil prices is seriously affecting Rwanda's short-term prospects. It has come at a time when the growth in electricity demand has outstripped national generation capacity, leading to the purchase of diesel generating capacity. The GoR has not helped the situation by allowing only partial adjustment in domestic petrol prices: a policy unlikely to be pro-poor. We expect at least a further partial adjustment in 2006.

35. Even without the increase in oil prices, Rwanda was heavily dependent on imports. Its current account deficit was 18 percent of GDP in 2004 and was largely financed by donor support. The predictability of PRBS is therefore important not just for budgetary finance but also for the balance of payments. Its export performance has been very poor at just 9 percent of

GDP in 2003 compared to an average of 32 percent across sub-Saharan Africa. Over one-half of exports come from tea and coffee, with mining another major contributor. Export performance is therefore heavily influenced by international commodity prices. It is trying to diversify its export base with some specific success stories (e.g. flowers, pyrethrum) but none individually making up a significant share of exports.

36. Despite losing control of expenditure during the elections in 2003, the GoR has since run a tight fiscal policy. Domestic revenue is buoyant: the GoR reached over 14 percent of GDP in 2005, compared to 11.4 percent in 2001.

37. The central bank (BNR) is nominally independent. The recent institution of a Treasury Management Committee with the Ministry of Finance has helped to ensure better coordination of fiscal and monetary policy. The two institutions have also agreed that the Ministry of Finance will fund monetary operations rather than the BNR, where previously neither institution was willing to absorb the increasing cost of monetary sterilisation. The BNR's monetary instruments are limited to short-term Treasury Bills issued to very few institutional investors, while there is currently no secondary market.

38. The GoR has slowly but surely introduced financial sector reforms to tackle the legacy of insolvent banks. Earlier this year two banks were privatised, including one to CDC/Actis. The IMF and World Bank have carried out two joint missions over the last 12 months to agree a Financial Sector Action Plan. There have been some question marks, particularly in 2003, about the BNR's willingness to insist on the proper implementation of financial regulations when the GoR had large borrowing needs. This year, however, the Governor has used his powers to dismiss the Chairman of a large bank for conflict of interest.

2.2.4. Social Appraisal

39. The overall direction of social policy in Rwanda appears clear sighted. Its objectives – identified in Vision 2020 and the PRSP – are to reduce poverty, endow citizens with greater skills and capacities through investment in the social sectors, foster an economic growth environment where these investments will become sustainable, create new governance structures in which State and citizen relate to each other in new ways in order to enhance personal and national security, and to tackle the long-standing expression of ethnic difference that have undermined social relations in Rwanda for many decades.

40. Rwanda started from a low baseline of social indicators after the 1994 genocide and war. There were, and there remain, vast numbers of displaced or disaffected people. Poverty is pervasive. Life expectancy for Rwandans has declined by 5 years in the last two decades and maternal and infant mortality remain very high. Rwanda was placed 159th in the 2005 Human Development Index. Most progress towards MDG targets has been made in

education – where primary enrolment rates and gender ratios rival any in the region.

41. In late 2006, the Household Living Conditions Survey will report, updating Rwanda's poverty statistics. The general trend appears positive although the country has not reduced poverty to pre-genocide poverty levels. Around 60% of the population was reported to be below the national poverty line in 2002, down from around 70% in the mid 1990s. Inequality is high, although figures on trends in equality are lacking. However, there is every sign of a growing urban elite in the capital while poverty is entrenched in rural areas. The Government's spending in the education sector reflects the issue clearly: the distribution of spending between the tertiary and primary education sub-sectors in Rwanda is among the most unequal in Africa. The Government relates this to its need to rapidly increase capacity but its secondary effect is to reinforce structural inequality.

42. In terms of gender equity, Rwanda leads the world in the proportion of women in Parliament and it recently achieved 45% of places for women in local elections. However, the links between the majority of women and their political representation could be better and is the subject of a DFID-funded capacity-building programme.

43. The task facing the Government has been huge and complex. It is not simply a matter of investing in human development or in economic growth and trade in order to reduce poverty. Rather, Rwandan social policy aims to create a consolidated national identity bringing peace and security alongside growth and development opportunities for individual citizens. There is a national process of peace and reconciliation that is much admired by neighbouring countries emerging from conflict. The Government of Rwanda has made a series of calculated choices. Social policy is tackled with energy and commitment and with a strategic flair that is bringing progress and results.

44. It would be over-ambitious to expect balanced progress across sectors at this stage in the transition between conflict and development. But the PRS annual progress reports and the systems of reporting and accountability that underpin them, together with the "insurance policy" of the UK-GoR MOU, offer sufficient demonstration of both intention and results.

45. The Government of Rwanda support to deliver its vision and policies. This is part of the role of PRBS. PRBS signals both the volume and the continuity of support for Rwanda's social policy. Predictable PRBS will allow the Government to select its own mix of policies to achieve its ambitious social and economic agenda.

2.2.5. Institutional Appraisal

46. The Evaluation of PRSP1 demonstrated how the outstanding achievement of the first poverty reduction strategy has been to set up government-donor sector working groups in the country. This is an important

milestone for the ways in which institutions in general are operating and more particularly for how the government is learning and organising itself.

47. Periodic reviews of PRS, quarterly meetings of the Budget Support Harmonisation Group and GoR-donor discussions in the MINECOFIN Steering Committee meetings provide useful opportunities to discuss and monitor progress on PRS implementation and PFM reforms. As the attached FRA notes, remarkable progress has been made in recent years in strengthening the planning, budgeting and public financial management frameworks and practices. The Auditor-General (AG) and the Budget and Financial Commission of Parliament (a Parliamentary committee) are playing effective watchdog roles. The AG's reports are discussed in Parliament and the media and are taken seriously by the government.

48. Significant achievements have been made in re-establishing the institutions of the constitution, the law and judicial process. The institutions of peace and security are well managed and operating effectively. The gacaca process of community-based justice and reconciliation is operating throughout the country. Education - as an institution - is well directed and has a very clear sense of purpose. These impressive changes are directed by a government that has a shared vision and a very marked sense of urgency.

49. Recent and on-going public sector reforms are aimed at creating a small central Government, with a considerably slimmed down staff complement. This is complemented by a thorough overhaul of local government structures – where the objective is to move service delivery and service accountability much closer to the citizens. This has been implemented at breakneck speed and many aspects of the transformation have yet to be consolidated. But few dispute the sound rationale behind the moves.

50. Given Rwanda's history, GoR emphasises building institutions that promote democratic governance particularly through decentralisation. Its aim is to build democracy from the bottom, through empowering local communities and creating accountable local government structures. It believes that democracy built in this way with emphasis on social participation and inclusion will act as a counter balance to political divisions and extremism.

51. The Government's approach to the reforms has been very single minded. And, while other African governments have been forced to reduce the size of their civil servants, the GoR has done this voluntarily. It now has a central civil service of around 600 people. This probably makes it the smallest government in Africa. The Government has also removed all Government vehicles and restricted the use of mobile phones in similar moves to reduce costs.

52. MINECOFIN continues to push out planning, budgeting and reporting requirements in line with best practice. It has been operating a medium-term expenditure framework for many years. All ministries must produce strategic plans and link their budget bids to the strategies. From 2006 ministries must

identify results they intend to achieve and report against these. Limited capacity, however, restricts the effectiveness of these policies. Linkages across Government can sometimes be problematic. Donor-Government harmonisation groups are variable in the quality of discussion – which reflects both donor and government capacity constraints.

53. The Government recently introduced a draft Aid Policy. This concentrates on sending signals to the line Ministries that they should not go “project shopping”; signals to the donor community that all in-coming funds should be subject to reporting and review requirements; and that the Government’s preferred instrument is budget support. The Aid Policy also takes an open approach to civil society – acknowledging its special roles in Rwanda. This is a very helpful addition to the relations between Government and its partners.

54. GoR recognises the importance of incentives to motivate good performance both at individual and organisational levels. Ministers and civil servants working in key ministries/positions are carefully selected and are regularly rewarded for good work. Bad performance is discouraged by removing or transferring those seen as less effective. Some leading ministries and organisations are experimenting with improved performance management systems, which will be eventually rolled out to the rest of the civil service.

2.2.6 Political Appraisal

55. The election in 2003 marked a new chapter in the political life and the development of Rwanda. The events of the 1994 genocide and war of the following few years set back the country’s development by many decades. There is now peace and stability within Rwanda but neighbouring countries remain subject to conflict. Significant progress has been made on national unity and reconciliation in order to tackle the legacy of 1994. But there are still many challenges facing Rwanda in realising a fully democratic and inclusive state. Work will need to continue to unify the country, strengthen its institutions and build capacity.

56. Analytical work on political participation indicates that the formal institutions of democracy are still relatively weak. National consultations on the constitutional referenda and during the development of the PRSP have marked an opening up of government processes to increased public debate. But the Government is very capable of springing surprises on its citizens and on the donor partners alike.

57. The PRSP1 Evaluation was critical of the “space” and underdeveloped capacity of civil society. It pointed out that during the PRSP1 design, the Government was more inclined to consult directly with its citizens than operate through civil society. This is only partly explained by the lack of capacity in civil society. The other part of the explanation is the lack of trust and immaturity of national democratic process. Progress has recently been

made in the form of Rwanda's Aid Policy, which encourages a more formal recognition of civil society roles and moves away from the Government's usual interpretation of NGOs purely as service delivery agents. The capacity constraints of Civil Society and particularly its inability to question national policy will be a continued risk over the coming few years. But, like most capacity questions in Rwanda, we are seeing increased confidence and competence over time.

58. The media are growing in capacity and influence. The Government is taking measures to encourage them. The difficult problem seems to be the accuracy and the presentational skills of the media.

59. The private sector has some way to go. In many respects, the Government is "over-protective" and has not yet fully recognised its limited role in providing an enabling environment. It continues to intervene in areas which it would do better to allow the private sector to develop alone. But, there are signs that this is beginning to be recognised and as confidence grows, there will be an increasing challenge to Government to allow the private sector to operate.

60. Parliament is becoming more active and confident in discussions through parliamentary committee systems. The skill and confidence of Parliamentarians is growing. Ministers are being called to answer questions from Parliamentary Committees with increasing regularity. But, as Ministers continue to be appointed by the President rather than identified through any electoral process, they remain answerable only to him and not to a wider constituency. At this time, this is not seen as a particular risk to GBS.

61. However, there is increasing signs of democratic life – particularly in local government. Recently held local elections have resulted in an unexpectedly high proportion (45%) of women appointed to local government and all posts are now filled. The new local government bodies will have a significant role to play in managing local resources. Precisely how this will happen remains to be better understood. But it is clear that local government will play a more active role in resource management in future. This is a deliberate choice by the Government to bring accountability closer to citizens.

62. The design of the budget support instrument seeks to address the issues of domestic accountability raised in the budget support evaluation. It does this through building the performance assessment framework around national processes that provide parliament, civil society, the media and the private sector with opportunities to engage in government policy discussions and the monitoring of performance. In seeking to utilise these national processes and strengthen them, the design aims to mitigate the risk that accountability to donors displaces accountability to citizens.

2.2.7 Environmental Appraisal

63. Disbursement of direct Budget Support itself has no direct environmental impact but is a fully fungible significant contribution to financing of the GOU budget. Environmental impact (positive and negative) of DFID PRBS is therefore associated with the impact of GOU expenditure as a whole and PRSP/EDPRS implementation. Given sustainable development as a core principle in their development assistance, the PRBS donors, together with other donors, will need to help GoU ensure that national systems are capable of addressing issues of environmental sustainability affecting the poor. Progress towards the sub-targets of MDG 7 on environmental sustainability in Rwanda is mixed, but certain elements are currently off-track.

64. While the current PRS demonstrates awareness of certain environmental issues, meaningful action – especially on such issues that cut across sectors - remains variable and remains a significant challenge. National and local capacity and resource constraints facing the Ministry for Environment and Lands (MINITERE) and REMA in working across government to address identified environmental problems and implement and enforce their mandates are severe. The key institutions suffer weak capacity to engage effectively in national budget dialogue and allocation processes. With significant donor flows via PRBS, this presents a challenge in ensuring adequate budgetary allocation and funding for managing natural resources and the environment. There is relatively weak inter-institutional coordination and dialogue, exacerbated by current institutional flux from reform and decentralisation processes. In collaboration with other donors, DFID will contribute to providing support to the GoR to help ensure that environmental sustainability is integrated in PRSP/EDPRS implementation and national policy dialogue, proportionate to DFID's core areas of engagement.

2.2.8 Lessons and Evaluation

65. There have been three highly detailed evaluations produced recently which have a high degree of relevance to the design of this instrument all of which are summarised at **Annex 2**. They relate to PRBS, the country programme and the first PRSP. In general they paint an overall positive picture of impact of PRBS, the country programme and the PRSP but point to a number of lessons and issues. Most of these will be addressed through our support for the EDPRS and in the design of the interim CAP and new CAS to run from mid-2007. Particular issues relating to PRBS are explored next.

66. The evaluation of PRBS in Rwanda has provided valuable insights:

- Unpredictable resourcing (not only on the part of PRBS donors but also the GoR itself) is hindering achievement of outcomes;
- The nature of conditionality has generated unpredictability;
- Policy dialogue has had strong effects over PFM systems but elsewhere it has been uneven;

67. The evaluation makes a number of recommendations and these are summarised below along with the actions in the new programme that address them.

Table 3 – PRBS Evaluation Recommendations and Proposed Programme Action

Recommendation	Action
A due process mechanism for resolving disputes.	Is already written into the Partnership Framework. Political issues should be dealt with through the new MOU.
Improved predictability	Tranching and commitment in line with DFID's new approach to conditionality.
Greater common understanding of growth, poverty reduction and medium-term financing commitments.	Should be an opportunity to address this through design of the next PRS. Medium-term commitment through the mix of core and indicative components.
More transparency on conditionality and better accountability at the local level.	Move to common performance assessment framework, better definition of poverty reducing expenditure, revitalisation of the Harmonised Budget Support Group and stronger emphasis on monitoring tools and communication.
Institute a better and more systematic learning mechanism.	Part of discussion of new Partnership Framework due to take place in March 2006.

68. The evaluation of PRSP1 has provided invaluable lessons for budget support. There are clear messages – that the Government appears to be taking on board – about the Priority Spending component of the budget. The Evaluation recommends an overhaul in order to be more precise in identifying and planning priorities.

69. The PRSP evaluation also points up the continued paucity of capacity in government. The Government's response has been to use the public sector reform process to streamline the civil service weeding out unqualified or under-performing individuals in favour of a smaller, more "nimble" executive. Although individuals are now carefully selected for their greater capacities, there will continue to be constraints for several years to come.

70. The PRSP evaluation has also been critical of the slow rate of progress in certain sectors. Agriculture has not had the required impact on poverty reduction that is required. Health has been slow to achieve appropriate services.

71. But, overall, the PRSP evaluation is mindful of the huge progress that Rwanda has made in recent years. The overall message of the Evaluation is to focus on increase rates of effectiveness in policy implementation. This has particular implications for the need to progress results based budgeting.

3. IMPLEMENTATION

3.1 Management Arrangements

72. The Project Officer will be Deputy Head Programmes in DFID Rwanda. He/She will be supported by the Economics and other cross-cutting Advisers, and sector Advisers. Responsibility for implementation lies with the GOR, and particularly MINECOFIN. Performance information will filter up from sector level discussions to the Harmonised Budget Support Group that includes MINECOFIN and the PRBS donors.

73. Performance monitoring will be harmonised under the Partnership Framework between the GoR and the PRBS donors. This includes bi-annual budget support reviews as well as participation in IMF review missions. This will be the forum for DFID to raise any concerns on performance and to announce future commitments. We hope to agree a common framework during preparation of the EDPRS.

3.2 Timing

74. Annual disbursement will take place through a single tranche⁵ released in April.

75. DFID recognises that it is good practice to commit funds firmly at an appropriate time in partner countries' budget preparation. In line with this, under the new PRBS programme, DFID's commitment to the GoR's annual budget will be declared as early as possible in the previous budget (calendar) year and preferably no later than the end of October. Core and indicative commitments for the two subsequent years should also be declared at that point. The timing of the commitment will depend on provision of the following documents as well as satisfactory responses to any questions that might arise from these:

- The draft budget for the following year and the medium term expenditure framework, including the opportunity for full discussion of expenditure plans with all PRBS donors, preferably as part of the budget support reviews;
- Budget execution information on the previous year;
- Reports on any expenditure reviews and tracking surveys that may have taken place;
- Relevant audit reports, including both the overall annual report of the Auditor General and any specific sectoral audit reports that we may request, provided these have been submitted to Parliament;

⁵ In 2006 there will be two tranches, one of £7.75m in January under the current programme and the second of £23.25m. We will move to the single tranche from 2007.

76. Our commitment may be delayed in the event that some or all of this information is not forthcoming or critical questions are unanswered.

77. Once DFID Rwanda is satisfied on the basis of information provided that a commitment can be made, we will request approval from the Secretary of State to disburse the April tranche, provided that Rwanda does not move significantly away from one of the three partnership commitments set out in DFID's Conditionality Policy in the interim.

78. The key parts of the budget cycle for PRBS are set out in Table 4 below.

Table 4: Budget Cycle Timetable

Month	Event
January	New Rwanda financial year begins.
March	Joint Budget Support Review, including data on budget execution. IMF mission to review the PRGF.
April	DFID disburses annual PRBS in a single tranche. GOR provides budget execution report to Parliament. Copies sent to PRBS partners.
June	GOR produces and discusses PRS Annual Progress Report prior to submission to Parliament.
September	Joint Budget Support Review, including discussion of budget framework paper and audit reports. IMF mission to review the PRGF.
October	Draft budget submitted to Parliament. Secretary of State agrees a firm financial commitment for the following year plus core and indicative commitments to the two outer years.
December	Final budget issued and checked for major changes in case any significant breach of DFID principles for development assistance.

3.3 Funding

79. DFID support will be disbursed in a single tranche in April each year, beginning April 2006 to finance Rwandan fiscal year 2006.

80. DFID's conditionality guidelines state that the core component for outer years, "will be larger where we have an established relationship and where the partner government has built up a track record of commitment to poverty reduction, human rights and public financial management". There is no doubt

that, in Rwanda, DFID has a well-established relationship with the GoR. However we have found in recent years that the level of transparency around discussions of budget plans, execution and audit has been disappointing. The absence of consolidated Government accounts keeps the fiduciary risk higher than otherwise. Evidence for commitment to poverty reduction was affected by the diversion of funds basic healthcare to hospitals and the 18 percent over-budget expenditure on tertiary education during 2004, for example, and by the failure to monitor overall levels of expenditure that are truly pro-poor. The lack of attention to monitoring expenditure efficiency and effectiveness has also been disappointing.

81. There are reasons for optimism looking forward. Firstly, the GoR initiated budget support reviews in 2005 and for the first time circulated the budget execution report. We expect this practice to continue. It has also committed to more than double the primary school capitation grant in 2006, significantly raise the primary healthcare budget, monitor results and conduct public expenditure reviews and tracking surveys. We will press for fulfilment of these commitments.

82. Provided there is strong improvement in accounting and monitoring systems and we are satisfied that the overall level of risk has reduced, we will consider increasing our PRBS from two-thirds of our programme in 2006 to just over three-quarters by 2008. In line with DFID guidance on conditionality our commitment will comprise a core and indicative component. The proposed core component will decline as proportion of total PRBS from 100 percent in 2006 to around 88 percent in 2007 and 2008 if it is decided the indicative component can be used to its maximum proposed value

83. The decline in the core component serves two purposes. It allows both a measured response to disappointing performance and to strong performance. Reducing the proportion of the core means that we could respond to a lack of progress (the risk of which we think is low) while maintaining our commitment not to cut the core component except for breaches of the fundamental conditions for DFID assistance.

84. It is proposed to keep the core component level in absolute terms (subject to the GoR meeting its commitments stated in the new MoU) while using the indicative component to raise the proportion of the total programme to just over 75%, subject to good progress on the factors outlined in paragraph 67. Under normal circumstances, we would expect our actual disbursement to be maintained at least at its current level over the next three years.

Table 5: Proposed Total, Core and Indicative PRBS Components for Rwandan Financial Years

	2006	2007	2008
Maximum PRBS	£31m	£35m	£35m
Made up of:			
Core Component	£31m	£31m	£31m
Indicative Component	£0	£4m	£4m

85. According to GoR figures, DFID is expected to be the largest budget support donor in 2005 and 2006, almost twice the size of the next largest⁶. Table 6 below shows how support has fluctuated over the past few years. In 2003, support from a number of donors was delayed as the GoR failed to meet a number of targets under its IMF programme. These funds were disbursed the following year. In 2005 and 2006, the planned disbursements have stabilised but the share of the budget provided by PRBS is declining from 62.9 percent in 2004 to 28.7 percent expected in 2006.

Table 6: Budget Support by Donor, 2003 – 06 (£m)

	2003	2004	2005	2006	% 2006 Budget
DFID	22.75	20.25	37.25	31.0	12.5
Sida	3.2	0.9	9.7	6.3	2.6
World Bank	0.0	57.4	14.3	17.1	7.2
AfDB	-	-	10.9	4.6	1.9
EC	12.2	22.1	16.4	12.3	5.2
Total	38.15	100.65	88.55	71.3	
% Recurrent Budget	24.8	66.7	44.7	29.4	
% GDP	4.4	10.6	7.6	5.4	

Sources: OECD/DAC; GoR; DFID Rwanda calculations

86. Medium term prospects for increased PRBS are not good. Of the major contributors, the World Bank's PRSG has been hit by poor portfolio performance and Rwanda's ineligibility to loans. The EC's contribution will fall in 2006 and stay stable at least until the next EDF. There are no immediate prospects of larger contributions from SIDA and the AfDB. Germany will bring limited funds at least initially, and CIDA likewise is likely to make only a small contribution in the future (and subject to agreement from the new government in Ottawa).

3.4 Contracting and Procurement

87. All procurement from the grant will be undertaken by the GoR in accordance with its own procurement procedures. An assessment of the procurement system has recently taken place under the auspices of the World

⁶ In its projections the GoR has split the World Bank's PRSC 2 support between 2005 and 2006.

Bank and the GoR is in the process of revising the relevant legislation. GoR has invited DFID to build capacity in the National Tender Board and we are considering the request.

3.5 Accounting / Audit

88. Our procedure for management and accounting follows NAO guidance. DFID will transfer money into a designated Treasury account at the BNR through Crown Agents Bank (CAB). DFID will require a report from CAB to follow each tranche release and an annual reconciliation by the Office of the Auditor General between CAB records and the operations of the Treasury account at the BNR.

89. The GoR produced its first annual accounts in 2003, but the Auditor General did not consider them of sufficient quality to offer an opinion. The quality of accounts is not specified in the PRSP, nor is it an element of World Bank or IMF conditionality. The GoR is, however, committed in the Constitution to provide consolidated financial statements to the Auditor General. This it has so far failed to do, but technical assistance from the EC will help to build an opening balance, which is one of the key obstacles to providing proper accounts.

90. For auditing we will rely on reports from the Office of the Auditor General. While the OAG has a good reputation for independence and quality of work, its capacity is limited and it is unable to audit as many Government entities as regularly as it would like. We have had some difficulty getting hold of copies of those reports that it does produce. It will be a requirement of this programme that we have sight of audit reports that have been submitted to Parliament. We will reserve the right to conduct our own audits if we are unsatisfied with the information that we have received.

3.6 Monitoring and Reporting

91. We will monitor performance in the programme using the GoR's own reporting systems and the joint budget support consultation mechanisms under the Partnership Framework.

92. We will look at two sets of partnership principles in our monitoring and reports:

- a. The overall principles for UK PRBS and their measurement;
- b. The principles relevant to the Partnership Framework.

3.6.1 Overall Principles

93. We will look at the GoR's reports in relation to the UK conditionality policy and the UK-Rwanda MoU. In addition we will expect the GoR to maintain a **stable macroeconomic environment**. The main macroeconomic

indicators we will observe are: reserve money, broad money, the fiscal deficit (after grants), foreign exchange reserves and inflation.

3.6.2 Measuring Adherence to the Principles

94. For the purposes of the budget support programme we will measure the **commitment to poverty reduction** through the indicators set out in the PRS matrix. The specific indicators we will monitor are set out in **Annex 2** and will be the basis for dialogue with the GoR. There is a mixture of outputs and process indicators that reflects the uneven progress across critical sectors. We will support GoR efforts to harmonise donor performance assessments under a single performance assessment framework.

95. We will also monitor expenditure on poverty reduction as a proportion of the total budget. **We do not consider the current definition of priority expenditure is sufficiently focused or well-defined to be a useful measure for the monitoring PRBS.** Until the Government has proposed a satisfactory alternative as part of preparation for PRSP 2, we will monitor the subset of programmes identified in Annex 2 as a summary measure of pro-poor expenditure. Measurement of expenditure will require continued sharing of budget execution reports as the GoR initiated in 2005.

96. On the **PFM** side, much of the Financial Management Review and Action Plan (FARAP) has been implemented. For the future progress in PFM reform will be monitored through joint donor reviews under the Partnership Framework and the World Bank Public Expenditure and Financial Accountability (PEFA) programme. The efficiency and effectiveness of expenditure will be monitored through the GoR's public expenditure reviews and tracking surveys that it has committed to carry out from 2006 onwards.

97. Consistent with our commitment in the Partnership Framework we will use IMF Reviews as the basis for our macroeconomic assessment.

98. UK conditionality on adherence to human rights and international obligations forms part of the UK-Rwanda MoU and its related review process. All DFID Rwanda programmes, including PRBS, are linked to the MoU.

3.6.3 Principles in the Partnership Framework

99. In addition to policy actions and results, our monitoring will include indicators of openness and transparency as set out in the Partnership Framework, and in particular the GoR's commitment to:

- convene quarterly meetings of the Budget Support Harmonisation Group;
- conduct annual reviews of sector strategies with participation by relevant stakeholders and including a review of results and revision of targets;

- conduct an annual review of the PRS that is endorsed by development partners;
- organise an annual review of PFM involving budget support donors;
- involve DFID and other budget support donors in preparation of the Budget Framework Paper;
- provide reports of the Office of the Auditor General so that donors can rely on Rwanda's own audit system;
- continue inviting budget support donors to observe IMF Mission meetings.

4. RISKS

100. Table 8 summarises the overall risk assessment. The overall risk level is judged **medium** but reducing. Table 7 below provides a summary of fiduciary risks based on diagnostic exercises undertaken under the Fund/Bank HIPC Assessment and Action Plan (2004), the Country Financial Accountability Assessment (2005), consultation with key stakeholders and other sources mentioned in the Fiduciary Risk Assessment (Annex 1). Overall fiduciary risk is assessed as **medium** (upper end of medium) but reducing.

101. Overall **corruption** is seen as low and anti-corruption efforts are satisfactory. Both the Office of the Ombudsman and the OAG have identified corrupt practices that have led to prosecutions. International assessments rate Rwanda relatively highly. The World Bank Institute governance indicators place Rwanda around the median level. A 2005 Corruption Perceptions Index run by the Internet Center for Corruption Research placed Rwanda 83rd out of 159, above all of its neighbours. The confidence interval, however, was wide indicating a divergence of views. Allowing a stronger voice to civil society could provide a valuable additional instrument to ensure corruption does not increase. Corruption needs to be studied systematically to decide whether the current anti-corruption efforts are adequate.

102. In recent years, the Financial Accountability Review and Action Plan (FARAP) has provided a strong basis for dialogue on improvements in financial management. There appears to be strong **political** backing to PFM reform, particularly on the revenue side. However, most of the FARAP milestones have been achieved. As a stop-gap arrangement, CFAA 2005 has suggested tentative action plans to deal with continuing PFM weaknesses. This will be replaced with more specific and detailed action plan based on PEFA-based PFM assessment (in the third quarter of 2006). A number of donors are joining forces to assist GoR, both directly for example through training accounts and auditors and indirectly through joint capacity building efforts with MINECOFIN.

Table 7: Summary of Fiduciary Risks				
	Principles	Benchmarks For Assessment	Rating 2005	
1.	A clear set of rules governs the budget process	1. A budget law specifying fiscal management responsibilities is in operation.	A	↑
		2. Accounting policies and account code classifications are published and applied.	A	↑
2.	The budget is comprehensive	3. All general government activities including those of State House and MoD are included in the budget.	C	↑
		4. Extra budgetary expenditure is not material	C	↑
3.	The budget supports pro-poor strategies	5. Budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget.	B	↑
4.	The budget is a reliable guide to actual expenditure	6. Budget outturn shows a high level of consistency with the budget.	A	↑
5.	Expenditure within the year is controlled	7. In-year reporting of actual expenditure.	C	↑
		8. Systems are operating to control virement, commitments and arrears.	C	↔
6.	Government carries out procurement in line with principles of value for money and transparency	9. Appropriate use of competitive tendering rules and decision-making is recorded and auditable	C	↑
		10. Effective action is taken to identify and eliminate corruption.	B	↑
7.	Reporting of expenditure is timely and accurate.	11. Reconciliation of fiscal and bank records is carried out on a routine basis.	C	↔
		12. Audited annual accounts are submitted to parliament within the statutory period.	C	↔
8.	There is effective independent scrutiny of government expenditure	13. Government accounts are independently audited.	A	↑
		14. Government agencies are held to account for mismanagement.	A	↑
		15. Observations, criticisms and recommendations made by the auditors are followed up.	A	↑

103. The overall risk assessment in Table 8 below was developed with GoR and PRBS donor partners.

Table 8: Risk Assessment

Risk	Probability	Impact	Assessment / Mitigation Measures
GOR capacity is too weak to implement and/or report effectively.	Medium	High	Civil service reform is causing disruption and the number of vacancies are high. We will continue to work with other partners to address capacity weaknesses as set out in our CAP. It is likely nevertheless that capacity weaknesses will persist for a number of years and will increase the risk of the programme.
The regional or domestic security situation deteriorates and interrupts the focus on poverty reduction	Medium	High	<p>Eastern DRC in particular still has potential for causing instability. The problem of the FDLR remains. Recently there have been some promising signs, including from the early stages of democratic transition in DRC.</p> <p>The background probability of the outbreak of violent conflict in a low income country with no conflict in the past five years is assessed as medium. The impact of conflict on poverty is high due to considerable loss of economic growth and increased mortality and morbidity costs. For low income countries with a conflict in the past five years (the case of Rwanda in the last half of the 1990s) would be assessed as high – a clear indication of how great progress has been. This risk is assessed as declining but still significant. The key mitigation measure is to ensure that this is fully addressed in the development of the EDPRS – on which we will take a view.</p>
Rwanda's domestic policy is inconsistent with poverty reduction.	Medium	High	We have seen reallocation of expenditure within year from poverty focussed expenditures. Attention to certain key sectors such as agriculture has been weak. Defining poverty reduction expenditure more precisely and identifying pro-poor policy performance indicators will help to focus dialogue.
Economic shocks derail the GoR's programme.	Medium	High	Rwanda's economic growth is dependent on rain fed agriculture. The stagnation in growth in 2003 and 2004 and the resultant increase in food prices showed the level of vulnerability. It is also dependent on international tea and coffee prices for exports and debt sustainability, though these crops are a small proportion of GDP. We will continue our separate support programmes for agricultural development and land reform while supporting implementation of the Integrated Framework for trade related capacity building.
Ownership of PRS design is not	Medium	High	The current PRS was praised for its level of consultation. There is a lot of work remaining

Risk	Probability	Impact	Assessment / Mitigation Measures
widespread			to design PRS 2 and we will support the GoR to ensure that this canvases as wide a range of views as possible.
Late donor disbursements prevent proper expenditure management.	Medium	High	This risk has reduced as regional stability has improved. As the largest PRBS partner DFID has more responsibility to ensure the predictability of our disbursements. A single tranche release in April will enhance predictability and budget finance. We will also push strongly for the GoR to move the World Bank PRSC, 3 the second largest PRBS instrument, early into 2007 rather than the current practice of December releases.
Development Partners reduce their commitment to PRBS.	Low	High	Signs currently are that there are more rather than fewer partners willing to provide PRBS. Both the Canadians and Germans have plans to use the instrument and the Japanese have shown interest. The GoR is heavily dependent on this support. We will support the GoR to build the evidence base for their policies as a means to give greater confidence in PRBS.
GOR does not provide expenditure or audit reports.	Low	Medium	Recently the signs here have been much improved. We have impressed upon the GoR that this information is essential for alignment behind GoR systems.

5. Conditionality

104. The fundamental requirements for committed aid to be disbursed are contained in the UK-Rwanda MoU (see **Annex 8**). The GoR is required to honour its commitments under this MoU relating to poverty reduction; improving public financial management and accountability; and honouring human rights and international obligations. Only a fundamental breach of these commitments would lead to an interruption, delay or suspension of the core PRBS component.

105. The commitments on both sides were agreed through a series of bilateral negotiations with the MoU finally being signed in February 2006. A monitoring framework will be developed by the end of this year in conjunction with the GoR using current reporting GoR mechanisms it at all possible. There are general commitments on both sides around the MoU which we will jointly monitor. Only a fundamental breach could lead to interruption of our core PRBS disbursements.

.....