Evaluation of General Budget Support – Rwanda Country Report

A Joint Evaluation of General Budget Support 1994-2004

May 2006

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JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Rwanda Country Report

May 2006

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PREFACE

The Joint Evaluation of General Budget Support (GBS) was commissioned by a consortium of donor agencies and 7 partner Governments* under the auspices of the DAC Network on Development Evaluation. The evaluation followed a DFID GBS Evaluability Study which established an Evaluation Framework for GBS. This framework was agreed with DAC Network members in 2003. A Steering Group (SG) and Management Group (MG), both chaired by DFID, were established to coordinate the evaluation. The study was carried out by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The purpose of the evaluation was to assess to what extent, and under what circumstances, GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth.
The evaluation identifies evidence, good practice, lessons learned and recommendations for future policies and operations.

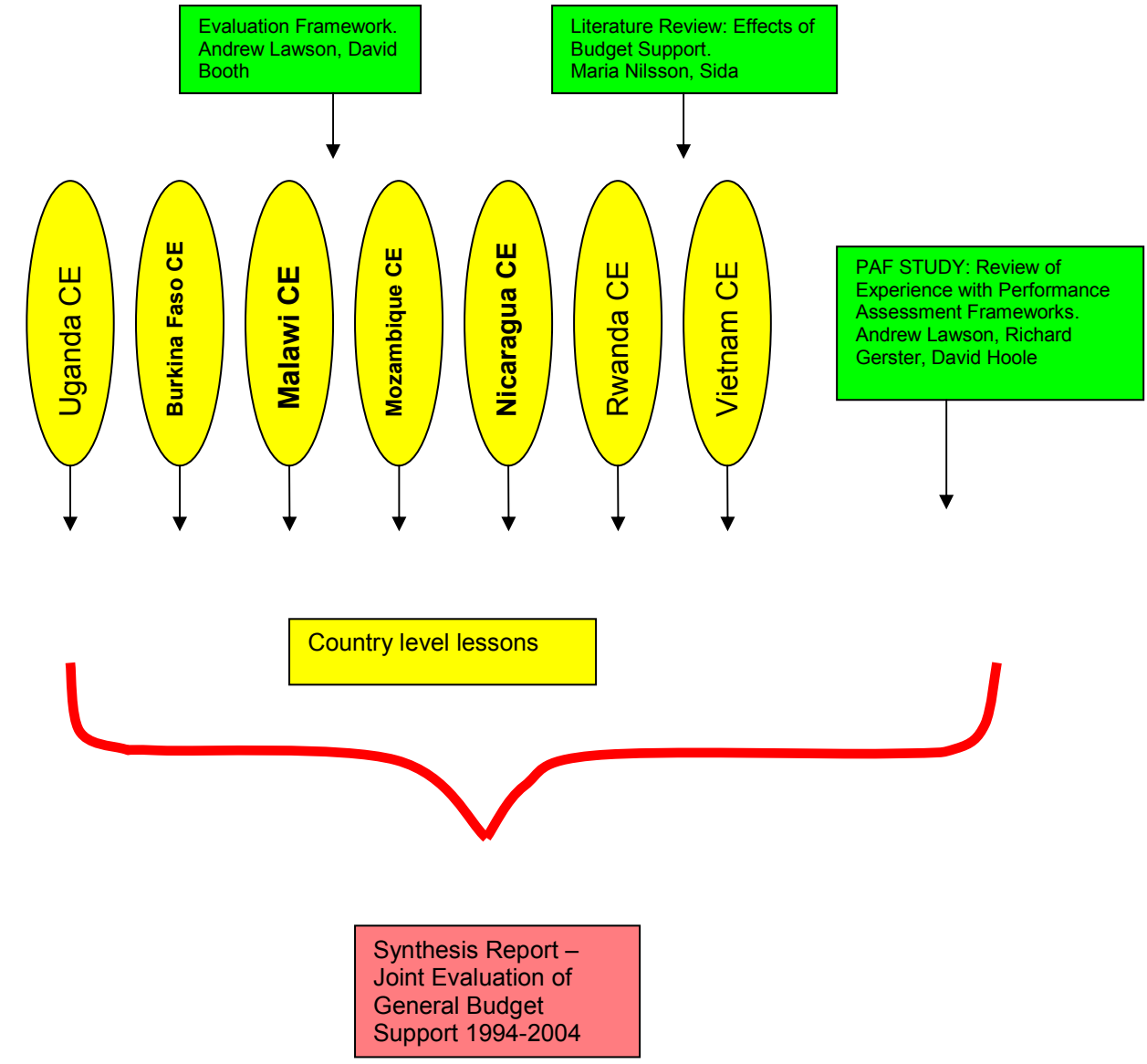
This report is one of 7 country level evaluations (Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda and Vietnam). Fieldwork took place between October-December 2004 and May-July 2005.

This report represents the views of its authors and not necessarily the views of the Steering Group or its members.

*The consortium comprised the Governments of Australia, Austria, Belgium, Canada, Denmark, France, Germany, Ireland, Japan, The Netherlands, New Zealand, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and USA, plus the European Commission (EC), the Japan Bank for International Cooperation (JBIC) and the Inter American Development Bank (IADB), the IMF, OECD/DAC and the World Bank. The evaluation was undertaken in collaboration with the Governments of Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, and Vietnam, who were also members of the SG. The study was designed to interact closely with aid agencies and with government and other stakeholders at country level. There were government and donor contact points in each country.

The Evaluation Framework, Literature Review and PAF Study were contracted separately. The remaining reports were authored by a consortium of consultants led by the International Development Department, University of Birmingham (IDD).

The diagram below shows how the reports in this series fit together:



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Joint Evaluation of General Budget Support
RWANDA COUNTRY REPORT
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Abbreviations and Acronyms

AAP	Assessment and Action Plan
AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Center (of the IMF)
APR	Annual Progress Report
APRM	African Peer Review Mechanism
ARV	antiretroviral
BNR	Banque Nationale du Rwanda (National Bank of Rwanda)
BOP	balance of payments
BS	Budget Support
BSHG	Budget Support Harmonisation Group
BWIs	Bretton Woods institutions (IMF, World Bank)
CAS	Country Assistance Strategy
CB	capacity building
CCI	cross cutting issue
CDF	Community Development Fund
CEPEX	Central Projects and External Finance Bureau
CFAA	Country Financial Accountability Assessment
CIDA	Canadian International Development Agency
CNLS	National AIDS Control Commission (Commission Nationale de Lutte contre le SIDA)
COMESA	Common Markets for Eastern and Southern Africa
CPIP	Country Procurement Issues Paper
CR	Country Report
CRC	Citizens' Report Card
CSP	Country Strategy Paper
CSR	Civil Service Reform
DAC	Development Assistance Committee (of the OECD)
DCDP	Decentralisation and Community Development Project
DDP	District Development Plan
DFID	Department for International Development (UK)
DHS	Demographic and Health Survey
DOTS	Directly Observed Therapy Strategy (the internationally recommended strategy for TB control)
DP	development partner
DPCG	Development Partners Coordination Group
DPM	Development Partners' Meeting
DRC	Democratic Republic of the Congo
DTIS	Diagnostic Trade Integration Study
EC	European Commission
EDF	European Development Fund
EEF	Enhanced Evaluation Framework
EFU	External Financing Unit
EF	Evaluation Framework

EICV	Enquête Intégrale sur les Conditions de Vie des Ménages (Household Living Conditions Survey)
EIU	Economist Intelligence Unit
EQ	Evaluation Question
ERC	Economic Recovery Credit
ERRC	Emergency Recovery and Reconstruction Credit
ESAF	Enhanced Structural Adjustment Facility
ESSP	Education Sector Support Programme
EU	European Union
FARAP	Financial Accountability Review and Action Plan
FARG	Genocide survivors' assistance fund (Fonds d'assistance aux rescapés du génocide)
GBS	General Budget Support
GDP	gross domestic product
GER	gross enrolment rate
GFS	government finance statistics
GIP/SIP	General Import Programme/Sectoral Import Programme
GNI	gross national income
GOR	Government of Rwanda
GTZ	German government aid agency (Deutsche Gesellschaft für Technische)
H&A	harmonisation and alignment
HARPP	Harmonisation and Alignment in Rwanda for Projects and Programmes
HIMO	Haute Intensité de Main d'œuvre
HIPC	Heavily Indebted Poor Country
HRD	human resource development
HRDA	Human Resource Development Agency
HSSP	Health Sector Strategic Plan
ICT	Information and Communication Technology
IDA	International Development Agency
IDD	International Development Department (University of Birmingham)
IFIs	International Financial Institutions
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy Paper
IP	international partner
IRC	Institutional Reform Credit
JESR	Joint Education Sector Review
JSA	Joint Staff Appraisal
LG	local government
LMs	line ministries
M&E	monitoring and evaluation
MDG	Millennium Development Goal
MDTF	Multilateral Debt Trust Fund
Minecofin	Ministry of Finance and Economic Planning
Mifotra	Ministry of Public Service and Labour
Mineduc	Ministry of Education, Science, Technology and Scientific Research
Minisanté	Ministry of Health
Minitere	Ministry of Lands, Environment, Forestry, Water and Natural Resources

Minaloc	Ministry of Local Government
MOH	Ministry of Health
MOU	Memorandum of Understanding
MSCBP	Multi-Sector Capacity-Building Programme
MTEF	Medium-Term Expenditure Framework
NAO	National Authorising Officer
NEPAD	New Partnership for Africa's Development
NGO	non-governmental organisation
NTB	National Tender Board
NURC	National Unity and Reconciliation Commission
OAG	Office of Auditor General
OBL	Organic Budget Law
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
Partnership Framework	Partnership Framework for Harmonisation and Alignment of Budget Support between the Government of Rwanda and its Development Partners
PDL-HIMO	Programme de Développement Local à Haute Intensité de Main-d'œuvre
PE	public expenditure
PEFA	Public Expenditure and Financial Accountability Secretariat
PEMR	Public Expenditure Management Review
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PFM	public finance management
PGBS	Partnership General Budget Support
PIP	Public Investment Programme
PIU	project implementation unit
PMU	project management unit
PPA	Participatory Poverty Assessment / Priority Programme Area
PPARP	Programme Pluriannuel d'Appui à la Réduction de la Pauvreté
PRGF	Poverty Reduction and Growth Facility
PRS	poverty reduction strategy
PRSC	Poverty Reduction Support Credit (of the World Bank)
PRSP	Poverty Reduction Strategy Paper (of GOR)
PSCBP	Public Sector Capacity-Building Project
PSD	private sector development
PSIA	Poverty and Social Impact Analysis
PSR	Public Sector Reform/Reconfiguration
PTA	parent–teacher association
QUIBB	Basic Wellbeing Indicators Survey (Enquête sur les Indicateurs de base du bien-être)
RIEPA	Rwandan Investment and Export Promotion Agency
RPF	Rwandan Patriotic Front
RRA	Rwanda Revenue Authority
SAF	structural adjustment facility
SAP	structural adjustment programme
SBS	Sector Budget Support
SDR	Special Drawing Right (artificial basket currency used by the IMF)

SG	Secretary General / Steering Group
SIBET	Système Informatique du Budget de l'Etat
Sida	Swedish International Development Cooperation Agency
SME	small and medium-scale enterprise
SOE	state-owned enterprise
SPA	Strategic Partnership with Africa
SPAT	Strategic Plan for Agricultural Transformation
SPPM	Strategic Planning and Poverty Monitoring (Directorate in Minecofin)
SWAp	sector-wide approach
TA	technical assistance
TOR	terms of reference
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WB	World Bank
WFP	World Food Programme

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Findings and opinions in this report are those of the evaluation team and should not be ascribed to any of the agencies that sponsored the study.

Currency, Exchange Rate and Fiscal Year

Currency	Rwandan Franc (RWF)
Exchange Rates	1 USD = RWF 541.100 1 EUR = RWF 649.942 (source: Financial Times 6 March 2006)
Fiscal Year	Calendar Year

EXECUTIVE SUMMARY

Part A: Context

Introduction and Conceptual Framework

S1. Rwanda is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Budget support is a form of programme aid in which official development assistance (ODA) is channelled directly to partner governments using their own allocation, procurement and accounting systems. It is not earmarked to a particular sector or set of activities within the government budget. This evaluation focuses on so-called "partnership" GBS (PGBS), a relatively recent form of budget support concentrating on partnership, poverty reduction and support to associated national development strategies. Non-funding inputs accompanying budget support funds (dialogue, conditionality and provision of technical assistance and capacity building) are all expected to contribute to these objectives. Greater efforts at harmonisation and alignment by international partners (IPs) are also present in the "PGBS package".

S2. The Terms of Reference for the Evaluation state that:

> The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

S3. Although the evaluation focuses on more recent PGBS, it covers the period from 1994–2004 to assess whether and how PGBS differs from earlier variants of budget support. The evaluation is based on a specially developed methodology applied to all seven country cases. It follows the Enhanced Evaluation Framework (EEF), which sets out the levels, the hypothesised links between them and other methodological tools that are fully described in the overall Inception Report (IDD & Associates 2005). It involves working through levels of analysis from entry conditions at the point where PGBS begins to the inputs made by PGBS (Level 1), their immediate effects (Level 2), outputs (Level 3), outcomes (Level 4) and finally impacts on poverty reduction (Level 5). It also pays attention to feedback between all levels, and to the interconnections between PGBS and other forms of aid.

The Context for Budget Support in Rwanda

S4. Rwanda is a small and poor country with a profoundly tragic modern history. The 1994 genocide, and the fact that Rwanda came to the world's attention belatedly and only after the events, are central to understanding the government–IP relationship and the broad context of GBS in the country.

S5. There has been tremendous socio-economic progress since 1994. Indicators tell the classic story of socio-economic rebound after a major upheaval. Basic organs and systems of the state have been rebuilt from scratch. The country has its own "Vision 2020", developed between 1998 and 2000, which the Poverty Reduction Strategy Paper (PRSP) of 2002 takes forward as a medium-term policy and planning framework. Rwanda has reached reasonable macroeconomic stability. Public finance management (PFM) systems have been restored and are continually being refined. The steady political transition initiated immediately after 1994 culminated in the adoption of a modern constitution in 2003. However, these achievements are fragile, the main potential threat residing in regional instability. Complete national reconciliation is also still a major challenge.

S6. Rwanda is heavily aid-dependent. According to OECD DAC data, ODA was equivalent to 96% of gross national income (GNI) in 1994 and 54% in 1995, including a large component of emergency aid. Since then, annual aid inflows have averaged USD 340m per year, with emergency aid being progressively replaced by development aid. Between 1998 and 2003, ODA has been running at 17–20% of GNI, still a relatively high level. Given the national and regional context, aid is markedly political in Rwanda. Bilateral IPs continue to have divergent opinions on the political and governance conditions in the country.

Partnership General Budget Support (PGBS) in Rwanda

S7. Recognisable "Partnership" GBS emerged in Rwanda in 2000, in a context where aid coordination was gradually being brought under government's leadership. The UK's Department for International Development (DFID) in 2000 and the Swedish International Development Cooperation Agency (Sida) in 2001 were the first into the field, with operations replacing their support to debt relief. The European Commission (EC) in 2003 and the World Bank (WB) in 2004 followed. For the EC, the non-targeted Budget Support (BS) operation in 2003 followed two earlier, targeted BS programmes. For the WB, the Poverty Reduction Support Credit (PRSC) in 2004 followed the Institutional Recovery Credit, which itself had succeeded mixed adjustment/reconstruction programmes up to the late 1990s. Between 2000 and 2004, PGBS disbursements have totalled USD 248m, reaching up to 26% of total aid flows in 2004.

S8. PGBS in Rwanda emerged at a time when the Government of Rwanda (GOR), with the early assistance described above, had succeeded in articulating its growth and poverty goals and in establishing the bases for the country's further socio-economic development. In the complex political context of the time, PGBS was adopted by IPs who shared the philosophy articulated by the GOR. This philosophy emphasises the PGBS role in rebuilding government systems, institutions and processes, and its importance in reducing the transaction costs of managing aid in a resource-constrained post-conflict environment. On this basis, the PGBS IPs signed up to the Partnership Framework for Harmonisation and Alignment of Budget Support between the Government of Rwanda and its Development Partners in 2003 (Government of Rwanda and Development Partners 2003). So far, the other large IPs have not felt that the political and governance situation allows them to join in.

S9. Under the Partnership Framework, Rwandan PGBS comprises a number of approaches. Differences in approach exist partly because PGBS IPs are at different stages of synchronising their activities, e.g. with the overall aid management calendar and cycle, recently refined in the "harmonised calendar". Donor approaches also differ in the mix of political and technical conditionalities (reflecting the different mandates of the WB and bilateral IPs) and in the disbursement arrangements. As a result of the country's geopolitical context, PGBS is quite markedly political in its underlying conditionality for bilateral IPs. Moreover, as a latecomer to PGBS design in Rwanda, the PRSC has introduced further differences, in approaches to the policy dialogue and conditionality content, and in the manner in which government performance is assessed (WB detailed PRSC matrix versus UK/Sweden's broad performance assessment).

Part B: Analysis of PGBS

EQ1 – Relevance

S10. Over the short and politically volatile period during which PGBS has been in existence in Rwanda, PGBS design has addressed the country context moderately well. PGBS has been most relevant institutionally, by supporting strong government leadership in rebuilding the country's institutions. PGBS IPs succeeded in combining institutional support with funding in a manner which is appreciated by government. In this and other aspects, it has been a response

to the perceived weaknesses of project aid. Decentralisation raises a new challenge for both the government and PGBS donors: the government has to clarify its vision and operational strategy for decentralisation, while PGBS donors, in collaboration with government, have to assess what is the best modality of support to decentralisation and the implications for future PGBS operations.

S11. However, PGBS design has been less apt at addressing political (for bilateral IPs) and financial (for all IPs) aspects of the country context. The process of negotiating and assessing political conditionalities couched in overarching bilateral Memorandums of Understanding (MOUs) has been under-specified, which has led to unilateral disruptions by IPs. With regard to financial dimensions, there has not been a conclusive dialogue between GOR, the IMF and PGBS IPs about long-term prospects for aid/PGBS and its role in the fulfilment of Vision 2020. And it is only recently that further attention has been paid to design issues related to within-year predictability of PGBS.

S12. PGBS has been moderately relevant in addressing the economic context. PGBS supports the implementation of the PRSP and the PGBS design is as comprehensive as the PRSP itself. The first PRSP in Rwanda intended to address all dimensions of poverty but, in practice, attention has focused mostly on the social sectors and the non-income dimensions of poverty. From this initial focus, PRSP and PGBS are now in the process of expanding to embrace growth-related areas.

S13. Conditionality (or the way it has been applied) is perceived by GOR as being not entirely consistent with the partnership paradigm. It is also the weakest area of PGBS in terms of internal consistency. Differences in PGBS IPs' approach to conditionality are less important than the fact that, in the government's perspective, there is still not enough emphasis on mutual accountability (on the part of government for the use of resources and poverty reduction results, and of IPs for transparency in PGBS-related decision-making).

EQ2 – Effects on Harmonisation and Alignment

S14. In Rwanda, harmonisation and alignment (H&A) is the continuation of earlier efforts by government to coordinate aid in its efforts to rebuild the country and its institutions. While the political nature of aid for bilateral IPs in Rwanda may at times make genuine harmonisation more difficult, the last five years have seen a step-change in alignment behind the government agenda articulated in Vision 2020 and the PRSP. This has been assisted by the establishment of joint aid management structures (including an overall dialogue mechanism embracing all IPs, and sector/thematic "clusters") and the joint development of improved PFM systems and processes.

S15. PGBS policy alignment is moderately good at the overall PRSP level (i.e. with high-level goals and objectives) but is uneven across sectors. The potential for synergy between PGBS and sector alignment processes is present but it has been (partly) realised only in a few cases (education, emerging in health). There has been less progress with system alignment. PGBS programmes have been only weakly aligned with the government budget cycle, due to lack of attention to issues of predictability in early PGBS programmes. Progress with IP harmonisation has also been limited. Aid coordination, including for TA, is improving. TA/capacity-building in PFM is an outstanding example of PGBS/GOR alignment which is being emulated in other areas/sectors. However, thus far there has been little tangible progress in non-PGBS aid use of GOR's systems. The new H&A agenda requires greater in-country capacity on the IPs' side, and this is an issue which will continue to demand attention.

S16. Overall, PGBS H&A effect has been strong for PGBS programmes and moderate for aid in general (perhaps through emulation of PGBS). While the main driver for H&A came from strong government leadership and the PRSP process, PGBS played an active support role, and the Partnership Framework for budget support stands out as an example for aid H&A in general. PGBS also has potential to improve complementarity between different forms of aid through supporting sector-specific coordination arrangements and cross-cutting processes.

EQ3 – Effects on Performance of Public Expenditures

S17. PGBS is substantial as a proportion both of total aid and of government expenditure. IPs believe that it has led to significant additionality of aid, because large amounts of funding could not have been disbursed through other mechanisms. GOR informants perceive a degree of substitution as IPs transfer project financing into PGBS. However, given the historically low disbursement rates of projects (between 50% and 70%), PGBS has resulted in a higher ratio of disbursement to commitments. The conclusion is that PGBS has contributed significantly to more external resources being available, and this has facilitated a steady increase in the share of "priority" spending in the government budget. However, "priority" spending does not necessarily equate with pro-poor spending.

S18. The effect of PGBS on the fungibility of public expenditure financing is moderately strong. PGBS funding is by definition on budget and discretionary. But, whereas some IPs consider adopting "flexible funding" aid modalities that would also make it easier to bring aid on budget, this has not yet happened and there has been no effect on flows of off-budget aid. The large share of non-discretionary spending (circa 50% of the budget) further reduces the scope for resource reallocation. However, within this constraint, PGBS has enabled government to fund activities related to PRSP priorities such as "fee-free" primary education, reduced prices for critical drugs for HIV/AIDS patients and agricultural loan guarantees. PGBS is also providing recurrent funding for operating rehabilitated and new service delivery infrastructure, hence raising government spending efficiency. Together, these funding effects of PGBS have had a significant influence on government empowerment.

S19. Short-term disruptions in PGBS flows caused by political, technical and donor administrative factors have taken their toll, including reducing operational spending efficiency (unreliable budget execution for non-wage recurrent spending). Nevertheless, PGBS funding has had a moderately positive effect on the overall regularity and predictability of external fund flows, since disbursements have eventually been disbursed in full (generally within six months of the scheduled disbursement date).

S20. GOR perceives that PGBS allows large transaction cost savings compared with other modalities. This, however, has not been studied in any depth. There has also been little analysis of the trade-off between different types of transaction costs.

EQ4 – Effects on Planning and Budget Systems

S21. PFM systems have been extensively rebuilt and refined during the period 1994–2004. This has been heavily intertwined with aid, and recently with PGBS. GOR has viewed partnership with IPs as the key to system and process building. First and second-stage PFM reforms demonstrate the strong role that PGBS IPs have taken in supporting those reforms. In the words of a senior official of the Ministry of Finance and Economic Planning (Minecofin), PGBS TA and policy dialogue have made an "enormous contribution" to PFM system development. Through PFM, PGBS has played a strong role in empowering government, in particular Minecofin, and this in turn has provided government with the awareness and confidence to carry out further improvement of PFM systems.

S22. Though there has been progress in expanding accountability mechanisms, this remains the weakest link in the PFM system. Developments that have taken place in this area, are considered to be moderately associated with PGBS, through the introduction of monitoring, financial reporting and accounting tools as part of the PGBS dialogue and capacity building. But the most effective elements of domestic accountability relate to Parliament, and developments in this area appear little connected with PGBS. It is recognised by PGBS partners that this is an area where more needs to be done, and emphasis on this area is part of the current PGBS programme design.

S23. TA and capacity development for PFM look set to continue. The durability of PFM reforms depends on further deepening/extending capacity development, not only in central agencies, but especially in spending agencies. PGBS influence on this has been less striking thus far.

EQ5 – Effects on Policies and Policy Processes

S24. A pro-poor reform process is in place and is improving over time from a moderate level of quality. Government ownership and sense of empowerment in relation to policy processes is quite strong, though this does not yet include all sector agencies and has yet to reach out effectively to sub-national levels. Policy-making is a disciplined, quite top-down process. However, policy processes have recently become more inclusive, though limited by weak capacities on the side of both government and civil society.

S25. IPs are not fully-fledged policy actors in Rwanda. Moreover, in the views of some government officials, there remains a communication gap between national stakeholders and IPs. Robust government leadership of policy development preceded PGBS. In the stronger sectors, sector-specific arrangements played an important role and this has rarely been supported by PGBS. However, through policy dialogue, conditionality and TA, PGBS contributed to focusing government and IPs on key policy issues. It has facilitated participatory policy-making through a better structured and more objective dialogue between government and IPs, which is leaving more space for government to call upon national stakeholders. PGBS dialogue, conditionality and TA also help address weaknesses in reporting and monitoring systems which otherwise hamper policy adjustment. Accountability to PGBS IPs may complement and strengthen domestic accountability mechanisms and thereby enhance policy learning. PGBS has also been influential in strengthening intra-government incentives in the policy process through providing funding for new innovative policies.

S26. PGBS influence on policies is primarily through the PRSP. It has been limited with regard to public/private sector issues. In the case of sector policies, PGBS may have brought more discipline in prioritising pro-poor interventions within an affordable financing framework. This influence has been uneven across sectors and shared with other sector-specific factors. It has been strongest in education, where there was a deliberate effort to create synergy between PGBS (funding, dialogue and sector-specific conditionality based on the PRSP indicators and targets in e.g. the EC programme) and sector-specific technical assistance.

EQ6 – Effects on Macroeconomic Performance

S27. PGBS policy dialogue, conditionality and capacity building have provided more focus on macroeconomic policy and processes than projects. Macroeconomic conditionality is enforced chiefly through the IMF, and PGBS reinforces this through the link between disbursements and the PRGF review. In this sense, PGBS has supported features of disciplined budget management that were already present prior to PGBS.

S28. Aid is macroeconomically fundamental in Rwanda, and PGBS is key in ensuring smooth flows of resources for the government budget, thereby facilitating prudent fiscal management. However, the desired combination of prudent management and smooth PGBS flows has not always been achieved. Government exceeded PRGF spending targets in 2003 as a result of a combination of weaker than usual macroeconomic management in an election year and uneven PGBS flows. These, combined with weak economic output, caused GOR to resort to bank and non-bank borrowing. This, in turn, contributed to inflationary pressures during the second half of 2003 and into 2004. Lending to the private sector appears also to have experienced a slowdown between December 2003 and June 2004, but with a strong revival during the second half of 2004.

S29. Between 2002 and 2004, government borrowing affected the private sector through some effects on lending interest rates, but these were relatively minor. Delays and arrears in government payments for goods and services due to difficulties in budget financing (non- bank borrowing) have been more telling for the private sector. Other factors, including institutional changes toward a more conducive regulatory context for private sector development (under government reach) and structural constraints (not all under government reach), should combine with sound macroeconomic management to facilitate private investment in the future. This has not happened on a large scale in Rwanda, and PGBS has not been influential thus far in redressing these shortcomings.

EQ7 – Effects on the Delivery of Public Services

S30. The link from increased resources available for service delivery to resources actually flowing to service delivery agencies, and from there to more and better services, is tenuous, partly because it is little documented. Even though more resources have been allocated, the limited evidence shows that service delivery has been constrained by the routine failure of non-salary recurrent releases to match approved budget allocations.

S31. Regarding the link between policies and service delivery, the chain of government action (from sector policies/strategies to activities through MTEF/budget) needs further strengthening. Weaknesses arise from limited implementation capacities, poorly developed administrative reporting and monitoring, and a lack of local accountability mechanisms and processes. However, in spite of these hindrances, there have been steady gains in service delivery since 2000. Rebound accounts for some of it but this also appears to have been stronger in sectors where policies were more developed. Major gains have occurred in terms of access. Quality and responsiveness issues remain.

S32. PGBS has played a supporting role through channelling resources to new pro-poor spending in the social sectors and enabling government to operate rebuilt and new facilities. On the other hand, PGBS within-year predictability and timeliness have been poor, which has hampered service delivery. TA and policy dialogue have helped design relevant operational policies. However, TA in general has not been effective at the operational level. PGBS emphasises that priority be given to strengthening financial reporting and accountability systems. Hence it could have an effect on service delivery capacity through helping establish better PFM and monitoring and evaluation (M&E) systems. But this has yet to trickle down to facility level. The public sector reform (PSR) and effective decentralisation of service delivery (complementing political devolution already in place) are seen by government as critical to tackling weaknesses in service delivery. PGBS has only been indirectly associated with either of these processes thus far.

EQ8 – Effects on Poverty Reduction

S33. In Rwanda three specific challenges arise when assessing the effect of government action and associated PGBS on poverty reduction: (i) the starting points are not well established (e.g. uneven progress in service delivery); (ii) the rebound effect following the destruction of 1994 makes it harder to demarcate the effect of public action; and (iii) data on poverty, especially relating to recent poverty changes, are scarce. Nonetheless, it is clear that poverty has been dramatically reduced since the immediate post-1994 period. However, progress is uneven and some indicators have stagnated or worsened, e.g. those related to inequality.

S34. The challenge is to assess the trends since the introduction of more structured government action through the PRSP. The PRSP has been an appropriate and balanced policy response to the evidence on poverty and its causes. It provides for continuity of pro-poor post-1994 stabilising actions, and it includes a number of specific social measures which are directly pro-poor and which have had some immediate effect (e.g. increased enrolment in primary schools due to fee-free education). However, the effect of public action on income poverty reduction was probably swamped by external and structural factors. Empowerment policies have had limited results, beyond the immediate (and critical) outcomes of absence of conflict, and participation in popular elections and consultations.

S35. The PGBS contribution to these changes is relatively strong in terms of funding, as noted in EQ5. PGBS supported the government budget that has been the largest contributor to the sectors of security, and justice and the functioning of human rights structures. PGBS has exerted some influence through non-funding inputs with regard to non-income poverty reduction. This has been almost nil with regard to empowerment, and is now rising from an initially low level for growth-related income poverty reduction.

EQ9 – Sustainability of PGBS

S36. The context is reasonably favourable for PGBS sustainability. GOR and its partners share common objectives. Moreover, PGBS and other aid modalities have demonstrated a reasonable degree of consistency and this looks set to be further strengthened in the future (e.g. Aid Policy Document). However, on the whole GOR's commitment to PGBS is higher than that of IPs, who are also interested in alternative aid modalities (sector-specific support instruments) which may substitute at least in part for what might have been PGBS funding. This has implications with regard to PGBS's role and perhaps sustainability.

S37. Feedback loops necessary for GOR and PGBS IPs to adjust courses of action need strengthening. The recently agreed harmonised calendar outlines how feedback loops should work, linking M&E to planning and to PGBS operations, but it has yet to be thoroughly tested in a full cycle. Feedback loops currently in place do not systematically capture progress with the PSR and decentralisation or with the related institutional effects of PGBS. Existing learning mechanisms on PGBS itself are nascent. They have yet to prove that they would be sufficient to ensure that PGBS becomes more sustainable as a result of being consistently and consciously improved over time. With regard to PGBS design itself, feedback to home constituencies has been problematic for bilateral IPs with regard to political conditionality in situations of regional tension.

S38. In spite of these weaknesses, partners have demonstrated an ability to learn lessons and use this learning to improve PGBS. They are also able to identify issues that are critical to PGBS sustainability (e.g. political conditionality, accountability, decentralisation). But it seems that the 'flagging mechanism' is more reactive than proactive, and there is no system ensuring that issues identified are addressed squarely and in a balanced fashion. The nascent self-

assessment process which was initiated during the first joint BS review in March 2005 provides a basis to move forward on this aspect.

Part C: Cross-Cutting Issues

S39. A number of policy and governance cross-cutting issues (CCIs) have been identified in the course of the overall GBS evaluation study. In Rwanda, the CCIs are all addressed in the PRSP. However, they vary in terms of their prominence in the PRSP dialogue and in the extent of their related policy and operational development and of PGBS engagement.

Policy CCIs

S40. Gender, HIV/AIDS and environment are not explicitly addressed in the PGBS design (with the exception of a few PRSC indicators on environment in selected sectors). IPs are satisfied that they are adequately addressed elsewhere. In contrast, human rights and democracy issues are one of the dividing lines between PGBS and non-PGBS IPs. Human rights are given a prominent place in the PRSP and generally in government's discourse. However, there are divergent views on the reality behind these documents. For bilateral PGBS, IPs' issues of human rights and democracy underpin the PGBS dialogue through reference to their overarching bilateral MOUs. But there are no "measurable conditions".

Public and Private Sector Issues

S41. GOR and IPs agree that the private sector needs strengthening to become the engine of growth. They also agree on the challenge raised by the specificity of the Rwandan economy (a very small and weak formal private sector and a large number of very small farms). However, PRSP/PGBS implementation has been little engaged with the growth agenda until recently. Few policies on private sector development and the role of the private sector have been defined so far. On this basis, it is not possible to assess whether GOR and IPs have common views on public/private sector issues at a more detailed level. These issues are becoming more prominent on government, PGBS and non-PGBS IPs' agendas with the follow-up of recent studies (e.g. the Diagnostic Trade Integration Study, DTIS) and the preparation of the second PRSP.

Government Capacity and Capacity Building

S42. The PSR and decentralisation are government's main planks with regard to capacity development for delivering poverty reduction. These processes are strongly owned at central agencies' level and comprehensive in their intent. The accelerated pace of reforms is a challenge, and change toward greater efficiency and capacity in the long term (e.g. territorial administration reform 2005) take time to stabilise in organisational terms. PGBS has been supportive of the PSR, albeit in a rather indirect way, and it has been weakly and somewhat haphazardly engaged with decentralisation. This is emerging as a challenge for PGBS institutional relevance, as noted above.

S43. Government has developed a comprehensive framework for building the country's capacity, the Multi-Sector Capacity-Building Programme (MSCBP). Thus far, IPs' response has been hesitant and incomplete. "PGBS-related" TA and capacity building have had definite effects (e.g. in PFM), but have not been well defined, and coordination, though improving, has been opportunistic. There are signs that IPs recognise the need for a more strategic approach to capacity development, but there is not yet a shared view on the shape that this might take and on the role of government's MSCBP in this.

Quality of Partnership

S44. Government ownership of the policy and reform processes is strong, especially in central agencies where capacities are greater. PGBS supports this well, though government has reservations in relation to political conditionality and perceives policy intrusiveness at times. The differences between the PRSC and other PGBS operations with regard to conditionality and performance assessment raise a challenge for further "intra-PGBS" harmonisation. It is also too early to assess the extent to which the more detailed PRSC approach would lead to more influence on the policy process and which approach is, ultimately, more suitable to further enhance government ownership and empowerment.

S45. On the whole, PGBS has the potential to reduce aid transaction costs significantly and has begun to do so. Further reducing these costs is a general concern shared by all IPs and government. But this will require more attention to the different types of transaction costs.

S46. The interplay between aid modalities has been moderately good thus far but largely shaped by opportunistic factors. A number of initiatives of development of alternative/ complementary aid modalities are under way (including the design of sector support instruments) which will change the landscape for PGBS and will have implications that need to be better understood in terms of trade-offs between types of transaction cost.

Political Governance and Corruption

S47. Rebuilding the basis for political governance was given the utmost attention during the post-genocide period in Rwanda. Good governance is proclaimed as a priority in all important government documents and is a comprehensively defined pillar of the PRSP. For IPs, the political governance agenda is dominated by human rights and the opening up of the political space. As noted above, these are among the factors demarcating PGBS and non-PGBS IPs (among bilaterals). Providing PGBS is one of the marks of a "constructive engagement" approach, and one which is thought to provide better opportunities for dialogue on political governance issues with GOR. In reality, it is unclear whether the "right" to this dialogue comes with PGBS or with trust.

S48. Corruption, as a broad political governance issue, is not addressed in the PGBS dialogue. This is because it is generally perceived as not being a problem in Rwanda. However, risks may be increasing, especially of subtle forms of corruption through exclusion patterns (e.g. lack of recognition of rising inequality) and concentration of economic power. It is unclear how the PGBS dialogue might position itself vis-à-vis these risks.

S49. In conclusion, there appears to be an expectation, especially on the side of some IPs, that PGBS should, more than other aid modalities, ensure that "controversial" CCIs are raised when appropriate. It needs to be asked whether the question of engaging or not on these issues should not hold for all aid modalities. Where PGBS is not actively engaged in dialogue on CCIs, this need not be an issue as the CCIs are discussed in other fora. But there is scope for better interlinking PGBS and those other dialogues, as noted generally for sector dialogues too.

Part D: Synthesis – Overall Conclusions and Recommendations

Overall Assessment of PGBS in Rwanda

S50. The broad conclusion is that in Rwanda PGBS is an example of the successful establishment of a modality that has met one of its primary aims, namely channelling large flows of resources to the national budget to support the reconstruction/development agenda of the government in the short term, and empowering and building government capacity for the longer term. PGBS has been more visibly successful with the former objective, but this has to do with both greater difficulties in measuring results for the latter and the fact that these results take longer to materialise.

S51. The most visible effects of PGBS are associated with the flow of PGBS funding, which, together with policy and institutional effects, has been of critical importance in empowering government (central agencies in particular) in various ways. Another highly visible set of effects is the continued strengthening of PFM systems through policy dialogue and TA/capacity building. The effects of non-financial PGBS inputs have been weaker in other areas. In a number of cases, they have effectively reinforced other influential factors, though overall this may not yet have amounted to the full deployment of PGBS potential in support of policy and institutional changes. The relatively small scale of PGBS in terms of number of IPs involved and – until recently – sectors covered has been found to be a possible limitation in this respect.

S52. In relation to the various levels of the EEF, the strength of the links and of the attributability to PGBS decreases when travelling from inputs to impacts. The most complex picture, with a mix of strong, moderate and weak links and PGBS influence, is at Level 3, embracing the effects expected in terms of strengthening government systems, processes and institutions. All aspects are work-in-progress. Some have been strengthened already (e.g. emergence of more participatory policy-making, improved allocative efficiency of public expenditures) and in others more work is to be done (e.g. financial reporting capacity, definition of organisational arrangements for decentralised service delivery). Because of the mixed results at Level 3, the links thereafter are not supported by sufficient evidence to be affirmative on outcomes and impacts.

S53. The analysis points to most positive results of PGBS in Rwanda in relation to:

- An increase in the volume of external resources for the budget, facilitating further orientation of government spending on priorities including the expansion of basic social services;
- A strong and effective support to PFM system development which has the potential to enhance further the positive funding effect through improving budget execution, establishing stronger accountability systems, etc.;
- A strong effect of empowerment of central agencies, which provides a solid basis for further strengthening systems and capacities throughout government;
- An effective support to government leadership in aid management, through PGBS's own effectiveness as a modality and through setting examples for aid in general.

S54. The most visible weaknesses yet to be addressed have been found to be:

- Conditionality, which affected PGBS flow-of-funds predictability, with negative effects down to service delivery, and failure to fulfil all government expectations of the partnership paradigm of PGBS;
- The general weakness of accountability mechanisms and of the feedback systems that are required to inform those (reporting, monitoring, data collection and analysis,

etc.), hampering further adjustment in government action for better results, and curtailing the ultimate impact in terms of empowerment and social inclusion;

- The limited "outreach" of PGBS vis-à-vis line ministries, service delivery and decentralised levels, linked with weak engagement with the PSR and decentralisation, which curtails further gains in service delivery and non-income poverty reduction;
- Mirroring the PRSP, the limited engagement of PGBS with the growth agenda (and its equality dimension) as a means to income poverty reduction.

PGBS in Rwanda – Future Prospects

S55. Several significant developments and issues are likely to influence the applicability of PGBS in the future in Rwanda. Firstly, tensions may arise more easily in Rwanda than elsewhere because of the unsettled regional and national political situation, and this generates uncertainties for PGBS flows of funds. This is all the more problematic as government activities are highly dependent on external funding. Consideration should be given to a generalised "due process" mechanism that would prevent disruptions in within-year disbursements (except in case of breach of fundamental principles), be it for political or any other reason.

S56. GOR is at a critical juncture in defining the prospects for Rwanda's long-term development. The study notes government's desire to rebalance the overall policy agenda and the emergence of a "wealth creation" paradigm, creating a certain tension with the prevailing social sector-led poverty reduction thinking. A reorientation of Rwanda's overall development strategy is under way as part of the PRSP-2 preparation. The implications for aid in general and PGBS in particular should be discussed as part of the same process, as embracing the "growth agenda" has significant implications for PGBS design.

S57. As noted above, there is a pressing necessity for building strong accountability mechanisms throughout government. This will require a lot of support. There is a strong case for GOR and PGBS IPs to take a comprehensive approach in addressing accountability issues. This means avoiding an exclusive focus on technical and technocratic dimensions, linking up this agenda with the social inclusion/empowerment dimension of poverty reduction and using PGBS-related accountability mechanisms as a way to strengthen domestic ones.

S58. Throughout the evaluation, capacity weaknesses have been identified as an important constraint on the effectiveness and efficiency of government action and of PGBS to deliver poverty reduction. Tackling issues of capacity is therefore crucial. This implies a strong, continued and flexible support to the PSR, but also meeting capacity needs on the side of civil society at large and of private sector actors. Building capacities is also necessary to strengthen accountability. Even more importantly, with the recent territorial administration reform, decentralisation is likely to be a determining factor in shaping government capacity for delivering its policy intentions. It is going to be critically important to build the capacity of the "new" decentralised entities once they will be in place in 2006. This imperative and the recognised need for a more strategic approach to capacity development in general have important implications with regard to the design of institutionally relevant PGBS programmes.

S59. The overall assessment in the previous section points towards long lead times for public action, and associated PGBS, to generate the impacts hypothesised in the EEF. Thus, establishing the sustainability of PGBS on solid bases is important. The "quality" of the partnership between GOR and PGBS IPs is critical to this endeavour. This study points at five aspects which are important for raising it further in the future. These are: (i) improving PGBS programmes' consistency in relation to conditionality; (ii) improving the processes around

performance assessment and decision-making for PGBS disbursement with a view to making PGBS a more predictable and timely resource for the government budget; (iii) strengthening complementarity between PGBS and other aid modalities; (iv) strengthening the framework for alignment of aid in general and PGBS in particular with government systems; and (v) reinforcing PGBS self-assessment and "learning from itself" mechanisms.

Main Recommendations

S60. Based on the assessment and prospects analysed above, the following recommendations are proposed against five main themes.

Long-term development and the role of aid and PGBS in Rwanda

- R1 Dialogue on development paradigm, trade-off and linkage between growth/ wealth creation and poverty reduction, inequality issues, as part of rebalancing of PRS agenda
- R2 Raise profile of issue of inequality in PGBS dialogue, supported by evidence and linking this to ongoing discussions on Rwanda's development paradigm and the reorientation of PRSP agenda
- R3 Address issue of the role of aid in Rwanda's long-term development perspective (scaling up vs. reducing aid dependency; political volatility vs. long-term commitment)
- R4 Explore and agree on realistic long-term development perspectives for Rwanda (Vision 2020) and role of growth and aid (scaling up vs. reducing aid dependency) as a framework for medium-term to long-term commitment to PGBS
- R5 Balance progress made with overall macroeconomic stability and PFM with progress in private sector reforms (liberalisation, deregulation, follow-up on DTIS studies)
- R6 Clarify how PGBS as a whole will adjust to expanded agenda of the PRSP-2 (Economic Development and Poverty Reduction Strategy) and link to recommendations under the next heading.

Government capacity and decentralisation

- R7 Address issue of PGBS and decentralisation: explore options for PGBS design and/or alternative/ complementary support to service delivery and local development
- R8 Explore how PGBS design can simultaneously strengthen national sector strategies and decentralised service delivery (new context: territorial reform, August 2005)
- R9 Clarify how PGBS design will accommodate closer link between PSR, decentralisation and service delivery
- R10 Support strengthening capacity of civil society, private sector, Parliament etc. to enable them to engage more meaningfully in policy dialogue with GOR
- R11 Provide support to capacity building of decentralised entities under the PGBS design or as a complement. Explore options for linking up with HRDA's strategy and work programme.
- R12 Strategic approach to capacity development: clarify role of IPs' support to capacity development vis-à-vis government MSCBP.
- R13 As part of the above, address issue of coordination between sector/thematic capacity development plans and support (e.g. PFM, education, decentralisation with DIP) and WB PSCBP
- R14 Strengthen PGBS review framework through development of and link to a process of review of institutional developments (PSR, decentralisation)
- R15 Continue support to strengthening poverty and sector performance monitoring systems (data collection and analysis). Explore options for linking up with HIDA's strategy and work programme

R16 Support further development and implementation of a comprehensive and continuous research programme on poverty, growth and inequality in Rwanda, and of the required capacities in government and non-government organisations

Accountability issues

R17 Strengthen financial reporting and accountability systems including strengthening domestic stakeholders' capacity

R18 Strengthen accountability mechanisms throughout government systems (particular attention to how PGBS accountability mechanisms could further strengthen domestic systems)

R19 Ensure that findings from assessments such as budget reviews and PETS are thoroughly discussed and acted upon

R20 Further strengthen government systems with an emphasis on feedback mechanisms.

R21 Improve definition and clarify role of priority programmes in public expenditure and domestic accountability framework

Political nature of aid and PGBS in Rwanda

R22 Establish due process mechanism in PGBS performance assessment framework (all PGBS IPs; particular attention to political conditionality and link to MOUs for bilateral IPs)

R23 Clarify expectations from PGBS vs. other aid in relation to political governance dialogue

R24 Strengthen mechanisms of feedback to IPs' home constituencies (through more regular and comprehensive information; more generally through programmes of education of civil society, parliaments etc. on "new aid paradigm" and implications)

Quality of partnership: conditionality and predictability of PGBS

R25 Further develop mutual accountability framework with a view to enhancing GOR's ownership and improve predictability of PGBS (transparency of IPs in decision-making; transparency of GOR in use of funds and results)

R26 Tidy up conditionality content and process

R27 In particular, address issue of feasibility and relevance of a joint performance assessment framework

R28 Improve decision-making process re within-year disbursements of PGBS (e.g. schedule disbursements collectively to create regular cash flow)

Quality of partnership: complementarity between PGBS and other aid modalities

R29 Further dialogue on choice of and balance/ complementarity between IPs and between aid modalities and instruments at various levels (including Aid Policy Document for all IPs; individual IPs internally to their portfolio; articulation of PGBS and SWAps; articulation of PGBS–decentralisation–PSR etc.)

R30 Further strengthen complementarity between IPs' portfolios and instruments

R31 Carry out GOR and IP transaction costs review – linked to aid scaling up issues (see recommendation 5)

R32 Sequence reforms and further decrease transaction costs, including of the partnership dialogue, as much as possible

Quality of partnership: system alignment and learning mechanisms

R33 Strengthen application of harmonised calendar, including timing for PGBS disbursement, links between PRS, sector and BS reviews etc. – and therefore strengthen links between dialogues

R34 Strengthen PGBS self-assessment and learning mechanism building on all existing mechanisms (including self-assessments under BS reviews)

PART A: CONTEXT/DESCRIPTION

A1. Introduction and Conceptual Framework

Introduction

A1.1 Rwanda is one of seven case studies in a Joint Evaluation of General Budget Support (GBS). Each country study has contributed to the Synthesis Report of the evaluation but is also intended to be a free-standing report of value to country stakeholders. This chapter explains the background to the evaluation, its methodology and the process that has been followed in Rwanda. Annex 1A to this report is a concise summary of the study methodology. Full details of the background and methodology for the multi-country evaluation are in the Inception Report (IDD & Associates 2005).

Objectives and Approach to the Evaluation

What is General Budget Support?

A1.2 Budget support is a form of programme aid in which Official Development Assistance (ODA) that is not linked to specific project activities is channelled directly to partner governments using their own allocation, procurement and accounting systems. General Budget Support (in contrast to sector budget support, SBS) is not earmarked to a particular sector or set of activities within the government budget. The foreign exchange in GBS is usually accompanied by other inputs – a process of dialogue and conditions attached to the transfer, technical assistance (TA) and capacity building, and efforts at harmonisation and alignment by the international partners (IPs) providing GBS. Other forms of programme aid (including debt relief and other balance of payments support) may also generate resources that can be used to finance the government budget; therefore they could also be considered as budget support. However, the present evaluation focuses on a particular form of budget support that has recently become prominent.

A1.3 A new rationale for GBS emerged in the late 1990s, closely linked to the development of Poverty Reduction Strategies (PRSs). So-called "new" or "partnership" GBS focuses explicitly on poverty reduction, and it attempts to support nationally developed strategies rather than imposing external policy prescriptions. The range of expected effects from partnership GBS is very wide. The Terms of Reference (TOR)[1] for this study draw attention to:

- Improved *coordination* and *harmonisation* among IPs and *alignment* with partner country systems (including budget systems and result systems) and policies.
- *Lower transaction costs*.
- *Higher allocative efficiency of public expenditures.*
- *Greater predictability* of funding (to avoid earlier “stop and go” problems of programme aid).
- *Increased effectiveness of the state and public administration* as GBS is aligned with and uses government allocation and financial management systems.
- *Improved domestic accountability* through increased focus on the government’s own accountability channels.

[1] The full TOR are annexed to the Inception Report (IDD & Associates 2005).

Purpose and Focus of the Evaluation

A1.4 As summarised in the TOR:

> The purpose of the evaluation is to evaluate to what extent, and under what circumstances (in what country contexts), GBS is relevant, efficient and effective for achieving sustainable impacts on poverty reduction and growth. The evaluation should be forward looking and focused on providing lessons learned while also addressing joint donor accountability at the country level.

A1.5 Although the evaluation focuses on more recent PGBS, it covers the period 1994–2004 in order to assess whether and how PGBS differs from other variants of budget support. It is not a comparative evaluation of different aid modalities, although the assessment of PGBS requires examination of its interactions with project aid and other forms of programme aid. The joint donor approach to evaluation recognises that PGBS has to be evaluated as a whole, since it is not possible to separate out the effects of different IPs' financial contributions. However, there is a special interest in comparing various different approaches to the design and management of PGBS.

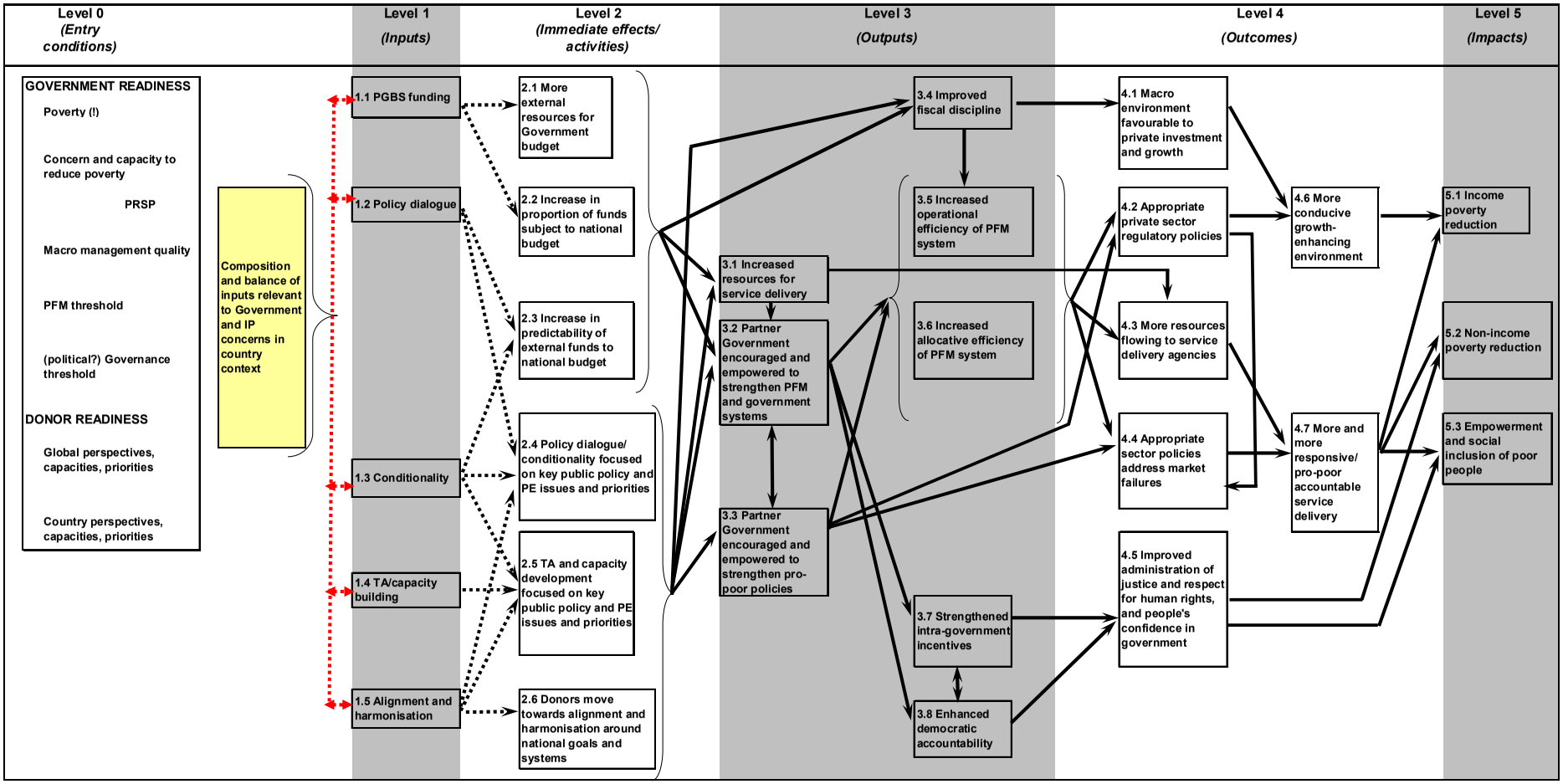
Evaluation Methodology

A1.6 The evaluation is based on a specially developed methodology which has been further refined during the inception phase of the study. The Enhanced Evaluation Framework (EEF) has the following key elements:

- It applies the five standard evaluation criteria of the OECD's Development Assistance Committee (DAC) – relevance, effectiveness, efficiency, impact and sustainability.
- A logical framework depicts the possible sequence of effects of PGBS and allows them to be systematically tested. There are five main levels:
  - Level 1: the inputs (funds, plus dialogue and conditionality, harmonisation and alignment, TA and capacity building)
  - Level 2: the immediate effects (activities)
  - Level 3: outputs
  - Level 4: outcomes
  - Level 5: impacts.
- The entry conditions for PGBS (i.e. the circumstances in which PGBS is introduced) are conceived as "Level 0" of the logical framework.
- PGBS is conceived as having three main types of effect: flow-of-of funds effects, institutional effects and policy effects. These effects overlap and interact with each other.
- There is particular attention to monitoring and feedback effects at all levels of the framework.
- The framework allows for the disaggregation of PGBS inputs, and notes their interaction with non-PGBS inputs.
- Similarly, it allows for the disaggregation of the poverty impacts of PGBS (income poverty, non-income dimensions reflected in the Millennium Development Goals, and empowerment of the poor).

A1.7 Annex 1A sets out these elements of the EEF more fully. From them, a Causality Map has been developed (Figure A1.1 below), which depicts the main cause-and-effect links to be tested by the evaluation.

Figure A1.1: Causality Map for the Enhanced Evaluation Framework



Country Report Structure

A1.8 The methodology ensures a standard approach to the evaluation across the seven case-study countries, and all seven country reports follow the same structure based on the same overarching evaluation questions. To enhance consistency across the country studies, a simple rating system is used in addressing the evaluation questions posed in Part B of the report; this is explained in Annex 1A. The TOR require special attention to gender, environment, HIV/AIDS, and democracy and human rights. These and a number of other cross-cutting themes are addressed in an additional section (Part C). A final section (Part D) presents the overall assessment and recommendations for Rwanda. The report structure is summarised in Box A1.1. The final section of this chapter describes the study process in Rwanda.

Box A1.1: Structure of the Country Report

Executive Summary

Part A: Context/Description

- A1. Introduction and Conceptual Framework
- A2. The Context for Budget Support in Rwanda
- A3. The Evolution of Partnership GBS in Rwanda

Part B: Evaluation Questions: Analysis and Main Findings

- B1. The Relevance of Partnership GBS
- B2. The Effects of Partnership GBS on Harmonisation and Alignment
- B3. The Effects of Partnership GBS on Performance of Public Expenditures
- B4. The Effects of Partnership GBS on Planning and Budgeting Systems
- B5. The Effects of Partnership GBS on Policies and Policy Processes
- B6. The Effects of Partnership GBS on Macroeconomic Performance
- B7. The Effects of Partnership GBS on the Delivery of Public Services
- B8. The Effects of Partnership GBS on Poverty Reduction
- B9. The Sustainability of Partnership GBS

Part C: Cross-Cutting Issues

- C1. Cross-Cutting Policy Issues (gender, environment, HIV/AIDS, democracy and human rights)
- C2. Public and Private Sector Issues
- C3. Government Capacity and Capacity Building
- C4. Quality of Partnership
- C5. Political Governance and Corruption

Part D: Synthesis – Overall Conclusions and Recommendations

- D1. Overall Assessment of PGBS
- D2. PGBS in Rwanda – Future Prospects
- D3. Summary of Conclusions and Recommendations

Bibliography

Annexes

1. Approach and Methods
2. Country Background
3. Aid to Rwanda
4. Public Finance Management in Rwanda
5. Summary of Causality Findings
6. PRSP Framework and Implementation
7. Decentralisation and Service Delivery
8. Chronology of Key Events

The Evaluation in Rwanda

A1.9 Country field visits took place in two rounds. The first visit took place between 31 October and 16 November 2004. The second field study visit took place during 1–21 May 2005 and involved Gaspard Ahobamuteze, Catherine Dom, and Ray Purcell.

A1.10 All in-country arrangements were coordinated and facilitated by GOR (Head of Strategic Planning and Poverty Reduction Unit in the Ministry of Finance and Economic Planning [Minecofin]) and donor (DFID) representatives.

A1.11 A report on the in-country evaluation approach is provided at Annex 1B. In brief, the approach included an extensive literature review and direct information collection from in-country stakeholders. With regard to the latter, the team was able to have regular contacts with the small number of PGBS IPs (in particular, with UK/DFID, the EC, Sweden/Sida, and the WB, although the latter contact was more limited), including between and after the missions in country. An exception was AfDB, which has no representation in Rwanda. The IMF was also closely involved.

A1.12 The team had excellent access to senior officials in the government agencies most closely concerned, and in particular in Minecofin. Field trips at provincial and district level provided an opportunity for useful reality checks. Contacts were more limited with other actors in Rwanda (and in particular, the private sector), although Parliament, the Office of the Ombudsman and national NGOs participated in workshops organised during the study.

A1.13 Three such workshops were held. The two workshops organised during the second mission were instrumental in disseminating the team's work and getting feedback on the team's findings from a broad range of stakeholders beyond the PGBS "direct stakeholders" (PGBS IPs and government agencies). These workshops were well attended and appreciated by all stakeholders. The team was also able to interact with the regular government/IP dialogue structures in a number of occasions, which provided insights on their functioning most useful to the study.

A1.14 An extensive and iterative drafting process underpins the completion of this report. The country inception report, outlining the preliminary findings of the team after the first country visit in November 2004, was an internal working document. Nonetheless, it was shared with the group of closely involved stakeholders in Rwanda (Minecofin and the group of PGBS IPs) for comment and to help focus the second visit. The draft Country Report, prepared after the second visit in May 2005, was circulated for comments from in-country stakeholders and others in September 2005. As with all draft Country Reports, the draft Country Report for Rwanda was discussed at a meeting of the Steering Group for the overall study in October 2005. By end of October 2005, the team had received comments from the Evaluation Steering Group stakeholders and in-country stakeholders. These as well as generic comments made by the Steering Group for all country reports, were taken into account in preparing this Final Country Report, which is the official output of the country study. The team also received much useful updated information from in-country stakeholders on developments that had taken place since the second visit, so that recommendations could be as comprehensive and up-to-date as possible (e.g. taking account of the August 2005 territorial reform).

A2. The Context for Budget Support in Rwanda

Overview

A2.1 Rwanda is a small and poor country with a profoundly tragic past. The country's modern history, national psyche, and governance psychology have been shaped by internal and external tensions which culminated in the genocide of 1994. Though the genocide propelled Rwanda to the world's attention, the governmental and economic gears of state had gone into reverse well before then. The background and events of the genocide are not analysed here. But the fact that Rwanda came to the world's collective attention belatedly and only after the genocide is in itself deeply influential in the minds of the present government, and it is central to the understanding of the donor-government GBS context and relationships.

A2.2 The present government came to power in 1994 when the Rwandan Patriotic Front (RPF) overthrew the previous government, thereby ending the genocide. Presidential and legislative elections in 2003 marked the conclusion of the nine-year transition to party political government. The elections produced a resounding victory for the governing RPF and the current president, Paul Kagame.

Poverty and Poverty Reduction Strategy

A2.3 Rwanda turned adversity into opportunity by owning and engineering a national vision known as "Vision 2020". The preparation of *Rwanda Vision 2020* (Ministry of Finance and Economic Planning 2000) was launched by the Office of the President in 1998 as a national reflection to allow Rwandans to start thinking about what kind of nation they wanted in the future. After extensive consultations, Vision 2020 was presented to a large cross-section of Rwandan society, by whom it was amended and validated. The final result was a document, in which a long-term development path for Rwanda is outlined and ambitious goals to be reached by the year 2020 are formulated. In the words of the document:

> 2020 is a framework for Rwanda's development, presenting the key priorities and providing Rwandans with a guiding tool for the future. It supports a clear Rwandan identity, whilst showing ambition and imagination in overcoming poverty and division.

Vision 2020 is operationalised by a medium-term instrument, namely the Poverty Reduction Strategy Paper (PRSP), which was prepared between 2000 and 2002.

A2.4 For post-genocide Rwanda, GDP per capita and income poverty indicators tell the classic story of rebound after a major upheaval. It is notable that GDP per capita had already plummeted before the genocide from a peak around the late 1980s, and poverty incidence had been increasing. To illustrate that problems were not simply about "1994", per capita GDP had been on a declining trend (by 1.5% annually) between 1982 and 1992. However, the genocide itself propelled swathes of the population into income poverty, records indicating a drop of nearly 50% in GDP per capita and an increase in income poverty incidence nationally from 48% to 78% between 1990 and 1994. Though economic recovery from 1994 onwards slowed after an initial spurt, especially with regard to GDP per capita, this was enough to take 18% of the population out of poverty by 2000. Where trend data are available, non-income indicators such as mortality rates also show trends of dramatic decline and then recovery during this period. More than three million people returned to Rwanda between 1994 and 2000, creating acute problems of housing, land, ownership of assets, etc. Under such circumstances the improvements in poverty status are remarkable.

Macroeconomic Management

A2.5 After a calamitous fall in GDP in 1994 which drove many people into poverty, GDP growth has bounced back averaging more than 10% p.a. since 1995, though on a declining trend (Table B6.1). However, the population increased from 5.7 million in 1995 to 8.4 million in 2003, fuelled by returning refugees. Consequently, GDP per capita only improved from USD 220 in 1995 to USD 242 in 2002 (Annex 2C, Table 2C.1).

A2.6 With few divergences, most notably in 2003, Rwanda has attained reasonable macroeconomic stability. The active constraint in terms of economic development is not macroeconomic instability, but geopolitical, administrative and other factors.

A2.7 Government macroeconomic policies were put in place and coordinated with the IMF, starting in the mid 1990s. With the exception of 2003, the post-genocide government has prioritised the control of inflation and maintained a disciplined culture of fiscal deficit management. The most senior level of government is actively involved in key macroeconomic management decision-making.

A2.8 Rwanda arrived at the decision point of the Heavily Indebted Poor Countries (HIPC) initiative in December 2000, and reached completion point in December 2004, obtaining interim debt relief of USD 20m from the IMF, USD 56.5m from the IDA, plus relief from a range of other multilateral and Paris Club creditors. Associated conditionality related to (i) the preparation of a full PRSP, with satisfactory implementation for at least one year and budgetary savings from the HIPC initiative used to increase expenditures in poverty reduction programmes; (ii) maintenance of macroeconomic stability; (iii) progress in the reform of the tea sector; and (iv) the implementation of key social measures in education, health and HIV/AIDS and the adoption and implementation of a gender action plan.

Public Finance Management

A2.9 Rwanda's budget system, its physical and human capacity, was all but destroyed during the genocide. The restoration of the system has fallen into two stages. In the first stage the system was rebuilt from scratch, the main building blocks being put in place between 1997 and 2000. The focus was on reviving tax administration, restoring processes for budget preparation and execution, improving macroeconomic analysis and projections, strengthening budget monitoring and accountability, and building capacity for budget and economic management. Since 1998, fiscal and budgetary reform has been ongoing, and the budget procedures and calendar have generally been respected, with the draft budget being adopted by the National Assembly before the beginning of the fiscal year.

A2.10 Second-stage reforms have continued across the spectrum of the PFM system. Since 2003, government has implemented a wide-ranging action plan for financial accountability, based on the recommendations of the Financial Accountability Review and Action Plan (FARAP). The new constitution adopted at the end of May 2003 established a broad framework for public financial management. A new Organic Budget Law which clarifies arrangements across PFM was submitted to Parliament in June 2004, and approved in 2005.

A2.11 By the end of 2004, FARAP had been largely either implemented or internalised, with further work planned on unfinished areas such as integration of recurrent and development budgets. It is likely to be superseded by the diagnostic work around the Public Expenditure and Financial Accountability (PEFA) framework, with a focus on public financial accounting and the needs of the Accountant General and Treasurer Department of Minecofin. Nevertheless, an assessment of the Rwandan PFM system against standard performance dimensions shows that

it still performs weakly in about half these dimensions (see Annex 4). Hence overall, while real progress has been made in rebuilding PFM systems during the period 1994–2004, there is still some way to go before a fully operational system based on latest good practice is reached.

Governance

A2.12 After 1994, the task of government and its supporters, including a large section of the international donor community, has been to rebuild the basic organs and systems of state. Much has been achieved but statehood is fragile in a number of respects, the main potential threat residing in regional instability. Among achievements at the political level has been the steady transition, in the period 1994–2004, from a strongly militarised Government of National Unity through to the adoption, by referendum and following a process of participatory preparation, of a modern constitution (in July 2003) which is recognised as the foundation of Rwanda's governance framework.

A2.13 The constitution establishes the separation, independence and complementarity of legislative power (exercised by a bicameral parliament), executive power (exercised by the President of the Republic and the government) and judicial power (under the supervision of the Supreme Court). The parliament and the president are elected by universal suffrage. The president appoints the prime minister and other members of the government. The constitution also establishes decentralisation and community development as pillars of the country's governance.

A2.14 World Bank governance indicators show gradual improvements taking place across most of a range of indicators (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law) between 1996 and 2004 (Annex 2D, Figure 2D.1). Rwanda scores particularly well on the control of corruption.

Aid Flows

A2.15 Rwanda is heavily aid-dependent. Aid flows peaked in the aftermath of the genocide, when over USD 700m was received in each of 1994 and 1995 (Table A2.1). According to OECD DAC data, ODA was equivalent to 96% of GNI in 1994 and 54% in 1995. Since then, annual aid inflows have averaged USD 340m per year. Emergency aid amounted to 20–30% of total aid between 1995 and 1998, but has been replaced by development aid thereafter. Between 1998 and 2003, ODA has been running at 17–20% of GNI, still a relatively high level. Table A2.1 shows aid flows, defined in terms of total net aid disbursed.

A2.16 In 2003, there were 23 bilateral and twelve multilateral IPs. According to OECD DAC data, the top ten IPs overall between 1994 and 2003 were, in descending order, the USA, the International Development Agency (IDA), the EC, the UK, the World Food Programme (WFP), the Netherlands, Germany, Belgium, UNHCR and Canada. The top ten in descending order in 2003 were EC, USA, UK, IDA, Netherlands, Belgium, Germany, Sweden, Canada and Norway. Annex 3A, Table 3A.3 contains the detailed OECD data of ODA disbursements by IPs for the evaluation period 1994–2003. OECD data and GOR data (collected in country) sometimes display irreconcilable differences in this area. Over time (2003 being a possible exception) the OECD data are the more robust and internally consistent.

Table A2.1: Aid (total net aid – grants and net lending), Emergency Aid and Aid as a percentage of GNI 1994–2003

Year		Amount in Current USD	of which emergency aid	Aid as % of GNI
1994	ODA/OA:Total Net ($ Million)	716.32	0.19	95.6
1995	ODA/OA:Total Net ($ Million)	702.09	163.37	54.1
1996	ODA/OA:Total Net ($ Million)	466.65	135.75	34.1
1997	ODA/OA:Total Net ($ Million)	229.6	83.9	12.5
1998	ODA/OA:Total Net ($ Million)	350.08	63.99	17.6
1999	ODA/OA:Total Net ($ Million)	373.19	63.51	19.4
2000	ODA/OA:Total Net ($ Million)	322.02	14.36	17.9
2001	ODA/OA:Total Net ($ Million)	298.52	8.58	17.8
2002	ODA/OA:Total Net ($ Million)	355.04	13.88	20.5
2003	ODA/OA:Total Net ($ Million)	331.56	10.99	19.9

Source: OECD DAC.

A2.17 A very small proportion of total ODA (less than 2%) has been from the IMF. Yet the IMF has a major influence, both through its conditionality and its leading role in setting the macroeconomic framework, and because GBS IPs withhold disbursements if Rwanda is in dispute with the IMF. It is noteworthy that in terms of volume of funding, the current Poverty Reduction and Growth Facility (PRGF) of USD 6m is much smaller than the previous IMF programme (USD 80m drawn down). Nevertheless, following a general trend for governments wanting to signal to partners that they are serious about macroeconomic stability, GOR shows no sign of paying less attention to the dialogue with the IMF. On the contrary, the form of this dialogue has improved, with PGBS IPs being invited to IMF mission meetings with GOR. On the whole, PGBS IPs seem to be satisfied with the signalling role of the IMF, though they are also looking for ways of avoiding a mechanistic link between PGBS disbursement and PRGF review and mission schedule (DFID, EC).

A2.18 Finally, the team has noted that in spite of the existence of a long-term vision developed by the government, there has not been a conclusive dialogue between GOR, the IMF in its capacity as macroeconomic adviser, and IPs active in Rwanda, about long-term prospects for aid and its role in the fulfilment of Vision 2020.

A3. The Evolution of Partnership GBS in Rwanda

Introduction

A3.1 This chapter covers the identification and origins of PGBS. Annex 3B contains a detailed inventory of programme aid to Rwanda, both PGBS and programme aid disbursed prior to PGBS. The inventory gives details on timeframe, funding volume, intent, alignment with government strategies, earmarking, disbursement procedures, conditionality and performance indicators, TA and capacity development inputs, dialogue procedures, donor harmonisation and alignment dimensions, experience with implementation. and some information on IPs' future intentions with regard to GBS.

A3.2 The years 1994–2004 can be characterised as comprising three periods which are associated with shifts in the aid landscape. Immediately after the genocide, there was a large inflow of humanitarian aid from multinational and bilateral IPs. Combined with the activities of a very large number of international NGOs (more than 180), for several years there was a situation of extreme confusion. Government appears to have realised early on that the haphazard manner in which the first steps out of the genocide were taken could not last. There was a need to put a stop to the emergency modalities, which tended to be self-perpetuating (handing out aid directly to the population and bypassing weak public institutions).

A3.3 Hence, after a period characterised by little consultation with the population, fragile institutions and virtually no accountability (1994–1997/98), there came a period (1997/98–2002) of "government (re-)shaping itself", laying down basic building blocks in terms of consultation, accountability and administrative and management capacities.

A3.4 This second period can be further subdivided. In the first instance, the task was for government to take control over, and responsibility for, actions aimed at rebuilding Rwanda's capital (including social and human capital). But with this came the realisation that there needed to be an underpinning vision towards which Rwanda might strive, and around which policies and strategies could be consolidated. The period up to 2000 saw the emergence of Vision 2020, closely followed by the preparation of the PRSP. Between 1998 and 2002 a large number of policy, strategic and legal texts were prepared and adopted.

A3.5 In the perspective of many Rwanda government informants, the period 2002–04 is that of "real development". The PRSP, adopted by Cabinet and endorsed by the Boards of the Bretton Woods Institutions (BWIs) in July 2002, represents government's overarching development framework and is a major step in terms of operationalising the Vision. It identifies priority actions for the government to undertake without delay and it recognises the need for further elaboration of strong sector strategies, adapted to decentralisation and translated into medium-term and annual financing plans.

Aid Modalities and Aid Flows

A3.6 The early post-genocide inflows of emergency aid are hard to categorise. Much early aid was ad hoc and flexible. There was initially no defined budget, so budgetary classification was not relevant. Moreover, much of the aid was unrecorded. The WB established an interesting modality for its earliest non-project assistance (WB Emergency Recovery Credit 1995–97) through provision of import support to the private sector.

A3.7 Secondly, Rwanda has received inflows of aid for debt relief, which is non-project aid, but which has no immediate macroeconomic or budget effect if it is assumed that the debt

service could not, or would not, have been paid anyway. On the other hand, if debt relief were paid, then debt relief is tantamount to budget support since this frees up resources for budget expenditure.

A3.8 In the case of Rwanda, debt service was covered largely by IP grants, through a Multilateral Debt Trust Fund (MDTF), and later through HIPC. Here, there may be longer- term effects, because debt relief appears to have been paid out of IPs' country ceilings for Rwanda. Consequently, on the cessation of debt relief, those IPs which had been providing debt relief were able to increase other forms of aid. In particular, DFID and Sida used the resources released to start PGBS operations. Other IPs have not yet adopted GBS modalities, although some have provided substantial resources through other non-project modalities, for example the Netherlands and the Community Development Fund (CDF). Payment of IFI debt through both the MDTF and through HIPC enabled the IFIs to keep funding. It should also be noted that the HIPC process was pivotal in providing a policy framework for PGBS.

A3.9 A third category concerns IMF lending and WB non-project inflows. These have a long history. The IMF has always provided balance-of-payments support, which can have the effect of providing additional discretionary resources for the government budget. In the case of the WB, its non-project support might be categorised into three types: (i) the early private sector import support programmes; (ii) the “adjustment budget support” programmes – Economic Recovery Credit (ERC) and Institutional Reform Credit (IRC) – and, finally, (iii) the Poverty Reduction Support Credit (PRSC).

A3.10 Recognisable PGBS emerged in Rwanda in 2000, with the start of GBS from the UK supported by small sums by Sida, later on joined by the EC with a first “Programme Pluriannuel d’Appui à la Réduction de la Pauvreté” (PPARP) in 2003/04, and later by the WB with a first PRSC in 2004. PGBS “proper” is therefore judged to have started with DFID and Sida operations replacing the support to debt relief. This is because (i) this money was for budget support and not earmarked (unlike the EC structural adjustment facilities SAF1 and SAF2), and (ii) the few associated conditions were drawn from government documents such as the Interim PRSP (I-PRSP). In contrast, adjustment credits were GBS, but were not “partnership” GBS. The crucial differences relate to donors aligning with government priorities (to promote government ownership through e.g. the PRSP), harmonising procedures (to reduce transaction costs), and participating in priority setting through policy dialogue and the provision of TA. There are of course borderline cases such as the WB’s IRC, which was criticised by the Strategic Partnership with Africa (SPA) alignment survey of BS in 2003 as being not aligned. In reality, while the WB had already planned to engage with PRSCs when it was preparing its Country Assistance Strategy (CAS) in 2001/02, it found that the I-PRSP and PRSP were not sufficiently elaborated on PFM reforms. The IRC was prepared as a transitional operation paving the way for the PRSC, at the same time allowing the WB to introduce conditionality in this area. The nuance is subtle, as it is clear that PFM was a government priority. However, in the inventory of PGBS as defined for this study, the team concluded that the WB became a PGBS partner with the advent of the PRSC, fully aligned with the PRSP, in 2004.

A3.11 Based on the definitions and distinctions made above, Table A3.1 provides a summary of aid flows in Rwanda for the period studied (1994–2004). It is a standard table found in all seven country reports for the GBS Evaluation, and has two purposes: (i) to highlight exactly what has been identified as PGBS, and from whom, and (ii) to enable amounts of PGBS to be compared and aggregated (albeit crudely) across the seven study countries. Presenting this information in a format that can be aggregated across countries involved certain compromises, such as the use of data from sources that do not always tally with in-country sources. The remainder of the analysis in this report is based on country-level data sources. A summary of these data with regard to general budget support and total ODA is presented in Table A3.2.

Table A3.1: Summary of Aid Flows in Rwanda (1994–2004) (generic format)

	(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A)	**Total ODA (actual) [1]**	722.98	721.22	481.05	246.92	365.60	403.21	342.34	320.08	374.89	357.01	500.47	*OECD DAC*
(B)	**Total ODA excl. emergency and food aid (actual) [1]**	707.08	487.93	320.31	131.13	264.91	314.26	323.50	295.18	345.24	321.61	450.32	*OECD DAC*
(C)	**Total Partnership GBS disbursements [2]**	0.00	0.00	0.00	0.00	0.00	0.00	13.68	37.44	32.48	34.18	129.67	
	Donors providing PGBS							*DFID*	*DFID, SIDA*	*DFID, SIDA*	*DFID, EC, SIDA* [2a]	*DFID, EC, SIDA, WB*	*Annex 3A Table 3A.4*
(D)	**[ESAF programmes] followed by PRGF (disbursements)**	[8.76]	[13.00]		[20.50]	[16.10]	29.30	25.10	12.10	0.70	0.80	1.70	*IMF various*
(E)	**Total other unearmarked programme aid disbursements**						55.94	44.22	67.77	75.65	22.36	41.93	*Annex 3A Table 3A.3, Annex 3C.*
	Donors providing unearmarked programme aid						*EC, WB*	*EC, WB*	*EC, WB*	*EC, WB*	*EC, WB*	*EC, WB*	*See[3]*
(F)	**HIPC funding**								23.94	25.61	27.10	28.35	*See [4]*
(G)	**Central Government Expenditure (USD) [3]**	188.69	265.19	311.45	365.58	374.96	411.03	346.43	362.13	400.99	346.28	no data	*IMF International Financial Statistics (IFS)*
(Ga)	**ODA as % of GNI**	95.51%	54.05%	34.09%	12.51%	17.65%	19.44%	17.93%	17.76%	20.73%	20.16%	25.80%	*OECD DAC*
(H)	**PGBS as % total ODA (%)**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.00%	11.70%	8.66%	9.57%	25.91%	
(I)	**PGBS as % central government expenditure (%)**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.95%	10.34%	8.10%	9.87%	no data	

Notes

[1] ODA consists of grants and total loans extended, as distinct from total net aid disbursed in Table A2.1 which includes net lending.
[2] In line with Annex 3B (inventory), PGBS excludes EC Structural Adjustment Facility (SAF) programmes and WB pre-PGBS policy lending programmes. IMF PRGF is considered as BOP.
[2a] EC: Planned disbursement of 1st tranche PPARP in 2003; took place in January 2004.
[3] IMF 2004 and 2005 (Third and Fourth Reviews under the Three-Year Arrangement under the PRGF); IMF 2002 (Article IV Consultation and Requests for a new PRGF).
[4] 2003 and 2004 (projected) figures from Minecofin Budget Framework Papers 2004–06 and 2005–07. 2001 and 2002 figures from IMF2004.

Memorandum items

(J)	**Emergency Aid**	0.19	163.37	135.75	83.9	63.99	63.51	14.36	8.58	13.88	10.99	38.93	*OECD DAC*
(K)	**Development Food Aid**	15.90	69.92	24.99	31.89	36.70	25.44	4.48	16.32	15.77	24.41	11.22	*OECD DAC*
(L)	**Government Expenditure (Rw millions)**	26,550	69,528	95,335	110,157	117,632	138,858	136,298	160,350	191,000	186,181	no data	
(M)	***OFFICIAL RATE (Units: National Currency per US Dollar)***	140.704	262.182	306.098	301.321	313.717	337.831	393.435	442.801	476.327	537.658	574.622	

A3.12 Table A3.2 shows the share of broad GBS, including "other programme aid" (i.e. EC SAF1 and SAF2 and WB pre-PRSC programmes) in ODA, and also the share of "recognisable" PGBS (see A3.10). Since some GBS flows have been marked by unpredictability, as will be explained in Part B, the shares of GBS vary but are always significant. Between 1999 and 2003, broad GBS flows have been in the range of 14–33%, while PGBS has varied between 4% and 12%. Note that the broad measure of ODA (total grants and loans) is used in Tables A3.1 and A3.2.

Table A3.2: GBS as a percentage of ODA

Year	Amount of ODA in Current USD Million	Amount of GBS in Current USD Million	GBS as % of ODA	Amount of PGBS in Current USD Million	PGBS as % of ODA
1999	403.2	55.9	13.8	0	0
2000	342.3	57.9	16.9	13.7	4.0
2001	320.1	105.2	32.9	37.4	11.7
2002	374.9	108.1	28.8	32.5	8.7
2003	357.0	56.5	15.8	34.2	9.6
2004	500.5	171.6	34.3	129.7	25.9

Sources: OECD DAC for ODA, Country Report estimates for GBS and PGBS (Annex 3A, Table 3A.4).

A3.13 Apart from partnership GBS, and the increasingly coordinated aid to the education sector – an emerging sector-wide approach (SWAp) in the sense that discussions are moving towards joint donor–government action on a sector-wide basis) – the remainder of aid is in the form of projects for which sectoral coordination is at early stages. However, in recent years interest has arisen in whether there could be alternatives and options for IPs who may not want or be able to provide GBS but are interested in moving away from isolated projects toward more "upstream" and policy-oriented support. This type of thinking about aid effectiveness is usually associated with the existence (or prospect) of strong sector strategic plans supported by an operational programme framework (as is the case for education and decentralisation). It is noteworthy that some PGBS IPs have also made clear their interest in sector/area-specific support modalities. DFID, for instance, is intending to participate in a multi-donor sector budget support modality supporting the Education Sector Support Programme (ESSP), which funding would be expected to be demonstrably additional to funding otherwise allocated to the sector. The EC is exploring the feasibility of using similar modalities for support e.g. to the road sector.

A3.14 The inventory at Annex 3B provides detail of the operations which are unambiguously PGBS and operations which are borderline or were programme aid precursors in Rwanda.

Developments in Aid Management and Coordination

A3.15 A detailed timeline of key dates and events dealing with political, poverty, mobilisation and macro factors impinging on the evolution of aid management and coordination is provided in Annex 8.

A3.16 The pre-genocide administration was, up to the late 1980s, a highly regarded, conservative, and prudent macroeconomic manager, yielding impressive economic results. Rwanda was regarded as a star performer by the international community and received large amounts of international assistance. However, the government's achievements masked its social policies of exclusion, and the large flows of donor funds masked the structural problems of the economy (including its high dependency on coffee exports). It was only in 1990 that the government somewhat reluctantly engaged in a process of structural adjustment, which was

supposed to be supported by a package of USD 220m financed largely by the IMF, the WB, the EC and the African Development Bank (AfDB).

A3.17 Early donor Round Tables were organised in Geneva in January 1995, and June 1996, after which the government undertook to develop programmes on: education, justice, health, agriculture, private sector promotion, and institutional capacity building. Progress was delayed by the massive repatriation of refugees (helped by additional aid). Before 1999, the Economic Recovery and Reconstruction Programme and other contemporary balance-of-payments (BOP) support was aligned with a jointly prepared emergency programme (WB–UN–GOR) that would "move the country from humanitarian relief to the path of reintegration and reconstruction and facilitate the transition to sustainable development" (World Bank 1998). A subsequent joint WB–IMF–AfDB–GOR mission prepared a policy framework for the transition from emergency to sustainable development and identified budgetary requirements.

A3.18 A conference in February 1999 focused on education, agriculture, and private sector promotion. Aid coordination was partly handled through a trust fund managed by UNDP, which mobilised USD 110m in 1995–99. In 2001, a conference of government and IPs (15 bilateral and 18 multinational, plus NGOs) was held in Kigali, to discuss the I-PRSP. In 2002, a follow-up conference was helped by the withdrawal of Rwandan troops from the Congo, and by growth of GDP higher than expected. The conference followed the 2001 agenda (including a focus on the PRSP), to which was added the Medium Term Expenditure Framework (MTEF) 2003–05, the National Investment Strategy (focusing on energy, water, health and sanitation), implementation of agreed aid coordination, demobilisation and reintegration.

A3.19 The IPs recognised the strong participatory approach and ownership of the PRSP. They suggested that the government should manage and coordinate the aid on which the funding of PRSP depended. It was agreed that line ministries and IPs should work together at the sectoral level. Around this time, programme aid began to flow through operations channelling direct budget support (i.e. no longer asking justification for imports financed with the forex) and aimed at objectives going beyond reconstruction and rehabilitation of basic services and systems (e.g. WB IRC, EC SAF, and DFID). Both the WB IRC and EC SAF were conceived as transitional, following the previous economic reform support and recovery operations, and were put in place pending the full PRSP.

A3.20 Recent donor coordination in Rwanda has been developed jointly by the government and IPs, in the framework of the PRSP. A conference for the government and development partners in November 2001 welcomed the draft PRSP and agreed to work together towards its implementation. For non-PGBS aid, this led to the establishment of a series of thematic "clusters", intended to provide an instrument for joint work by GOR and donors, and coordinated jointly by the government and UNDP. Most of the clusters were dormant for approximately two years (the exception was education, although this was not so much the result of a Minecofin-driven initiative but rather related to the emergence of a SWAp), but have been significantly revived during 2004. Each cluster is jointly led by the relevant Ministry and one or more IPs, and are at different stages of development. Most recently**,** the Partnership Framework arose out of a conference and discussions of the results of the evaluation of Rwanda's experience as one the SPA pilot countries, in 2004.

A3.21 Ideas have also developed on a calendar/cycle of aid-related activities, starting with the annual cycle for macro, PFM and PRSP reviews agreed upon by PGBS IPs and government in the Framework for Harmonisation for PGBS, and linked to government's MTEF/budget cycle. Government and (PGBS) IPs still differ on the implications and requirements of some provisions of the calendar/framework, for example the issue of consultations on the Budget Framework

Paper (BFP), but there appears to be good will on both sides to see these differences ironed out. Further work has been done on the alignment of cycles following the last Development Partners' Meeting (DPM) in December 2004. This resulted in a new "harmonised calendar" which is bringing together all key government and aid cycles, i.e. bridging the PRSP APR (Annual Progress Report) process, sector review processes, overall aid dialogue, PGBS events, and government MTEF/budget process. Further work will be required with a view to linking sector review processes to the main (PRSP–MTEF–budget–PGBS) process.

Origins of PGBS in Rwanda

Government Perspectives and Readiness

A3.22 The Government of Rwanda has always had a consistent and clearly stated philosophy and perspective on PGBS. Its interests stem from the country's recent history of conflict and associated economic and governmental collapse, and can be summarised as follows:

- PGBS is as much about rebuilding government systems, institutions and processes which were destroyed during the genocide as it is about external resource mobilisation.
- In an environment where systems are being rebuilt and where capacities are in short supply, PGBS is an instrument that has the potential to reduce dramatically the transaction costs associated with conventional aid modalities, i.e. projects.
- Compared with the alternatives, PGBS can significantly increase the amount of aid actually disbursed each year. This latter objective arises directly from the historically low disbursement rate of project finance, and the fact that PGBS is normally 100% distributed in the year for which it is committed or, at worst, early in the following year.[2]

A3.23 In terms of government preparedness to enter the PGBS arena, key factors which persuaded IPs (though at different times – UK in 2000, Sweden in 2002, EC in 2003/4, WB in 2004) of the appropriateness of introducing PGBS arrangements to manage a substantial proportion of external aid were:

- Government's growth and poverty goals, and its ability to provide strong leadership, vision and strategic instruments to attain those goals – the preparation of Vision 2020, the proactive attitude towards the MDGs, the effective and participatory construction of the PRSP, and the emphasis on giving the private sector a strong role in the economic growth and poverty reduction paradigms of Vision 2020 and the PRSP;
- Government's strong performance in the post-genocide period in re-establishing the basic institutions of economic governance, particularly for macroeconomic and public finance management.

A3.24 A key strength of GOR for the IPs is the leadership and stability of Minecofin. This central institution has been the bedrock of the evolution of PGBS, dealing with strategic planning and budget policy and management. The leadership of the Ministry has provided stability, credibility and confidence. No other branches of the administration have experienced these same conditions of stable and technically competent long-term leadership.

Donor Readiness for PGBS

A3.25 Two sets of donor factors set the scene for the introduction of PGBS in Rwanda. One set was influenced by global donor perspectives of the late 1990s. To a large extent this was driven by a disenchantment with traditional project modalities. Aid psychology in the latter part of the

[2] Note that 100% disbursement of GBS is not automatic but is dependent on some of the rules of the game (e.g. graduated disbursement for PRSCs depending on performance, and variable tranches for the EC).

1990s was very much about looking for changes in aid paradigms, through new approaches deriving from HIPC and debt relief, through the expectations raised by the MDGs, and through the emergence of new holistic, strategic, poverty-related and domestically-owned approaches such as PRSPs and SWAps.

A3.26 The second set of factors was related to the focus of aid psychology in the second half of the 1990s on the need to support "failed states" such as Afghanistan and Rwanda. In the case of Rwanda, there was the added impetus that the collapse of this particular state was at least partly the result of the failure of the international community to take action to prevent the genocide. This in turn generated a sense of international "guilt by inaction", thus opening the door to aid with a political dimension.

A3.27 For the PGBS bilateral IPs in particular, one overarching rationale in adopting PGBS was to "support an ambitious but weak bureaucracy" in the most effective manner (Bigsten and Lundström 2004; DFID 2004). It was deemed critical to mitigate the burden that project aid imposed on GOR's weak and stretched institutions, given that capacities in Rwanda were particularly thin on the ground. PGBS was also seen as the best way of nurturing the GOR's leadership in policy development, through the broader policy dialogue that was meant to replace the donor-driven conditionality of the structural adjustment programmes. Finally, corruption was seen as a low-level risk.[3]

A3.28 The macroeconomic context was well in hand through the GOR–IMF dialogue on macro and associated structural reforms. For the rest, the decision to provide PGBS was based on IPs' trust that GOR would maintain its leadership and commitment to further improving systems and institutions of pro-poor policy-making and planning and budgeting. The starting point was GOR's Vision 2020, and initial PFM reforms were well under way as stated in various diagnostics including those leading to FARAP (see Chapter B4).

A3.29 For the EC, the move to PGBS also stemmed from a shift in overall policy, which since 2003 has clearly favoured unearmarked budget support as an aid modality for both macro and sector support, where minimum prerequisites (related to commitment to macro stability, some form of "readiness" of the PFM systems and commitment to further PFM reform) are in place. The WB was the latest – among the group of agencies currently providing PGBS – to join in, in 2004. As noted in ¶A3.10, the WB had a preparatory operation with the IRC. This also gave time for policies to become more robust in a handful of sectors, thus providing the ground to introduce the first PRSC (2004), utilising a fairly detailed policy matrix which could be based on government's own actions in these sectors. This "sector readiness approach" of the WB does not imply that all sectors should be "ready" in the same way. For example, education had a fully-fledged sector strategic plan when the WB included it in the PRSC, while in agriculture, where this was not the case, measures in the PRSC matrix were about developing such a plan. Nevertheless, this approach contrasts with that of other IPs who actually moved into PGBS even before a sector policy was developed into a fully-fledged sector strategic plans.

A3.30 After the UK's early lead, the EC, Sweden, the WB and in 2005 the AfDB have followed. Sometimes influenced by domestic constituencies, other large IPs such as France, Belgium and the Netherlands have not felt political and governance conditions sufficiently acceptable to be able to follow. This reveals itself periodically in the context of the PRGF and IMF Board approval, where political and governance dimensions in Rwanda are read differently by different groups of IPs. See Chapter B2 for further elaboration of these differences.

[3] As evidenced in a survey conducted in 2000 by a local NGO umbrella organisation CCOAIB, mentioned in NEPAD APRM (Government of Rwanda 2005).

A3.31 The geopolitical dimension in dealing with Rwanda continues to disrupt the development of less politicised aid relationships. In 2004, attacks by rebel groups (ex-genocide militia) from within the Democratic Republic of the Congo (DRC) prompted a reaction from the Rwandan president, who indicated that Rwanda might enter DRC to tackle this vital security issue. Reactions from the international community, including the PGBS IPs in Rwanda, led to the temporary withholding of PGBS releases.

PART B: EVALUATION QUESTIONS: ANALYSIS AND MAIN FINDINGS

B1. The Relevance of Partnership GBS

How does the evolving PGBS design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?

Introduction

B1.1 This chapter focuses on the relevance of PGBS in Rwanda. It assesses how the evolving PGBS design responds to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the IPs both generally and in Rwanda. The analysis adheres to the DAC criterion of relevance:

> The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and IPs' policies.

In this context it looks at how the combination of inputs in the PGBS programmes addresses the specific Rwandan country context.

B1.2 A first challenge to the analysis is the relatively short period of time during which PGBS has evolved in Rwanda. A second challenge is to isolate the "noise" created by the quite high degree of political volatility that prevailed during the period of the study combined with the markedly political nature of aid in Rwanda for bilateral donor countries (especially for PGBS). Such "noise" makes it more difficult to assess whether PGBS design fits partners' objectives/priorities, as these may be less clear because of political uncertainties.

Relevant Facts

B1.3 The inventory of programme aid in Rwanda at Annex 3B provides additional information on the dimensions of PGBS discussed below.

Objectives and Intent of PGBS

B1.4 Following the recommendations of two SPA missions in 2002, GOR and PGBS IPs agreed on a formal Partnership framework for Harmonisation and Alignment of Budget Support between the Government of Rwanda and its Development Partners. A document to this effect was signed in November 2003 by the UK, the EC and GOR, and endorsed by the WB, the AfDB and Sweden, who recommended its adoption to their respective managements. It summarises the partners' main objectives as:

- Reduction of transaction costs and increased government effectiveness
- Streamlining of conditionalities
- Joint government–donor reviews
- Donor alignment behind the PRS
- Increased government ownership of economic and social policy
- Greater predictability of donor inflows
- Provision of lessons for broader harmonisation efforts.

B1.5 Drawing on the study questionnaires,[4] other objectives of PGBS IPs in Rwanda relate to strengthening government core systems and capacities (DFID) with an emphasis on PFM (EC) and with a view to enhancing policy and delivery of services with a focus on selected sectors, including education and health (EC: both; DFID and Sweden: education especially). DFID's and Sweden's PGBS programmes also embrace the objectives of the overarching bilateral MOUs that their governments have signed with GOR and which provide the framework for all their aid. These MOUs stress the importance of enhancing accountability and effective and democratic governance. This adds a political dimension to policy dialogue and performance assessment which is not present in the case of the World Bank, and which is not spelled out in the case of the EC outside of the more general Cotonou agreement between ACP and EC.

B1.6 With regard to policy objectives, PGBS programmes are all aligned with the PRSP since it was approved in 2002. As noted in ¶A3.29, alignment in the case of the WB is through a detailed PRSC operation policy matrix, which is a sub-set of the PRSP policy matrix. This was itself developed in the course of reporting on the second year of implementation of the PRSP, simultaneously with the preparation of the PRSC-1 in 2004. The PRSC matrix outlines specific policy measures that have been agreed with GOR with a view to operationalising the PRSP, in a sub-set of the PRSP sectors and areas. Other PGBS programmes, while also aligning with government objectives in specific sectors (e.g. education for DFID and Sweden) refer to sector-specific processes, such as the Joint Education Sector Review (JESR), to convey their sectoral objectives.

Level and Nature of PGBS Funding

B1.7 Compared to its other inputs, PGBS funding is easy to identify. Chapter A3 indicates that PGBS started flowing in 2000 with the DFID PGBS programme 2000–03. Sweden and the EC followed and more recently the WB. Between 2000 and 2004 PGBS flows fluctuated both in volume and as a proportion of total ODA, as indicated in Table A3.2. PGBS funding is completely unearmarked. The UK's first programme and Sweden's programmes had education "windows" or "tranches", but there is no expectation that funds should be even notionally earmarked to the education sector. The funding is released as general support to the budget – but against education-specific performance (simply stated as "satisfactory Joint Education Sector Review and progress in implementing the Education Sector Support Programme").

B1.8 The PRSC approach may alter government perceptions of the nature of PGBS funding: once a sector is "covered" through the PRSC it is understood that generally it would no longer get (WB) project funding, except for specific and circumscribed actions; hence the sector is expected to be fully financed through the government budget. This approach has one correlated dimension: to be eligible for inclusion in the PRSC a sector must be "ready" in the sense that there ought to be a sector framework sufficiently developed for the PRSC matrix to align with it. The level of readiness required or the stage of development of the framework may vary from one sector to another: e.g. in education the ESSP had been in place for some time and the PRSC-1 focused on better linking the strategic plan and MTEF/budget. In agriculture, the WB supported the development of the sector strategic plan through policy dialogue in the context of the PRSC-1.

B1.9 The duration of PGBS agreements varies. It has been annual for Sweden but intending to move to two-year agreements in the near future. The WB is operating through a series of linked annual operations, while the EC and DFID have had three-year programmes. Similarly, tranching and disbursing arrangements vary. In principle, there is one tranche for the PRSC, one general and one education tranche annually for Sweden, one fixed and one variable

[4] A summary of the questionnaires can be found in Annex 3D.

tranche annually for the EC, with annual decision and quarterly disbursements for DFID. In the short period since PGBS inception, concerns about predictability have grown and PGBS programmes have aimed at addressing this issue better (see Chapter B3).

Policy Dialogue and Conditionality

B1.10 The bases for a harmonised government/PGBS IP dialogue are spelled out in the Partnership Framework. This highlights mutual commitments of the partners: budget transparency, implementation of conditionalities, improved political governance and the convening of quarterly meetings of the Budget Support Group, on GOR's side; greater predictability of PGBS disbursements, alignment with the budget cycle, conditionalities drawn from the PRS, synchronisation of missions with review processes, and keeping down the size of missions on IPs' side. The Framework also provides for a joint process of annual reviews and meetings of the BS group, which are now integrated within the broader "harmonised calendar" agreed early 2005 between GOR and all IPs (see ¶A3.21).

B1.11 The PGBS dialogue is organised around three axes: macroeconomic performance (followed up through the PRGF process); progress in implementation of GOR's poverty reduction strategy (followed up through the PRSP/APR process); and progress in PFM reforms (followed through regular reviews meant to take place in the course of the PGBS cycle). However, at a more detailed level, PGBS IPs continue to stress different parts of the overall performance framework, and conditionality frameworks also vary in how closely policy implementation is followed up. The UK and Sweden rely on an overall assessment of progress (with different degrees of tightness in linking PGBS disbursement to the country's macroeconomic "on-track" status). Explicit reference to their overarching MOUs adds the political dimension noted in ¶B1.5. The EC assesses progress along the three axes mentioned above for its fixed tranche. The disbursement of the variable tranche depends on GOR meeting targets for selected education, health and PFM result indicators. The WB is assessing performance in detail through reviewing the annual PRSC measures (see ¶B1.6), among which a number are selected (with GOR agreement) as triggers for disbursement. The matrix covers (though to a variable extent) all PRSP pillars.

Harmonisation and Alignment Inputs of PGBS

B1.12 Harmonisation and alignment are explicit PGBS objectives under the provisions of the Partnership Framework. Moreover, the management arrangements set up for PGBS fit within the broader aid management architecture described in ¶A3.20. Beyond the conceptual-level alignment of PGBS programmes with the PRSP, in practical terms, PGBS IPs have tended to rely on GOR's systems (e.g. budget reporting, APR) even though this meant that standards were not ideal. The EC has had special data requirements related to its variable tranche mechanism but EC representatives have generally drafted themselves a basis for GOR–EC discussion. A big step forward is the recent agreement on the harmonised calendar, which should bring further progress in aligning key cycles as noted in ¶A3.21.

PGBS TA and Capacity Building

B1.13 Improving government capacities and systems has always been a core objective of PGBS IPs, given the country-specific circumstances under which they adopted this aid modality (see Chapter A3). With the exception of Sweden (which is a smaller donor), before PGBS, PGBS IPs used to provide substantial TA and capacity-building support focused on strengthening government core functions and systems, and this has continued to be the case. However, it is often not included in, and not always explicitly linked to, PGBS operations. Moreover, TA similarly intended or generally relevant to PGBS objectives continues to be provided by non-PGBS IPs (e.g. USAID, GTZ and Netherlands support to decentralisation;

UNDP support to PRSP process and aid coordination functions; Belgian support to the strategic planning function in Minecofin; USAID in private sector development).

B1.14 Some of the institutional support operations of PGBS IPs are closely related to specific PGBS programmes (e.g. DFID TA for MTEF, multi-donor TA leading to FARAP). Other TA support operations have been provided in anticipation of synergy effects (e.g. DFID TA to assist developing the ESSP). The WB provides PGBS-associated technical support through PRSC-linked analytical work. The WB Decentralisation and Community Development Project and Public Sector Capacity-Building project, aimed at strengthening generic capacities at central and decentralised levels, are seen as indirectly supporting PGBS too. DFID's hands-off but valued assistance to the Public Sector Reform (PSR) should also be seen as an input related to PGBS even though the link is implicit.

Assessment against Evaluation Criteria

Relevance to the Context [5]

The extent to which the strengths and weaknesses of the financial, economic, social, political and institutional context are taken into account in the evolving PGBS design.		
Level: **	Trend: =	Confidence: ***

Political context

B1.15 The political context was taken into account by the bilateral PGBS IPs through the signature of MOUs (¶B1.5) providing for dialogue in case of political difficulties. However, in the 2004 DRC crisis (see ¶A3.31), these did not prevent unilateral (IPs') assessments that were, from government's perspective, not sufficiently evidence-based, and unduly influenced by domestic pressures in the IPs' countries. In the view of the evaluation team, this indicates that the specificity of the Rwandan situation may not have been assessed to its full extent in the PGBS design. First, while the MOUs introduce a political dimension in PGBS conditionality for the bilateral IPs, the PGBS decision-making framework does not provide for a clear and agreed "due process" which would ensure that, in line with the spirit of the MOUs, political issues are dealt with through dialogue in the first instance. Second, there are questions about the reasonableness of IPs' requests with regard to political governance, given the special situation of Rwanda (with regard to the national and regional situation; see Killick et al 2005). Third, the implications of bilateral IPs suspending PGBS for political reasons while other IPs continue to disburse (as happened at the end of 2004) have not been discussed. Fourth, bilateral IPs have not been clear on the extent to which PGBS-related decisions might also affect non-PGBS aid and in what circumstances. There has been limited progress in addressing these issues since the 2004 crisis.

Institutional context

B1.16 As noted in Chapter A3, institutional strengthening was a major motive for providing PGBS for some IPs. Furthermore, the institutional context was taken into account through the balance between PGBS funds and other inputs (see ¶B1.13). This combination of inputs, and especially the provision of institutional support together with financial assistance, is perceived as an important characteristic of PGBS by both government and IPs. In the words of the Secretary General (SG) of Minecofin in a face-to-face meeting with the evaluation team, "PGBS is about building better systems together, not waiting until these systems are in place to provide PGBS." Support provided to GOR's PSR programme contributes significantly to enhancing the

[5] The system of summary ratings, provided in the shaded boxes alongside each evaluation sub-question, is explained in Annex 1A.

relevance of PGBS. The PSR and PGBS share the same objective of enhancing service delivery. The PSR is aimed at carrying out the transformation of the whole administration which is necessary for PGBS to deploy its anticipated effects fully, especially in relation to government systems, institutions and incentives.

B1.17 An emerging issue is the relevance of PGBS with regard to decentralisation, considering GOR's vision of local government (LG) authorities playing an increasingly important role in basic service delivery.

Social and economic contexts

B1.18 The social and economic contexts were taken into account in a way which, with hindsight, may well have been unbalanced. Even though both these contexts were difficult (see indicators on poverty in Annex 2C), the focus of PGBS operations thus far has primarily been on the social sector side. This reflects the fact that generally social sectors were more developed among the PRSP pillars (see section on poverty dimensions below). This is set to change in the future, as GOR and IPs agree that the balance needs to be rectified (e.g. DPM in December 2004 and BS review in March 2005). The next PRSP update is expected to reflect GOR's intention to balance its attention better between social and economic issues, and PGBS operations will have to respond to this intention. The PRSC design has already adopted a broader approach to the socio-economic context. Although this is not yet the case in other PGBS programmes, PGBS IPs have been willing to provide multi-donor-financed support to policy and strategic developments in growth-related areas.

Financial context

B1.19 The financial context is also not fully addressed. With the exception of the UK (committing a minimum volume of "flexible assistance" over 10 years), the PGBS design as a whole and other PGBS programmes do not commit IPs for the long term. The combination of Rwanda's heavy reliance on aid and its vulnerability to "political aid" in an uncertain regional and national context makes the necessity of a long-term commitment all the more important and at the same time more difficult.

B1.20 A second point in relation to the financial context concerns the predictability of PGBS releases within-year (or the lack thereof). This issue is particularly acute in Rwanda, given the magnitude of the PGBS funding in relation to both the recurrent budget and the volume of money in circulation in the wider economy. Late disbursements of PGBS not only disrupt government cash flow plans but, given the small size of the financial market, have immediate monetary and potential economic implications (see Chapter B6). The larger the volume of PGBS, the larger these effects in case of disturbances in the release schedule. Government and PGBS IPs are well aware of the need to address this issue, but there is still some way to go before this is done in a fully coordinated manner.

Dialogue, Conditionality and Ownership

The extent to which PGBS policy dialogue and conditionalities are consistent with high levels of ownership by government and sensitivity to country constraints.		
Level: **	Trend: =	Confidence: ***

B1.21 GOR officials generally value PGBS with regard to its empowerment effect. However, this was not stressed as a "new" characteristic of PGBS compared to previous forms of programme aid. The specific Rwandan situation may have meant that there was already a lot of dialogue to put in place pre-PGBS operations that were a mix of "standard" structural

adjustment programmes and reconstruction programmes (see inventory in Annex 3B). One difference is that this earlier dialogue was not conducted jointly by IPs.

B1.22 The "value added" of the PGBS dialogue has not been immediately tangible: in its early stage it failed to support GOR effectively in convincing the IMF about higher spending objectives, although this was supported by some of the PGBS IPs. Since then things seem to have evolved: GOR's ownership of the PRGF appears to be high, presumably enabled by the fact that Minecofin has access to robust and relevant internal advice on macroeconomic issues. Generally there appears to have been, of late, more room for negotiation and flexibility in the PRGF dialogue (e.g. energy incorporated as a new priority programme in the course of last year, IMF accommodating a larger fiscal deficit for 2005 provided BS releases materialise). GOR officials have often stressed that the PRGF had to be the "anchor" for the PRSP and PGBS. Hence, the extent to which IPs may delink their GBS support from the PRGF IMF-led conditionality does not appear to be a factor of prime concern for GOR.

B1.23 At a technical level, the WB's prior action and the EC's results-oriented variable tranche approaches appear to be more intrusive than the "broad performance assessment" approach of the UK and Sweden. Government sensitivity to "policy interference" may make the latter more appealing. However, there are trade-offs in terms of clarity in the definition of performance, which is greater with the more specific WB/EC approach. As both approaches are quite new in Rwanda it is difficult to draw conclusions about their respective relevance in the country context. But these differences are less important for GOR than the main difference between IPs who use political conditionality (UK and Sweden) and those who do not. With regard to political conditionality GOR officials clearly state that the "carrot and stick" approach will not work, especially when it comes to issues that GOR deems non-negotiable, such as internal and external national security.

B1.24 Overall, there is still a perception on government's side that the partnership is not equal when it comes to decision-making on PGBS disbursements. In several instances government stakeholders stressed the need to strengthen mutual GOR–IP accountability in the PGBS design, i.e. government accountability for the use of resources and for results, and IP accountability for transparency in decision-making.

Poverty Orientation

The extent to which the PGBS design reflects objectives and strategies related to all the dimensions of poverty reduction.		
Level: **	Trend: +	Confidence: ***

B1.25 The PRSP reflects GOR's awareness of the importance of addressing all dimensions of poverty reduction together. It is balanced and comprehensive, with priorities covering agriculture, human resource development and good governance. PGBS therefore addresses all the dimensions of poverty reduction to the extent that all PGBS programmes refer to satisfactory progress in implementing the PRSP as a whole. However, a number of sector strategies were still largely to be defined when the PRSP was endorsed by the BWIs. As noted by the Joint Staff Assessment (World Bank 2002a):

> While the broad thrust of the strategy is clear and sectoral strategies are well articulated in some areas, for instance education, HIV/AIDs, technology and health, in some sectors – transportation, rural development, private sector, financial sector, institutional capacity building, the way forward is less clear. The PRSP recognises this gap and has proposed a program for elaborating sector strategies.

B1.26 As a result, until recently at the sectoral level, attention focused mostly on the social side and the non-income/access to service delivery dimension of poverty. This has been because of: (i) the way the MDGs are couched; (ii) the fact that to some extent social sector strategies were easier to formulate and the social sectors appear to have received more TA in the first years following the adoption of the PRSP-1; (iii) the fact that the HIPC framework already emphasised the social sectors.

B1.27 As a corollary to the above, the income dimension of poverty reduction has not received much attention in the PGBS dialogue. In contrast, several IPs providing exclusively project assistance (USAID most notably) have done a lot of work on income-related poverty reduction strategies. This pattern is now changing. However, except for the WB it is not yet clear how this may be reflected practically in the PGBS IPs' portfolio or in the next PGBS programme generation.

B1.28 With regard to the empowerment/inclusion dimension, the PGBS design builds on established broader frameworks (e.g. democratic governance and human rights provisions in the MOUs of bilateral IPs; the WB and IMF Boards' emphasis on PRSP participatory processes). The PGBS design also follows on the HIPC initiative in this regard, e.g. in HIPC triggers related to empowering communities in health and education services. Specific empowerment measures, such as Citizens' Report Cards (CRCs), are included in the PRSC in line with the aim of helping "see that all planned reforms take into account stronger empowerment of Rwandan citizens" (World Bank 2004d).

B1.29 Overall, PGBS is therefore moderately comprehensive with regard to the dimensions of poverty reduction. This has been expanding over time, hence the trend is positive.

Coherence and Consistency of the Design

Coherence and consistency of the PGBS design, taking into account the extent to which the different partners (various IPs and Government) show differences in expectations and approaches related to PGBS or some of its components.		
Level: **	Trend: =	Confidence: ***

B1.30 All PGBS IPs agree on a set of common principles (laid out in the Partnership Framework). They all share with GOR the view that PGBS is not about funding only, but that it includes dialogue and institutional support in the context of a long-term relationship. This provides the foundation for IPs' commitment to strengthening coherence and consistency in PGBS design. The agreement on a cycle of joint reviews (embracing WB PRSC pre-appraisal and appraisal missions), aligned in the harmonised calendar, indicates that progress is being made. However, there has been less progress in developing a coherent conditionality framework (content and approach). The PRSC has introduced an approach to PGBS-related performance assessment that differs from both the EC and the bilateral PGBS IPs. Overall, as indicated in the SPA 2004 survey, all PGBS IPs continue to rely on a mix of macro, PFM and sector-specific dialogue and/or conditionality, but the mixes and specific wordings are still donor-specific (see Annex 3D). This makes for a mixed overall trend with regard to consistency and coherence of the PGBS design.

Response to Previous Weaknesses in Aid Management

The extent to which the PGBS design responds to analyses of previous weaknesses in aid management systems and processes.		
Level: ***	Trend: +	Confidence: ***

B1.31 PGBS in Rwanda is clearly seen as a response to previous weaknesses in aid management systems and processes. In particular, in an environment where systems were being rebuilt and capacities were in short supply, it was introduced as an instrument that had the potential to reduce dramatically the transaction costs and disadvantages associated with projects (see ¶A3.22). All stakeholders. including sector ministries, provinces and districts, highlighted the long delays in project preparation, the unpredictability, the lack of transparency and poor information on project activities, leading to weak sustainability of project results. Also mentioned were difficulties in implementing IPs' rules, hence low aid absorption, and costly overheads due to the establishment of project implementation/management units (PIUs/PMUs) and their effect in undermining local capacity and distorting accountability. Fragmentation, lack of coordination and duplication associated with projects are seen as leading to imbalances in addressing government priorities.

B1.32 This analysis is strongly endorsed by PGBS IPs who have shifted an increasing part of their portfolio away from project aid (see Annex 3A, Table 3A.5). Non-PGBS IPs generally agree with this analysis too and recognise attractive features in PGBS (e.g. in terms of better fit with government accountability lines), which is influencing several of them to think about better harmonised sector/area-specific aid modalities (see ¶A3.13).

Principal Causality Chains

B1.33 This chapter has been concerned with the relevance of the PGBS design (fit between Level 0 and Level 1) as a prelude to consideration of specific causality chains in the chapters which follow. From the analysis, and bearing in mind the challenges noted in ¶B1.2, it is concluded that the PGBS design has been moderately to strongly relevant to the country context, with weaknesses in addressing political and financial aspects. Conditionality (content and process) is perceived by GOR as being not entirely consistent with the partnership paradigm. It is also the weakest area in terms of internal consistency of PGBS. PGBS responds to perceived weaknesses in project aid. The PGBS design is as comprehensive as the PRSP itself: from its initial exclusive focus on the social sectors, it is in the process of expanding to embrace growth-related areas.

Counterfactual

B1.34 PGBS relevance may also be assessed through using counterfactuals. One is the continuation of structural-adjustment-type programme aid. In comparison, PGBS's strong added value is that it provides government better with the means of owning its policies, through the mix of PGBS inputs outlined above and, in particular, through appropriate capacity-building measures. Project aid – another counterfactual – is seen as incapable of channelling the volume of funding required to support the PRSP effectively. A third counterfactual is whether "more of the same" PGBS would make it more relevant, as it would stand more firmly against "countervailing" effects from other aid modalities (e.g. weakening intra-government incentives while PGBS is supposed to strengthen them). This is a question of critical mass to which we return later in this Report. The fact that some PGBS IPs are now considering the use of specific sectoral funding instruments (see ¶A3.13) may signal a doubt, on their side, about the relevance of PGBS in reaping some of the benefits anticipated from more effective aid modalities.

B2. The Effects of Partnership GBS on Harmonisation and Alignment

Has PGBS contributed to greater harmonisation and alignment of the aid process?

Introduction

B2.1 The principal causal link which is tested here is whether harmonisation and alignment (H&A) as one of the inputs of PGBS (1.5)[6] has an effect of greater harmonisation and alignment of aid in general (2.6). The analysis distinguishes between harmonisation (among IPs) and alignment (of IPs with government) and acknowledges the difference between alignment on policies and alignment on systems. This chapter is concerned with whether H&A is taking place, and whether and how PGBS contributes to this. The presumption that H&A, if implemented, will make aid more effective is addressed through following up the relevant links at higher levels in the EEF, in the subsequent chapters.

B2.2 The effects of PGBS on H&A of aid in Rwanda are not easy to discern for two reasons. First, PGBS is relatively new, so some effects are still at the early stages. Secondly, H&A may be considered as a somewhat expanded and more ambitious version of the "old" aid coordination agenda. In Rwanda today this is a continuation of earlier efforts by the government to coordinate aid as one element in its broader struggle for control of the resources that would allow it to put the country back on its feet.

B2.3 A fundamental issue, noted in Chapter A3 and Chapter B1, and which impinges on H&A, is the political nature of aid in Rwanda. It acts as a divisive factor among bilateral IPs, making genuine harmonisation more difficult as the IPs are deeply divided on fundamentals such as the "real intent" of government. This also complicates harmonisation between bilateral IPs and "non-political" IPs such as the WB; while this is a general issue it has more pronounced effects in countries such as Rwanda in which the political environment is unsettled.

Relevant Facts

B2.4 As noted in Chapter A3, the immediate post-genocide period saw a large inflow of humanitarian aid with little coordination in an extremely difficult environment. Between 1995 and 1999 aid coordination was partly the responsibility of UNDP. But this period also saw government progressively taking the lead: the Round Tables of 1995 and 1996, organised abroad and focusing on resource mobilisation, were replaced by conferences organised by the government to present its reconstruction and development agenda (e.g. in June 1998). In 2001 the leadership passed to government with regard to aid coordination around the PRSP. Since then, high-level government–donor dialogue events have been held in Kigali. Rwanda is a harmonisation pilot country for the SPA, and SPA missions in 2002 were instrumental in supporting GOR in asserting its leadership, especially with regard to PGBS.

B2.5 Within this continuum, the last five years have seen a strong focusing of GOR–IP dialogue on the government's poverty reduction policy framework. This happened as an effect of several factors, including:

- At the top level, a core team in government taking the lead on establishing the framework for national development (Vision 2020 and the PRSP);

[6] Numerical references refer to the causality map in Figure A1.1.

- Government taking the lead in creating and co-chairing key joint aid management institutions with a permanent existence: the Development Partners Coordination Group (DPCG) and its offshoots, presented in Chapter A3 and including one specific group on budget support harmonisation (BSHG). The whole architecture appears to have taken off during 2004, including the sector/area-specific clusters that had been dormant in many cases before this;
- The joint (GOR–IP) development of PFM systems and processes which bring public sector programmes in line with government goals on poverty, macroeconomic stability and private sector development (PRSP/MTEF links).

B2.6 At a sectoral level, SWAps or looser coordination arrangements of IPs around a sector/area/institution have been instrumental in aligning IPs' activities better with government objectives. However, thus far this has been uneven across sectors, with greater alignment in areas that are better defined institutionally and where a strategic plan is in existence. This has itself, usually, been facilitated through a more coordinated approach in the early stages of policy development in the sector, and especially in the provision of sector TA and the organisation of quality sector dialogue (e.g. in education, health and decentralisation). Clusters are seen as the vehicles for further building on early progress in those sectors, and emulating it in other sectors.

B2.7 Generally, overall and sectoral alignment and harmonisation of aid, and of PGBS as an element of it, are constrained by weaknesses in the government's own alignment mechanisms, e.g. weaknesses in links between PRSP, sector strategic plans, MTEFs, annual budgets and M&E; divergence between "aspiration-driven" and "PRGF-driven" macroeconomic projections. The PRSP APR process itself needs to be further strengthened to enable GOR and the IPs to assess effectively how far aid is aligned with GOR objectives.

Assessment against Evaluation Criteria

Policy Alignment

The extent to which PGBS has contributed to increased IP alignment with government policies at national and sectoral levels through: (a) aligning aid objectives and conditions with government objectives and targets			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: **	Confidence: ***

B2.8 Today, most aid provided to Rwanda is aligned in principle behind the PRSP, which has been largely accepted as GOR's federating framework. The major driving factor behind alignment was government leadership, as noted in ¶B2.5, supported by all IPs. Pre-PGBS aid was also key in facilitating today's alignment of aid, as more meaningful policy dialogue around the PRSP became possible because basic public service structures and institutions had been rebuilt in the pre-PGBS period. At sector level, alignment is uneven, as noted in ¶B2.6, and even in successful or easier cases there are limits to how far intentions have been translated into reality; for instance, the practice falls short of principle even in education (Foster et al 2005). In relatively successful cases, crucial factors were the leadership of the relevant government agency and/or the early support of a lead donor in organising other IPs. Generally, the trend is positive, toward increased alignment as more sectors are developing better-articulated sector strategic plans, e.g. for health and agriculture in mid/late 2004, following education in 2003.

B2.9 By its nature and design, PGBS contributes to aligning PGBS programme objectives and targets with broad government (PRSP-level) objectives and targets, as indicated in and through

the Partnership Framework (¶B1.4). However even there this alignment is not perfect because, on the whole, PGBS conditionality still reflects a mixture of donor and government strategic priorities. As shown in the inventory in Annex 3B, technical conditions (on PFM, macro and sector developments) are derived from the PRSP and other government documents (including the PRGF). But there is less agreement between government and bilateral IPs on priorities and the pace of reforms with regard to political governance. Moreover, as noted in Chapter B1, PGBS IPs vary in the extent to which conditionality is detailed (policy intrusive). GOR and IPs are currently assessing the relevance and desirability of a joint Performance Assessment Framework, but not all PGBS IPs are convinced of the relevance of this mechanism.

B2.10 PGBS was efficient in supporting the overall alignment process through inscribing itself neatly within the overall aid management architecture (BSHG reporting to DPCG, ¶B2.5). An emulation effect can also be discerned, with non-PGBS IPs keen to do as well as the perceived achievements of the PGBS group through the Partnership Framework. One more way PGBS is contributing to the overall aid alignment process is through its effect on and support to strengthening government PFM reforms thereby contributing to enhancing the internal alignment mechanisms mentioned in ¶B2.7 above.

B2.11 In summary, PGBS has been only one among several other strong factors in the move toward increased alignment. Hence it is rated as having moderately contributed to it. It has been quite efficient in this contribution considering that only four IPs were providing PGBS during the study period. However, it could have been even more efficient in some respects as highlighted above. It is therefore also rated as having been moderately efficient.

Government Leadership

(b) increasingly relying on government aid coordination, analytic work, TA management			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B2.12 Improved aid management mechanisms (DPCG and the cluster architecture) have been put in place jointly by government and all IPs under government leadership, simultaneously with the emergence of PGBS in the aid landscape in Rwanda. Generally, IPs intend to rely on these mechanisms, but the practice is uneven across sectors: there are only a few cases in which the role of clusters in aid coordination goes beyond information sharing. The trend has been positive.

B2.13 Government leadership is less firmly established with regard to TA management and analytical work, though this is improving too. Coordination of TA provision and of analytical work among several IPs is more frequent. It is often in the hands of the relevant government agencies, although most analytical work is still undertaken by IPs. The FARAP provides a successful example of coordination of IPs' support to PFM, behind a fully owned GOR PFM reform strategy developed through increasingly joint diagnostic processes. Plans are under way to build on this success: Minecofin is currently developing a strategic plan with an accompanying capacity-building plan as an umbrella for IP support. In other sectors too there are advanced plans for similar developments, e.g. annual capacity-building plans supporting the implementation of the ESSP in education and coordinated capacity-building mechanism in the Decentralisation Implementation Programme of the Ministry of Local Government (Minaloc). There have also been several jointly financed analytical pieces of work on decentralisation. IPs' coordinated support to the DTIS is another example of good practices that have the potential to strengthen GOR ownership of institutional strengthening processes and therefore its ability to coordinate TA and advisory work.

B2.14 PGBS thus contributes to strengthening government leadership of aid coordination mechanisms quite strongly and in various ways. But the overall effect of PGBS is less strong with regard to TA management and analytical work: the small number of PGBS IPs is again a limiting factor. However, through demonstration effects, especially of what is happening around the PFM reform programme, and considering its "limited" size and scope, PGBS is quite efficient in strengthening government leadership in aid management generally.

Alignment with Government Systems

Government planning and budget cycles

The extent to which PGBS has contributed to increased IP alignment with government systems at national and sectoral levels through: (a) aligning fund commitment and disbursement with government planning and budget cycles			
General Situation:	Level: *	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: **	Confidence: ***

B2.15 Overall, fund commitment and disbursement is weakly aligned with government planning and budget cycles. Even for PGBS funding itself, thus far the practice has not lived up to intentions and principles. PGBS programmes do not match the rolling MTEF cycle of GOR. Except for DFID, arrangements aimed at aligning PGBS commitments and disbursements with GOR MTEF and budget cycles have been quite weak and/or unrealistic. Moreover, within-year unpredictability of BS releases has been a recurrent feature of the years 2003 and 2004. On the whole, project financing, planning and programming is hardly related to government MTEF and budget cycles. The harmonised calendar stresses the importance of sector reviews, but these are generally weak in sector financing analysis and monitoring. Also, the cycles of projects have been totally unrelated to sector reviews thus far. It is also not yet clear how sector and BS joint reviews will be articulated with each other.

B2.16 However, the trend has been improving in several ways. First, PGBS IPs are committed to addressing these issues in their new programmes: Sweden, for example, is moving toward two-year agreements. Second, in some sectors non-PGBS IPs, too, appear increasingly willing to align tangibly with government systemscycles. For example, in education, GOR and IPs are currently examining how to use the well-established JESR to align project funding with government MTEF and budget cycles. Third, a number of non-PGBS IPs are considering joining in a sector budget support operation which could further facilitate the timewise alignment of aid funding. This could also happen in health, where there are plans for developing basket funding modalities (see ¶A3.13). Sector and cross-cutting review, planning and budgeting processes have also been better articulated in the course of the preparation of the second APR of the PRSP. However, these improvements are still more at the level of good intentions and plans than at that of actual results.

B2.17 With regard to the PGBS effect, it is partly the PGBS-related SPA activity which stressed the importance of aligning aid and government cycles in general. Aligning PGBS funding is also an explicit intention of PGBS programmes in Rwanda (see Partnership Framework). However, even though the volume of PGBS funding is significant relative to the total of ODA (see Table A3.2), actual effects were limited in practice, as noted above. Thus far, PGBS has also had little effect on the alignment of other aid modalities with government cycles, although it is presumably PGBS which has stimulated IPs' interest in sector budget support/basket funding modalities, stemming from a perception that providing "flexible" assistance gives them a seat at the policy table. Moreover, by working through government systems, PGBS has helped make them better understood, thereby enhancing non-PGBS IPs' confidence in at least some aspects of those

systems (see Chapter B4). There are signs that the PRSC/PGBS performance assessment process could contribute in the future to strengthening the articulation of sector and cross-cutting processes in an increasingly large number of sectors.

Government implementation systems

(b) increasingly relying on government cash management, procurement, implementation, monitoring, reporting and auditing.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: ***	Efficiency: ***	Confidence: ***

B2.18 PGBS is unearmarked and is channelled directly by donors to GOR using its own allocation, procurement and accounting systems. This has enhanced the use of government implementation systems and increased the amount of aid that is subject to these systems. Other aid instruments make little use of government cash management, procurement, implementation, monitoring, reporting and auditing processes and systems, even though, as noted in Chapter B1, IPs are generally convinced that parallel systems are undesirable.

B2.19 The general level of reliance is therefore moderate, with PGBS having a strong effect because PGBS funding is significant in the total of ODA provided to Rwanda. PGBS is highly efficient in this respect: all PGBS, by definition, relies on government systems, and there are signs that it has a demonstration effect on other modalities too.

Harmonisation among IPs and Modalities

The extent to which PGBS has contributed to improving overall coordination and complementarities of IPs' programmes.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B2.20 The overall coordination and complementarities of IPs' programmes is good though not outstanding, but has been getting better. This trend looks poised to continue upward, as a result of increased attention to coordination internationally and, in Rwanda a gradual but steady strengthening of the PRSP process and of Minecofin's capacity to discuss issues of aid effectiveness with IPs, such as the ongoing development of an Aid Policy Document. The cluster arrangement aims at using IPs' comparative advantages through giving the lead to a "strong donor" in each sector. Good coordination and complementarity practices such as sharing key personnel among donor agencies, seconding personnel paid by one donor agency to another, and silent partnerships among donor agencies, are increasingly frequent and will help overcome part of the capacity issues on the donor side. DFID and the Netherlands Embassy share an economist, DFID has seconded a rural development specialist to the WB country office, and Sida is a silent partner of DFID in supporting the education sector.

B2.21 PGBS has had a moderate effect on the level of harmonisation, sharing its influence with other factors noted above. For instance, good coordination and complementarity practices do not appear to be directly stemming from PGBS, although it is noteworthy that the IPs involved are mostly the PGBS IPs and like-minded ones. PGBS has been instrumental in enhancing coordination between bilateral IPs, the EC, and the IFIs around PGBS. It may have contributed to WB, EC and DFID contemplating developing their next country strategy jointly, though this is also part of DFID's standard policy of working with the WB. An outstanding challenge is that, owing to severe constraints on the country office's authority and staffing, the WB is heavily

dependent on missions from Washington for all key decisions on country operations. This is perceived by IPs in general as a factor severely limiting the extent to which the WB is able to coordinate with other IPs.

The extent to which there have been specific complementarities between PGBS and other forms of aid.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: ***	Efficiency: **	Confidence: **

B2.22 The aid landscape in Rwanda is characterised by a large number of IPs but a limited range of forms of aid, with little in between projects, TA and PGBS. Most stakeholders would cite education as the only incipient example of a SWAp. Hence, complementarity between forms of aid has been less of an issue than that between IPs' programmes (see previous criterion). Given this relative simplicity, glaring dissonance between forms of aid has been avoided. The potential for complementarities is increasing through stronger coordination arrangements in a number of sectors, which should provide frameworks for the development of alternative aid modalities (e.g. education, health) and the multiplication of joint funding mechanisms (e.g. for TA) . The Aid Policy framework under development is also expected to address issues of complementarity between forms of aid. The clusters have the potential for actively and explicitly seeking complementarity between forms of aid, though they are unevenly active in doing so.

B2.23 In this landscape, PGBS has had a quite strong effect on complementarity with other aid modalities and has been moderately efficient in doing so. Complementarity is an objective for each IP internally: for instance, WB projects support investments either in non-PRSC sectors or to complement PRSC policy dialogue; DFID supports Minecofin through projects and TA as a complement to PGBS. At the overall aid level there are a number of cases of good complementarity.

B2.24 There appears to be a strong complementarity between PGBS and project aid for capital investment. Project aid provides government with funding for investment/ development (the development budget is 80% project-financed), including expansion of services for which PGBS helps in meeting the recurrent costs. Potential complementarities between PGBS and SWAps are not yet fully exploited (see ¶C4.7 and ¶D1.7).

Principal Causality Chains

B2.25 The principal causality chain is from (1.5) to (2.6), where H&A is an input in the PGBS package, resulting in IPs moving towards H&A around national goals and systems. There appears to have been steady progress at the conceptual level of government goals and objectives – alignment is good at the overall PRSP level, but is uneven across sectors and there appears to have been less progress on harmonisation. There has not been so much progress, even for PGBS programmes, at more practical levels such as alignment with the government budget cycle. Aid coordination, including for TA, is also improving, but thus far there has been little tangible progress in non-PGBS aid use of GOR's systems.

B2.26 In the evolution of H&A of aid, PGBS has not been the driving factor, but it has played an actively supportive role and this role appears set to increase in future. In summary, the alignment effect of PGBS funding has been strong because of the PGBS funding volume, except with regard to alignment with government cycle which is weak. Other effects have been less pronounced because of the relatively small size of the PGBS non-funding inputs in the overall aid landscape in Rwanda. But these have, in general, effectively and efficiently

reinforced the influence of other factors toward harmonisation and alignment such as the general effect of the PRSP process.

Counterfactual

B2.27 The most relevant question here is whether H&A would have advanced as far and as fast without the direct and indirect effects attributable to PGBS. The answer is “no”, as the distinct contribution of PGBS to H&A is that in itself it is the best-aligned modality, supporting government in implementing the whole of the PRSP through the budget. Moreover, it unites IPs around one design (or at least an awareness of the desirability of increased harmonisation in terms of design). Finally it has demonstration effects in several ways. Programme aid could not achieve this in the same way, as it was less clearly government-led, so there was more scope for discussion just among IPs and divergences of views with no “overall arbiter”. Projects alone could not achieve the same result either because of the more fragmented nature of project support, making it more difficult for all stakeholders to visualise and agree on a common overall goal. Project aid is also lending itself less well to complementarities and synergies as it is usually less flexible.

B3. The Effects of Partnership GBS on Performance of Public Expenditures

How efficient, effective and sustainable has been the contribution of PGBS to the performance of public expenditures?

Introduction

B3.1 This chapter relates to causality chains through Levels 1 to 2 (immediate effects) to 3 (outputs) of the EEF. Two sets of links are distinguished. One set starts with PGBS funding and policy dialogue and follows effects through government empowerment to increased allocative and operational efficiency. The second set moves from PGBS policy dialogue, TA and capacity building to more resources for service delivery. More specifically, the two streams of effects to be investigated are as follows:

i) Whether an increase in proportion of funds subject to the budget (2.2) and an increase in the predictability of external funds provided to the budget (2.3) leads to the partner government being empowered to strengthen systems (3.2) thereby increasing allocative and operational efficiency of PFM (3.5/3.6).

ii) The extent to which PGBS policy dialogue, conditionality and TA/capacity building focused on key public policy issues and priorities (2.4/2.5) results in increased resources for service delivery (3.1).

Relevant Facts

B3.2 The profile of GBS and PGBS funding is summarised at Table A3.2, with further details provided at Annex 3A, Table 3A.4. PGBS increased from USD 13.7m in 2000 to USD 32.5m in 2002, to USD 34.2m in 2003 and to USD 129.7m in 2004. The extraordinary circumstances surrounding the 2004 increase are discussed below at ¶B3.20. PGBS has been in the range of 9–12% of total ODA during 2001–03, while broader GBS increased its share of total aid funding from 17% in 2000 to 29% in 2002, declined to 17% in 2003, but increased its share greatly in 2004.

B3.3 PGBS IPs believe that PGBS has led to significant additionality of aid. Both bilateral and multilateral donors are convinced that with the limited staffing levels available, large amounts of funding could not have been disbursed through other mechanisms. On the other hand, GOR informants perceive a degree of substitution as IPs transfer project financing into PGBS. To some extent, the answer depends on whether this is about funding commitment or disbursement. Where project disbursements are low (compared with commitments), as has been the case historically, then PGBS is more likely to be additional in disbursement terms, even if overall commitments would not have been increased.

B3.4 The data in Table B3.1 show the significance of GBS and PGBS in the context of government revenues and expenditures between 2002 and 2004. The share of (broad definition) GBS in government current expenditures has been in the range of 15-40%, while PGBS has varied between 9% and 27%. GBS and PGBS shares were high in 2004 partly because of disbursements deferred from 2003.

Table B3.1: Revenues, Expenditures and PGBS

(in RWF billion)

	2002	2003	2004
Revenues and grants	160.3	195.5	272.6
of which: tax revenue	94.6	114.6	134.7
Total expenditure and net lending	174.6	216.0	274.9
Current expenditures	122.4	160.9	168.1
of which: priority	50.4	59.1	73.7
Capital	40.7	51.1	89.5
GBS	51.4 (29%)	32.3 (15%)	106.9 (40%)
PGBS	15.5 (9%)	20.7 (10%)	72.9 (27%)
Annual inflation	2.1	7.5	12.0

Source: IMF 4th PRGF Review, 25 March 2005, for revenues and expenditures; evaluation estimates for PGBS at Annex 3A.

Note: PGBS percentage figures in brackets indicate PGBS in relation to total expenditure and net lending.

B3.5 Table B3.1 also includes priority expenditures as part of the government budget. Box B3.1 explains the concept of "priority expenditures" in Rwanda and highlights some of the difficulties in this area, especially in relation to understanding the pro-poor orientation of the government budget.

B3.6 Reporting on "priority expenditures" in the GOR budget is part of the PGBS dialogue (e.g. March 2005 joint BS review). A number of GBS conditionalities have been set out through EC variable tranches, which are directly related to the allocation of expenditures and budget execution in the social sectors. The WB PRSC also focuses on adequate financing of education and health through the link between annual budgets, sector MTEFs and a long-term financing perspective which it helps the government to develop. Table B3.2 indicates the share of recurrent priority expenditure out of government's total recurrent budget for the period 2002–05, comparing actual expenditures to allocations. This is based on a slightly different data set at Annex 2B, Table 2B.4.

B3.7 The data in Tables B3.1 and B3.2 show a steady increase in the share of priority spending. However, illustrating some of the difficulties highlighted in Box B3.1, the increase in 2004 is affected by the purchase of electricity generators, which accounts for more than half of the increase in priority spending in that year. The IMF Fourth Review (IMF 2005) explains:

> While the PRSP had identified electricity as a priority sector, the definition of priority spending in 2004 had excluded spending in this sector. The definition of priority spending in 2005 has been revised to include such spending in line with our development priorities that call for major investment in power generation to overcome the current electricity crisis and provide a basis for strong output growth in Rwanda.

Table B3.2: Priority Spending Trends

	2002 Budget	2002 Actual	2003 Budget	2003 Actual	2004 Budget	2004 Actual	2005 Budget
Priority recurrent as % of all recurrent	37%	43%	39%	40%	42%	49%	52%

Source: Annex 2B, Table 2B.4.

Box B3.1 Definition and Tracking of Pro-Poor Expenditure in Rwanda

The term "pro-poor expenditure" is not used in Rwanda. The focus has been on "priority programmes" and "priority areas", which have been favoured in allocations and protected from cuts.

GOR began to prioritise the budget in 1998, targeting social sectors (health and education) and exceptional programmes as "priority programme areas" (PPAs) in the budget process. Exceptional programmes were meant to ensure that "transitional" activities dealing with immediate consequences of the genocide would be financed in the budget. They included the demobilisation and reintegration of soldiers and ex-combatants, assistance to the victims of genocide, transitional governance institutions, and the retrenchment/reintegration of civil servants. The share of the PPAs in the recurrent budget rose from 22% in 1997 to 29% in 1999, excluding 1.6% and 9.1% shares of exceptional social expenditures.

The HIPC Decision Point document (2000) linked budget savings from the enhanced HIPC Initiative (equivalent to 1.5% of GDP in 2001 and 2002) to increased budget allocations to the PPAs selected on the basis of high impact on social rehabilitation and poverty reduction. With the introduction of the MTEF and the PRSP, government refined the expenditure prioritisation introduced in 1998 to reflect the emphasis on poverty reduction, human resources development, justice and governance. The provisional list of PPAs in the I-PRSP continued to reflect post-genocide requirements and included education, health, HIV/AIDS prevention and gender equality, as well as key economic services in agriculture and rural infrastructure, and administrative services such as justice and law enforcement. At this stage, the evolving list of PPAs were no longer exclusively from social sectors, and not all social sector programmes were PPAs. However, 84% of the budget estimates for PPAs in 2001 were for social sector programmes.

In the PRSP (2002) the PPAs were in effect replaced by six "priority areas": rural development and agricultural transformation, human development, economic infrastructure, governance, private sector development, and institutional capacity building. Within these, specific priorities were to be identified and action plans to be developed. The sector strategy and MTEF processes would be the main tools for identifying specific priorities, action plans and programmes and integrating them into the MTEF.

The PRSP provided a set of criteria for prioritisation of expenditure for poverty reduction (see section 5.3.1, ¶282 and Annex 5 of the PRSP). These focus on expenditures which:

- Contribute directly or indirectly to the reduction of poverty, targeted at those activities which the private sector cannot realistically be expected to undertake;
- Target those activities with high socio-economic impact (e.g. rates of return);
- Target activities that communities have identified as important to them;
- Are directed to well-planned activities with realistic and modest unit costs;
- Prioritise support to policy development and planning in the sector, where the previous two criteria are not met but the activity meets the other criteria;
- Reduce future recurrent costs, e.g. bed-nets, non-wage funds (books, materials and teacher training) to schools, road maintenance and water supply;
- Target those activities which can affordably be extended to the whole relevant target population;
- Target activities which are labour-intensive and create necessary infrastructure for development;
- Target activities which favour disadvantaged groups.

However, there was no explicit application of the criteria to the set of priority programmes identified in Annex 6 of the PRSP.

The HIPC Review of 2004 refers to the "priority programmes" and "priority areas" of the PRSP. Its reference to "priority expenditure" is relegated to an Appendix and reflects the PRSP priority programmes. These are the priority programmes that are reviewed in Annex 2B, Table 2B.4, and are the basis for the analysis of PGBS effects in this chapter. The list of "priority expenditure" in the GOR budget has expanded from 2002 to 2004 to include emerging priorities such as energy spending and spending on export promotion. Priority spending can be recurrent or capital in nature, and this is reflected in government documentation. However, the bulk of the allocations continue to go to the initial broadly defined priorities. It is noteworthy that the whole of the education and health sectors are defined as priority expenditures, including tertiary education and health care.

PPAs are tracked by government as part of the regular budget reporting process through SIBET, and this information is then used as an input the PRGF review process, and in the joint budget support review process.

Assessment against Evaluation Criteria

Influence on Expenditure Allocation

The influence of PGBS funds on the levels and shares of pro-poor expenditures.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B3.8 Since there is no satisfactory definition of pro-poor expenditure in Rwanda**,** and we don't know how pro-poor the PPAs actually are, the level of confidence in relation to this criterion is low. For this reason also, the assessment against this criterion focuses on the "priority expenditures" in the government budget.

B3.9 Allocations to PRSP priority areas have increased in the last three years by more than 0.1% of GDP per year, as agreed under the PRGF. Recurrent spending on priority sectors as a share of total recurrent (less debt, interest and arrears) has been on an upward trend rising from 37% in 2001 to 49% in 2004, reflecting growth in real spending of about 10% (Table B3.2). Education and health services have consistently been the main gainers from increased allocations to priority expenditure. PGBS has been effective in supporting the previously initiated orientation of the government budget towards priority expenditures as a whole. Conditionality, reflecting an agreed GOR–IP position (¶B3.6), has emphasised the social sectors.

B3.10 At the moment, there is a sense that priority expenditure is not well understood as either a concept or a tool. There are quite definite criteria for identifying priority programmes in the PRSP as noted in Box B3.1. But there appears to have been a progressive "relaxation" or shift in the way these criteria have been used. To some stakeholders, the recent inclusion of electricity generators in priority spending for 2004 appears arbitrary, though the new and significant amount spent on electricity generators in 2004 is partly reallocated from priority areas with absorption problems. The inclusion of tertiary education has also been raised as an issue, as this spending is not obviously pro-poor. Such instances are inevitable in the absence of clearer guidelines on application and a clearer concept of the link between priority and poverty reduction. The fact that these issues were not systematically addressed as part of the PGBS dialogue suggests that PGBS was only moderately efficient in influencing levels and shares of pro-poor expenditures.

Discretionary Expenditure

The extent to which the PGBS funds have contributed to the increase in the proportion of external funds subject to the national budget			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: ***

B3.11 The effect of PGBS on fungibility is quite strong, and its efficiency is good. On the one hand, the large share of non-discretionary spending (wages, interest payments and exceptional spending) in government expenditure reduces the scope for resource reallocation. De facto non-discretionary spending, such as expenditures on exceptional "post-genocide" programmes and wages in the context of the PSR, are as constraining as de jure non-discretionary spending. Non-discretionary spending on this basis is 47– 55% of total current expenditure between 2002 and 2004 (IMF 2005). However, within this constraint, PGBS has been prominent in allowing GOR the scope to fund activities related to PRSP priorities such as "fee-free" primary education (a recurrent transfer) and agricultural loan guarantees (potentially a subsidy). These types of activity were unlikely to be feasible as donor project activities since they are essentially recurrent

in nature, whereas projects are reserved for development activities with discrete and relatively short life spans.

B3.12 A feature of Rwandan GBS and PGBS funding is that it used mainly to finance recurrent rather than development expenditure, i.e. to finance the routine, ongoing functions and activities of government. As illustrated in Table B3.3 below, and despite strong performance in domestic revenue raising (see Annex 2B, Table 2B.2 for tax revenue performance),[7] PGBS has become a major financing source of total current expenditure, in the range of 12–48% during 2002–2004. The share in non-discretionary current expenditure is roughly double these levels.

Table B3.3: PGBS as a Share of Current Expenditure

(current USDm)

Year	PGBS	Total Government Current Expenditure	Share of PGBS in Total Current Expenditure
2002	32.5	282.6	11.5%
2003	34.2	282.3	12.1%
2004	129.7	272.0	47.7%

Source: Table A3.2 for PGBS and Annex 2B, Table 2B.4 for current expenditure

B3.13 All the PGBS IPs were already among those who had adopted the practice of having their aid flows, including projects, reflected in the government (development) budget. However, this is not the same as having funding flows fully within the GOR planning and budget system. PGBS is qualitatively different in that donor funds are on-budget for planning and prioritising by government, i.e., funds are fully discretionary. It is good to have projects on-budget for accounting and accountability, but PGBS is on-budget in a much fuller sense. There is no sign that more project funding has been captured on government budget over the last few years.

B3.14 PGBS funding has therefore had a moderate effect on the proportion of external resources brought on-budget, through the funding additionality of the PGBS IPs, and through bringing those funds fully under the control of the government. There has been no effect on flows from IPs who are consistently off-budget. However, this may change if more IPs move to Sector Budget Support or other sector basket funding modalities which could more easily get on-budget. There are signs that movements in this direction are partly prompted by PGBS.

Predictability

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall predictability of aid flows and public expenditures.			
General Situation:	Level: *	Trend: =	Confidence: *
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B3.15 This is a fundamental attraction of PGBS, where the experience so far in Rwanda is perceived, particularly by GOR, to have been poor. In reviewing this aspect, it is useful to distinguish between absolute and relative regularity, and between short-term and medium-term effects.

[7] Strong performance in domestic revenue raising seems to indicate that there is no negative effect from government expecting to get PGBS and therefore relaxing its efforts on own revenue collection.

B3.16 The PGBS flows profile for 2003 and 2004 at Annex 3C demonstrates that the short-term pattern of PGBS disbursement has been erratic. While the full amount of PGBS is generally eventually disbursed, there have been frequent deviations from planned schedules. These deviations have resulted from a mixture of donor administrative causes (EC regularly and Sida in 2004), technical causes (withholding of funds in the first half of 2004 by DFID and Sida, linked to PRGF "quasi off track"), and political causes (DFID and Sida withholding funds in the last quarter of 2004 over the DRC border incursion issue). While delays in disbursement are usually a matter of less than six months, they cause major disruptions in GOR's ability to plan its cash budget, particularly when delays push disbursements into the following financial year.

B3.17 SPA surveys found that in Rwanda, all PGBS IPs plus the IMF had difficulty disbursing on time (Table B3.4). Two IPs identified administrative problems on the donor side as the primary cause, while three indicated that the government had failed to meet policy-related conditions. A quarter to half of the funds disbursed were disbursed late, rates much higher than in the other countries surveyed.

Table B3.4: Timeliness of PGBS Disbursement in Rwanda and Other Countries

	Burkina	Ghana	Mali	Mozambique	Rwanda
% late in survey of 2002	7%	17%	14%	18%	22%
% late in survey of 2003	13%	5%	22%	4%	51%

Source: SPA Survey of the Alignment of Budget Support and Balance of Payments Support with National PRS Processes, Dec 2003

B3.18 However, the regularity and predictability of PGBS is more positive when compared with the disbursement record of projects. Central Projects and External Finance Bureau (CEPEX) figures (see Annex 3A Table 3A.2) suggest long-run disbursement rates for all allocated aid flows of around 50%, although there is some evidence that the performance of projects has improved in the last two years. According to the latest Annual Economic Report for 2004 (Ministry of Finance and Economic Planning 2005a) the implementation rate for the development budget in 2003 was 67%, and this was likely to have been exceeded in 2004. But, overall, the rate of project disbursements has been one third to one half lower than that for PGBS.

B3.19 Nevertheless, in GORs' perception PGBS suffers from the additional weakness that the large amount of funding, combined with more conditionalities than with conventional funding modalities, makes it more risky. PGBS funding is perceived as being more likely to be stopped and with more far-reaching effects, i.e., there is an impact on the whole budget whereas delays or shortfalls in project funding affect only project-specific activities.

B3.20 GOR's response to short-term disruptions in resource flows has taken the form of "fire-fighting", where GOR negotiates for early disbursement from non-affected IPs to address disbursement "blips". For instance, at the end of 2004, negotiations with the World Bank and the EC delivered critical funds late in the year, substituting funds undelivered by DFID and Sida. Since it realised that timing matters and front loading is important, GOR now negotiates programmes with IPs that ensure earlier disbursements. However, there remains an issue of aligning the PRSC appraisal and disbursement schedule with the government fiscal calendar.

B3.21 Despite disruptions in disbursements, PGBS has been sufficiently stable to allow government to maintain a relatively tight fiscal stance (with the exception of 2003 – see Chapter B6), while at the same time providing increased resources to development priorities in key areas such as health and education. There is a sense that PGBS is "there for the long haul", and some

PGBS IPs have indicated that volumes would be maintained over the medium to long term. However, except for DFID in its ten-year MOU (see Annex 3B), there have been no explicit long-term commitments.

B3.22 The ability of PGBS to increase the volume of funds subject to the national budget, combined with a sense of predictability over the medium term, has had a significant impact on the empowerment of the GOR. The psychology of PGBS as an aid form has been extremely important in Rwanda, and can be characterised as follows:

- PGBS has focused the attention of both government and IPs on government's financial management systems in a way which is qualitatively different to that of other forms of aid. By the very fact of using government systems, PGBS has created the motivation for strengthening those systems.
- Equally, PGBS has strengthened perceptions as well as the actuality of government control over resource allocation. This has engendered government confidence and ownership of PGBS.
- Increased PGBS confidence and ownership has disposed government to a greater readiness for self-analysis and policy dialogue aimed at addressing weaknesses in the resource management systems through which PGBS flows (see Chapter B4).
- PGBS inputs in the form of TA, policy dialogue and harmonisation and alignment have played a key role in helping government develop PFM.

Efficiency

The extent to which the scheduling and delivery of PGBS funds have contributed to the overall efficiency of public expenditures and aid flows.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B3.23 PGBS funding is significant in relation to both the total aid received by Rwanda and the GOR budget. PGBS has fluctuated between 8% and 12% of total aid, and represented 48% of current expenditures in 2004. As GBS and PGBS bring funding on-budget and represent additional IP funding, this leads to more efficiency in the public expenditure allocation process, as more ODA is under the control of the government.

B3.24 Improvements in the allocative efficiency of public expenditure and aid flows have been alluded to in the analysis of priority spending and of the balance between recurrent and capital spending above (see ¶B3.9 and ¶B3.11). The analysis shows that PGBS was an influential factor behind these improvements.

B3.25 The analysis of the operational efficiency of public expenditure in Annex 4 Table 4.1 finds that budget execution is generally close to budgeted expenditure, although there is significant variance at some levels. GOR was able to keep the variation between the original budget and the budget outturn at 2% in 2001, 10% in 2002, and 6% in 2003. Some weaknesses remain. For example, the variation in capital expenditure was more than for recurrent expenditure. The average variation was about 13% (10% in 2001, 4% in 2002, and 24% in 2003). The performance in 2003 was less encouraging, mainly because of implementation problems with infrastructure projects which were closely tied to unmaterialised donor funds. Since Rwanda relies heavily on donor funding for the whole budget, unpredictability of donor funding and weaknesses in budget preparation are two major reasons for the variations between original budgets and budget outturns.

B3.26 At the level of spending agencies and service delivery, end-of-year budget releases are often lower than allocations especially for non-salary recurrent spending. Short-term disruptions in PGBS funding and the general difficulties for GOR to maintain a smooth budget financing over the fiscal year have been an element in this situation.

Transaction Costs

The influence of PGBS on the transaction costs of the budget process and utilising aid.			
General Situation:	Level: *	Trend: +	Confidence: *
PGBS Influence:	Effect: **	Efficiency: **	Confidence: *

B3.27 The debate on transaction costs hinges mainly on the trade-off between reduced numbers of projects (with their perceived high transaction costs) and the costs of administering PGBS. In the perception of GOR, there are large transaction cost savings to be made with PGBS through IPs carrying out joint activities. However, as yet, there is no objective evidence to gauge this effect. It may be that different stages of transition exist, with relatively heavier PGBS costs being incurred centrally in Minecofin, particularly as the new system is put in place, but with reduced costs in line ministries as projects are phased out and fewer new ones started. On the donor side, a similar pattern might apply, with relatively high costs incurred through PGBS in its early stages in country, but lighter costs at HQ as fewer projects are mobilised. At the moment, there is little evidence to substantiate the discussion. What can be said is that Minecofin capacity is over-stretched. as it is expected to lead PRS, MTEF, PGBS and other resource mobilisation processes. Negotiation of PGBS is a time-consuming process for both IPs and GOR, but still probably represents fewer transaction costs than if co-financiers were involved in the negotiation of individual projects instead.

B3.28 Thus PGBS has arguably reduced both the transaction costs involved in IP dialogue for GOR and the administrative and budget process costs of utilising aid. Normally, parallel systems would be used for ODA funds, but the use of GOR systems for PGBS has reduced the administrative burden involved as their own budget systems and reporting procedures can be used.

Principal Causality Chains

B3.29 PGBS has had a moderate effect in terms of increasing ODA funds subject to the national budget (2.2) and has increased the overall predictability of external funds to the national budget (2.3), although short-term disruptions have caused funding problems for GOR. PGBS has focused the attention of both GOR and IPs on government financial systems and by using these systems has created a motivation to strengthen them (2.3), resulting in increased operational and allocative efficiency of PFM (3.5/3.6).

B3.30 Policy dialogue/conditionality/TA/capacity building have also focused on key public policy issues (2.4/2.5) and thus far have had a moderate impact on the availability of increased resources for service delivery. This has led to an increase in the level of discretionary funding for the government budget.

Counterfactual

B3.31 The counterfactual of similar aid volumes channelled through project aid rests on the better disbursement record of PGBS. Projects have historically disbursed at the rate of 50–70% of committed aid flows, whereas 100% of GBS and PGBS funds have been disbursed thus far.

B3.32 "Old" structural-adjustment-type programme aid also increased the level of public expenditure and of external resources inscribed on the budget in the same way as PGBS does. Moreover, in the case of Rwanda the older programme aid was also aimed at realigning expenditure (away from military, toward social sectors; see Annex 3B). But this was less systematically established as a government priority.

B3.33 An important counterfactual is provided by sector support instruments which are in the process of being developed in a number of sectors. In education this could take the form of sector budget support whereas, in health, ideas converge toward basket funding support for a sub-set of activities and/or one dimension of the Health Sector Strategic Plan (HSSP). One of the main attractions of such modalities (for IPs) is that they protect the targeted sector's funding (this could be in terms of both allocation and execution). In other words, they seek improved allocative and possibly operational efficiency of public expenditure (PE). However, this is a short-term solution, and even when such aid instruments use government budget execution system (as would be the case for SBS) they still introduce rigidities in the allocation process. The risk is to divert attention away from, or undermine incentives for, longer-term and more sustainable efficiency improvements. These arrangements also impinge on the PGBS empowerment effect as, in effect, they represent an imposition of IPs' preference in terms of balancing funding across sectors. Moreover, sector protection of funding may be an illusion when resources are fungible.

B4. The Effects of Partnership GBS on Planning and Budgeting Systems

How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?

Introduction

B4.1 This chapter is concerned with causality chains through Levels 1–3 of the EEF. It examines the impact of policy dialogue, conditionality, TA and IP alignment and harmonisation (2.4/2.5/2.6) on the allocative and operational efficiency of PFM systems (3.5/3.6), strengthened intra-government incentives and enhanced democratic accountability (3.7/3.8).

Relevant Facts

B4.2 Rwanda's budget system, both its physical and human capacity, was destroyed during the genocide. The restoration of the system falls into two stages. In the first stage the system was rebuilt from scratch, the main building blocks being put in place between 1997 and 2000. The focus was on reviving tax administration, restoring processes for budget preparation and execution, improving macroeconomic analysis and projections, strengthening budget monitoring and accountability, and building capacity for budget and economic management. Since 1998, fiscal and budgetary reform has been an ongoing process. Budget procedures and calendar have generally been respected, with the draft budget being adopted by the National Assembly before the beginning of the fiscal year.

B4.3 A key reform in 1997 was the merger of the Ministry of Finance and the Ministry of Planning into the Ministry of Finance and Economic Planning (Minecofin), thereby resolving at an early stage the thorny issue of the integration of planning and budget management. A macroeconomic planning function was re-established in Minecofin. Customs and income taxation were consolidated in the Rwanda Revenue Authority. The Central Projects and External Finance Bureau (CEPEX) was established as a semi-autonomous body under the Minister of Finance and Economic Planning to coordinate the shift from emergency to project support, and to streamline the preparation of the Public Investment Programme (PIP) and the development budget. Production of monthly reports on budget outturns was started manually in 1997, and computerisation of budget transactions was introduced in 1999. The Office of the Auditor General and the National Tender Board (NTB) were established. The Office of the Inspector General for Public Finances was given responsibility for setting up internal audit units and systems in line ministries, training and risk auditing. The Division of Government Accounts was created, to prepare and publish regular accounts of government financial operations. These first-stage reforms are summarised in Box B4.1 below.

Box B4.1: First-Stage PFM Reforms 1995–2000 – Rebuilding PFM Systems

- Merger of ministries of Planning and Finance, 1997
- Monthly reports on budget outturns, 1997 (UNDP)
- Consolidation of Rwanda Revenue Authority, 1998 (DFID)
- Re-establishment of macroeconomic analysis (IMF/World Bank)
- Creation of CEPEX, 1998 (AfDB)
- Creation of Office of Auditor General, 1998 (World Bank, CIDA, Sida)
- Creation of National Tender Board, 1998 (World Bank)
- Creation of Office of Inspector General for Public Finances, 1999
- Creation of Department of Government Accounts, 1999
- Computerisation of budget transactions, 1999 (IMF/World Bank)

N.B: Supporting donor in brackets

B4.4 Second-stage reforms are outlined in Box B4.2. They involved building on and refining the basic systems, and took off around 2000 with the introduction of the MTEF. This stage coincided roughly with the advent of "new PGBS", with government strengthening the development and coordination of policy, strategy and resource management. The MTEF provided a comprehensive framework for further public expenditure management reform with a focus on better linkage between policy objectives and resource allocation. The introduction of the MTEF was supported by DFID and the World Bank, both PGBS actors.

Box B4.2: Second-stage PFM Reforms 2000 to Present – Refining the System

- Introduction of the MTEF in 2000 (medium-term budget framework, sector strategies, results focus) (DFID)
- Public expenditure reviews carried out in 1999, 2000, 2002, and 2003 (World Bank)
- Constitution elaborates PFM framework, 2003
- Auditor General strengthening and accountability switched to Parliament, 2003 (Sida and Dutch Aid)
- Organic Budget Law and financial regulations processed, 2004 (IMF)
- Public Expenditure Tracking Survey (PETS), 2000 and 2004 (World Bank)
- FARAP 2003 (World Bank/DFID)
- Fiscal decentralisation (IMF/USAID)
- Joint Donor Review of Assistance to Minecofin, 2004

NB: Supporting donor in brackets

B4.5 Reforms have continued across the spectrum of the PFM system. The new constitution adopted at the end of May 2003 established a broad framework for PFM. A new Organic Budget Law[8] (OBL), which clarifies arrangements across PFM, was submitted to Parliament in June 2004 and was promulgated in 2005. The shift from pre-spending to post-spending controls, and the implied greater financial responsibility of budget managers is a fundamental shift from the PFM perspective. Financial instructions associated with the OBL were issued in May 2004. One of the main features of the new budget law is the vesting of the Auditor General with sole accounting authority to report directly to Parliament, thereby creating an accountability modality independent of the executive.

B4.6 In terms of the actual performance of the PFM system, the 2004 Public Expenditure Tracking Survey (PETS) concluded that the management of public funds did not feature any

[8] The term "organic" refers to the rooting of the law in the provisions of the constitution.

systemic pattern of leakage, although it acknowledged that more transparency in financial management, especially at provincial and district levels, was desirable (e.g., provincial transfers to districts are made without reference to specific uses of funds). It stressed that the release of operational funds from provinces to districts was unsystematic and sporadic.

B4.7 The PRSC document (World Bank 2004d) found that the GOR is making substantial efforts to address the lack of accounting information provided on budget execution and is undertaking the installation of a new comprehensive, reliable, uniform and integrated accounting system. Shortages in the quality of human resources and the absence of consolidated and audited government financial statements are major weaknesses, though they are being addressed. Limitations in the country's legal and regulatory framework, the proliferation of bank accounts, the lack of integration between the recurrent and investment budgets, the weakness of the accounting function and the reinforcement of internal controls were deemed areas which could be strengthened. The PRSC identified the main medium-term challenge as being the development of a centralised, integrated, and high-quality accounting system.

B4.8 Government is in the process of implementing a wide-ranging action plan for financial accountability, based on the recommendations of a jointly conducted Financial Accountability Review and Action Plan (World Bank 2003b). By the end of 2004, the FARAP had been largely either implemented or internalised, with further work planned on unfinished areas such as the integration of recurrent and development budgets and further strengthening of accounting and auditing functions. The FARAP is likely to be superseded by the ongoing common diagnostic work around the Country Financial Accountability Assessment (CFAA) and the Public Expenditure and Financial Accountability (PEFA) framework (see Annex 4), with a focus on public financial accounting and the needs of the Accountant General and Treasurer's Department of Minecofin.

B4.9 Further information and a more detailed judgement on the PFM systems and reforms in Rwanda are at Annex 4. It was beyond the scope of this study to undertake a full PEFA analysis (and the PEFA scoring system was not finalised until 2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has used a standard matrix to consider PFM issues against the principal dimensions defined in the PEFA framework, drawing on the secondary sources available but without attempting the rigorous scoring prescribed by PEFA. In the case of Rwanda the main sources of information were the HIPC Assessment and Action Plan (AAP) exercises undertaken in 2001 and 2004, and a desk-based pilot study based on the draft version of the PEFA methodology (EC Delegation Rwanda 2004).

Assessment against Evaluation Criteria

Systemic Effects on the Budget Process

Ownership

The extent to which an increase in predictable and discretionary resources has helped to increase ownership of the budget process and commitment to improved budgeting.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: ***	Efficiency: ***	Confidence: ***

B4.10 PFM systems have been extensively rebuilt during the period 1994–2004. The processes of building and refining PFM systems have been heavily intertwined with aid and recently with PGBS. PFM is an area where, in the perspective of GOR, partnership between IPs and government has been the key to system and process building.

B4.11 The first-stage and second-stage reforms outlined above demonstrate the strong role that PGBS IPs have taken in supporting PFM reforms. In the words of a senior official from Minecofin who has been involved in PFM processes for a number of years, PGBS TA and policy dialogue have made an "enormous contribution" to PFM system development. TA support to PFM from PGBS or quasi-PGBS IPs looks set to continue through a TA programme involving IMF/AFRITAC (Africa Regional Technical Assistance Center) TA, the EC PPARP-associated TA, DFID/UNDP planned joint support to Minecofin institutional development, and the WB Public Sector Capacity-building Project (PSCBP), which includes a strong PFM support component, and support to fiscal decentralisation and PFM at sub-national levels. PGBS overall is considered by both government and IPs to have played a strong and significant role in improving PFM systems.

B4.12 One qualification to this very positive picture has been in relation to the performance of the MTEF, which has suffered from a number of operational weaknesses since its introduction (see next section).

Accountability

The extent to which the increased use of government systems and processes helped to improve the accountability of public expenditures.			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: ***

B4.13 In terms of developing accountability tools, the first step in integrating the recurrent and capital dimensions of budget planning was the introduction of the MTEF. Integration of the recurrent and development budgets for annual budget planning and execution was initially planned for 2003, to be effective for the 2004 budget, but this has been delayed. A standard structure for the development and recurrent budgets is planned, and an integrated presentation of the two budgets may also be possible, both now expected for 2006. The development of new SIBET (Système Informatique du Budget de l'Etat) software should facilitate integrated monitoring of the development and recurrent budgets during the course of 2005.

B4.14 Regarding the identification and monitoring of outputs and outcomes, the MTEF action plan has included annual training on strategy development and costing of outputs. The education and health sectors are the most advanced in terms of data collection for monitoring outcomes. However, partly because of PGBS unpredictability, the MTEF remains quite weakly linked to budget execution. This is because budget agencies can place little credibility in the MTEF resource envelopes, and partly because the MTEF is capacity-intensive (in a capacity-scarce environment), which limits its use as a tool for the monitoring of, and accountability for, outputs and activities.

B4.15 In 2004, an attempt was made to assemble a complete set of accounts for 2002. The results were submitted to the Auditor General, but they were rejected. To address weaknesses in the accounting system, a programme of training has been initiated, and the SIBET 2 system includes an accounting module in which an integrated financial management system can be established. The accounting system remains weak but is being addressed in a concerted way with EC and WB support for the training of public accountants and internal auditors (the training has been started and is expected to be scaled up in the near future).

B4.16 Regarding budget transfers based on performance agreements, public sector entities in each PRSC-targeted sector have been developing policies and strategies articulating the incentive framework that will be used to purchase specific sectoral outputs. Public sector entities

have already entered into partnerships with autonomous providers and the private sector, whether through parastatals (e.g. Electrogaz's private management contract) or directly (e.g. water-user committees, NGO-run health centres). These relationships need to be integrated into a policy and legal framework, and the results enshrined in contractual arrangements.

B4.17 At the level of central democratic institutions, there have been signs that Parliament is starting to play a stronger role in holding the executive branch to account. Through its Budget and Economic Committee, Parliament has reviewed and redrafted the Organic Budget Law, but has focused on its legal rather than technical aspects.

B4.18 Although there has been some progress, accountability mechanisms remain the weakest link in the PFM system. Developments that have taken place are considered to be moderately associated with GBS and PGBS, through the introduction of monitoring, financial reporting and accounting tools, as part of the PGBS dialogue and capacity building. But the most effective elements of domestic accountability relate to Parliament, and developments in this area appear not to have been connected with PGBS.

Durability

The extent to which PGBS supports government in internalising such improvements (ensuring the sustainability of the whole process).			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B4.19 A series of PFM reforms carried out in tandem with PGBS demonstrates the internalisation of PFM and budgetary process improvements in the key central planning agency, Minecofin. These included the introduction of the MTEF in 2000 and a number of public expenditure reviews and performance and expenditure tracking surveys. There is also the inclusion in the 2003 constitution of the PFM framework, the strengthening of the Office of the Auditor General in 2003, the FARAP in 2003, and the introduction of the OBL. In addition, government has established an inter-ministerial committee, chaired by the Accountant General, to focus on improved coordination of PFM reforms.

B4.20 Given the large number of reforms, the PRSC recommended that, to mitigate the potential for reform fatigue, the government should implement a formal communication strategy to manage line ministries' expectations. The PFM reforms are less internalised in line ministries, and their support to the reforms is not clear-cut, especially in sectors such as agriculture in which donor-financed projects remain a predominant source of funding. Even in sectors such as education and health, which are more closely involved in the reforms led by Minecofin and in the PGBS process (including through specific sector PFM conditionality as noted in ¶B3.6), awareness of and confidence in PFM reforms is still fairly limited. The durability of an established reform such as the MTEF has yet to be proved (see ¶B4.14). And it is clearly too early to assess the durability of the reforms brought by the move from pre- to post-spending control under the new OBL regulatory framework.

Capacity development

The extent to which PGBS is supporting capacity development in PFM.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: ***	Efficiency: **	Confidence: **

B4.21 All four IPs active in PGBS from 2000 to 2004 provided TA and policy support to PFM reforms. The processes of refining and reforming PFM systems have been closely interwoven with PGBS. Nevertheless, as noted above in the case of durability, the effect of PGBS on capacity development in PFM is more visible in Minecofin. PFM capacities are variable but have remained generally weak among line ministries and other spending agencies.

B4.22 GOR and PGBS IPs are aware of this, and initiatives planned under the EC PPARP and the WB PRSC-associated PSCBP, for instance, include large-scale training and capacity development activities aimed at reaching all dimensions of government, e.g. to strengthen the accounting and internal audit functions in line with the requirements of the OBL. However, it has also been recognised that sector TA has been under-exploited in relation to the support that might have been given to PFM reforms, and it is not yet clear how this is going to be better addressed in the future. Overall, therefore, PGBS is rated as having had a strong effect on strengthening PFM capacities, but it could have been more efficient.

Principal Causality Chains

B4.23 There is a strong link between policy dialogue/conditionality and TA focused on key public policy issues and priorities and IPs moving towards alignment and harmonisation around national goals and systems (2.4/2.5/2.6), and increased allocative and operational efficiency of PFM systems (3.5/3.6). The processes of building and refining PFM systems described above have been heavily intertwined with aid, and recently with PGBS. PFM is an area where in the perspective of GOR, partnership between IPs and government has been the key to system and process building.

B4.24 There has been some progress in improving accountability mechanisms in PFM systems, but accountability (3.8) remains the weakest link.

Counterfactual

B4.25 There is no real experience with structural-adjustment-type budget support in Rwanda. The pre-PGBS programme aid operations had a mix of structural adjustment and reconstruction objectives, but these operations appear to have been quite effective in mixing financial inputs and assistance to strengthening PFM systems. However, the qualitative difference which came with PGBS and the elaboration of the FARAP is about government ownership. The evidence is that aid channelled through other instruments, such as project aid or even sector budget support or the pre-PGBS programme aid, would not have engendered the government confidence to enter into PFM system building and reform arrangements which have resulted from PGBS.

B5. The Effects of Partnership GBS on Policies and Policy Processes

How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?

Introduction

B5.1 This chapter focuses on the main links between Levels 1–4 which are hypothesised to be carrying through PGBS policy effects, as follows:

i) PGBS leads to focusing the government–IP policy dialogue, the provision of TA and the design of the PGBS conditionality framework on key government policy (and public expenditure) issues (1 → 2.4/2.5/2.6).

ii) This leads to government being empowered to strengthen policy processes (→ 3.3).

iii) This in turn, translates into more effective and accountable policy processes responding to a comprehensive, coherent and effective reform process and involving the appropriate range of stakeholders (→ 3.3), and into improved PE (→ 3.5/3.6).

iv) "Better" policy-making processes lead to "better" policies addressing market failures, enhancing the regulatory environment and striking an appropriate balance between the public and private sectors (→ 4.2/4.4).

B5.2 It was felt important here to distinguish between empowerment and actual changes in policy-making processes and policies. In addition it was felt that there were direct links between government empowerment to change the policy process (3.3) and the strengthening of intra-government incentives and enhanced democratic accountability (3.7 and 3.8). These links are therefore covered in this chapter in addition to those listed above (complementing Chapter B4, which focuses on PFM-specific incentive and accountability issues). The link with public expenditure is primarily addressed in Chapters B3 and B4 and is only briefly referred to in this chapter.

Relevant Facts

Policy Processes

B5.3 The preparation of Vision 2020 in 1998 is an indication of the strength of the government's ownership of its policies. Vision 2020 was an inspired exercise of national reconstruction, in which external influences were limited. The policy-making empowerment of government to date has therefore been built on a steady process of assertion of its leadership, following the immediate post-genocide period. As noted in Chapter B2, the main factor behind this empowerment process has been the emergence of a strong "core government" team able to take the lead in policy development e.g. formulation of the PRSP, and in harnessing IPs' assistance towards supporting this development.

B5.4 In this context, policy-making in Rwanda appears as a disciplined process, strongly led by Cabinet. All policies and strategic plans, e.g. PRSP and sector policy documents such as ESSP and HSSP, are presented by sector agencies to Cabinet and are discussed in depth before being approved . This is also the level at which cross-cutting policies (e.g. PFM reforms, PSR, decentralisation) are coordinated. Cabinet is also instrumental in the development of all

important legislation. Parliament has a relatively subdued role in policy-making and, while there appear to have been lately more examples of Parliament's activity (e.g. lengthy examination of OBL), it is unclear how far this addresses issues of substance in addition to form. Overall, policy making is marked by continuous, strong leadership from the president and a small number of persons around him.

B5.5 The extent of policy empowerment is not uniform across the different dimensions of government. It is felt most strongly in central agencies and in particular, in Minecofin and Mifotra (Ministry of Public Service and Labour), the agencies leading the development and implementation of government's main cross-cutting policy frameworks. In contrast, policy empowerment and development are uneven among sectors. Ownership and empowerment in relation to policy processes are also not well developed at sub-national levels. Sub-national entities may be involved in policy-making processes in some sectors – e.g. education, through the JESR, and more recently agriculture, for the development of the Strategic Plan for Agricultural Transformation (SPAT) – but only weakly if at all in others. Moreover, once national frameworks such as the PRSP or sector strategic plans are in place, it is not clear how sub-national entities are supposed to take them into account concretely, e.g. in the case of District Development Plans (DDPs), MTEFs and annual budgets.

B5.6 Principles of citizens' involvement are in place through the decentralisation and community-based development policies, but practice falls short of principle, as was acknowledged by the district mayors met in the field. This reflects the slow – if steady – pace of improvement in democratic governance, particularly in terms of opening up space for the views of the still embryonic civil society. Representatives from civil society noted that there had been a real change in policy-making as participatory processes became more frequent and inclusive over the last five to six years. Government is also reaching out to the private sector, e.g. through the establishment of formal consultative mechanisms such as the nascent Public–Private Partnership Forum and its secretariat in Minicom. However, these developments have yet to demonstrate that they may change the current pattern of relationships between an authoritative government and rather weak interlocutors.

B5.7 Overall, the policy process remains rather "top-down", with major policy shifts (e.g. the recent territorial reform) prepared by small high-powered executive task forces, limited consultation (including of IPs) especially on potentially sensitive issues, and Cabinet approval marking an almost immediate start of implementation.

Pro-Poor Changes in Policies

B5.8 Major policy changes for reducing poverty have taken place over the last five years. More are foreseen in the near future. These include a stronger emphasis on the economic sectors and the development of specific policies to support the "growth agenda" and address income poverty dimensions. For example, implementing the new strategic plan for agriculture and following up on the DTIS studies are likely to be priorities in the PRSP-2. IPs are involved and provide analytical support, but the drive is clearly on government's side through reference to its initial visioning document (Vision 2020) and its leadership in the PRSP and the cluster/sectoral processes. In some of these areas, non-PGBS IPs are influential, e.g. USAID leading the private sector development (PSD) cluster.

B5.9 A wide range of policy actions (see PRSP/APR) relating to non-income poverty have been initiated. There is an environment policy and law, providing for specialised committees at all decentralised levels. Antiretroviral (ARV) treatment is free for poor people. TB medication and other essential drugs are subsidised. Government is developing innovative modalities aimed at broadening access for the poor to community-based health insurance schemes. Since 2003

primary schools have received a government-financed capitation grant in replacement of fees and it is planned to extend this to the first three years of secondary education. Major reforms have also been agreed in the financing of tertiary education, including cost-recovery measures for those students who can afford it. In health there are emerging examples of services financed by government and contracted out to private/non-government providers.

B5.10 Social inclusion measures have been developed in the immediate post-genocide period and have been pursued and expanded in some cases in the PRSP framework. This includes the implementation of the decentralisation and community development policies. Policy frameworks defining communities' role in managing and overseeing service delivery are supposed to be in place in education, with school parent–teacher associations (PTAs), and health (health committees).

B5.11 In summary, sector policies, in place or being elaborated, usually pay attention to poverty reduction, though this has sometimes required revision of initial policy directions. Concern for poverty reduction has induced policy changes, but generally these changes are recent and they are not always followed through in practice, e.g. in the balance between primary and tertiary education. Moreover, policy debate on inequality and redistributive policies is conspicuously absent even though there is an increasing body of evidence signalling that inequality is rapidly increasing (Ansoms 2005).

Policy Capacity and Consistency

B5.12 An important limitation to translating government empowerment into real changes in policy-making and policies is the weak capacity on the part of both government and non-government actors. Government policy-making capacities have increased but are still severely constrained in several sectors. In some sectors, TA has been instrumental in strengthening capacity in policy formulation (sector-specific TA explicitly linked to PGBS operations, e.g. DFID TA in education; TA unrelated to PGBS, e.g. the Dutch in decentralisation), but this has been uneven across sectors because of both uneven provision and uneven capacity to take advantage of the support provided. Government communication capacity is also constrained, and information flows between government and civil society are insufficient to allow the latter to engage meaningfully in policy formulation. Moreover, inclusion in policy-making is not formalised, which makes it difficult to know the extent to which all relevant stakeholders are included. This is of particular concern in Rwanda, considering the dramatic consequences of pre-1994 exclusionary practices.

Assessment against Evaluation Criteria

Influence on Reform Process

Ownership and effectiveness

The extent to which PGBS (allowing for the time lags of its operations) has helped (is helping) to establish/maintain a comprehensive, coherent and effective pro-poor reform process, owned by the government...			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: ***	Confidence: **

B5.13 The above facts paint a picture in which a pro-poor reform process is in place. It is moderately comprehensive, coherent and effective but this has been improving especially in terms of comprehensiveness. As noted in ¶B5.3 and Chapter B2, PGBS did not establish the policy reform process in Rwanda. In general, IPs are not fully-fledged actors in the policy

process. PGBS policy dialogue is also only one factor contributing to the reform process. It does this through building upon the increasing strength of the domestic and largely endogenous processes identified in ¶B5.4–¶B5.6 above and through promoting their further development. Because of its limited engagement with the PSR and decentralisation agendas, PGBS has also not been very effective in helping cross-cutting policy coordination.

B5.14 PGBS has also been moderately active at sector level except in education. This is now expanding with the PRSC, and the PGBS dialogue is gradually taking over from the PRGF, which was until recently unusually involved in sector policy matters. But other factors limiting the effect of PGBS arise from weaknesses in the overall aid process which it is unclear how PGBS might address. In particular, first, there is a perception that there remains a "communication gap" between government/national stakeholders and IPs. As stated by one of this study's informants: "IPs raise issues that are not issues for Rwandans. Because of the language barrier they are often not aware of the issues that are discussed across the whole country." Second, there is a lack of in-depth discussion of "policy fundamentals", e.g. balance/linkages between wealth creation and poverty reduction, through existing aid and/or IP dialogue processes. Thus overall, PGBS effect on the policy process is moderate.

B5.15 PGBS is nevertheless efficient compared to other aid modalities through its strong contribution to strengthening intra-government incentives. This should in turn contribute to making the reform process more consistent and accountable. Country stakeholders indicated that:

- In contrast with projects which claim results for themselves, PGBS gives government actors credit for results they have achieved and of which they can be proud through a partnership-based dialogue and capacity-building orientated TA.
- PGBS supports "one budget, one accountability framework" whereas projects undermine this and lead to continued diversion of capacities (see ¶B1.31).
- Through providing flexible and in principle predictable funding for the budget, PGBS gives government more freedom and encourages it to take risks in policy-making, as it knows that it can finance new types of expenditures related to its policies, e.g. implementation of the PSR, capitation grant for fee-free basic education, agricultural investment guarantee facility, hence strengthening incentives for good policy-making.

Participation

... in which, an appropriate range of stakeholders is involved in policy formulation and review			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B5.16 The evaluation team has noted the progress in terms of involving an appropriate range of stakeholders in policy formulation and review, albeit with limitations that are slowly being addressed (¶B5.6). Hence, there is a moderate level but positive trend with regard to participation. Aid in general, and PGBS in particular, appears to have a rather small effect in supporting this progress, apart from financing participatory events and surveys. The PRSP process, emphasising participation, relayed mechanisms that had helped in the formulation of Vision 2020. At sectoral level, participation mechanisms are influenced by sector stakeholders and have little to do directly with PGBS. This may be changing, with more specific policy measures providing for participation in the PRSC matrix.

B5.17 While PGBS does not have a significant direct effect, government and non-government representatives pointed out that it facilitates the emergence of more inclusive processes of consultation and involvement of national stakeholders by the government. They explained that the more structured dialogue with IPs means that in turn, government does not have to second-guess IPs' views and therefore feels freer to call upon other stakeholders. It was also noted that because it uses government systems and institutions, PGBS is effective in facilitating policy development especially in complex multi-sectoral areas requiring the involvement of a large number of stakeholders, e.g. the agriculture / rural development / export promotion / trade / private sector development / regional integration nexus. Using government systems (and budget) is the only way of bringing these issues and institutions together. Project support tends to fragment the policy process. For these reasons PGBS is rated as moderately efficient in helping an appropriate range of stakeholders to be involved in policy formulation and review, and certainly more so than other aid modalities.

Learning

... in which, policy processes encourage both government and IPs to learn from experience and adapt policies to country circumstances			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B5.18 Weaknesses in government reporting and monitoring systems mean that policy learning and adaptation in practice fall short of evidence-based policy-making principles. This is a general and crucial issue, not restricted to (joint) GOR/IP processes. Moreover, the pronounced top-down nature of the policy process noted in ¶B5.7, also puts limits on the experience feeding into learning and adaptation; this is a government which is convinced that it knows what is best for its people. The rating does not reflect the fact that there is no adaptation and learning, but rather the quite "closed" nature of the process. There is no clear indication that this is changing. The territorial reform introduced in August 2005 is a good example. IPs agree that it reflects government learning on decentralised service delivery, but government thinking was not shared before the decision was made to go ahead.

B5.19 PGBS dialogue and conditionality raise the need to address weaknesses in reporting and monitoring systems. The effect of specific conditionality is recent, linked to the PRSC policy matrix introduced in 2004 which includes measures such as the institutionalisation of an annual tracking study report on the fee-free basic education policy. The effect of PGBS is also increasingly visible through PGBS-related TA initiatives to support the development of better accountability systems, e.g. DFID support to the development of PRSP M&E strategy, the EC training programme for accountants, and support to developing M&E systems under the WB PSCBP. Altogether the PGBS effect is moderate.

B5.20 Turning to the efficiency of PGBS, the evaluation team's judgment is that PGBS influence on the balance between domestic and external accountability processes and how this affects GOR–IP policy adjustment processes is mixed. Formal accountability to IPs is quite strong in principle through the DPCG and its affiliates. This is balanced through GOR insistence on mutual accountability (aid predictability on IPs' side) and on its ownership of programmes. However, the slow progress made in developing domestic accountability mechanisms means that accountability to IPs could take precedence as IPs can always turn the tap off. The ultimate effect of PGBS on domestic mechanisms is not clear-cut. PGBS mechanisms may overwhelm them; for example, priority expenditures are an important topic in the PGBS dialogue but they do not feature in government accountability to Parliament. It can also assist in further strengthening them, e.g. by PGBS promoting the new OBL, PRSC prior actions related to Citizens' Report

Cards (CRCs). Judging by effects to date, PGBS is rated as moderately efficient with regard to enhancing policy learning through enhanced domestic accountability.

Influence on Policy Content

Public and private sectors

...in which, policies address major market failures, the regulatory environment and the appropriate balance between public and private sectors			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B5.21 Paragraphs ¶B5.8–¶B5.10 indicate that generally the quality of policies in addressing major market failures, strengthening the regulatory environment and setting an appropriate balance between public and private sectors is still rather weak, partly because policies are not comprehensive. However, it is improving and at an increasingly rapid pace as indicated, e.g. by the latest Doing Business survey, which ranked Rwanda among the top performers for a number of trade-related and business-related reforms. [9]

B5.22 The effect of PGBS on those policies has not been pronounced thus far, with isolated examples of influence. e.g. of PGBS–SWAp dialogue on the balance between primary and tertiary education public funding. This is in part due to the limited policy coverage of PRSP-1 (as the main vehicle for PGBS inputs), but also to the rather limited engagement of PGBS with the growth agenda. This engagement is now rising. However, it is unclear whether it concerns PGBS as a whole, or the World Bank PRSC mainly or exclusively. In any event, issues of market failure, regulatory environment and public–private balance are likely to feature strongly in the next PRSC rounds. Depending on the influence of the PRSC among PGBS programmes and the extent of intra-PGBS harmonisation in future (see limitations in this respect noted in ¶B1.30 and ¶B2.9), these issues may or may not become important for PGBS as a whole. Overall this makes for a relatively weak effect and a rather limited level of efficiency of PGBS in influencing those policies.

Sector policies

.. .in which, appropriate sector policies complement public expenditures			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency:**	Confidence: **

B5.23 Chapters B3 and B4 discuss issues of linkage between government policies and spending at a general level. In this section the focus is the extent to which appropriate sector policies are in place and how well articulated they are with public expenditures. This is uneven and not very strong overall. Sectors are at diverse stages in terms of policy development and in particular, in terms of operationalising policies through their articulation with public spending. In cases such as education, where this articulation has much improved in the past few years, it still happens that execution may diverge from budget allocations in ways which imply a departure from the underlying policies, e.g. regular over-spending on tertiary education. MTEF and annual budget preparation processes remain weakly linked. Sector ministries and sub-national entities are not confident that the MTEF provides them with relatively secure three-year resource envelopes. For this reason they tend to push through the financing requirements of a three-year programme all in the first year, through annual budget estimates exceeding the

[9] World Bank, Doing Business database indicators.

MTEF ceilings. This behaviour continues to undermine the policy content of the MTEF and of the budget.

B5.24 With regard to the pro-poor orientation of policies (hence their "appropriateness"), this appears to be correlated with the inclusiveness of the sectoral policy process. According to a Minecofin analysis, confirmed by discussions at provincial and district level during the team's field visits, more inclusive policy processes have resulted in more pro-poor policies. Education is a case in point. Thus, the link between changes in policy processes (increased participation) and changes in policies (greater focus on poverty reduction) is present at sector level. It is still moderate, and uneven across the spectrum of sectors. But this is improving over time, as illustrated in the case of the participatory development of the SPAT.

B5.25 How much this is attributable to PGBS is a difficult question. The PRSP process and through it PGBS may have brought some additional "discipline" in developing appropriate sector policies. They may have helped in prioritising public actions within an affordable financing framework, though this is an ongoing discussion. They may also have influenced government in its decision to prioritise pro-poor interventions more than might have been the case otherwise. But this effect is uneven, as policy development itself is uneven across sectors.

B5.26 Only in a limited number of cases has there been a direct link between PGBS and a focus on sector policy issues. The clearest example is with the education sector, as noted in ¶B7.7. However, even in this sector the PGBS effect cannot be fully demarcated from the effect of sector-specific mechanisms of donor coordination (education donor group led by DFID). In most other sectors, increased focus on policy dialogue, TA provision, etc. and consistency in sector policy reform have arisen from the cluster system or preceding sector-specific arrangements, e.g. in decentralisation. Hence, the attribution is not clear-cut between PGBS and SWAp or other sector-specific arrangements.

B5.27 This pattern may be changing. PGBS may become more instrumental in focusing sector policy dialogues through the PRSC "sector readiness" approach (see ¶B1.8 and ¶B1.11) and the use of sector performance assessment sub-matrices in this context, for instance in health with the PRSC-1 and through the DTIS for PRSC-2. However, it is too early to judge the overall effect that this development may have in the future given that the PRSC was only introduced in 2004.

Principal Causality Chains

B5.28 The chain of hypothesised links examined in this chapter (i.e. government and IP focusing on key government policy and public expenditure issues, leading to government empowerment to strengthen policy processes, leading in turn to more effective and accountable policy processes and improved policies) is moderate. The weakest points in the chain appear to be that (i) empowerment (to strengthen and lead policy processes) is not yet generalised across government; (ii) changes in policy processes do not always lead to changes in policies, owing to various factors including weak capacity and government uncertainty about broadening and deepening participation in an environment characterised by strong security concerns; and (iii) there are outstanding questions on the direction of accountability in policy processes (domestic/external, elite/poor with regard to poverty reduction vs. wealth creation).

B5.29 Attribution to PGBS is moderate, shared with effects from quite a large number of endogenous/domestic and other externally-induced processes. This is in the light of the relatively short time during which PGBS has been in operation in Rwanda, the still small number of IPs involved in PGBS, and the fact that the World Bank has only recently joined the group of

PGBS IPs. The effect of PGBS on this chain is bound to evolve, as a result of the growing importance of the PRSC. However, the overall direction of this evolution is unclear. In particular, the adoption of the "tighter" conditionality framework of the PRSC may present a challenge to the strong effect that PGBS appears to have had thus far on intra-government incentives to make better policies.

Counterfactual

B5.30 The continuation of pre-PGBS operations (i.e. without dialogue etc.) would not necessarily have resulted in less influence of IPs on policy processes and policies, but this influence would have continued to be more indirect and less transparent (e.g. donor-financed TA partly substituting for GOR–IP dialogue). It would also have been less easy to unite around main themes and issues such as priority programmes. The continuation of a policy dialogue exclusively through the PRGF would not have had the same effect of federating IPs' interests around key policy and public expenditure issues.

B5.31 The provision of sector support, whether through SBS or other forms of pooled funding targeted on a sector or sub-sector/programme, appears to be attractive to IPs. This is not necessarily because of a (potentially) higher effectiveness in terms of policy dialogue and development. The education example shows that it is feasible for PGBS and SWAp-type support to sector policy development to complement each other in this regard. It is primarily related to IPs' desire to secure adequate funding for the targeted activities.

B6. The Effects of Partnership GBS on Macroeconomic Performance

How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?

Introduction

B6.1 This chapter investigates causality chains through Levels 1–4 of the EEF. It will cover two streams of effects/PGBS inputs (i.e. all Level 2 immediate effects/activities as they relate to improved fiscal discipline and a growth-friendly macro environment) postulated in this framework.

B6.2 The main causal hypotheses of the EEF to be addressed in this chapter are:

i) That more external resources for the government budget (2.1) and an increase in the proportion (2.2) and predictability (2.3) of external funds on/in the national budget (2.2) result in improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth-enhancing environment (4.6);

ii) That policy dialogue/conditionality focused on key public policy and public expenditure (PE) issues (2.4), TA and capacity development focused on key public policy and PE issues (2.5) and IPs moving towards alignment and harmonisation around national goals and systems lead to improved fiscal discipline (3.4) and therefore a macroeconomic environment favourable to private investment and growth (4.1) and a more conducive growth enhancing environment (4.6).

Relevant Facts

B6.3 Average annual economic growth and inflation rates are provided in Table B6.1. Economic collapse and extreme macroeconomic instability after the genocide was followed by a period of recovery in the second half of the 1990s, and a gradually slowing growth rate after 2000 (with the exception of 2002). Variations in economic growth rates tend to be highly correlated with weather conditions, as low-input, rain-dependent agriculture accounts for around 45% of the economy. Good weather conditions in 2003, for example, accounted for the high growth rate in that year. Further growth in agriculture requires increases in productivity and/or a shift to more land-intensive products, because of the lack of unused land in Rwanda. There have been some improvements already, for example in relation to the introduction of washing plants for coffee, which has helped increase exports of high-value coffee, and through the privatisation of tea estates. However, the provisions of a new land law have yet to be implemented.

Table B6.1: Average Annual Inflation and GDP Growth 1994–2004

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Growth	–50	34	15	14	9	6	7	6	10	2	4
Inflation	41.0	41.0	7.4	12.0	6.2	–2.4	3.9	3.3	2.1	7.5	12.0

Source: IFS Statistics, 2004 estimates from Ministry of Finance and Economic Planning (2005a).

B6.4 Rwanda has a very large structural fiscal deficit before aid receipts, in the range of 9–15% of GDP during 2001–2004 (Table B6.2). After aid inflows, the budget deficit is around 1–2.5% of GDP. Government expenditure would have to be very much lower in the absence of external aid.

Table B6.2: Fiscal Deficits Before and After Grants 2001–2004

(as % of GDP)

	2001	2002	2003	2004[(a)]
Revenue	11.4	12.2	13.5	13.5
Total expenditure	21.0	21.3	24.1	28.3
Deficit before grants	–9.5	–9.1	–10.5	–14.8
Deficit after grants	–1.3	–1.9	–2.5	–2.2

Source: IFS Statistics.

Note: (a) provisional.

B6.5 In general, GOR can point to a reasonable measure of success in bringing inflation under control and stabilising the economy post-genocide. However, a significant lapse in macroeconomic management occurred in the period before IMF support was suspended between November 2003 and June 2004, with the bilateral GBS IPs eventually following suit. Inflationary financing preceded the withholding of donor support, owing to poor government macro management during an election year, with perhaps some impact from the fact that most of DFID's budget support was disbursed late in the financial year, in November, after a long process of agreeing a new programme (see Annex 3C). The Government seemed to have regained macroeconomic control in the period before the IMF Review in June 2004, despite the fact that budget support was not disbursed.

B6.6 Exceeding agreed PRGF spending targets in 2003 appears to have fed through to some mild effects on macro variables. Failure to restrain government spending, and delays in PGBS disbursements, combined with weak economic output, caused the government to resort to bank and non-bank borrowing. The government thereby exceeded its agreed spending targets under the PRGF, which led to further delays in PGBS disbursements.

B6.7 This contributed to an increase in money supply of 16–20% on the narrow definition, over the year to end 2003, which in turn caused inflationary pressures during the second half of 2003 and into 2004. Inflationary pressure was also caused by exogenous factors, including drought-induced domestic food price rises.

B6.8 Between 2002–2004, government borrowed extensively using Treasury Bills (Treasury Bill borrowing was RWF10.9bn at end of 2002, RWF15.6bn at end of 2003, and RWF28.8bn at the end of 2004). Whether government borrowing may have crowded out investment by the private sector depends partly on whether the commercial banks used up their lending capacity by buying Treasury Bills, or whether they had enough lending capacity to do both. Commercial banks in Africa tend to lend to finance working capital, rather than to finance fixed investment.

Thus any impact on fixed investment is liable to be indirect, if a shortage of finance for working capital acts as a constraint on private sector willingness to invest in fixed capital.

B6.9 Lending to the private sector during this period is shown in Table B6.3 below. Taking inflation into account, it appears that commercial bank lending to the private sector fell in real terms, including in the year to December 2004, during which there was a 10% nominal increase in lending. There were some minor effects on interest rates – the discount rate in 2003 rose by 1.5% – while lending rates appear to have risen by around 1% during 2002–04. This may have affected commercial bank lending to the private sector (probably not much) and by crowding out (more likely). Overall, the interest rate impact on the private sector of the expanded budget deficit during this period appears to have been fairly weak.

Table B6.3: Stock of Credit to the Private Sector

(RWF billions current prices)

Dec 2001	Dec 2002	Dec2003	Mar 2004	Jun 2004	Sep 2004	Dec 2004
76.5	85.5	97.2	97.9	97.7	102.4	107.6

Source: Ministry of Finance and Economic Planning (2005a)

B6.10 Rwanda's prospects for attracting substantial private investment from industrialised countries are constrained by regional insecurity. Foreign investment from neighbouring countries is more likely at this stage. These investors are accustomed to dealing with similar political risks, so that their choice of where to invest is more determined by the comparative legal and economic conditions in Rwanda, and less by the political and security risks. Despite improvements in the business climate, the overall environment remains poor in relation to other countries in the region (see Annex 2A, Table 2A.2).

B6.11 There is therefore some evidence that the fiscal indiscipline which occurred in 2003 had a limited impact on inflation and interest rates, and therefore also some impact on private sector borrowing and economic activity.

B6.12 The fragility of Rwanda's economy is in part because export volumes remain below the pre-genocide level. In 2003, imports were approximately four times the level of exports. Even in 2004, a year when exports increased by 50%, the ratio was still 3:1. The balance of payments remains heavily dependent on aid inflows. Foreign exchange reserves have built up from an average of 4.4 months of imports in 1996–98, to over 5.8 months in 2003, a reasonably comfortable position.

B6.13 The low level of exports has made it difficult to reduce the ratio of net present value of debt to exports to 150%, the target which is regarded as sustainable under HIPC rules. This target is highly geared to the level of exports. For example, weak export performance in 2003 increased the ratio to 326%. The ratio is vulnerable to exchange rate movements. While debt is denominated in SDR and EUR, export receipts are denominated primarily in USD. Thus Rwanda's position is damaged when the dollar is weak. Although this is reversed when the dollar strengthens, it is a problem that Rwanda is very vulnerable to exchange rate movements between currencies over which the government has no control whatever.

B6.14 Rwanda reached HIPC completion point in April 2005. So it is too early to expect an impact on the business environment. As already mentioned, other constraints have till now been more important in Rwanda. However, over the longer term, achieving HIPC completion point must send out a positive signal effect on business, investment etc.

Assessment against Evaluation Criteria

Macroeconomic Effects

Fiscal discipline and macroeconomic stability

The extent to which PGBS has contributed to fiscal discipline and macroeconomic stability			
General Situation:	Level: **	Trend: =	Confidence: ***
PGBS Influence:	Effect: *	Efficiency: **	Confidence: **

B6.15 Rwanda has achieved a reasonable degree of macroeconomic stability, with the notable exception of 2003. However, its favourable macroeconomic performance is not mainly attributable to PGBS. Government macroeconomic policies coordinated with the IMF were put in place starting in the mid 1990s. With the exception of the deviation in 2003, the post-genocide government has prioritised the control of inflation and applied a disciplined culture of fiscal deficit management. The most senior level of government is actively involved in key macroeconomic management and decision-making. The latest IMF Review under the PRGF (IMF 2005) quotes the case of 2004, when

> priority spending fell short of targets because of delays in donor disbursements at end-June. While on such short notice, the resulting financing gap could have been filled with central bank financing, the authorities chose to temporarily restrain spending (including on priorities) to maintain macroeconomic stability.

Since this culture was in place before the arrival of PGBS, attribution to PGBS of improved fiscal discipline is therefore limited, though PGBS IPs have reinforced the emphasis on prudent fiscal management in recent years.

B6.16 Macroeconomically, aid is fundamental to Rwanda, financing 35–50% of total recurrent and on-budget development spending, and is key to managing the budget deficit. Aid to the budget includes debt relief, concessional lending by the World Bank, the IMF and the AfDB, as well as PGBS and other grant aid. In principle, the regularity and consequent predictability of PGBS should have a strong stabilising effect on the GOR cash budget. Foreknowledge of PGBS external flows passing through the budget should enable a planned and disciplined approach to deficit management. Further, better budget financing should cause lower-cost, non-distortionary domestic budget financing.

B6.17 In Rwanda so far, short-term volatility in GBS disbursements can be demonstrated (see Chapter B3) where delays in disbursement have disrupted budget financing, contributing to temporary fiscal indiscipline. In other words, while GBS had the potential to make it easier to manage public spending and the budget position, it had the opposite effect because there was no agreement to disburse regularly to an agreed schedule, and not to suspend disbursements without an agreed period for dialogue.

B6.18 It is possible for increasing disbursement of PGBS funds to increase the rate of inflation, which in turn could increase the real rate of exchange to the detriment of the tradable sector. This leads to an inability to compete with imports, reduced income and profits of those exporting at globally determined prices, and an inability of exporters to compete in other markets, for example, the export of goods and services in competition with neighbouring countries. PGBS has a lower import content than project finance, with greater spending on local salaries and other local goods and services through the financing of increases in government recurrent expenditure, and this could be more inflationary than the equivalent amount of aid for projects.

B6.19 The evidence from Rwanda is that this has not happened. From 1999 to 2003, prices as measured by the Consumer Price Index increased by 18%, while the cost of foreign exchange (as measured by the SDR exchange rate) increased by 77%. Going back rather further, prices have increased by 47% since 1995, while the cost of an SDR increased by 91%. On these measures, therefore, the real exchange rate has depreciated substantially (given the low rates of inflation in the countries represented by the SDR), improving the competitive position faced by producers in the tradable sectors.

B6.20 There is quite a strong agreement among stakeholders that PGBS, starting with DFID's PGBS operation in 2000, has provided more focus on macroeconomic policy and processes than other aid forms, and helped sustain the pre-existing disciplined culture of budget deficit management. The enforcement of conditionality is chiefly through the link between disbursements and PRGF review.

Cost of budget finance

The extent to which PGBS funding has reduced the cost of budget financing			
General Situation:	Level: *	Trend: =	Confidence: *
PGBS Influence:	Effect: perverse	Efficiency: na	Confidence: *

B6.21 As noted in ¶B6.8, GOR continued to have recourse to Treasury Bills throughout the PGBS period – presumably to compensate for unpredictability of PGBS disbursements. PGBS unpredictability has thus probably contributed to the near doubling in domestic interest payments between 2001 and 2004 (RWF 12bn) with annual increases of 27% in 2003 and 16% in 2004. Hence PGBS did not reduce the cost of budget financing. It had a moderately perverse effect.

Private investment

The extent to which PGBS funding of public expenditures has adversely affected private investment.			
General Situation:	Level: null	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B6.22 Private investment in Rwanda is low and there is no clear-cut evidence that it is increasing. Exogenous factors, including the regional political/security situation, structural constraints associated with Rwanda's land-locked location and poor transport links, its weak domestic and competitive regional markets and infrastructure, and external shocks such as oil price rises and regional instability, tend to swamp the predictability and flexibility effects of PGBS in this area.

B6.23 Probably most telling for the private sector have been the payment arrears which have been built up by government in response to budget cash flow shortages, caused by excess spending and delays of PGBS payments in 2003. Significant government arrears, mainly for goods and services of RWF 4.4bn at year end 2002 and RWF10.2bn at end 2003, inevitably took revenue away from the private sector, with some slowdown in activity being observable. In 2003, a 2% decline in manufacturing output was recorded, while growth in the wholesale/retail sector was close to zero. However, overall PGBS has been a negligible factor in explaining the lack of change in private investment in Rwanda.

Domestic revenue

The extent to which PGBS funding of public expenditures has adversely affected domestic revenue collection.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: not found	Efficiency: na	Confidence: **

B6.24 GBS has been running at 15–40% and PGBS at 9–27% of total government expenditure and net lending during 2002–04. Strong performance in domestic revenue raising (partly attributable to a PGBS donor's project supporting improvement in systems, practice and discipline) suggests there is no visible evidence of government expecting PGBS and therefore relaxing its efforts on own revenue raising. (See Annex 2B, Table 2B.2 for figures relating to tax revenue collection.)

B6.25 PGBS has also supported the stabilisation of improved institutional behaviour in terms of domestic revenue mobilisation. The EC has conditions on revenue collection for its variable tranche. DFID has provided long-term and much-appreciated institutional support to the Rwanda Revenue Authority (RRA). This, which is considered by DFID as a measure associated to PGBS with a view to precisely mitigating the risk of government relaxing its tax collection efforts noted above, has been recognised as a success story, e.g. in a recent study on capacity, change and performance (Morgan et al 2005). However, there are outstanding issues e.g. the private sector is not fully satisfied with the extent of dialogue and consultation on taxation (quoted in the NEPAD report, Government of Rwanda, 2005).

Facilitating institutional change

The extent to which such improvement has been stable over the years and has allowed changes in institutional behaviour (private sector investment, central bank decisions, etc.).			
General Situation:	Level: *	Trend: +	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: *

B6.26 Macroeconomic stability is necessary, but not sufficient, to create a good investment climate. With some variations, for example in 2003 (but not seriously even in that year), Rwanda has attained reasonable macroeconomic stability, although this is not attributable to PGBS. The active constraint on investment is not macroeconomic instability at present, but the other factors: geopolitical, structural, administrative etc. Investment in Rwanda is further handicapped, in comparison with other countries in the region, by having less than half their regional income per head, a severe regulatory environment by most measures, a complete absence of bankruptcy procedures, and almost no public information available on borrowers (See Annex 2A, Table 2A.2).

B6.27 Factors affecting private investment are reviewed in Chapter C2. However, a lively response of investment to the current macro stability should be not be expected. Investors use current stability as an indicator of future stability, but factor market, security, political and other information into their decisions. Current macoeconomic stability is in any case a weak indicator of future stability when there is a history of instability, and the period of stability is short. In other words, stability has to be sustained in order to increase confidence. Thus, despite the relatively good record of macroeconomic stability, there has been no corresponding surge in private investment and associated faster growth. As mentioned, uncertainties stemming from the regional geopolitical context, and long-term lack of public investment in infrastructure, seem to be the underlying factors holding back private investment. If current macroeconomic stability is sustained this may help, but only to a limited extent.

B6.28 A further aspect which is difficult to judge relates to the way PGBS appears to have focused donor and government attention on PFM. Although this is desirable, it may have resulted in the relative neglect of reform relating to private sector activity. USAID is very active on private sector issues, but is not a PGBS donor. Although USAID works closely with PGBS IPs on this issue, initial progress in economic liberalisation, deregulation etc. cannot really be attributed to PGBS. However this has begun to change with the DTIS studies supported by the WB and other PGBS IPs. PGBS is now more clearly contributing to the generally rising awareness of the need to change institutional behaviour in order to promote private sector activities, and changes have begun to occur (e.g. regulatory improvements in trade related areas evidenced in the WB Doing Business survey 2005).

B6.29 Overall, this makes for a weak but not null influence of PGBS on institutional changes related to macroeconomic management and private sector development.

Principal Causality Chains

B6.30 PGBS funding has led to significant additionality of aid through the budget and more external resources for the GOR budget (2.1), an increase in the proportion of funds subject to the national budget (2.2) and some increase in predictability of external funds to the national budget (2.3). Disrupted budget financing has led to temporary fiscal indiscipline, so PGBS is judged to have had a negative impact on fiscal discipline (3.4). There is little evidence that flow-of-funds effects have resulted in a macroeconomic environment favourable to private investment and growth (4.1) or a more conducive growth-enhancing environment (4.6).

B6.31 Although policy dialogue / conditionality / TA have focused on key public policy and PE issues (2.4), and IPs have moved towards alignment and harmonisation around national goals and systems, short-term disruptions in PGBS flows have undermined fiscal discipline (3.4). Therefore, this has not resulted in a macroeconomic environment more favourable to private investment and growth (4.1) or a more conducive growth-enhancing environment (4.6), for the reasons noted above.

Counterfactual

B6.32 Experience of project aid in Rwanda suggests that the same level of aid, using other modalities, would have delivered less disbursed aid because of the poor disbursement performance of project aid. Despite within-period disruptions, PGBS has been fully disbursed, in the following financial year at worst. Project aid, as the counterfactual, would not be expected to have the same impact on the macroeconomy. This is partly because substantial shares of project funding are spent outside the country and project funding therefore lacks the local multiplier effect of PGBS spending. On the other hand, project flows place less appreciation pressures on the local currency. There are no data on the relative import content of government spending out of differing forms of aid, but as noted above, there has been no adverse impact on the real exchange rate.

B6.33 Regarding the short-run counterfactual if PGBS were removed, there would be a severe macroeconomic problem. Government spending would probably not be reduced sufficiently, at least for a time, so that there would be a large budget deficit in the absence of PGBS. It is very difficult to cut government spending quickly, and recurrent spending is harder to cut than capital spending. With projects, it is hard to stop the project in the middle of implementation, but total spending can be reduced by not starting new projects. The withdrawal of PGBS would be likely to generate a large budget deficit, almost certainly financed in an inflationary way because of the lack of financial reserves and the lack of non-inflationary borrowing capacity.

Even if GOR were able to issue Treasury Bills to fund the gap created by the ending of PGBS, the interest cost would mount rapidly, causing further financial problems.

B6.34 Whether the fiscal situation is sustainable depends, therefore, on whether aid inflows are sustainable. Rwanda, one of the poorest countries in the world, has achieved quite rapid growth of GDP and is making progress with the economic reforms of concern to donors. In many countries, this would be sufficient to provide some confidence in the sustainability of aid inflows. However, for Rwanda at this stage these factors are not sufficient, because of the regional situation and the sensitivity of donors to the DRC border situation and human rights. This was clearly demonstrated by the suspension of GBS disbursements in 2003/04.

B7. The Effects of Partnership GBS on the Delivery of Public Services

How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?

Introduction

B7.1 This chapter focuses on hypothesised links between Level 3 (strengthened government processes and systems) and Level 4 (better outcomes of government's actions on the broader society). The link between policy-making and policies, which are one element bridging Level 3 (better policy-making and public expenditure processes) and Level 4 (service delivery, growth and social inclusion outcomes) has been analysed in Chapter B5. This chapter focuses on whether the fact that better policies are in place (4.2/4.4) and more resources are available (3.1) result in more resources flowing to service delivery agencies (4.3) and in the effective delivery of more and better-quality services to the population and the poor in particular (4.7). The analysis focuses on education and health services, with occasional references to other services.

B7.2 A particular challenge in the case of Rwanda is to account for the "rebound" in the availability of public services following their total collapse in 1994, and then to consider the "rebound" effect on income and non-income poverty reduction as opposed to a genuine public policy effect, especially in the first years following the re-establishment of some form of government. This challenge is noted in this chapter and is further analysed in Chapter B8.

Relevant Facts

B7.3 Chapters B3 and B4 analyse the extent to which PGBS has resulted in the availability of more resources for service delivery, and find that this is indeed the case, though moderately. Priority programme allocations have risen over the years (see Annex 2B, Table 2B.4). Although this is related, in part, to a progressive widening of the definition of priority programmes, the budgets available to the education and health sectors have nevertheless increased over the past few years, e.g. almost doubling for health between 2002 and 2004 (World Bank 2005b), and the availability of PGBS funding has helped in this. Targeting of priorities (through priority programmes) appears to be relatively well internalised through the MTEF, which is known at all levels of government, and the PRSP requirement of developing sector strategies.

B7.4 However, there are several qualifications to be borne in mind:

- As indicated in Chapter B4, there remains a disconnection between MTEF and annual budget preparation and, to an even greater extent, execution.
- Sector strategies are unevenly developed and pro-poor, as noted in Chapter B5.
- Priority programmes do not "automatically" finance pro-poor services: as noted in Box B3.1, the definition includes the whole of the education and health sectors, even though there is little evidence that current spending on higher education and tertiary health care is pro-poor.
- Even when they are in place and pro-poor it may not always be easy to translate policies and strategies into concrete measures amenable to public action. There appear to be few examples of such measures, of which the most often cited is the government-paid capitation grant. In contrast, government continues to experience difficulties in enrolling the poor in the (health) *mutuelle* scheme.

B7.5 The availability of more resources for service delivery does not guarantee that they actually flow to service delivery agencies in full. There have been occurrences of reallocations of resources within-year, under-spending due to low absorptive capacity and cash flow issues leading to shortfalls in budget releases, all three factors influencing the final outcome in terms of availability of resources at service delivery level. A case in point is the discussion on the under-spending on priority programmes in mid-2004. While this is (probably correctly) deemed to have been due to late disbursements of PGBS (IMF 2005), some programmes were still under-spent at the end of the year even though budget support funding had been made available to the expected level (WB PRSC-1 substituting for postponed disbursements from bilateral IPs, see Annex 3C). Indeed, government reallocated funds to a new priority programme aimed at tackling the energy crisis which was plaguing the country (endorsed in the IMF Fourth Review document). Minecofin stresses that these reallocations (representing more than 10% of the initial total budget envelope for priority programmes in 2004) were made from programmes that had difficulties in absorbing the totality of their budget allocations, e.g. Community Development Fund (CDF), gender and export promotion.

B7.6 This case also indicates that resources available in principle for (priority) service delivery may be cut during the year, even though they are supposed to be protected. Another reason for shortfalls in resources available at service delivery level is delays in budget releases accumulating throughout the year and resulting in actual spending below budget allocations, especially for non-salary recurrent spending at sub-national levels. Public Expenditure Tracking Surveys (PETS) were undertaken in 1999/2000 and in 2004 and they throw some more light on actual flows of funds at sub-national levels. The PETS 2004, which took place after significant changes in the organisational arrangements for service delivery, is more positive. However, there remain concerns, e.g. that district hospitals do not get the necessary funding from the provincial level, confirming reports during field visits (see Annex 7, Figure 7.1 on flows of funds between national and sub-national entities). Field visits and the PETS (Government of Rwanda, 2005) also indicate that these shortfalls in resources have a negative impact on activities on the ground.

B7.7 With regard to actual service delivery and focusing on the PRSP/PGBS period (i.e. after 2000), data in Annex 2B Table 2B.1 show that there has been significant improvement in access to primary education (GER up from 73% in 2000/01 to 95% in 2003/04) though completion rates are much more of a challenge (high drop-out and repetition rates, probably denoting quality and perhaps affordability issues). Progress in access to health services has been less striking but good (see Annex 2B Table 2B.3 – utilisation rate of public health facilities as measured by visits per capita per year from 0.25 in 2001 to 0.33 in 2003). The biggest health challenge is to curb the high maternal mortality rate, which requires steadier progress in increasing the number of professionally assisted deliveries. Moreover, access of poor people to health care continues to be problematic. There are sharp inequalities in availability of and access to basic education and health services between rural and urban areas (with the former much worse off) and among geographical areas, and no readily available evidence that this would be decreasing (see chapter B8 for further detail on inequality issues).

B7.8 The data in Annex 2B also show that there were massive “rebound” improvements in services, pre-PGBS (albeit from a zero base). Hence, as noted in the introduction, it is too early to assess the link between public policies and spending and improved service delivery, for the quite short PRSP/PGBS period. However, it should be noted that the rebound was possible partly because resources were available for the reconstruction of service delivery facilities and the deployment of staff. Moreover, better policies appear to have facilitated a stronger rebound: there are more visible changes in service delivery, notably in access, in those sectors that managed to develop a policy framework, e.g. education and health compared to agriculture.

B7.9 The above indicates that service delivery is improving but with quite severe limitations. even though policies appear to be changing in the right direction and more resources are available. This is caused by weaknesses throughout the policy chain (sector policies/ strategies → MTEF → budget → budget execution → activities/ service delivery) and in particular: (i) weak implementation capacities (in particular, but not exclusively, at decentralised and facility levels; this is compounded by severe imbalances in the deployment of qualified staff across facilities, especially notable in health), and influence of external factors and powerful actors in changing the plans; (ii) weak administrative reporting and monitoring (noted in Chapter B5); and (iii) lack or weakness of local accountability mechanisms and processes (e.g. formally all schools have a PTA but it is recognised that it is a massive challenge to make them really effective). The lack of mechanisms for citizens to give feedback on the quality of services, and the poor quality of services delivered in many cases, are recognised in the NEPAD APRM report (Government of Rwanda 2005).

B7.10 In Rwanda decentralisation is seen as a critical avenue toward improving service delivery, through enhanced horizontal/ downward accountability. Preliminary evidence from the WB–Minaloc survey on decentralisation and service delivery (Ministry of Local Government and Social Affairs and World Bank 2005) shows that:

> Service delivery under different sectors varies among provinces, mainly due to the different approaches used, innovativeness of local leadership and communities, and level of interventions (NGOs, IPs etc.). Community participation and ownership have been enhanced through democratisation and expansion of local leadership, integration of traditional value systems and bottom-up planning approaches. The establishment of decentralisation focal points in sector ministries provides an appropriate institutional arrangement for furthering decentralised services, but clear performance targets and outcomes are needed to measure progress.

B7.11 The same survey confirms this Report's findings that the lack of a clear definition of roles and responsibilities of the various levels, together with the lack of a coherent fiscal decentralisation framework, significantly weakens the potentially positive effect of decentralisation on service delivery. For example, the last education sector review stressed the need for defining the roles of central, provincial, district and school-level agents with respect to the provision of a "minimum package of inputs", while in 2003 more than 45% of expenditures were undertaken at provincial and district level.

Assessment against Evaluation Criteria

Pro-Poor Public Service Delivery

The extent to which PGBS has contributed to increasing the efficiency and effectiveness of pro-poor public service delivery and improving the access of poor people.			
General Situation:	Level: **	Trend: +	Confidence: ***
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B7.12 Focusing on the PGBS period (post-2000), overall there have been continued though moderate gains in terms of public service delivery. In both education and health, progress has been good in terms of access. Generally this has been relatively pro-poor; but the quality of services has remained an issue. The trend is positive and government is taking measures to address issues of quality, efficiency and effectiveness and to further improve accessibility of services to poor people (e.g. provision of incentives for health workers in rural/remote areas; capitation grant in education; *mutuelles* in health).

B7.13 PGBS funding has been effective in supporting the rebound in availability of services noted in ¶B7.8. It has enabled government to cater better for the functioning of existing and new facilities through financing recurrent costs, alongside domestic revenues, while further expansion continues to be financed mostly by projects. As noted in Chapter B3, the development budget is primarily financed through projects. This funding effect of PGBS, allowing a better balance between recurrent and capital financing, has also been supported through other PGBS inputs. Policy dialogue and conditionality raise issues of quality, efficiency, effectiveness and accessibility to the poor of public services and assist government in designing appropriate measures. Issues of inequality are addressed too, though indirectly, through the measures aimed at enhancing the accessibility/affordability of services and better deployment of human resources.

B7.14 Another effect of PGBS is that, while the "public action chain" from sector policies and strategies to activities / service delivery is still weak (as noted in ¶B7.9), it is also sensitive to the predictability and timeliness of fund flows, and would remain so even if it was stronger. The predictability and timeliness of government funding for service delivery is in turn heavily dependent on the predictability of PGBS releases and on an appropriate and reliable scheduling of PGBS releases in the course of the fiscal year. As noted elsewhere in this report, this effect has not been very positive thus far.

B7.15 The World Bank and other PGBS and sectoral IPs encourage government to institutionalise PETS and other tools allowing the identification and resolution of problems in the spending chain in a timely manner (effect of PGBS dialogue/conditionality). The PETS 2004 was part of the conditionality framework of the PRSC-1 and the PRSC policy matrix foresees that there should be annual PETS from 2006 onward. Over time this should help in enhancing the flow of funds to service delivery agencies. However, this effect depends on government putting in place mechanisms to act upon the PETS findings (there has not yet been much sign that this was happening for the PETS 2004).

B7.16 Overall, PGBS has had some effect in ensuring that more and better services are delivered and accessible to the poor. But for various reasons outlined in this section this effect is moderate. PGBS efficiency is moderate too: more might have been achieved considering the volume of resources delivered to the government budget.

Capacity and Responsiveness of Service Delivery Institutions

The extent to which PGBS has contributed towards developing the sustainable capacity of service delivery institutions.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B7.17 Implementing agencies and service delivery institutions face severe capacity constraints, compounded by the lack of clarity in roles and responsibilities. The trend here is neutral. First, policy measures such as a more balanced deployment of health professionals have yet to show their effect, e.g. in more equitably distributed capacity. Second, the difficulty in defining roles and responsibilities can be explained, in part, by the frequent and major organisational changes that occurred over the past five years (decentralisation policy, PSR), and this has not yet reached a stage of stabilisation. The recent territorial reform aims at raising capacity in the medium term through a more efficient territorial organisation and the retention of most qualified staff, but in the short term it will represent yet another major organisational change.

B7.18 Turning to PGBS influence, while sector-specific TA linked to PGBS, e.g. in education, has been instrumental in policy development it has been less successful in initiating and sustaining the institutional changes needed to translate policies into service delivery (Foster et al. 2005). PGBS has stressed the need for service delivery capacity, not least through an emphasis on sector performance targets, in the policy dialogue and as part of the conditionality framework. But these are still very much a central ministry's business. These shortcomings have been identified and there are plans to address them, e.g. in education and in health, with the development of comprehensive medium-term capacity-building strategies embracing service delivery capacity needs. The massive strengthening of generic management capacities which is planned to occur through the PSCBP should also reinforce the effect of PGBS-related TA on service delivery. But this is hypothetical at the moment, as the project has yet to start in earnest.

B7.19 The strong PGBS effect on enhanced PFM systems has been noted in Chapters B3 and B4. As part of this effect PGBS, through dialogue and conditionality, encourages government to give high priority to strengthening financial reporting and accountability at service delivery level. The OBL requires relevant accounting and internal audit capacity in all implementing agencies and the installation and roll-out of an enhanced accounting / budget reporting software across all government levels. Non-financial reporting and monitoring is also due to be significantly improved, e.g. as part of the preparation for PRSP-2. This undertaking is supported by all IPs, including support to strengthening sectoral management information systems. Among the PGBS IPs the WB has included specific measures prompting government to strengthen M&E systems in various ways. There is therefore a potentially strong effect of PGBS on better service delivery through the route of better PFM and M&E systems, but it is yet to be realised in practice. Overall, though, to date PGBS has only weakly influenced capacity at service delivery level.

The extent to which PGBS has contributed towards service delivery institutions becoming more responsive to beneficiaries.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B7.20 For much the same reasons as for the criterion related to capacity, there has not been much change in the relatively weak level of responsiveness of service delivery institutions to beneficiaries, and the trend is neutral. In education there are plans to train all school-level PTAs. In health, performance-based payment schemes "purchasing" high-impact health services from health centres have been piloted and are being institutionalised through a conditional grant mechanism. But these measures are very recent and have yet to show any effect on the ground.

B7.21 With regard to PGBS contribution, GOR has high expectations that channelling PGBS funding through government systems will align accountability for results and resources better than projects. This effect appears to be working at central government level in greater ownership of policies. But as noted in Chapter B5, it is uneven across ministries and is not yet a reality at service delivery level. Various stakeholders stressed that at implementation level projects are usually better owned by agents and beneficiaries. The main reason appears to be that services available through projects are a clearer reality (less "taken for granted") than public services. Partly because of a lack of information on public services, this weakens the perceived beneficial effect arising from increased public spending, including through increased resources due to PGBS funding.

B7.22 Through its link with an increasingly strong sector policy dialogue in education, and to a lesser extent and more recently, in health, PGBS is becoming more involved in operational policies and in the design of measures aimed at enhancing service delivery agencies' responsiveness. Much of this relies on measures spelled out in the PRSC policy operation matrix. As noted elsewhere in this report, it has yet to be seen how influential this more direct approach will be in reality. Looking more holistically at the potential of the PSR and of decentralisation in terms of enhancing service delivery responsiveness, thus far the influence of PGBS on these reforms has been rather weak. The flow-of-funds effect of PGBS facilitating the implementation of the PSR has been noted. But neither the PSR nor decentralisation has been a major topic in the PGBS dialogue and conditionality framework.

B7.23 This is set to change in the near future. PGBS IPs are increasingly aware that as strategies are now in place in a number of sectors, the next challenge is to articulate these with government decentralisation policy and for PGBS to assist in this. Various measures related to decentralised service delivery were included in the PRSC-1 policy matrix e.g. institutionalisation of autonomous health management structures at service delivery level (development of CRCs to strengthen local accountability), which will be followed up throughout the first series of PRSCs. However, beyond this initial approach in the WB PRSC, at this time it is still unclear how PGBS IPs will address the challenge of strengthening both, national sectoral policies and decentralised service delivery more holistically in their future programmes (also see ¶B1.17).

B7.24 Overall, PGBS influence (effect and efficiency) on the responsiveness of service delivery has been weak thus far, but this could change quite rapidly as outlined in the previous paragraph.

Principal Causality Chains

B7.25 Overall, the effect of PGBS on the availability of more services and more pro-poor services is weak to moderate. The chain of links (increased resources available → resources actually flowing to service delivery agencies → more and better services) is tenuous, partly because it is little documented. There is evidence of shortfalls in service delivery financing even though additional resources (including through the presence of PGBS funding) appear to be available. The little data there is (PETS) on the impact of these shortfalls on activities on the ground demonstrates that this leads to services being curtailed. The "public action chain" between policies and service delivery also needs further strengthening, but it is sensitive to predictability and timeliness of funding, which in turn depends significantly on PGBS funding predictability and timeliness. Through funding, policy dialogue and conditionality PGBS contributes to addressing some of the weaknesses in the policy / service delivery chain, e.g. stressing the need and providing assistance to strengthen financial reporting and accountability systems; funding for PSR implementation; supporting measures aimed at strengthening capacity and responsiveness at serviced delivery level. The least clear relation is between PGBS and decentralisation of service delivery.

Counterfactual

B7.26 More aid through projects might guarantee better that funds would flow down to service delivery level in a timely manner (e.g. the WB DCDP, as the main rationale appears to be the possibility of "skirting round" budget funding shortfalls). However, the possible positive flow-of-funds effect of projects does not suffice to guarantee better services. In terms of policy and capacity effects, on the contrary, continued use of project modalities weakens government efforts aimed at aligning incentives toward better service delivery (PSR and decentralisation) through fragmentation of funding and the recourse to separate implementation modalities.

B7.27 As noted in ¶B5.31, the provision of targeted (sector/programme) funding may appeal because of a greater guarantee of protecting service delivery from disruption in funding, with lesser fragmentation than with projects. Targeted funding is not yet used through the budget in Rwanda, but it is being considered by both non-PGBS and PGBS IPs. While it may meet the "protection" objective, targeted funding introduces rigidities in service delivery funding. Depending on the specificity, targeting leads to inter-sectoral or intra-sectoral patterns in service delivery that may not reflect domestic preferences. Targeting funding on the education sector may mean less health services than government might have provided with unearmarked funding. Service delivery institutions may not be affected if the targeting occurs at sector or sub-sector, but they are if targeting is more specific within the sector, including, for instance, through conditional grants for specific health packages as is currently envisaged. It is not clear how this approach is reconciled with the "local preference" principle underlying government decentralisation policy.

B7.28 Cross-sectoral pooled funding for decentralised levels (through government budget, e.g. CDF, or through any other basket funding mechanism) is also a relevant counterfactual to PGBS funding and to PGBS dialogue/conditionality. Among PGBS IPs, the EC and the WB have expressed interest in using it in future (almost certainly in the case of the EC). While this modality may have a more direct/secure flow-of-funds effect than PGBS, and – through focusing the dialogue and conditionality on decentralisation – a more direct capacity effect on strengthening decentralised levels, it is not clear that it addresses the central challenge of strengthening the link between sector policies and decentralised service delivery better than PGBS.

B8. The Effects of Partnership GBS on Poverty Reduction

How far has PGBS strengthened government impact on poverty?

Introduction

B8.1 This chapter analyses the links hypothesised to carry through the effects of PGBS from the EEF Levels 3–4 (strengthened government systems, processes and institutions, and hence more effective action on the causes of poverty and on economic growth) to Level 5 (actual reduction of all three dimensions of poverty). In particular it focuses on:

i) Whether better-aligned government incentives and greater democratic accountability lead to improved administration of justice and respect for human rights and this in turn leads to enhanced people's confidence in government, people's empowerment and social inclusion, and reduction in non-income poverty (3.7/3.8 → 4.5 → 5.2/5.3). (The links leading to 3.7/3.8 are analysed in Chapter B5.)

ii) Whether more and more responsive and pro-poor service delivery leads to non-income poverty reduction (4.7 → 5.2/5.3).

iii) Whether the fact that the environment is more conducive to growth (and growth takes place) results in a reduction of income poverty (4.6 → 5.1).

B8.2 The challenges in assessing these links are numerous. First, some of the starting points in the links are only moderately established in Rwanda, as analysed in previous chapters (e.g., progress in service delivery is not uniformly good across the range of services; economic growth has been slowing in the recent past, and is clearly fragile).

B8.3 Second, expert opinion agrees that much of the early progress in the period 1994–2004 was due to the rebound effect following the destruction of 1994. This is in line with international research which shows that "catch-up effects" are usually dominant for a period of ten years (P. Collier & A. Hoeffler 2002, cited in IMF 2005). However, Chapter B7 indicates that public action appears to have facilitated the restoration of service delivery, in particular from around the year 2000, which marks a turning point in GOR's ability to spell out its own agenda (through Vision 2020, closely followed by PRSP-1). Arguably, public action has similarly facilitated the rebound effect in terms of poverty reduction from around the same time. This is, however, a very short period of time to analyse such effects.

B8.4 Third, data on poverty are scarce. Given the rebound effect it is important to establish some long-term trends, but this is not easy as pre-1994 and post-1994 data are rarely comparable. Post-1994 data are scattered among numerous sources, existing systems for collection and analysis of poverty data need strengthening, and there has been no poverty monitoring work since the surveys completed in 1999/2000 for PRSP-1 preparation. Hence the evidential basis on which to assess the effects of the implementation of PRSP-1 policies and strategies at present is limited. Available academic research has been used as far as possible (e.g. Ansoms 2005).

B8.5 In this chapter, a bottom-up approach is used to complement the top-down following of causal links from one level to the next hypothesised in the EEF. This approach focuses on (i) identifying changes in poverty; (ii) identifying evident or plausible causes to these changes and (iii) assessing whether PGBS is among the causes and the extent of its influence compared to other factors.

Relevant Facts

Changes in Poverty

B8.6 Views from the grass roots were collected during the preparation of the PRSP-1 (2000 Participatory Poverty Assessment). This showed that poor people relate household poverty to issues of land ownership and fertility, and household size and characteristics of the household head. Community poverty was related to a shortage of economic and social infrastructure, agricultural inputs and natural resources. Addressing insecurity was ranked as the third most important priority for poverty reduction, only behind the provision of agriculture-related credit and water supply and before education or health service provision. The PRSC (September 2004) broadly confirmed these findings, also emphasising lack of trust/sincerity as a major social problem. In Rwanda poverty is intrinsically linked to vulnerability and the latter has a number of dimensions specific to the country's recent history, in particular with regard to women and children. Recent research (Ansoms 2005) indicates that these dimensions continue to prevail.

B8.7 Macroeconomic indicators tell the classic story of rebound after a major upheaval such as the one experienced in Rwanda in 1994. However, post-2000 data in particular also show continued vulnerability of the economy to adverse external factors, and the very small economic basis of the country. Moreover, trends are equivocal with regard to income poverty (GDP per capita: USD 370 in 1990, USD 220 in 1995 and USD 242 in 2002; income poverty incidence rate: 48% in 1990, 78% in 1994 and 60.3% in 1999/2000). GDP per capita had already started plummeting and poverty incidence increasing before the genocide. The data in Annex 2A shows that while poverty incidence has decreased since 1994, in terms of GDP per capita the recovery is slow. Considering that three million people returned to Rwanda during the period of study, the decrease in the incidence of income poverty is nevertheless remarkable.

B8.8 However, disaggregated data indicate (i) a sharpening of the divide between rural and urban areas in the post-1994 period (between 1994 and 1999/2000 poverty incidence in rural areas fell from 82% to 66%, whereas in urban areas it fell from 28% to 14%; 75% of the richest quintile population lived in Kigali while 90% of the food-poor lived in rural areas) and (ii) an increase in inequality measured by the Gini coefficient (from 0.27 in 1985 to 0.455 in 1999/2000). Recent research (Ansoms 2005) substantiates this through an analysis of household survey data showing an "enormous shift of income from poor to rich", with the loss in mean income between 1985 and 1999/2000 being over four times higher for the poorest quintile than for the richest. On this basis the author stresses the importance of redistributive policies. The lack of data for the immediate pre-1994 and post-1994 periods and for the post-2000 period urges caution, but the trends suggest that the issue of inequality should be high on the government policy agenda. It may therefore be a cause for some concern that there seems to be a lack of agreement in government on issues of inequality. The last DPM Conference (December 2004) stressed that "distribution of growth matters too" and recognises the "growing gap between the rich and the poor" but the NEPAD APRM report (Government of Rwanda 2005) states that more research is required to assess whether inequality really is rising and if so, in what ways.

B8.9 Trends in socio-economic indicators (Annexes 2B and 2C) are mixed. As noted in Chapter B7 progress is encouraging, e.g., in intermediate results for education, but less so elsewhere. Moreover, inequality prevails in access to basic social services (see Annex 2C, Box 2C.1).

B8.10 With regard to justice and human rights (intrinsically linked to security issues in the case of Rwanda), the picture is mixed. There have been tremendous achievements since 1994. Thanks to sustained efforts and the professionalisation of the army and police forces, security in

the country has drastically improved and these forces are generally trusted by the population (Kimonyo et al 2004).

B8.11 The justice sector started with 80% of the qualified personnel having been killed or having fled the country in 1994 (Kimonyo et al 2004). First efforts focused on rehabilitating the physical, human and institutional infrastructure of the sector. It is currently overwhelmed with the implementation of the *gacaca* process.[10] However, a comprehensive sector reform programme is under development. The administration of basic justice services has improved, including through reviving traditional practices (e.g. community mediators), which appears to be appreciated by the population (see survey on decentralisation and service delivery, Ministry of Local Government and Social Affairs and World Bank 2005). However, initial plans for the justice sector hardly mentioned the issue of access to justice for the poor.

B8.12 With regard to human rights, it is important to distinguish between economic and social rights and political and civil rights. There is little doubt that generally economic and social rights are respected and the government is committed to protecting and promoting them, including through the PRSP policies. The picture is more mixed with respect to civil and political rights. While noting that government performance in this respect is a much-debated issue, the evaluation team concurs with the more cautious analysts who recognise that there is still a lot of work ahead but that under the circumstances it would have been hard to move faster (Killick et al 2005; Kimonyo et al 2004; Uvin 2003).

Attribution of Trends in Poverty Reduction to Public Policies

B8.13 A rapid analysis of the PRSP priority areas (see Annex 6) shows that the PRSP strikes a fair balance between measures and plans aimed at directly addressing the concerns expressed by the poor and those aimed at overcoming constraints to sustainable growth over the medium term:

- The first priority area (agriculture transformation and rural development) is expected to address the first concern of the poor (land, support to agriculture development).
- The second priority area (human development) should over time help address what the poor saw as second and third constraints to their well-being, that is, the size and characteristics of their households.
- The PRSP also stresses the importance of good governance for poverty reduction (fourth priority area), hence it is responsive to concerns of the poor about security.

B8.14 Core PRSP programmes were a trade-off between the need for delivering tangible benefits as rapidly as possible (e.g. school textbooks, labour-intensive public works) and more indirect initiatives aimed at strengthening government core capability with a view to delivering poverty reduction outcomes more efficiently and effectively in the medium term. On the whole, PRSP-1 was recognised by IPs, including those providing PGBS, as an appropriate response to the evidence at hand in relation to poverty and its main causes.

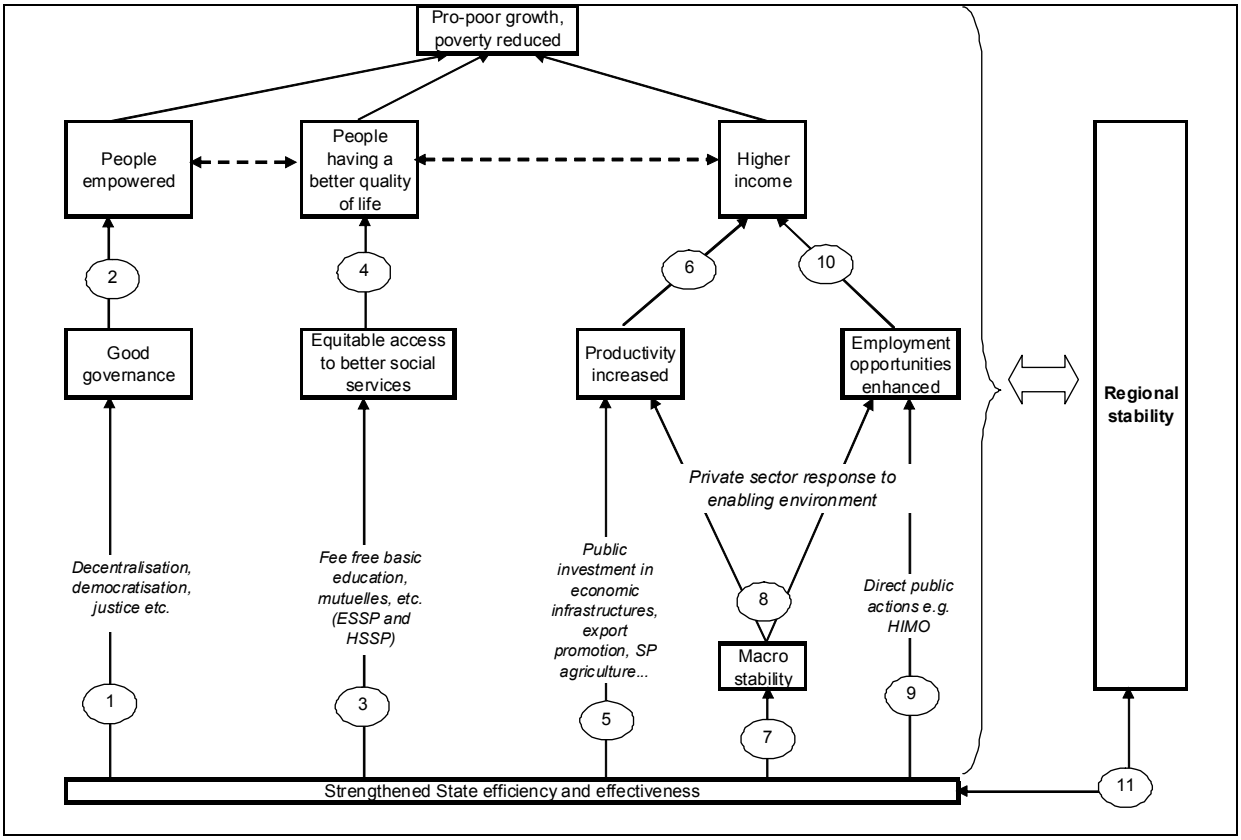
B8.15 Three years after the inception of the PRSP, there is comparatively little analysis of trade-offs and linkages between growth, service delivery and poverty reduction in Rwanda, or it has yet to find its way into the policy-making process (Ansoms 2005: “Rwanda’s PRSP strategy lacks an ‘intervention chain’ logic”). This is going to be addressed in the course of the preparation of PRSP-2: major pieces of analytical work are under way, such as the WB Country

[10] *Gacaca* are local courts judging genocide-related cases involving people not accused of master-minding and leading the genocide. The process has been adapted from a traditional community-based mediation mechanism.

Economic Memorandum and the analysis of policy implications of the DTIS studies. In the meantime, it is rather early, and difficult, to judge whether existing public policies have had an effect on poverty reduction. What follows represents the team's best attempt at it.

B8.16 Figure B8.1 which represents the team's understanding of the government "poverty tree", shows how public action is expected to lead to poverty reduction as explained in government PRSP-1 and sector policy and strategic documents. The main hypothesised links have been identified and "keyed".

Figure B8.1: Poverty Reduction: Effects of State Efficiency and Effectiveness



B8.17 The team then assessed the actual effect of government action based on the information collected for the evaluation study. This is summarised as follows for each of the hypothesised links (numbers refer to the keys in the diagram):

1. Moderate to strong effect of public action on governance, though starting from a very low base post-1994. Progress in decentralisation, especially of basic services, is slow.
2. Further effect on empowering people weak to moderate: it will take time to rebuild organisational capacities and trust in the society. Decentralisation is seen as helping.
3. Moderate effect of public action on access to better social services. Uneven progress. Continued inequality in access to basic services. A few specific actions have directly produced pro-poor intermediate results (e.g. fee-free primary education leading to an upsurge in enrolment). Further pro-poor orientation of policies is desirable.
4. Effect (through access to better social services) on quality of life is weak for most people. Inequality is increasing. Research (Ansoms 2005) shows that, other factors being equal, households with at least one educated member are better off than others, which supports the expectation that education is important for income poverty reduction.

5. Policy/strategic frameworks are emerging or under development for most areas related to the economic sectors, but with very little effect on productivity as yet.
6. Following from this, public action has had little effect on income poverty.
7. Macroeconomic stability has been largely achieved as a direct effect of public polices and large volumes of aid.
8. But macroeconomic stability is only one factor facilitating private sector development. Private sector response has remained constrained by other structural factors to be addressed through following up on policy and strategic developments in (5).
9. Direct creation of employment through public actions has been small-scale thus far, hence with little effect.
10. Following from the small effect thus far on opportunities for employment, public action has had little effect thus far on income poverty.
11. Regional stability is fundamental to Rwanda's development. Government has a role to play but is not the only powerful actor. The international community is responsible too.

B8.18 Having identified the effect of public action (or lack thereof) on poverty reduction, the rest of this chapter considers whether and how strongly PGBS itself has operated (or is likely to operate) through the links identified in the diagram, in support of public action / the PRSP. The focus is exclusively on the post-2000 period in this part of the analysis.

Assessment against Evaluation Criteria

Basic Services for the Poor

The extent to which PGBS (allowing for the time lags of its operations) has strengthened — or is strengthening — the impact of government on the different dimensions of poverty reduction, including: (a) the use of health, education and other basic services by poor groups.			
General Situation:	Level: **	Trend: +	Confidence: **
PGBS Influence:	Effect: **	Efficiency: **	Confidence: **

B8.19 The analysis in the previous section suggests that the impact of government action on greater use of basic services by poor groups, and hence on non-income poverty reduction, has been moderate (mostly because it has been uneven) since 2000 (links 3 and 4 in figure B8.1). The trend is upward though with qualification with regard to inequality.

B8.20 PGBS funding has contributed through providing additional resources for the social sectors through larger allocations in government budget (see ¶B7.3 and data at Annex 2B, Tables 2B.1 and 2B.3). For at least two reasons this has been, comparatively, quite efficient:

- According to CEPEX data (Annex 3 Table 3A.1), project funding has showed a lesser reorientation toward the social sectors than the budget financed by government own resources (in the period 1998–2002 education and health received respectively only the fifth and sixth largest development budget allocations; in the 2003 development budget human development and social protection were still second to governance and sovereignty). Hence (development/project) funding is unlikely to explain better social sector results,
- In contrast with project funding, which would have been confined to the development budget, PGBS permitted resources to be channelled toward new types of pro-poor spending emerging as recurrent costs in the government budget (e.g. capitation grants, subsidies for essential drugs). This was stressed by Rwandan officials as a major benefit of PGBS. This

effect was facilitated because of the division of tasks (outlined in ¶B2.24 and ¶B7.13) with PGBS financing recurrent costs and projects financing investment.

B8.21 PGBS non-funding inputs have had an effect on non-income poverty reduction through their effects on all factors and links leading to it (e.g. greater government empowerment, strengthening of policy processes and of policies, aligning incentives toward better service delivery etc.). The analysis in previous chapters suggests that overall these effects have been moderate. TA has been provided in support of pro-poor analyses at both overall and sectoral levels, though not necessarily or directly linked to PGBS. This has been uneven across sectors/areas in terms of (i) quantity; (ii) the extent to which it focused on pro-poor issues (e.g., DTIS studies did not dwell much on what kind of pro-poor measures are needed for growth to reduce poverty); and (iii) effect (e.g., little use of the Poverty and Social Impact Analysis (PSIA) carried out in 2003, whereas more focused work on the health *mutuelle* schemes appear to have been more easily internalised). The PRSC policy matrix (see inventory at Annex 3B) includes a few "direct poverty reduction" actions in health and education e.g. balanced sector financing strategy in education and various health financing issues such as access to *mutuelles* and pricing strategies for essential drugs. However, the effect thus far is limited since government has implemented such measures for one year (2004). There is not yet any evidence of the ultimate effect on non-income poverty reduction.

B8.22 Overall, PGBS is rated as having had a moderate effect and having supported government impact moderately efficiently with regard to the reduction of non-income poverty.

Income Poverty

(b) the improvement of the macroeconomic environment leading to increased incomes and economic opportunities for the poor.			
General Situation:	Level: *	Trend: =	Confidence: **
PGBS Influence:	Effect: *	Efficiency: *	Confidence: **

B8.23 The analysis in the previous section suggests that while macroeconomic stability has been good, other factors explain a weak impact of government action on the reduction of income poverty (links 5–10 in Figure B8.1; see ¶B8.7). The post-2000 trend is not well known, but available data (e.g. on exports, employment, etc.) suggest that it is neutral. This limited progress makes it all the more difficult to track PGBS effects.

B8.24 Chapter B6 analyses PGBS effects on the macroeconomic variables and environment and concludes that it has been disruptive at times and weak on the whole. The PGBS funding effect (through public expenditure and its effect on growth-related sectors and private activity) is weak, as growth-raising sectors have only recently gained some prominence in the government budget (e.g. increases in financing of export promotion priority programme in 2004 and the inclusion of an energy priority programme in the 2004 budget ex post and in the 2005 budget). Also, public expenditure has a weak influence on the private sector (see Chapter B6).

B8.25 PGBS policy dialogue and conditionality have had a weak to null effect on income poverty reduction. Previous chapters indicate that the PRSP–PGBS dialogue has only recently started to focus on growth-related areas. As a result, policy/conditionality effects are less strong than they are for areas with better-established policy frameworks and service delivery patterns such as education and health. In the growth-related areas, the PRSC policy matrix includes only measures aimed at studies and policy development initiatives. Hence the current effect is, at most, that government completed studies and policy development activities (e.g. DTIS studies),

which is one step more remote from an effect on poverty reduction than the implementation of policy measures as in education and health (¶B8.21).

B8.26 Overall PGBS influence on income poverty reduction has been weak.

Empowerment

(c) the empowerment of poor people because of improvements in the accountability of government, greater participation in processes of decision making, or improvements in the administration of justice.			
General Situation:	Level: *	Trend: +	Confidence: *
PGBS Influence:	Effect:*	Efficiency: **	Confidence: **

B8.27 With regard to links 1 and 2 in figure B8.1, government impact on governance has been moderate on the whole. The main influence on empowerment of the poor has been the restoration of the security and justice functions. This is fundamental but, in the study team's tentative judgement, it has not yet translated into a practical impact on the empowerment dimension of poverty reduction. Although it is hard to assess a trend, on balance the team judges that it is positive (supporting evidence at ¶B5.6).

B8.28 With regard to PGBS effect, the Clingendael report (Kimonyo et al 2004) states that:

> in so far as international assistance is massively funding public action in Rwanda, it has enabled the State machinery to get back on its track with its key services, a sine qua non condition for promoting and protecting human rights.

The same reasoning applies for the security and justice sectors. The most important contribution to the justice and security sectors and to the functioning of the Commission for Human Rights has been the government budget (Kimonyo et al 2004). Hence, there is a strong funding effect of PGBS on those sectors leading potentially to greater social inclusion.

B8.29 In contrast, the effects of PGBS non-funding inputs are rated as weak for a number of reasons: (i) for Kimonyo et al (2004), strong political leadership by the government has been the driving factor behind the rebuilding of governance and justice institutions, and the improvement of security as an absolute and non-negotiable priority; (ii) governance sectors have not been explicitly addressed in the PGBS dialogue; for the EC this was a conscious decision of moving away from governance conditions (e.g. focus on the *gacaca* in pre-PGBS operations); (iii) importantly, the "MOU link" between PGBS and political governance has not been used to best effect thus far (see chapters B1 and B9); (iv) the PRSC matrix includes a few empowerment / social inclusion implementation measures (e.g. establishment of the Ombudsman, institutionalisation of Citizens' Report Cards and of "Ubudehe" PPA-based local planning systems over the medium term). However, completion of these actions (e.g. establishment of the Ombudsman in 2003) is only one step toward social inclusion.

B8.30 Overall, PGBS has been moderately to strongly effective and efficient in terms of funding effect but weakly effective and efficient in all other respects.

Principal Causality Chains

B8.31 Income and non-income poverty has decreased and people's empowerment has risen, but from extremely low levels immediately after 1994. In many cases today's levels have not yet reached, or are just equal to, pre-1994 levels. Moreover, some recent trends are hardly moving

in the right direction, and there is a concern that rising inequality may not be given sufficient attention. Whatever changes there have been, it is difficult to judge (because of the rebound effect specific to Rwanda and general time-lag effects) how far this is due to the real improvements detected in government systems, capacities and policies (carried through the PRSP-1). Hence the links supposed to carry through PGBS effects are not so much weak or strong, but rather tenuous and little documented.

B8.32 The contribution of PGBS funding to changes in poverty is relatively strong, as noted in several instances: through the budget, PGBS has channelled resources to new pro-poor spending in the social sectors and to the functioning of governance/ social inclusion sectors. Beyond the funding effect, PGBS has had a weak effect in terms of better outcomes in the governance/social inclusion sectors that have not been addressed explicitly in the PGBS policy dialogue. This influence is stronger but not more than moderate for the social sectors and it has been weak but it is getting stronger in the economic and productive sectors (through policy dialogue and specific PRSC conditionalities).

Counterfactual

B8.33 A first counterfactual relates to the question whether PGBS funding is more pro-poor than projects in Rwanda. At the overall level, while most aid is conceptually aligned with the PRSP agenda (see ¶B2.8) it has been shown that project funding has not been clearly directed at PRSP priorities (see ¶B8.20). Moreover, within sectors and at the operational level, IPs are still free to focus on specific areas much as they see fit, in the absence of strategic frameworks. In those cases PGBS is guaranteed to be aligned with government priorities as they are translated into the budget, which is clearly not automatically the case for projects. Of course this raises issues of definition of priorities, and of the extent to which the budget is pro-poor. The analysis in previous chapters indicates that there is room for further improvement in these aspects. However, if the underlying assumption of the EEF is agreed upon – that the road to sustainable poverty reduction is to develop government capability to deliver it including through better definition of priorities and a more pro-poor budget – then it is unlikely that isolated projects would succeed in reaching this goal.

B8.34 An argument sometimes used to maintain project modalities is that (parallel) donor funding can help redress geographical inequalities in resource allocation. This is through better targeting mechanisms than those applied for government funding, implying that this would result in more/better pro-poor results. While there are many such parallel funding mechanisms in Rwanda, the data are simply not available to assess whether IP funding is or is not more equitable than government funding. This is actually of concern to Minaloc and Minecofin as they embark upon the development of a fiscal decentralisation system which would ensure equitable access to financial resources for local governments across the country. In this case, project aid has in fact the potential to distort the pattern of poverty reduction if it continues to be provided outside government systems.

B8.35 To the team's knowledge, non-funding inputs attached to projects have not been focused on broad poverty reduction issues. This judgement does not include "stand-alone" TA supporting the PRSP and associated agendas, which is still usually provided through projects more or less directly linked to PGBS programmes (see ¶B8.21). The DPCG/cluster dialogue within which the PGBS dialogue is subsumed has not emerged simply from a concatenation of project-related dialogues. It has emerged directly from the PRSP process and the realisation that the poverty reduction partnership paradigm accompanying it required a different kind of dialogue, including for those IPs who would continue to provide project aid.

B9. The Sustainability of Partnership GBS

Is the PGBS process itself sustainable?

Introduction

B9.1 In this chapter, the objective is to evaluate the sustainability of PGBS, and therefore the likelihood of sustainability of its effects in Rwanda. The durability of PGBS is important as it aims at long-term changes. Other dimensions of sustainability are addressed elsewhere in this report (see ¶B1.31, ¶B3.11–12, ¶B6.34 and ¶B7.13). The chapter first reviews the facts on monitoring and feedback loops and decision criteria that are in use in Rwanda. As one set of conditions for PGBS durability, the environment for PGBS is also reviewed (i.e. the extent to which partners share common objectives and the evidence of GOR and IPs' commitments to a partnership approach), as well as the evidence of partners' commitment to PGBS itself.

B9.2 On this basis an assessment is made of the opportunities for government and PGBS IPs to learn from, and to adjust to experience, the extent to which these cover all three main PGBS flows (funds, policy and institutional changes) and whether the learning mechanisms are timely and all-inclusive. This allows us to assess the extent to which PGBS in Rwanda abides by the "circular" logic which was proposed as an important finding from the inception phase of the evaluation of partnership GBS, that is:

> …within the logic of PGBS itself improvements in many of the factors that are treated as minimum requirements for GBS to be feasible (e.g. a government's basic fiduciary standards) are themselves regarded as part of what GBS can accomplish (its outputs and outcomes). (IDD & Associates 2005).

So what we evaluate is whether this circularity can be made virtuous, through feeding lessons learned back into better PGBS design. This would clearly increase the likelihood that PGBS would be sustainable.

Relevant Facts

PGBS Monitoring and Feedback Systems

B9.3 According to the Partnership Framework, monitoring and feedback is due to take place through the PRSP/APR process, the PRGF review cycle and regular assessments of progress in PFM reforms (¶B1.11). This should be brought together through the joint PGBS reviews which, since early 2005, have been integrated into the broader harmonised calendar agreed between government and all IPs. As noted in Chapter B2, the calendar has not yet operated through a full cycle, but it is nevertheless possible to assess the strengths of each of the elements of the PGBS follow-up system.

B9.4 Though not very old, the PRSP/APR process appears to be improving over time. The APR-2 was late (see the chronology in Annex 8) but this was because it resulted from a much more participatory process than the first such report, thereby responding to IPs' suggestions and comments following the APR-1. The JSA note of May 2005 (IMF and World Bank 2005b) on the APR-2 praises the progress made, noting that:

> In consultation with all active stakeholders, sectoral and line ministries have developed sectoral strategies based on their research and as an input to the APR. Not only did this strengthen their ownership, but it also enabled the government to focus on key issues in each sector.

The preparation process of the next APR and of formulation of the PRSP-2 has been carefully planned by Minecofin so that there can continue to be a high level of participation at all stages. Minecofin has also developed an ambitious plan for continuous M&E of the PRSP which indicates government seriousness in this respect.

B9.5 However, there is some way to go before practices can live up to the government intentions expressed in these plans. This is noted by government officials themselves, who indicated in their responses to the 2004 SPA survey on BS alignment with national PRS processes that "it was unrealistic to expect a full (PRSP) review annually". The IMF/WB Joint Staff Assessment on the PRSP (World Bank 2002a) was already pointing out that:

> GOR will require substantial assistance from its partners to fully implement the PRSP M&E programme, particularly to build up the capacity to collect and maintain statistics.

In May 2005 the JSA on the APR-2 concludes again that "further efforts are needed… (to) put in place appropriate M&E systems" (IMF and World Bank 2005b).

B9.6 Sector M&E capacities are weak, too. Statistical systems are weak in most sectors. Even in the best cases of health and education, the WB stresses the need for further progress as part of its PRSC operational policy matrix measures. The more detailed PRSC conditionality on sector policy implementation, which is relatively new, is demanding on capacities of reporting on and analysing sector performance, including through feedback from beneficiaries (see PRSC measures to be institutionalised on PETS and CRCs). What has not yet happened, as noted in Chapter B4, is that the supposedly results-oriented MTEFs be used for monitoring purposes as well as for the preparation of sectoral costed action plans and budgets. In terms of process, the articulation of sector reviews and PRS review is also work in progress, guided by the new harmonised calendar.

B9.7 PGBS IPs and non-PGBS IPs assist in strengthening and institutionalising elements of the PRSP/sector review processes (see inventory in Annex 3B). This includes: (i) generic support to strengthen Minecofin's leadership of these processes and its analytical capacity (DFID, UNDP, Belgium); (ii) sector-related TA (DFID TA on sector financing and M&E in education, WB support to education and health development of long-term financing frameworks; provision in the SPAT for strengthening statistical systems and analytical capacities in agriculture); (iii) focused assistance by the WB to ensure that government meets specific measures inscribed in the PRSC matrix, e.g. development of CRCs as a beneficiaries' feedback mechanism. IPs have also supported the strengthening of statistical systems and capacities at overall level, e.g. DFID support to the establishment of the National Statistical Institute.

B9.8 The PRGF review cycle is supposed to provide regular inputs on macroeconomic and aggregate fiscal performance to the PGBS monitoring and feedback process. This is work-in-progress. After an initial period of debate on issues of "fiscal space" for government PRS (see ¶B1.22), all parties have agreed that the PRGF and PGBS processes had to work together. Upon invitation by GOR, PGBS IPs participate in most IMF meetings; the harmonised calendar indicates when a macroeconomic review would be most useful; the IMF has stated its willingness to act as a technical resource in GOR–IP discussions. There are still occasional glitches (e.g. the BS review of March 2005 working on one set of macro projections while GOR and the IMF were concurrently developing another set). They arise in part from issues of staffing and capacity in the various agencies involved. Past experience has also shown that the timing of IMF missions may create difficulties for PGBS programmes: it depends on progress made by the government in meeting the PRGF benchmarks, which is not always aligned with PRS, sector, MTEF/budget and aid cycles.

B9.9 Progress is also being made in relation to the PFM review mechanism. The FARAP process enabled partners to move away from externally-led assessments toward a joint IPs' assessment and a GOR-led reform plan. The first GOR-led review of progress (2004) was not followed up as such. However, partners have now agreed to use the PEFA framework (see Annex 4) for regular joint reviews in subsequent years.

B9.10 In addition to these processes, a number of bilateral IPs (including non-PGBS ones like the Netherlands) conduct regular reviews of their overarching MOUs jointly with government. This is usually done annually. Other feedback mechanisms that are potentially relevant to PGBS include, on the IPs' side, all kinds of formal evaluation of their overall cooperation strategies (e.g. WB CAS evaluation) and/or reviews and evaluations of specific pre-PGBS and PGBS operations (e.g. all Implementation Completion Reports of the WB). On GOR's side the recently initiated NEPAD APRM needs to be noted (Rwanda has been among the first five countries to submit itself to this mechanism).

Evidence of Commitment of Partners

B9.11 Chapter B2 reviews the extent to which GOR and IPs share common objectives and find that this is the case, generally and at aggregate level. GOR and the IPs also share objectives at a more detailed level in a number of sectors and this appears to be growing over time (¶B2.8). There is commitment to further alignment on all sides (GOR, PGBS and non-PGBS IPs), and the carefully thought-through "road map" for the preparation of PRSP-2 will provide opportunities for deepening mutual agreement on goals and objectives. The commitment to partnership is evidenced by the time and energy spent on strengthening the mechanisms established to operationalise it (DPCG, DPM, clusters). Together, these facts constitute a solid basis for PGBS to continue to flourish.

B9.12 The nature of their commitment to PGBS differs for bilateral IPs and for the WB. The EC is somewhere in between these two categories. For bilateral IPs the prime basis of their commitment is political. PGBS is a powerful tool to show their support to a government which they believe is on the whole on the right track. Technical assessments are important as they provide a platform for joint action with government (and other IPs) to address system and capacity deficiencies. Owing to its apolitical mandate, *de facto* the WB's commitment is more technical. It is primarily related to enhanced effectiveness; governance issues are addressed on the grounds that better governance is needed for enhanced effectiveness. Thus, on the one hand, GOR might find bilateral IPs' commitment more heartening. But the 2004 crisis in relation to the DRC shows that bilateral IPs' commitment can be more volatile, while the WB in this instance acted as a supporter of the government. PGBS IPs also have different views on the future role and importance of PGBS in their portfolio (see Annex 3B, item 12), including reasons related to risk mitigation.

B9.13 On GOR's side, central agencies (Minecofin and Mifotra) have repeatedly and strongly stated their preference for PGBS, for reasons noted inter alia in ¶A3.22. As also noted in previous chapters, this position is not uniformly shared by all agencies in government. One critical issue is the continued lack of reliability of budget releases. Arguably, as PGBS was a major cause of unpredictability, sector ministries and implementing agencies are not confident that this is the way to go. It may also be the case that other agencies resent the exclusive power that PGBS gives to Minecofin. Although this was not expressed as such, it cannot be completely discarded as an element in the political economy of PGBS in Rwanda.

B9.14 Minecofin has adopted a position which is both pragmatic and principled. It is ready to consider alternative modalities (such as SBS or basket funding) provided that they would indeed be "better than projects". And it stresses that government should maintain the overall leadership

in further developing aid management policies and practices in Rwanda (e.g. through the development of the Aid Policy Document currently under way). Overall, the commitment to PGBS is very strong on GOR's side and stronger than on the donor side. The fact that this is led by Minecofin is appropriate, and the strong discipline of the Rwandan public administration means that Minecofin's commitment is likely to prevail over other agencies' reservations. However, Minecofin's capacities to lead processes such as the MTEF, the PRSP preparation and the PGBS and aid dialogue are critically stretched, and therefore the ministry is limited in its ability to reach out as would be necessary to convince other stakeholders progressively of the value of these processes.

B9.15 Thus, the PGBS environment is good (shared objectives and reasonable consistency with other aid modalities) but there continue to be doubts about and constraints on PGBS as a modality per se. This influences partners' commitment or ability to expand its use further, which may mean that PGBS expansion is less fast than what might be required for it to have greater/stronger effects, especially further down the EEF levels. This, which can raise further doubt on PGBS effectiveness, is therefore a general challenge to PGBS sustainability. The limits on organisational and human resource capacity, affecting GOR's ability to engage in dialogue with donors and carry out reforms, are another threat to PGBS sustainability.

Assessment against Evaluation Criteria

Shared Learning between Government and IPs

The extent to which PGBS allows a shared learning process between Government and IPs with flexible mechanisms for adjusting to experience (including adjustment to maximise the complementarities amongst different forms of aid).		
Level: **	Trend: +	Confidence: ***

B9.16 The bases for learning by government and IPs are relatively strong in principle (PRSP APR process in place, established PRGF review cycle and work-in-progress on PFM review mechanism). The new harmonised calendar and the articulated PRSP-2 preparation process are big steps forward in bringing together learning opportunities. There are practical limitations, arising especially from weak government M&E systems (overall and sectoral), including weak or non-existent mechanisms for citizens' feedback (Government of Rwanda 2005).

B9.17 However, notwithstanding these limitations, learning and adaptation are taking place. The new harmonised calendar is itself an illustration of an adaptation embracing the broader PRS process, which PGBS supported and which is opening up new possibilities for maximising complementarities among different forms of aid. Focusing more exclusively on PGBS, Sweden, DFID and EC are all building more realistic timelines in relation to preparation and decision-making in their PGBS programmes (see Annex 3B, point 12). The objective is to better align key decision points with government cycles while also opening up space for enlarged consultation on PGBS. PGBS IPs have also learned about the value of joint diagnostic (e.g. DTIS; joint PFM assessments) and coordinated provision of TA (e.g. DFID and UNDP plans for joint assistance to Minecofin, which is intended to be closely coordinated with assistance provided by IMF/AFRITAC, the EC and the WB).

B9.18 Moreover, there is an awareness of the need to resolve a number of critical "sustainability issues" specific to PGBS in Rwanda:

- Political issues: addressing the political nature of aid and in particular PGBS in Rwanda, which is especially vulnerable to politically-motivated assessments because of its location

in the Great Lakes Region, is crucial for the PGBS process sustainability. Both GOR and IPs are well aware of this.

- Accountability issues: the development of strong accountability systems at all government levels for both results and the use of funds is critical. While providing PGBS in the absence of such systems to start with was understandable (see Chapter A3), it will become increasingly difficult for PGBS IPs to justify the continuation of such a situation. GOR is well aware of this and of the importance of orientating these systems toward strengthening domestic accountability.
- Financial inputs: partners are aware of the need to clarify "where PGBS is going" within a mutually agreed, long-term perspective on aid and growth in Rwanda. An outstanding but acknowledged issue for GOR is how to engage grant-providing bilateral donor countries in long-term relationships.
- Policy issues: PGBS IPs are aware that they will have to adapt to a shifting PRSP policy agenda including toward (i) further decentralisation of basic services and (ii) a rebalancing of priorities between social and economic sectors (these are noted as priorities in the May 2005 Joint Staff Advisory note, IMF and World Bank 2005b).
- PGBS design issues: PGBS IPs know that they have to outline concretely how they intend to progress toward a more consistent design of PGBS as a whole (e.g., should there be a common Performance Assessment Framework, as has been introduced in several countries? Is it possible to reconcile the WB "sector readiness" approach and detailed conditionality framework with the more holistic approach of Sida and DFID?).

B9.19 In summary, learning is taking place, and the issues that are critical for PGBS sustainability in Rwanda are known. Thus, a flagging-up mechanism is in place. However, the rather ad hoc manner in which the DRC-related political crisis of late 2004 was handled, and the fact that some of these issues (e.g. long-term perspective on aid and growth) have been around for several years and are still unresolved. suggest (i) that the dialogue may be sufficient to flag up issues (and sometime respond) but it is not sufficient to detect the possibility of their occurrence in advance (it is reactive, not proactive); and (ii) that there is no "enforcement mechanism" which would ensure that once identified, issues would be addressed.

B9.20 Hence PGBS's role in facilitating joint learning and adaptation has been moderate. The trend is positive in the sense that PGBS partners are working on the weaknesses of the learning process. PGBS is contributing to addressing these through TA (e.g. supporting M&E system development ¶B9.7), conditionality (¶B9.6), dialogue and H&A inputs (¶B9.16).

Comprehensive and Effective Review and Adjustment

The extent to which such a process encompasses all the three main flows of PGBS (funds, institutions and policies) with adjustments related to actual results at all stages in the chains of causality (from quality of inputs to overall poverty impact).		
Level: **	Trend: +	Confidence: ***

B9.21 The existing learning processes noted above (PRS and sector reviews, PRGF, PFM review and BS review) have the potential of encompassing all three main flows of PGBS inputs and to suggest adjustments at all stages of the causality chains. However, there are limitations in each of the flows:

- With regard to monitoring flow-of-funds effects, partners need to "graduate" from the pre-2003/04 situation, in which discussions on public expenditures were taking place primarily through the PRGF (given the links with HIPC monitoring and due to the lack of a coordinated BS process). This graduation is seen as desirable by all partners

including the IMF, but it is likely that a few iterations will be necessary for the new joint BS review mechanism to be fully established.

- As noted in ¶B9.5, learning processes rely on imperfect reporting and monitoring mechanisms throughout government systems, so the evidence on which to base adjustments is thin. In particular, the potential of PRS and sector reviews for providing lessons related to PGBS policy effects is undermined by the weak evidential basis on policy outcomes/impact noted in Chapters B7 and B8. On the process side, the link between budget support reviews and PRS and sector reviews is under-specified (i.e. flows of information and timing), and the role of the clusters is also not entirely specified with regard to learning, feedback, review and adjustment.
- The most critical weakness appears to be the lack of an explicit feedback loop with regard to the institutional effects of PGBS, given the currently loose relationship between PGBS and the Public Service Reform and decentralisation processes.

B9.22 Thus the PGBS review and adjustment process is moderately comprehensive but this has started to improve, especially in relation to flow-of-funds effects.

Feedback to Stakeholders

The extent to which the process provides appropriate and timely feedback to all stakeholders so as to ensure the continuity and durability of PGBS.		
Level: *	Trend: +	Confidence: **

B9.23 The existence of a feedback loop related to PGBS design and process itself is critical for the continuity and durability of PGBS. Government and IPs ought to be able to reassess – explicitly, transparently and regularly – the PGBS "readiness conditions" (analysed in Chapter A3) as a basis for PGBS IPs to justify the continuation of such support and a basis for other IPs possibly to participate. For in-country stakeholders there needs to be a mechanism through which the PGBS design and process is systematically monitored and lessons are fed back into PGBS operation (PGBS learning from and on itself). Moreover, IPs have to be able adequately to inform broader "home constituencies" (Parliament and civil society for bilateral IPs, Board for the WB, and a mix of these types of body for the EC), whose influence on decisions related to PGBS is critically important.

B9.24 PGBS conditionalities are of course a first, immediate feedback mechanism. When things go well they provide a clear signal that the PGBS strategy is on track. However, experience showed that there was scope for improving feedback to home constituencies with regard to political conditionality for bilateral IPs. While this is acknowledged it is not yet clear how IPs will address this issue.

B9.25 In country, some learning and adaptation of PGBS design and process is occurring (see ¶B9.17). This is assisted by a number of broad mechanisms identified in ¶B9.10, including the independent annual review of the implementation of bilateral IPs' MOUs and the regular review of IPs' country assistance strategies. However, while these mechanisms do make suggestions for broad institutional/programme design adjustments, they are not specific to PGBS, and they are not applicable to all PGBS IPs (especially, the bilateral MOUs). Further, they may not address issues of consistency of PGBS among IPs in a comprehensive manner. The DPCG has some potential as an assessment and adjustment mechanism. It also provides opportunities for cross-sector learning (e.g. ongoing basket funding discussions) but this has been effective only very recently (post-2004), and it does not yet provide systematically for learning across aid modalities.

B9.26 A first assessment of performance under the Partnership Framework for Budget Support took place in the course of the first joint BS review in March 2005. PGBS IPs and GOR together went through the commitments and agreed where they had performed well and where less well. This was not an in-depth exercise and partners therefore agreed on follow-up steps, including a more thorough assessment that could then serve as a basis for amendments to the Partnership Framework as required. A number of specific design issues were discussed, including in relation to political conditionalities (Government of Rwanda and Budget Support Group for Rwanda, 2005). While this was a good start, next steps were postponed to a later date, which may indicate the difficulty to keep focused on such self-assessment mechanisms given the pressure exerted by more "immediate" priorities. Hence the effectiveness of this self-assessment mechanism has yet to be established.

B9.27 On the government's side, the feedback process is not very inclusive. Line ministries feed into sector performance assessments but they are not "fully engaged" with PGBS and hence are not quite part of the self-assessment process. There has also been little engagement with other domestic stakeholders until recently. In 2005 GOR and IPs initiated jointly a broader consultation including civil society and Parliament in designing the next PGBS operations of some IPs. But it is clearly an embryonic process, and the relevance of including these stakeholders in the PGBS feedback loop was not fully addressed.

B9.28 Overall, the extent to which the process provides adequate and timely feedback to all stakeholders is still limited, but improvements are visible in a number of dimensions.

Principal Causality Chains

B9.29 The conclusion is that feedback loops are in place through government M&E mechanisms. However, these need strengthening and the sequencing of events that should link M&E to planning (including PGBS planning) has yet to be thoroughly tested in a full cycle of the recently agreed harmonised calendar. Feedback loops currently in place do not capture the institutional effects of PGBS. Feedback to home constituencies has been problematic for bilateral IPs, especially with regard to political conditionality in situations of tension. Existing learning mechanisms on PGBS itself are nascent and have yet to prove that they would be sufficient to ensure that PGBS becomes more sustainable as a result of being consistently and consciously improved over time.

Counterfactual

B9.30 A good number of the weaknesses noted above (with regard to feedback loops and shared learning on the effects of PGBS) affect all aid modalities (weak M&E systems and weak capacities on government side), and there are no past track records showing that pre-PGBS forms of aid were better at addressing them. There is also no past track record of a systematic feedback loop on aid management. A number of the pre-PGBS programme aid operations were carefully reviewed and lessons learnt contributed to the emergence of the PGBS design. However, this was not a systematic process, nor has there been any systematic analysis of other aid modalities, although occasionally developments were prompted by the recognition of past weaknesses (e.g. passing aid coordination leadership to GOR in 2001).

PART C: CROSS-CUTTING ISSUES

C1. Cross-Cutting Policy Issues

Introduction

C1.1 This part of the report examines the main cross-cutting issues (CCIs) raised in the scope of the evaluation and assesses the extent to which they are being addressed through the PGBS process. The assessment begins by focusing on the policy CCIs of gender, environment, HIV/AIDS, democracy and human rights. Additional cross-cutting themes are analysed in so far as they are directly relevant to the Rwandan context and have an impact on the potential to achieve PGBS outcomes outlined in the EEF. This includes issues of public and private sector balance, government capacity and capacity building, the quality of government/ IPs partnership, and political governance and corruption. The analysis addresses questions of convergence/divergence between government's and IPs' preferences and the implications for PGBS design.

C1.2 Cross-cutting issues are all addressed in the PRSP. However, their prominence in the PRSP dialogue and the extent of policy and operational developments vary. Prior to PGBS operations, macroeconomic and structural adjustment support addressed issues of private sector development under the liberalisation and privatisation agenda, continued under the PRSC. Government capacity and gender have also been addressed in some pre-PGBS programmes, e.g. gender in the WB IRC. The chapters in Part C analyse the extent to which PGBS programmes have moved ahead on this (quite small) basis.

Gender

C1.3 Government in Rwanda is gender-aware: gender equality features strongly in government policy documents and IPs do not question government commitment. The constitution stresses equal rights for women and establishes the National Council for Women. Since the elections in 2003, Rwanda has been the country with the highest proportion of women MPs in the world (48%) and has also a high proportion of women members of Cabinet. Affirmative measures are taken to ensure that women are represented in decision-making bodies at local level, and these are usually enshrined in the relevant legal texts. There is a Cabinet-approved Gender Policy (2003) and a strategic plan including a comprehensive Legal Action Plan to eliminate gender disparities. Early measures were taken in 1999 to give women the right to inherit and own property and further measures are foreseen under the Land Law. The PSR also includes affirmative action measures. Progress against plans is reported in the PRSP APRs and in the NEPAD framework. However, stakeholders generally agree that this has still to translate into changes in the social fabric of the country, and in real improvements in the lot of women.

C1.4 Gender is the cross-cutting issue which has received most attention in the budget process. One of the agreed criteria to prioritise expenditures for poverty reduction in the PRSP (2002) is gender. As a result gender has been a priority programme from the outset, albeit one which is regularly spending less than the approved funding because of absorptive capacity constraints, according to Minecofin (e.g. in 2004). Government commitment to gender equality was also operationalised through the Rwandan Gender Budget Initiative (GBI), piloted in five ministries for the 2003 budget and rolled out in five provinces for the 2004 budget. However, the pilot has not yet been taken forward. In both cases, lack of gender-related capacity was raised

as an issue. With regard to GBI there is also an issue of prioritisation and sequencing of PFM reforms.

C1.5 Gender was a focal area for the WB pre-PRSC programmes; for instance, gender budgeting was "promoted" under the IRC conditionality framework. Somewhat surprisingly, this has not been built on through the PGBS dialogue. There is no specific conditionality related to gender even in the WB PRSC matrix. Gender is part of the issues discussed between partners in the overall PRSP/aid dialogue. PGBS IPs appear to be satisfied that this is sufficient given the high awareness of government. The limitations above indicate that gender-related capacity issues may nevertheless have to be addressed more squarely.

HIV/AIDS

C1.6 HIV/AIDS is increasingly recognised as a central issue in Rwanda, and one which may well challenge the progress made so far in improving people's lives. In 2002 the prevalence rate was reported to have reached 13.5%. The lead government institutions are MOH, responsible for treatment and research, and the CNLS (Conseil National pour la Lutte contre le SIDA), responsible for sensitisation and resource mobilisation at all levels. A recent restructuring gives MOH the overall lead, which has generated some concern that the multi-sectoral approach might suffer. However, government has reassured stakeholders that CNLS will retain a strong coordination mandate, and will continue to report directly to the President's Office.

C1.7 A Strategic Plan 2002–06 was prepared inclusively and validated by all stakeholders in 2002, then adopted by Cabinet in February 2003. Implementation is solid, with progress in decentralising to provinces, mobilising all segments of the population (the "Association of People Living with AIDS" has grown stronger; most big companies have HIV/AIDS policies and several cover treatment costs for their personnel), improving sentinel surveillance, expanding HIV testing and increasing access to ARV treatment. However, as far as is known, there has not been a thorough evaluation of the long-term impacts of the epidemic on the economy.

C1.8 As a "sector", HIV/AIDS treatment and prevention is mostly financed through external project and global fund finance. It is therefore quite reasonably absent from the list of government budget-financed priority programmes. HIV/AIDS is not a major element in the PGBS dialogue. The WB stresses that strengthening the health sector as a whole, including through PRSC–PGBS policy dialogue and conditionality, is one of the ways of strengthening government's response to HIV/AIDS. The PRSC matrix thus includes a few HIV/AIDS-related measures in the health section (development and implementation of a pricing policy for HIV/AIDS treatment). No other PGBS IP is directly involved in the health sector, and the lead IPs in relation to health and HIV/AIDS (Belgium and USAID, respectively) are not providing PGBS.

C1.9 There is, of course, a danger of overloading the PGBS dialogue agenda. Thus, we do not argue that PGBS should do more about HIV/AIDS than is the case currently. However, given that the epidemic is a threat to the economic fundamentals of the country's development, whether or not PGBS donors should be more proactively involved in the dialogue around HIV/AIDS should be kept under review.

Environment

C1.10 Environmental issues feature high on the development agenda in Rwanda. There is an established Rwandan National Environment Policy (October 2003) setting out objectives and principles for improved management of the environment at central and local levels. An

Environment Bill was formulated in 2004. The main institutions with responsibility for the environment are the Ministry of Lands, Environment, Forestry, Water and Natural Resources (Minitere) and the Rwanda Environment Management Authority (REMA). Provincial, district, and lower level committees are responsible for environmental protection. REMA was recently established and local level bodies are also currently being established. Environment is now a major strategic axis in the (draft) Strategic Plan for Agricultural Transformation.

C1.11 Overall, for environmental protection as for gender, much progress has been made in developing the legal and institutional framework. However, the policy recognises that environment as a sector is a new concept in Rwanda. Support is now required to develop capacities and systems to implement the legal and policy provisions. The PRSP APR-2 states that it would be useful to mainstream environment in the same way as gender in the budget process, but that this would overburden line ministries given current capacity constraints. The NEPAD APRM (Government of Rwanda 2005) reaches a similar conclusion and notes that REMA suffers from severe capacity limitations. It also stresses that real results will depend on local capacities to internalise environmental protection. A recent survey on decentralisation and service delivery (Ministry of Local Government and Social Affairs and World Bank 2005) indicates that progress is mixed in this respect.

C1.12 Most IPs take account of environmental issues in the course of project formulation. Apart from this, as for gender issues, most PGBS IPs seem to think that government action is sufficient and environment is not high on the PGBS dialogue agenda. In its PRSC-1 version, the PRSC matrix includes measures related to the environment (e.g. establishment and strengthening capacity of REMA and affiliated local bodies) as part of its limited focus on rural development and more specific focus on water management and energy. In conclusion, government and IPs' preferences vis-à-vis the environment do not diverge but PGBS does not have much influence on this in its current design. A recent study by the WB (World Bank 2004) presents scores by country with respect to environmental mainstreaming in PRSPs, PRSP-PRs, JSAs, and PRSCs. Rwanda was ranked 21st out of 53 countries.

Human Rights and Democracy

C1.13 The conclusion for the three policy-related CCIs discussed above is that they are peripheral to PGBS, not because partners are not interested but because other mechanisms appear to be sufficient to ensure that issues are adequately addressed by public action. Moreover, the positions of IPs and government are convergent. The situation is quite different with respect to human rights and democracy.

C1.14 The Constitution of Rwanda (Government of Rwanda 2003) establishes clearly government's role with regard to human rights. Further, human rights are given a prominent place in the PRSP, which states in its first paragraph that:

> The Government of Rwanda strongly believes in the right of all its people to live a life free from poverty, hardship, oppression and insecurity. Rwanda's Government is committed to securing for all its citizens a full range of social, economic and political rights and to working with its people to reduce poverty and exclusion.

C1.15 Human rights feature as a specific entry in the PRSP policy matrix. The latest APR recognises the need to become more specific and indicates that "clearly defined human rights indicators are to be developed". Government links human rights with the need for justice and emphasises the importance of the *gacaca* process. The National Human Rights Commission, the National Unity and Reconciliation Commission and the *gacaca* courts are financed as "exceptional expenditures" in the budget. The PRSP also emphasises citizens' "right to decide".

In this respect, the decentralisation and community based development policies are presented as a radical departure from the traditional exclusion of the population from decision-making.

C1.16 However, there are diverging views over the reality behind the documents. There is little doubt that the government is committed to protect and promote economic and social rights (with a caveat on inequality issues, see below). Concerns arise with respect to civil and political rights. Analysts are deeply divided on the extent to which political and civil rights are respected, the extent to which abuses are attributable to government or affiliated forces, and finally, the extent to which government is genuinely committed to upholding its commitment to the principle of human rights. As noted in ¶B8.12, a number of knowledgeable analysts (Killick 2005; Kimonyo et al 2004; Uvin 2003) are of the view that under the post-1994 circumstances it would have been difficult for government to take a significantly different path. However, the same authors emphasise that further "opening up" of the political space and greater tolerance of dissonant messages are now needed to avoid nurturing unspoken frustrations that could, ultimately, lead to a return to violence.

C1.17 Issues of human rights and democracy are raised in the context of the overall dialogue between government and IPs. A number of bilateral countries can (and do) raise human rights and democracy issues in reference to the overarching bilateral MOU they have signed with GOR (or to relevant provisions in the Cotonou agreement for the EU). In this context, the division of views noted above, over the real intent of government runs deep among IPs. It is one of the factors demarcating bilateral countries who provide PGBS and those who do not. Thus, in a way, these issues are not part of the PGBS dialogue in their own right; for example, they are not raised during joint BS reviews and there are no measurable conditions, but they shape PGBS membership and they underpin the PGBS dialogue for bilateral IPs who are "members". This is taken forward in Chapter C5 in the analysis of the interplay between PGBS and broader political governance issues.

C2. Public and Private Sector Issues

C2.1 Rwanda is characterised by a weak and very small private sector, in the conventional meaning of enterprises and businesses. Instead, the private sector in Rwanda mainly comprises a large number of small or very small farms, of which only a third to a half are involved in cash crop agriculture. This challenges traditional conceptions about "strengthening the private sector". Both government and IPs are well aware of this and have largely convergent views that, while growth should be led by the private sector, the issue is to nurture the private sector to the point where it can be a meaningful force in leading the country's growth.

C2.2 With regard to the "farm-based private sector" government and IPs appear to agree on the importance of "organising farmers", as stressed in the draft SPAT. However, even though the SPAT was developed consultatively it is as yet unclear whether government and IPs also agree on the role that government should have in this, beyond creating a supportive environment and possibly resourcing capacity development initiatives. The PGBS dialogue had been fairly silent on this issue, including the policy matrix of the PRSC-1, which has no specific measures in this area.

C2.3 Government also appears committed to working in partnership with the "traditional private sector", however small it is. As noted in Chapter B5, government has recently established public–private dialogue structures. The PSR measures under way aim at contracting out non-core functions of government (cleaning, transport, and even secretariat are mentioned) to the private sector. The social sectors are increasingly recognising the role of private actors too, and government concern for capacity development embraces the private sector (see Chapter C3). Finally, Minecofin economists are all well aware of the negative effects of public sector excess borrowing on the private sector and have mentioned several times that PGBS unpredictability had to be seen in this light too.

C2.4 However, until recently government efforts to engage with the private sector have received relatively little attention in the context of the PGBS dialogue. This resonates with earlier findings that during this period of implementation of the PRSP-1, PRSP and PGBS have been less engaged with the growth agenda than with the service delivery agenda (see inter alia ¶B1.25–29; ¶B8.23–26). In the private sector cluster, the lead donor for private sector development is USAID, a non-PGBS IP. At sector level, issues of public–private balance in service provision are addressed through sectoral policy dialogues which, as noted in earlier parts of this report, are variably linked to the PGBS dialogue. Overall, given that there has not been a substantive dialogue, it is not really possible to assess whether, beyond the broad agreement of principle noted in ¶C2.1, government and PGBS IPs have converging preferences on public and private issues.

C2.5 The level of engagement of PGBS with public and private sector issues is now increasing: the WB PRSG-2 matrix includes a much wider range of policy measures addressing issues of private sector involvement (e.g. in the water and energy sectors) and development, following up on the policy agenda developed through the DTIS studies. However, it is not clear yet how this is going to be reflected in the broader PGBS dialogue.

C2.6 A recent study by the WB (World Bank 2004e) characterises each of the 21 PRSPs from African countries by 12 private-sector-friendly criteria, and makes a rough judgment about the adequacy of the treatment of the private sector in the PRSP. Though the scoring is highly judgemental, Rwanda received a positive rating against all criteria.

C3. Government Capacity and Capacity Building

C3.1 The current situation is one of dire constraints in government capacity, even though enormous progress has been made compared to the immediate post-1994 situation. On the one hand, capacity constraints are among the causes for weak effectiveness and efficiency of PGBS and/or public action on poverty reduction (¶B5.12; ¶B7.17). On the other hand (¶A3.27; ¶B1.16), some IPs favoured PGBS over other aid modalities precisely because of its expected positive (transformational) effect on government capacity. It has also been noted that capacity is fairly concentrated in the central agencies at the core of government. To a lesser extent some sector agencies have started moving, but they have yet to adjust to the restructuring undertaken in 2004. Least affected by the reforms are the decentralised levels of the administration.

C3.2 One remarkable feature in the government reform programme is the PSR, developed endogenously and strongly led by Mifotra with the backing of the Cabinet. On the positive side, the PSR is very thorough, covering issues of remuneration and performance appraisal but also working environment and work organisation culture, and aiming at addressing issues of capacity constraints at central and decentralised levels. On a less positive note, developments in a daunting agenda succeed one another at a pace which leaves little time for consolidation and may even, in the short term, undercut previous progress.

C3.3 The recent reform of the territorial administration is a case in point. Local elections of district authorities were held in March 2001, and on this basis government began to establish a structure for administration, service delivery and local development based on 11 provinces and 106 districts. In August 2005, the number of decentralised structures was drastically reduced (4 provinces; 30 districts; and Kigali Municipality) with a view to making them more effective. A high-level government task force has now given Minaloc the responsibility for preparing a road map to implement the decision. Local elections will be organised in early 2006 and the administrative staff for the new structures will be appointed immediately afterward. As for the ministerial restructuring of 2004, the intention is to keep only the more educated personnel in place.

C3.4 This reform is seen as both a challenge and an opportunity. Since 2001 it had become obvious that decentralisation of service delivery lacked support from major sectors (¶B7.11). There had also been little progress in developing a framework for sharing the state's resources in line with the decentralisation policy objectives. In effect, LGs were not given the means to deliver what their constituencies were entitled to expect from them. The larger decentralised units demarcated by the reform hold the prospect of greater capacity at this level over the medium term, which may be more appealing to sector agencies.

C3.5 The study found significant evidence that in Rwanda, the systemic capacity-building effect which is an important element of the rationale for PGBS is working (see Chapter B5 inter alia). It also found that PGBS was very helpful in the restoration of GOR capacity (see Chapter B4 for instance). These effects occurred through a combination of reducing demands on government capacity, providing incentives to strengthen GOR systems and supporting intra-government incentive alignment through using these systems, and the provision of TA and other capacity-building initiatives associated with the PGBS programmes. The study found that in this respect, PGBS was effective in reinforcing the PSR. This was less the case with regard to decentralisation.

C3.6 One implication for PGBS is the importance of ensuring that sufficient support is given to both the PSR and decentralisation in the future. As noted in several instances, the synergy between PGBS and PSR has worked well. However, this has been mainly opportunistic on the IPs' side. The decentralisation agenda has up until recently been fairly "remote" from PGBS. Both PGBS IPs and government seemed to think that it was fine for PSR and decentralisation to rely mainly on other capacity-building processes and aid modalities. These perceptions have recently begun to change and the challenge of supporting effectively sector strategies as well as decentralisation has been recognised as increasingly pressing (e.g. IMF and World Bank 2005b). The recent territorial reform linking PSR, decentralisation and service delivery even more tightly may well require a more decisive approach on the side of PGBS IPs to both PSR and decentralisation.

C3.7 Government fully appreciates the need to step up capacity development activities. With WB support, it has developed a comprehensive and long-term Multi-Sector Capacity-building Programme (MSCBP) embracing all sectors of society and government in Rwanda, and it has established an agency in charge of its implementation. Support is focusing in the first stage on the public sector through the WB PSCBP. Government also expects that issues of attrition of government staff, which undercut current efforts at building capacities in the administration, will be addressed over the medium term through the PSR.

C3.8 In response to this proactive approach on GOR's side, the PGBS design has been relatively undefined with regard to TA and capacity development activities. Each PGBS IP is contributing TA/capacity building, well focused on government core functions (as do some non-PGBS IPs), and consistent with its own and the overall objectives of PGBS (see Annex 3B, item 8). But this is not articulated explicitly or jointly and coordination is still largely opportunistic. It has also been noted that capacity building seems to have had little impact at service delivery level (¶B7.17). There are indications that IPs recognise the need for a more strategic approach to capacity development in relation to the government reform agenda, in association with PGBS. But there is not yet a common view on how this might shape up. In particular, there is no common position on the potential federating role of the MSCBP–PSCBP in this respect.

C3.9 One outstanding issue both generally and in the PGBS dialogue is how capacity needs outside of government would best be addressed. As noted in Chapter B5, this is important for reinforcing PGBS effectiveness through better democratic accountability prompted by a stronger demand from domestic constituencies. Government has indicated its concern for a holistic approach to capacity development in the MSCBP. IPs' preferences appear not to converge fully with government's as, thus far, the programme has received support only for the public sector component.

C4. Quality of Partnership

C4.1 As noted in Chapters B1 and B2, aid in general and PGBS in particular is a highly political matter for bilateral IPs in Rwanda, under current circumstances. On the whole, this has not been a divisive issue among PGBS IPs. But it is among IPs in general. Hence, divisions among IPs may affect the quality of the overall dialogue between government and IPs and at times, indirectly, that of the PGBS dialogue within it.

Ownership and Conditionality

C4.2 Previous chapters are clear that generally government ownership of its policies and of the processes of interaction with IPs is strong. This is rooted in the fact that the post-1994 government saw ownership and leadership as an absolute necessity for reconstructing the country. Hence, government ownership preceded PGBS and even the PRSP, as evidenced by the development of an endogenous Vision 2020. However, both the PRSP process and the emergence of PGBS in support of the government agenda were instrumental in strengthening this sense of ownership.

C4.3 The study noted that mechanisms of domestic accountability were still in the process of being developed or strengthened both at national and local level (see Chapters B5 and B7). Stronger mechanisms would contribute to further raising and expanding the sense of ownership noted here (also see C4.6 below). GOR is aware of this and is taking relevant measures. These include, for instance, being one of the first African governments to submit itself to the NEPAD annual self-assessment and peer review mechanism. The NEPAD mechanism has powerful potential to reinforce other endogenous and exogenous accountability mechanisms, including those put in place as part of the PGBS programmes.

C4.4 The sense of ownership noted above is not unqualified in relation to conditionality. In GOR's perspective, political conditionality should not be used to interfere in issues that GOR deems non-negotiable such as internal and external national security (¶B1.23). Dialogue in the case of divergence of views should prevail over unilateral IP decisions. There are also cases of divergence of views on specific sector policies or the pace at which they can or should be implemented; for instance, the reform of higher education financing has been a recurrent issue in the JESR linked to PGBS for DFID and Sweden. In such cases GOR has shown that it was sensitive to "policy interference". In several instances, government stakeholders have stressed the need to strengthen mutual government/IP accountability in PGBS design (¶B1.24).

C4.5 The difference between the WB PRSC and other IPs' respective approaches to conditionality has also been noted (¶B1.6; ¶B1.11). Given that the PRSC matrix is a subset of the PRSP policy matrix which is, in turn, developed through an all-inclusive consultative process, there is scope for ironing out issues of substance through the broad PRSP dialogue or specific sector dialogues. The main difference lies in the process of assessment (focusing on specific triggers / prior actions for the WB; relying on a broader but less clearly defined overall performance assessment for other IPs) and in the degree of influence on policy content that the more specific approach may confer to the WB. PRSC is a newcomer in Rwanda and it is impossible to conclude today whether one approach or the other might be better suited to further enhancing government ownership. But this, and the challenge raised by the newcomer for intra-PGBS harmonisation, need to be noted.

C4.6 It has also been noted inter alia in ¶B5.5 that the level of ownership, the extent of engagement with the reform agenda, and the sense of empowerment are uneven in various dimensions of government. They are stronger at policy level than at the level of implementing and service delivery agencies. At policy level it is more concentrated in the central agencies than in sectoral agencies. This and the note on capacity in ¶C3.1 suggest that the map of where ownership is higher corresponds quite closely to the map of where capacities are greater. This finding should have implications for the PGBS design of conditionality content and assessment process. It confirms earlier findings (OECD DAC 2003) that a minimum level of capacities is required for ownership to be possible and that "in sum, ownership and capacity are linked in a virtuous circle". Rwanda also illustrates well the fact that leadership is a critical component of both ownership and capacity and that it needs to be present for institutional benefits from aid to occur.

Interplay between Aid Modalities

C4.7 It has been found that there has been a moderately good complementarity between PGBS and other aid modalities. It has also been noted that there were no real options outside of PGBS and project aid (including support to organisations outside of government) (¶B2.22). The limitations of this state of affairs are now becoming more evident. In particular, there seems to be scope for developing a better interplay between aid modalities "around" sectors and cross-cutting reforms, and between PGBS and more focused sector or thematic support. Thus far, complementarity between aid modalities has been opportunistic, following the pattern of opportunistic links between PGBS and sector or thematic dialogues. In practice, links and complementarity have been present when one of the PGBS IPs is also leading or influential in a specific sector/theme on the IPs' side. Now there are several reasons why this opportunistic approach may no longer be sufficient.

C4.8 These include: (i) the government-led move toward better articulation between PRSP and sector strategies (and dialogues); (ii) the concurrent development of sector strategies in a greater number of sectors; (iii) the simultaneous PRSC-led expansion of a PGBS dialogue at sector level; (iv) the in-country and international H&A agenda prompting some IPs to want to move away from project modalities although they are not yet ready or able to provide PGBS; (v) a perceived need even by PGBS IPs for more focused instruments aimed at supporting specific sector or thematic policy agendas through government systems (e.g. education for DFID; roads for the EC); (vi) a concern to have a risk mitigation strategy in case of political difficulties which may lead to withholding PGBS releases.

C4.9 These factors fuelled intensive discussions about "flexible and harmonised sector support aid modalities". This led in turn, to "path-breaker options" (still under development) which in the case of education might take the shape of sector budget support and in the case of health, of a basket fund supporting a sub-set of the health sector strategy. In a parallel and somewhat unrelated process, GOR has undertaken the preparation of an Aid Policy Document which, in principle, should guide all these developments. The implications of these various initiatives for the design of future PGBS operations are not yet clear, except that the future aid landscape will be more complex and may require taking a more proactive and systematic approach to building synergies between PGBS and other aid modalities. This comment holds with regard to complementarity between PGBS and related TA and capacity-building initiatives.

C4.10 For PGBS IPs, one recurring question is that of the balance between PGBS and other aid modalities. The study found that PGBS IPs are willing to expand the use of budget support instruments further within this framework, and PGBS would continue to have an important role in IPs' portfolio. Sweden has stated that it would use non-PGBS aid mostly for supporting non-governmental actors. The UK and the EC intend simultaneously to raise further the importance

of PGBS and that of other sector-specific or thematic, (notionally) earmarked budget support instruments (education specific for the UK, support to road and decentralisation for the EC – see Annex 3B, item 12). They would also continue to use non-budget support modalities for support to non-government actors as Sweden does, and for TA and other capacity development activities. The WB intends to continue to use investment lending where large-scale investment is required (e.g. energy and agriculture), as a complement to the policy dialogue and recurrent funding provided through PRSCs. Thus, while not contradicting each other as with conditionality, PGBS IPs also have different approaches to balancing their portfolios. For bilateral IPs in particular, an underlying factor in their decision about the balance between aid instruments is the question of whether PGBS is the only, or the best, or an appropriate vehicle for pursuing political governance objectives. This is tackled in Chapter C5.

C4.11 Government is not against a balanced approach to deploying aid. However, it stresses that PGBS IPs' desire to balance PGBS with, for instance, sector-specific instruments, should not be to the detriment of PGBS. If these are additional resources, all the better. If resources are diverted from PGBS this is an issue. Clearly these are not simple matters, and it will be important for partners to discuss them further in the future and to keep a balance between aid instruments under regular review.

Transaction Costs

C4.12 A relatively broad definition of aid transaction costs is adopted here (Fozzard et al 2000), as follows:

> the costs arising from the preparation, negotiation, implementation, monitoring and enforcement of agreements for the delivery of ODA.

C4.13 Transaction costs take three forms:

- Administrative costs arise from inputs of resources needed for the transaction. Main costs include administrative overheads, in particular staff time.
- Indirect costs result from the impact of the delivery mechanism on the achievement of development goals (e.g. undermining government ownership and the policy consistency of ODA and public expenditure more generally; disbursement delays and possible effects on future commitments; reduced effectiveness as resources may go to lower-priority areas; and over-financing of capital vis-à-vis recurrent expenditure).
- Opportunity costs measure the benefits forgone from alternative applications of the resources consumed in the transaction (e.g. senior officials having to trade off their time between aid management and policy development).

C4.14 The desire to reduce all three types of transaction cost was at the root of the introduction of PGBS in Rwanda. As pointed out in Chapter A3, reducing the administrative costs of aid is a prime motive for both government and IPs. The detailed consideration of how well PGBS has worked in practice since its introduction in 2000 has not yet taken place. Though it is still in this sense an act of faith, government has so far had no second thoughts on the desirability of the PGBS "joint action" architecture compared with alternative options. This architecture is still being developed (see Chapters B2 and B9), but the atmosphere in which it is being developed appears to be characterised by good will and a sense of confidence on the part of government and of the IPs. The developments noted in ¶C4.8 have inter alia the objective of further reducing transaction costs in supporting sectors/themes.

C4.15 The effect of indirect and opportunity costs of aid undermining government ownership and policy are not associated with PGBS in Rwanda. On the contrary, there is generally a strong sense that PGBS has empowered government in its leadership role. One qualification noted in ¶C4.4 is about conditionality. In government's view the way it is being applied (political conditionality) and even designed (intrusiveness) may represent an indirect cost at the expense of ownership. Another qualification arises from the development of the "sector-focused modalities" outlined in ¶C4.9. These modalities may reduce some costs (e.g. multiple negotiations and parallel management systems for projects) but also generate other indirect costs through introducing rigidities at the core of the government budget.

C4.16 In summary, both government and IPs share the view that PGBS and other H&A efforts will succeed in reducing transaction costs as defined above, and that it is mostly a matter of time and good use of learning processes. However, this may demand special attention to trade-offs between types of transaction costs when new aid modalities are introduced.

C5. Political Governance and Corruption

C5.1 As noted in Chapter A2, between 1994 and 2004 Rwanda redressed itself spectacularly, including managing a relatively orderly political transition towards a constitutional, democratic government which was legitimised by multi-party general elections in 2003. Accompanying this political trajectory was a transition toward a state intent on empowering civil society and the private sector and recognising the need to progress on all governance fronts simultaneously, i.e. political, economic, social/civil, and managerial/ administrative. Good governance is heralded as a priority in all important government documents. Following on Vision 2020, in the PRSP it is one of six priority areas and it is presented as a prerequisite to poverty reduction. The PRSP defines good governance quite broadly, as embracing issues of security, national reconciliation, human rights, justice, democracy, decentralisation, civil service reform, and accountability and transparency.

C5.2 Against this broad definition, both PGBS and non-PGBS IPs provide various forms of support aimed at strengthening political governance, outside of PGBS. For some IPs (Sweden's support to Parliament, the EC's support to the elections), this complements PGBS. For others (e.g. Netherlands' support to NGOs/CSOs), this is not the case and this support is presented more as an alternative to supporting GOR. Indeed, in reality the political governance agenda is dominated by issues of and links between national security, civil and political human rights and democracy, as outlined in Chapter C1. In relation to PGBS the situation is clear. Those issues act as a deterrent to some IPs, whereas those IPs who "have adopted a cautious but determined constructive engagement approach" are by and large (among the bilaterals) those who provide PGBS, or are most keen to be able to participate in one way or another (including through "flexible aid" modalities as noted in Chapter C4). They do so because they think, as argued by Uvin (2003, 2004), that constructive engagement is providing them with better opportunities to influence government through dialogue and to reach greater convergence between their preferences and government's over political governance.

C5.3 There certainly is some relevance in this thinking. However, it is not clear whether IPs' access to dialogue over political governance stems from PGBS or from an established relationship of trust at a high level. The importance of trust as a major determinant of the effectiveness of budget support has been demonstrated by Mosley and Abrar (2005). If this holds for Rwanda, as the team believes it does, then the 2004 crisis over the DRC border issue may well represent a significant "loss of trust capital" for some PGBS IPs. This and the possible repercussions for PGBS as a whole have to be set in balance with what is generally a highly pragmatic mindset at high level in government.

C5.4 As a specific weakness in a government's record of governance, corruption is considered to be limited in Rwanda. The country has a relatively good reputation in this respect, scoring relatively well in its first entry in the Transparency International Index. This is attributed to government pragmatism, political will, and commitment to good governance. The NEPAD APRM report (Government of Rwanda 2005) also notes that Rwandan culture values self-esteem and that this reduces the propensity to engage in corrupt practices. In 2000 a local survey quoted by the NEPAD report confirmed this good reputation by peoples' perception that corruption is not a major issue in Rwanda. Corruption was at a "low level" for 64.7% of respondents. Perceived as most corrupt was the justice system (31%), followed by public finance managers (23%), central government administration (21%) and education (14%). Perceived as least corrupt were the security agencies (including the police).

C5.5 Even though corruption is not a central issue, government is taking serious measures to counter it. This is recognised even by rather critical external observers, such as the Economist Intelligence Unit (2005), who indicate that: “government appears to have stepped up its campaign against corruption”, and confirms that the media are more vocal and given the scope for reporting on corruption issues. The recent PETS (2004) did not find cases of public embezzlement or mismanagement.

C5.6 There is nevertheless one qualification to this relatively positive picture. There are risks and warning signs that as economic opportunities increase, however slowly, corruption might increase in more subtle ways. One of them is the concentration of political and economic powers in a few hands. Moreover, the apparent reluctance in government circles to recognise that inequality may be a rising and critical issue (noted in ¶B5.11 and ¶B8.8) may also give reasons for concern in this context, especially given the new emphasis on the growth agenda which is evoked above (Chapter C2).

C5.7 While support to PFM accountability, which is an important element of the PGBS design in Rwanda, is implicitly related to containing corruption, the PGBS dialogue has generally been fairly silent on corruption issues, given their relatively low profile. It remains to be seen how it might position itself vis-à-vis these more subtle and more pervasive forms of undesirable development.

PART D: SYNTHESIS – OVERALL CONCLUSIONS AND RECOMMENDATIONS

D1. Overall Assessment of PGBS

D1.1 This chapter provides an assessment of the main conclusions resulting from working with the EEF and from the associated analysis pertaining to the Evaluation Questions in Part B. This presentation of main features is supplemented by a more detailed analysis using the Causality Map developed in the Inception Report (Figure A1.1 in this report) to summarise the findings on causality in Rwanda. This analysis is to be found in Annex 5.

D1.2 The broad conclusion is that, in Rwanda, PGBS is an example of the successful establishment of a modality that has met one of its primary aims, i.e. channelling large flows of resources to the national budget to support the reconstruction/development agenda of the government in the short term, and empowering and building government capacity for the longer term. PGBS has been more visibly successful with the former objective, but this has to do both with greater difficulties in measuring results for the latter and with the fact that these results take longer to materialise.

D1.3 The most visible effects of PGBS are associated with the flow of PGBS funding, which, together with policy and institutional effects, has been of critical importance in empowering government (central agencies in particular) in various ways. Another highly visible set of effects is the continued strengthening of PFM systems through policy dialogue and TA/capacity building. The effects of non-financial PGBS inputs have been weaker in other areas. In a number of cases they have effectively reinforced other influential factors, though overall this may not yet have amounted to the full deployment of PGBS potential in support of policy and institutional changes. The relatively small scale of PGBS in terms of number of IPs involved and, until recently, sectors covered has been found to be a possible limitation in this respect.

D1.4 In relation to the various levels of the EEF, the strength of the links and of the attributability to PGBS decreases when travelling from inputs to impacts. The most complex picture, with a mix of strong, moderate and weak links and PGBS influence, is at Level 3, embracing the effects expected in terms of strengthening government systems, processes and institutions. All aspects are work in progress. Some have been strengthened already (e.g. emergence of more participatory policy-making, improved allocative efficiency of public expenditure) and in others more work is to be done (e.g. financial reporting capacity, definition of organisational arrangements for decentralised service delivery). Because of the mixed results at Level 3, the links thereafter are not supported by sufficient evidence to be conclusive on outcomes and impacts.

D1.5 The analysis points to positive results of PGBS in Rwanda in relation to:

- An increase in the volume of external resources for the budget, facilitating further orientation of government spending on priorities including the expansion of basic social services;
- A strong and effective support to PFM system development which has the potential to enhance further the positive funding effect through improving budget execution, establishing stronger accountability systems, etc.;
- A strong effect of empowerment of central agencies, which provides a solid basis for further strengthening systems and capacities throughout government;

- An effective support to government leadership in aid management, through PGBS's own effectiveness as a modality and through setting examples for aid in general.

D1.6 The most visible weaknesses yet to be addressed have been found to be:

- Conditionality which affected PGBS flow-of-funds predictability, with negative effects down to service delivery, and failure to fulfil all government expectations of the partnership paradigm of PGBS;
- The general weakness of accountability mechanisms and of the feedback systems that are required to inform those (reporting, monitoring, data collection and analysis, etc.), hampering further adjustment in government action for better results, and curtailing the ultimate impact in terms of empowerment and social inclusion;
- The limited "outreach" of PGBS vis-à-vis line ministries, service delivery and decentralised levels, linked with weak engagement with the PSR and decentralisation, which curtails further gains in service delivery and non-income poverty reduction;
- Mirroring the PRSP, the limited engagement of PGBS with the growth agenda (and its equality dimension) as a means to income poverty reduction.

D1.7 Looking more closely at hypothesised links postulated by the EEF, the Evaluation concludes that:

- First, both the strengths of the links and the "attributability" to PGBS weaken when travelling from lower (Level 1) to higher (Level 5) levels in the EEF. The most complex picture is at Level 3 (strengthening of government systems, processes and institutions). This is the level at which the effects of PGBS "switch" from generally significant to moderate at Levels 1 and 2 and up to Level 3, to generally moderate or weak after Level 3. Level 3 is also the level where some within-level links are strongly influenced by PGBS (e.g. effect of PGBS funding on link from empowered government to strengthened intra-government incentives, effect of PGBS TA and policy dialogue on PFM systems) while others are weakly influenced (e.g. weak effect of PGBS on enhanced democratic accountability). It is noteworthy that links belonging to the same "stream of postulated effects" can be strongly or weakly influenced (strengthened intra-government incentives and enhanced democratic accountability both belong to the institutional stream). This suggests that Level 3 may still be too "packed" and further evaluation work might focus on further unpacking it. (It is possible that Levels 4 and 5 are still too packed too, but this is hidden in the case of Rwanda because the main "stumbling block" appears to be at Level 3.)
- Second, the effects of PGBS funding are more easily discerned than the effects of other PGBS inputs – for which attribution is shared with other processes such as the PRSP, the PSR, decentralisation, the overall aid dialogue, non-PGBS TA working on "PGBS areas" and sector-specific processes and effects (including flow-of-funds, institutional and policy effects!). This was expected and therefore is no surprise. But it stresses the importance of seeking further consistency and complementarity of PGBS with these other processes in the PGBS design. This has been done in Rwanda but it could be done more systematically in future.

D1.8 Pursuing the aspect of the separation of funding effects and the effects of other PGBS inputs, the team also concludes that:

- PGBS funding has had significant institutional and policy effects (e.g. on intra-government incentives and on encouraging and – in principle – financing new policy

spending). In contrast, PGBS funding appears to have had relatively weaker flow-of-funds effects or perverse ones, owing to the unpredictability of releases. This is perhaps counter-intuitive but it can be explained: to extract stronger/more positive flow-of-funds effects from PGBS funding, a number of elements currently hindering the link from policy systems and policies (Level 3) to outcomes (Level 4: service delivery and growth environment), which is the link carrying actual funding, would have to be addressed. These elements, arising from the policy and institutional streams, include (i) weak capacities; (ii) weaknesses in (Level 3) systems (including PFM systems, e.g. financing reporting) and (iii) lack of balance among sectors and poverty dimensions.

- With regard to PGBS "soft inputs", conditionality as presently operated is seen as a factor hindering rather than enabling the desired streams of effects. First, conditionality has generated unpredictability and, particularly for political conditionality, the government perception is that this was unjustified. But more generally conditionality is seen by GOR as not living up to expectations arising from the "partnership-oriented" PGBS paradigm underlying the EEF. Hence, for instance, conditionality hinders government empowerment, which is central to the streams of effects.
- Policy dialogue and TA have had strong effects on "PFM systems". They have heightened awareness of the need to strengthen PFM systems and provided inputs into the PFM reform process. Moreover, outstanding weaknesses are identified and will be addressed with PGBS support. In contrast, PGBS policy dialogue and TA have not had much influence on other institutional changes, especially those related to the PSR/decentralisation and the empowerment-related areas (justice, human rights etc.). Their effect on policy changes is at most moderate: it is uneven across sectors and dimensions of poverty.
- Arguably some of these differences are explained by differences in time lags for effects to occur. Flow-of-funds effects are quite immediate, including those in a negative direction, whereas it takes longer to change policies and to align activities with policies, and even longer to change institutions. In Rwanda, it would not come as a surprise that the slowest to change will be those institutions (in particular informal ones) that regulate the relationship between the government and people (individuals and citizens as opposed to clients of services and entrepreneurs).
- The special case of PFM may come from the fact that PFM systems are seen as directly impacting on PGBS effectiveness, and perhaps also as more easily "tackled" because they are seen as being less political than other areas (though this perception is not always accurate). Hence there is a concentration of efforts which has not been matched by an equivalent concentration of coordinated efforts on the more complicated policy-making systems and institutional framework.

D2. PGBS in Rwanda – Future Prospects

Introduction

D2.1 In light of the conclusions summarised in Chapter D1, this chapter presents significant developments and issues that are likely to influence the applicability of PGBS in Rwanda in the future. It analyses the implications of these developments and issues in terms of the role and design of PGBS, taking account of interplay with other modalities.

D2.2 Issues and implications for PGBS are grouped under five headings, namely:

(a) Rwanda's long-term prospects, the likely role of aid vis-à-vis MDGs, scaling up, etc.

(b) capacity issues

(c) government accountability

(d) political dimensions of aid

(e) hence, prospects for partnership.

Long-term Development and the Role of Aid and PGBS in Rwanda

D2.3 The study has also found that GOR is at a critical juncture in defining the prospects for Rwanda's long-term development and assessing what strategies are required to achieve the Vision 2020 objectives. The study notes GOR's desire to "rebalance" the overall policy agenda, between social sectors, which have taken most of the attention and resources thus far, and the economic and infrastructure sectors (e.g. ¶B1.18; ¶B5.8). The emergence of a "wealth creation" paradigm in the official discourse on the country's development is also noted (¶B5.14). A number of sources/informants recognised a tension between this and the poverty reduction paradigm and stressed that it would be of importance to find concrete ways whereby wealth creation would result in poverty reduction. It has also been noted that the issue of inequality needs to be raised (¶B8.8).

D2.4 Thus a reorientation of the development paradigm is likely to be high on the agenda of GOR in the forthcoming period of preparation of the PRSP-2. This calls for a realistic assessment of medium-term and long-term growth possibilities, a deeper and more evidence-based analysis of the links between policies, service delivery and poverty reduction, and a discussion of the trade-offs and links between growth, poverty reduction and (in)equality in the Rwandan context. Ongoing work such as that on the agricultural development / trade / export promotion / private sector development / regional integration nexus and the WB "Country Economic Memorandum" exercise should assist in addressing these issues. The new data on poverty that will be available in the near future will be critical too.

D2.5 The implications for aid in general and PGBS in particular should be discussed as part of the same process. In many countries today the discussion is about scaling up aid to meet the MDGs and boost chances for self-reliance in the longer term (e.g. Ethiopia). In other countries the agenda is more about reducing aid dependency (e.g. Uganda). Aid dependency is indeed extreme in Rwanda, but it may not be feasible or desirable to reduce it in the short to medium term, as argued for instance by Sida (Bigsten and Lundström 2004). In any event the issue needs attention and there needs to be a clearer and shared understanding among partners of the broad, long-term (much beyond the usual three-year horizon of the PRGF) financing framework within which PGBS should then be negotiated. This should also address issues of aid composition and indebtedness.

D2.6 The reorientation of government policy framework toward the "growth agenda" has significant implications for PGBS. It will affect the destination of PGBS funding, following the consequent reorientation of government spending (even if government's role in growth-related sectors is different from that in the social sectors, recent trends already show an increase of spending on non-social areas among the priority expenditure programmes in the government budget). This could and probably should also be accompanied by a reorientation in associated non-funding inputs (dialogue etc.).

Government Capacity and Decentralisation

D2.7 Throughout the evaluation, capacity weaknesses have been identified as an important constraint on the effectiveness and efficiency of government action and of PGBS to deliver poverty reduction. Tackling issues of capacity is therefore crucial. The analysis suggests that this implies a strong, continued and flexible support to the PSR, including a commitment to respect government strong ownership of this reform (¶C3.6). The study also identifies a need to strengthen further the capacity of civil society at large and of private sector actors, to enable them to engage meaningfully in policy formulation and monitoring (see inter alia ¶C3.9).

D2.8 Building capacities is also necessary to address accountability issues. This means strengthening both government structures' capacities and systems for reporting and monitoring results and strengthening demand for information from domestic constituencies. Strengthening accountability for results requires improving both government and other stakeholders' capacity to collect and analyse data and to undertake research on poverty and related issues. Support for this should be balanced and should be provided in such a manner that it brings stakeholders together in a non-antagonistic relationship (see ¶D2.17). Accountability issues also need to be analysed in the context of the decentralisation policy of government and the new shape that this will take in light of the territorial reform.

D2.9 Decentralisation is likely to be a determining factor in shaping government capacity to deliver its policy intentions, and even more so with the recent territorial reform. Hence, as noted in various places in Part B and in ¶C3.4, it is going to be critically important to build the capacity of the "new" decentralised entities once they are in place in 2006. To make good the underlying empowerment objective of government decentralisation policy, the objective of IPs' support to decentralisation should be to enable local structures to engage meaningfully in policy formulation with central agencies, and not only act as the implementing agents of centrally designed policies. Professional capacity at decentralised levels should be strengthened so that effective devolution of service delivery is feasible.

D2.10 This has important implications with regard to the design of institutionally relevant PGBS programmes. It implies a reorientation of PGBS policy dialogue, conditionality and TA, but it also should be analysed from the point of view of PGBS funding. Several IPs are currently thinking of channelling "decentralisation earmarked budget support" through the existing CDF, which would act as a government-managed basket fund. There are several elements to consider in relation to this or any other "solution". First, to date the CDF has been dedicated to financing local development without clear links to decentralised service delivery. These two dimensions of decentralisation need to be more closely integrated. Second, the territorial reform will probably require "thinking afresh" about fiscal decentralisation issues. It would be important for PGBS partners to be associated with the thinking from the outset. Third, the same reform calls for reconsidering sector-specific aid instruments in a different light. It is important to reassess as early as possible how they would have to evolve over time in order to support both sector strategic development and the roll-out of decentralisation in its new shape.

D2.11 With regard to capacity, the study notes that TA/capacity-building support initiatives have suffered from fragmentation and lack of coordination (see e.g. ¶C3.8). For PGBS to remain institutionally relevant it may be required to think strategically about capacity development and to start with, assess the potential represented by government frameworks i.e. the MSCBP and the dedicated Human Resource Development Agency (HRDA).

D2.12 It has also been found that the PGBS performance assessment framework did not include a systematic review of institutional changes such as those occurring through the PSR and the implementation of government decentralisation policy (¶B9.21). It is even more critical to address this weakness in light of the territorial reform and the significant reorganisation that it will entail over a prolonged period of time.

Accountability Issues

D2.13 As noted throughout the study (e.g. ¶B4.18; ¶B5.20; ¶B7.9–¶B7.10; ¶B7.19), there is a pressing need to build strong accountability mechanisms throughout government levels, for both the use of funds and results. Government is well aware of this, which is work in progress but will require a lot of support. There is a strong case for GOR and PGBS IPs to take a comprehensive approach in addressing accountability issues. This means avoiding an exclusive focus on technical and technocratic dimensions and building further on the approach already stated in the PRSP and PRSC matrix, i.e. linking up with all dimensions of governance (Pillar 4 of the PRSP) and with the social inclusion/ empowerment dimension of poverty reduction.

D2.14 Strengthening financial reporting and accountability systems is one part of what is required. Fully implementing the comprehensive PRSP M&E plan requires a lot more. Feedback mechanisms need strengthening across all government systems, with continued attention to poverty and sector statistical capacity. It also makes it necessary to address the lack/weakness of "formal mechanisms for citizens and especially the poor, to make their voices heard", noted in the NEPAD APRM report (Government of Rwanda 2005). This calls for clarifying entry points for various "feedback mechanisms" that already exist or are being developed (e.g. ensuring that findings from assessments such as budget reviews and PETS are thoroughly discussed and acted upon, ensuring an entry point for the CRCs) and further developing formal participation mechanisms.

D2.15 Improving the definition and clarifying the role of priority programmes in public expenditure and their relation with further pro-poor orientation of the government budget could also contribute to strengthening the domestic accountability framework (see ¶B3.10). This would be particularly powerful if it was linked to the participatory poverty assessment activities that are foreseen in the course of preparing the PRSP-2, and if it would include a discussion of issues of inequality.

D2.16 Yet other aspects of accountability need to be addressed. In particular, GOR has suggested that further progress was in order in terms of mutual accountability between GOR and the PGBS IPs (¶B1.24). This is further discussed in the section on the "quality of partnership". Here it is noted that "PGBS-related accountability" could and should systematically contribute to strengthening domestic accountability mechanisms at various levels. For instance PETS and CRCs, which have been developed with the impetus of PGBS programmes, could become embedded in the regular relationships between government, service providers and citizens/communities. Government achievements against PGBS conditionality could become a more visible feature of more systematic reports on achievements in poverty reduction.

The Political Nature of Aid and PGBS in Rwanda

D2.17 The study has repeatedly encountered the markedly political nature of aid in Rwanda (e.g. ¶A3.30–31; ¶B1.15; ¶B9.18) and the implications this has for the way the overall aid dialogue is conducted (e.g. ¶B2.3). In turn, this characteristic of the GOR–IP dialogue affects the relationship between government and civil society, and it is important for IPs to be aware of this. A detailed analysis of this issue is beyond the scope of this study. Reference is simply made to the Clingendael report (Kimonyo et al 2004), which argues that approaches that oppose government and civil society are dangerous. The report suggests instead a third way through which IPs would engage with, and exercise vigilance concerning, both government and the civil society.

D2.18 In concrete terms, the unsettled political situation in and around Rwanda is a fertile ground for sporadic political tensions in an otherwise improving dialogue between GOR and IPs. The uncertainty that this creates is problematic, as government activities are highly dependent on external funding and this may not change significantly for the foreseeable future. With regard to PGBS, political issues become extremely sensitive when it comes to grant funding by bilaterals. This calls for a "due process" mechanism to be established, agreed with GOR and common to all PGBS IPs. Such an arrangement should ensure that issues arising from political conditionality or expectations (such as those couched in the bilateral IPs' MOUs) are addressed in the first instance through dialogue, and that there is a period of "cooling off" during which this dialogue can take place. Secondly, the mechanism could include a provision that, except in the case of breach of underlying fundamental principles (which should be demonstrated), within-year disbursements should not be interrupted or withheld. This provision could also hold for other types of issue (technical PRGF-related, etc.); see Chapter C4.

D2.19 Considering the role of "home constituencies" in the decisions made in relation to political issues, there also appears to be scope for improving the information provided by in-country PGBS IPs to these constituencies (¶B9.23–28).

D2.20 It is also evident that for some IPs, PGBS is perceived as having a special status with regard to the dialogue on political governance and that this raises expectations that are not held with other aid modalities. This leads to reactions that affect only PGBS when these higher expectations are not met. This differential treatment is also a point which may deserve further clarification, especially as it is at the origin of the development of "risk mitigation strategies" (such as the design of alternative/complementary sector-focused aid modalities) which, while they may mitigate political risks, may put at risk other benefits expected from more effective aid modalities (¶B3.33).

Quality of Partnership

D2.21 The overall assessment in Chapter D1 points at long lead times for public action, and PGBS through it, to generate the kinds of ultimate impact on poverty reduction hypothesised in the EEF. Thus, as suggested in Chapter B9, establishing the sustainability of PGBS on solid bases is important. The quality of the partnership between GOR and PGBS IPs is critical to this endeavour. This study points at five aspects which are important for improving it further in the future: (i) improving PGBS programmes' consistency in relation to conditionality; (ii) improving the processes around performance assessment and decision-making for PGBS disbursement with a view to making PGBS a more predictable and timely resource for the government budget; (iii) strengthening complementarity between PGBS and other aid modalities; (iv) strengthening the framework for alignment of aid in general and PGBS in particular with government systems; (v) reinforcing PGBS self-assessment and "learning from itself" mechanisms. The team's suggestions with regard to each of these aspects are provided in the rest of this chapter.

Consistency in Conditionality

D2.22 It is government's view that further transparency is necessary in decision-making processes and criteria related to the provision of PGBS. This should apply for entry criteria and processes for new PGBS IPs, criteria and processes for the design of new operations for IPs already providing PGBS, and disbursement decisions for ongoing programmes. However, this study highlighted that even leaving aside the issue of political conditionality, PGBS IPs continue to have different approaches to entry criteria and to conditionality/ performance assessment (see ¶C4.5). Moreover, the study also found that for government officials it is not clear that the current situation gives GOR enough "room for manoeuvre within limits", which they see as being fundamental to the PGBS partnership paradigm (¶B1.24; ¶C4.4). Hence, on the whole, there appears to be scope for improving consistency in the conditionality framework in Rwanda with a view to enhancing transparency in GOR–IPs partnership.

D2.23 The issues identified here are not going to disappear by themselves. On the contrary, they are likely to be compounded by the probable expansion of PGBS (in terms of range of sectors covered and/or number of IPs involved). It would therefore seem appropriate for GOR and PGBS IPs to tackle them in the near future, e.g. in the course of the preparations for the next PGBS operations. Among other things, this would require GOR and PGBS IPs to assess the relevance and feasibility of moving toward a harmonised performance assessment framework, resolving at the same time issues of how tight/flexible the framework should be and how each IP could nevertheless find a way of being responsive to its own institutional requirements.

Predictability of PGBS

D2.24 Given that within-year unpredictability of PGBS flow of funds has been the major issue so far in the life of PGBS in Rwanda, measures to tackle the different sources of this problem should be paramount in dealing with the next stages of PGBS (¶B3.16). In this respect, tidying up the content and process of conditionality and decision-making about disbursements is the single most important design recommendation to emerge from this report.

D2.25 Clarity/transparency on the content and the process of performance assessment as argued above are important in making PGBS more transparent. Indeed, unpredictability due to under-specified political conditionality is the most spectacular recent example of PGBS-engendered fiscal and macroeconomic disruptions. However, more mundane and frequent sources of unpredictability have related to internal donor administrative procedures (EC and Sida). Donor administrative procedures need to ensure that the timing of committed disbursements can be routinely honoured rather than routinely missed.

D2.26 As suggested in ¶D2.18, a mechanism ensuring that within-year disruptions in PGBS disbursements would be minimised to the greatest possible extent would clearly assist in improving PGBS predictability. It would also be relevant to assess more precisely how individual IPs' schedules for PGBS releases could be organised with regard to government cash flow requirements and plans. This cannot be done by and for one PGBS donor in isolation, and it ought to take into account the different constraints and flexibilities of specific IPs' instruments.

Complementarity between PGBS and Other Aid Modalities

D2.27 The study has found examples of positive interplay between PGBS and other aid modalities (e.g. PGBS and education SWAp, see inter alia ¶B2.23–26). On the other hand, these are isolated cases and the potential to replicate these in other similar cases has not been seized. The study has also noted a recent interest on the side of both non-PGBS and PGBS

IPs, in the setting up of sector-specific support instruments (see inter alia ¶A3.13; ¶B3.33; ¶C4.9). In the view of the evaluation team, it is important that GOR and PGBS IPs discuss candidly the rationale for PGBS IPs to envisage alternative modalities. Among others they should discuss the risk of continued fragmentation in the aid-related incentive framework that such modalities carry with them.

D2.28 As part of this discussion, partners should want to explore how PGBS and SWAps could reinforce each other rather than being proposed as alternatives. Taking the agriculture sector as an illustration, there is nothing to prevent it being covered by the PGBS process formally while at the same time SWAp-type activities such as strengthening the joint review process could continue, working on aligning existing and planned projects with the SPAT and even, if this was deemed necessary, developing a joint programmatic mechanism, e.g. to finance the strengthening of cooperatives.

D2.29 It would also be useful to reflect on the positive precedent created by the cases of synergy between PGBS and projects, e.g. in support of the PSR and of the development of the ESSP, and assess how this could be replicated in other cases (e.g. decentralisation). Clusters could be asked to outline how, in their sector, PGBS and non-PGBS aid modalities could best complement each other in practical terms.

D2.30 THE study highlighted in several instances the decisive importance of government leadership (e.g. ¶A3.23–¶A3.24; ¶B2.8; ¶B5.8; ¶B8.29). Government capacity to maintain the partnership, and in particular the capacity of Minecofin and other central agencies to lead dialogue and spearhead reforms, is a determining factor of the quality of the partnership dialogue. At the same time, as noted e.g. in ¶B3.27 and ¶B9.14, government capacity is over-stretched, including at central agencies' levels. This appears to call for a closer look at issues of transaction costs and sequencing of desirable reforms, with a view to ensuring that a pace is found that ensures that government retains the leadership in the process.

Framework for System Alignment

D2.31 The study notes that aid is relatively well aligned with GOR policies at an aggregate level, but that this is weaker at a more operational level and also, that aid (including PGBS) and government process cycles are poorly aligned (¶B2.25). The study also highlights the importance of the recently agreed harmonised calendar, which has the potential of significantly improving system alignment, thereby improving policy alignment at a more operational level (see inter alia ¶A3.21; ¶B1.12; ¶B2.14; ¶B9.3). For this to happen, the calendar has to be implemented to the greatest possible extent. This requires all IPs to review their existing practices (in terms of design, monitoring and review of their operations). In particular, it may require significant intra-agency adjustment with regard to the relationship between, and respective roles and tasks of, in-country offices and HQs.

Learning Mechanisms

D2.32 The study found that the design of PGBS programmes and partnership framework had evolved in the short period of time since PGBS's inception, demonstrating an ability to learn from itself. However, it was also found that learning mechanisms were not sufficiently proactive and that they could also be more systematic (¶B9.19). The recent introduction of the PRSC and the tensions that this generates with regard to some aspects of the PGBS design makes it even more important to ensure that "self-reflection" is given adequate attention in the PGBS partnership. It would therefore be important for GOR and PGBS IPs to consider how to strengthen the mechanisms that allow PGBS to "learn from itself" and improve over time in terms of design and process.

D2.33 There are several options for consideration, which could complement each other. Inter alia, government and PGBS IPs could consider:

- Establishing an independent observation mechanism focusing on PGBS institutional effects and actual functioning (as has been done in Tanzania and more recently in Mozambique);
- Build on the first joint (GOR–PGBS IPs) self-assessment carried out during the joint BS review of March 2005 and make it a standing agenda in budget support reviews – giving it the time and resources required;
- Expanding/complementing the existing system of annual review of MOUs.

D3. Summary of Conclusions and Recommendations

Introduction

D3.1 The first part of this chapter highlights the recommendations generated by the Evaluation and identifies responsibilities and tentative timings for implementation of the recommendations. The recommendations are clustered around the issue areas used in Chapter D2. The second part of the chapter shows how the study conclusions and recommendations in Chapters D1 and D2 relate to the analysis and findings of Parts B and C. Both are presented in the form of matrices.

Recommendations in Light of Future Prospects for PGBS in Rwanda

D3.2 Table D3.1 below presents the recommendations, together with implementation responsibilities and anticipated timings. Recommendations have been numbered in a way which allows cross-referencing to Table D3.2, which provides a summary of findings, conclusions and recommendations. In both tables the last column indicates who should be responsible for implementation of the recommendations. The timeframe for this to happen is also suggested, with the following key:

- I means for immediate action;
- ST means for action in the short term that is, roughly, 6 months to a year;
- MT means for action in the medium term that is, will take more than a year.

Table D3.1: Recommendations in Light of Future Prospects for PGBS in Rwanda

Main Issues (Chapter D2)	Numbered Recommendations	Implementation
Long-term development and the role of aid and PGBS in Rwanda	R1. Dialogue on development paradigm, trade-off and linkage between growth/ wealth creation and poverty reduction, inequality issues, as part of rebalancing of PRS agenda	GOR and all IPs (I and continuing): during PRSP-2 preparation and WB–DFID–EC preparation of new country assistance strategies
	R2. Raise profile of issue of inequality in PGBS dialogue, supported by evidence and linking this to ongoing discussions on Rwanda's development paradigm and the reorientation of PRSP agenda	PGBS IPs and GOR (Minecofin) (I/ST: starting during preparation of PRSP-2)
	R3. Address issue of the role of aid in Rwanda's long-term development perspective (scaling up vs. reducing aid dependency; political volatility vs. long-term commitment)	GOR and all IPs (ST/MT)
	R4. Explore and agree on realistic long-term development perspectives for Rwanda (Vision 2020) and role of growth and aid (scaling up vs. reducing aid dependency) as a framework for medium-term to long-term commitment to PGBS	GOR and all IPs (ST/MT)
	R5. Balance progress made with overall macroeconomic stability and PFM with progress in private sector reforms (liberalisation, deregulation, follow-up on DTIS studies)	GOR and all IPs (I): during PRSP-2 preparation
	R6. Clarify how PGBS as a whole will adjust to expanded agenda of the PRSP-2 (Economic Development and Poverty Reduction Strategy) + link to recommendations under *Government Capacity and Decentralisation*.	GOR and PGBS IPs (I): during preparation of PRSP-2 and new country assistance strategies
Government capacity and decentralisation	R7. Address issue of PGBS and decentralisation: explore options for PGBS design and/or alternative/ complementary support to service delivery and local development	GOR and IPs (all) (ST)
	R8. Explore how PGBS design can simultaneously strengthen national sector strategies and decentralised service delivery (new context: territorial reform, August 2005)	GOR and PGBS IPs: need engagement of Minaloc, Mifotra and LMs (ST)
	R9. Clarify how PGBS design will accommodate closer link between PSR, decentralisation and service delivery	GOR and PGBS IPs (consultation with all IPs): I (road map for territorial reform)
	R10. Support strengthening capacity of civil society, private sector, Parliament etc. to enable them to engage more meaningfully in policy dialogue with GOR	IPs in consultation with GOR (MT)
	R11. Provide support to capacity building of decentralised entities under the PGBS design or as a complement. Explore options for linking up with HRDA's strategy and work programme.	IPs in consultation with GOR (central agencies, HRDA, LMs) (I/ST and continuous for the foreseeable future)
	R12. Strategic approach to capacity development: clarify role of IPs' support to capacity development vis-à-vis government MSCBP	GOR and IPs (all, with special responsibility for PGBS IPs focusing capacity development on "core government functions") (MT)

Main Issues (Chapter D2)	Numbered Recommendations	Implementation
Government capacity and decentralisation *(continued)*	R13. As part of the above, address issue of coordination between sector/thematic capacity development plans and support (e.g. PFM, education, decentralisation with DIP) and WB PSCBP	GOR and IPs (all, with special responsibility for PGBS IPs focusing capacity development on "core government functions") (MT)
	R14. Strengthen PGBS review framework through development of and link to a process of review of institutional developments (PSR, decentralisation)	GOR (Minecofin, Mifotra and Minaloc) with PGBS IPs (ST)
	R15. Continue support to strengthening poverty and sector performance monitoring systems (data collection and analysis). Explore options for linking up with HIDA's strategy and work programme	IPs (all) (ST/MT)
	R16. Support further development and implementation of a comprehensive and continuous research programme on poverty, growth and inequality in Rwanda, and of the required capacities in government and non-government organisations	IPs (all) (ST/MT)
Accountability issues	R17. Strengthen financial reporting and accountability systems including strengthening domestic stakeholders' capacity	GOR (lead central agencies) with IPs support (MT)
	R18. Strengthen accountability mechanisms throughout government systems (particular attention to how PGBS accountability mechanisms could further strengthen domestic systems)	GOR and IPs (all, and PGBS in particular) (MT)
	R19. Ensure that findings from assessments such as budget reviews and PETS are thoroughly discussed and acted upon	GOR and all IPs (MT)
	R20. Further strengthen government systems with an emphasis on feedback mechanisms.	GOR and all IPs (MT)
	R21. Improve definition and clarify role of priority programmes in public expenditure and domestic accountability framework	GOR (Minecofin and LMs) in consultation with all IPs (I/ST: during PRSP-2 preparation)
Political nature of aid and PGBS in Rwanda	R22. Establish due process mechanism in PGBS performance assessment framework (all PGBS IPs; particular attention to political conditionality and link to MOUs for bilateral IPs)	PGBS IPs (in-country offices, jointly, in consultation with GOR and HQs) (ST)
	R23. Clarify expectations from PGBS vs. other aid in relation to political governance dialogue	IPs among themselves in the first instance
	R24. Strengthen mechanisms of feedback to IPs' home constituencies (through more regular and comprehensive information; more generally through programmes of education of civil society, parliaments etc. on "new aid paradigm" and implications)	GOR (Minecofin, Mifotra and Minaloc) with PGBS IPs (ST)
Quality of partnership: conditionality and predictability of PGBS	R25. Further develop mutual accountability framework with a view to enhancing GOR's ownership and improve predictability of PGBS (transparency of IPs in decision-making; transparency of GOR in use of funds and results)	GOR/ PGBS IPs (ST)
	R26. Tidy up conditionality content and process	PGBS IPs with IMF and GOR (ST/MT)

Main Issues (Chapter D2)	Numbered Recommendations	Implementation
Quality of partnership: conditionality and predictability of PGBS *(continued)*	R27. In particular, address issue of feasibility and relevance of a joint performance assessment framework	WB and other PGBS IPs
	R28. Improve decision-making process re within-year disbursements of PGBS (e.g. schedule disbursements collectively to create regular cash flow)	PGBS IPs with IMF and GOR (I)
Quality of partnership: complementarity between PGBS and other aid modalities	R29. Further dialogue on choice of and balance/ complementarity between IPs and between aid modalities and instruments at various levels (including Aid Policy Document for all IPs; individual IPs internally to their portfolio; articulation of PGBS and SWAps; articulation of PGBS–decentralisation–PSR etc.)	Lead: Minecofin EFU All: I (during PRSP-2 preparation) and continuous
	R30. Further strengthen complementarity between IPs' portfolios and instruments	DPCG to lead in strengthening functioning of sub-groups and clusters (ST)
	R31. Carry out GOR and IP transaction costs review – linked to aid scaling up issues (see recommendations under *Quality of Partnership: Conditionality and Predictability of PGBS*)	GOR (Minecofin and LMs) in consultation with all IPs (I/ST: during PRSP-2 preparation)
	R32. Sequence reforms and further decrease transaction costs, including of the partnership dialogue, as much as possible	GOR and all IPs
Quality of partnership: system alignment	R33. Strengthen application of harmonised calendar, including timing for PGBS disbursement, links between PRS, sector and BS reviews etc. – and therefore strengthen links between dialogues	GOR with all IPs; special role for PGBS IPs and IMF (I and continuous)
Quality of partnership: Learning mechanisms	R34. Strengthen PGBS self-assessment and learning mechanism building on all existing mechanisms (including self-assessments under BS reviews)	GOR (Minecofiin EFU lead) and PGBS IPs (ST and continuous)

Integration of Findings, Conclusions and Recommendations

D3.3 The Inception Report, ¶3.3 (IDD & Associates 2005) noted the importance of distinguishing between:

> *findings* (facts), *conclusions* (interpretation of the facts, drawing on the judgement of the evaluators) and *recommendations* (reasoned advice based on the evaluation findings and conclusions).

The matrix in Table D3.2 below is designed to summarise the recommendations of the Final Country Report on Rwanda, and in so doing to demonstrate the links from findings to conclusions to recommendations.

D3.4 The matrix covers sequentially all chapters in Part B and Part C of the report (these are the lines of the matrix). The first column presents for each chapter a brief summary of the findings. In the second column of the matrix, conclusions are presented, which have been referenced to the relevant paragraphs. Recommendations, in the third column of the matrix, have been referenced to the relevant "prospective issue(s)" raised in Chapter D2. It is recognised that implementing the recommendations may take time. The preparation of the PRSP-2, which is under way and is planned to deliver a finished PRSP-2 by early/mid 2007, provides an opportunity for a number of recommendations to be implemented in the wake of this process.

Table D3.2: Standard Summary Table of Findings, Conclusions and Recommendations

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ1 Relevance of PGBS			
• Over the short and politically quite volatile period of time during which PGBS has been in existence in Rwanda, the PGBS design has been moderately to strongly relevant to the country context, with weaknesses in addressing political and financial aspects.	• The political nature of aid and of PGBS in particular, in the politically volatile environment of Rwanda, is an issue with regard to short-term volatility and long-term commitment of IPs to the development of the country (¶B1.15 and ¶B1.19).	• R22. Establishment of due process mechanism in PGBS performance assessment framework (all PGBS IPs; particular attention to political conditionality and link to MOUs for bilateral IPs) (¶D2.18).	• PGBS IPs (in-country offices, jointly, in consultation with GOR and HQs) (ST)
• Conditionality (or the way it has been applied) is perceived by GOR as being not entirely consistent with the partnership paradigm. It is also the weakest area in terms of internal consistency of PGBS.	• Significant implications arise with regard to the scope of PGBS in Rwanda, from the planned rebalancing of the PRSP agenda toward further emphasis on economic sectors/growth-related areas (¶B1.18; ¶B1.27).	• R1. Dialogue on development paradigm, trade-off and linkage between growth/wealth creation and poverty reduction, inequality issues, as part of rebalancing of PRS agenda (¶D2.6).	• GOR and all IPs (I and continuing): during PRSP-2 preparation and WB–DFID–EC preparation of new country assistance strategies
• PGBS responds to perceived weaknesses of project aid and has improved aid coordination.	• Decentralisation of service delivery has emerged as a challenge for PGBS institutional relevance (¶B1.17).	• R7. Address issue of PGBS and decentralisation: explore options for PGBS design and/or alternative/ complementary support to service delivery and local development (¶D2.10).	• GOR and all IPs (ST)
• The PGBS design is as comprehensive as the PRSP itself: from its initial exclusive focus on the social sectors it is in the process of expanding to embrace growth-related areas.	• Conditionality as applied to date in Rwanda may hinder rather than reinforce the effect of other PGBS inputs (¶B1.23–24).	• R25. Further develop mutual accountability framework with a view to enhancing GOR's ownership and improve predictability of PGBS (transparency of IPs in decision-making; transparency of GOR in use of funds and results) (¶D2.23).	• GOR and PGBS IPs (ST)
		• R3. Address issue of the role of aid in Rwanda's long-term development perspective (scaling up vs. reducing aid dependency; political volatility vs. long-term commitment) (¶D2.6).	• GOR and all IPs (ST/MT)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ2 PGBS Effects on H&A • Policy alignment is quite good at the overall PRSP level, but is uneven across sectors. There has been less progress on harmonisation and also, even for PGBS programmes, at more practical levels such as alignment with the government budget cycle. • Aid coordination, including for TA, is also improving, but thus far there has been little tangible progress in non-PGBS aid use of GOR's systems.	• In the PGBS design in Rwanda, conditionality is the least harmonised input. This has implications re (un) certainty of PGBS disbursements for GOR (¶B2.9). • Further progress in system alignment (esp. alignment of PGBS and GOR cycles) seems to be highly desirable with a view to making policy alignment more concrete (¶B2.16). • With PGBS acting through government systems, in addition to a focus on cross-cutting reforms (e.g. PFM) there ought to be a focus on strengthening planning, budgeting, spending and monitoring systems in sectors. Sector dialogue should feed into PGBS dialogue. This has important implications in terms of balance/complementarity between IPs' portfolios and aid instruments (¶B2.17). • While not the driving factor, PGBS played an actively supportive role in enhancing H&A: the Partnership Framework for H&A of BS reaches out as an example for aid H&A in general (¶B2.10, ¶ B2.14). • PGBS has also potential to improve complementarity between forms of aid through supporting sector-specific coordination arrangements and their interfacing with cross-cutting processes.	• R26. Tidy up conditionality content and process (¶D2.23–26). • R27. In particular, address issue of feasibility and relevance of a joint performance assessment framework (¶D2.23). • R33. Strengthen application of harmonised calendar, including timing for PGBS disbursement, links between PRS, sector and BS reviews, etc. (¶D2.31). • R29. Further dialogue on choice of and balance/complementarity between IPs and between aid modalities and instruments at various levels (including Aid Policy Document for all IPs; individual IPs internally to their portfolio; articulation of PGBS and SWAps; articulation of PGB –decentralisation–PSR etc.) (¶D2.27-29).	• PGBS IPs with IMF and GOR (ST/MT) • WB and other PGBS IPs • GOR with all IPs; special role for PGBS IPs and IMF (I and continuous) • DPCG for Aid Policy Document level. BSHG, HARPP and clusters. Lead: Minecofin EFU All: I (during PRSP-2 preparation) and continuous

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ3 PGBS Effects of Public Expenditures			
• PGBS is substantial as a proportion of both total aid and of government expenditure. • IPs believe that PGBS has led to significant additionality of aid, because large amounts of funding could not have been disbursed through other mechanisms. GOR informants perceive a degree of substitution as IPs transfer project financing into PGBS. • PGBS has coincided with a steady increase in the share of "priority" spending in the government budget. "Priority" spending does not necessarily equate with pro-poor spending. • Overall predictability of PGBS is positive and empowering to government but there have been short-term disruptions in disbursement caused by political, technical and administrative factors. • GOR perceives large transaction cost savings compared with other modalities.	• PGBS has contributed significantly to more external resources being available. (¶B3.3). • Flow-of-funds effects also point to generally positive impacts on the additionality and efficiency of PE (¶B3.8, ¶B3.14 ; ¶B3.24-¶B3.25). • Transaction costs are likely to be lower than with other modalities, especially for government (¶B3.28). • Overall, there is a strong empowering effect of PGBS funding. • Limitations on the pro-poor nature of priority expenditure have implications for PGBS influence on public expenditure outcomes (¶B3.10).	• R28. Improve decision-making process re within-year disbursements of PGBS (e.g. schedule disbursements collectively to create regular cash flow) (¶D2.26). • R21. Improve definition and clarify role of priority programmes in public expenditure and domestic accountability framework (¶D2.15). • R31. Carry out GOR and IP transaction costs review – linked to aid scaling up issues (¶D2.30).	• PGBS IPs with IMF and GOR (I) • GOR (Minecofin and LMs) in consultation with all IPs (I/ST: during PRSP-2 preparation) • GOR (Minecofin and LMs) in consultation with all IPs (I/ST: during PRSP-2 preparation)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ4 PGBS Effects on Planning and Budgeting Systems • PFM systems, which were totally destroyed in the genocide, have been extensively rebuilt during 1994–2004. • GOR has viewed partnership between IPs and government as the key to system and process building. • PGBS dialogue and capacity building have played a key role in expanding general reporting and accountability through systems and process development.	• The processes of building and refining PFM systems have been closely intertwined with aid, and with PGBS (¶B4.3–¶B4.8, ¶B4.23). • PFM reforms have been proactively supported by PGBS IPs. PGBS has played a significant role in improving PFM systems (¶B4.11). • Government ownership of the reforms is strong (¶B4.19). • PGBS TA and policy dialogue in particular have made an "enormous contribution" to PFM system development (¶B4.11). • Accountability mechanisms remain the weakest link in the PFM system (¶B4.18).	• R17. Strengthen financial reporting and accountability systems, including strengthening domestic stakeholders' capacity.	• GOR (lead central agencies) with IPs support (MT)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ5 PGBS Effects on Policies and Policy Processes			
• A pro-poor reform process is in place, and it is improving over time from a moderate level of quality. • IPs are not fully-fledged policy actors in Rwanda, but PGBS is influential in strengthening intra-government incentives in the policy process. It also facilitates the involvement of national stakeholders in policy-making as GOR's dialogue with IPs is less of an issue. • PGBS dialogue, conditionality and TA help address weaknesses in GOR's reporting and monitoring systems which otherwise hamper policy adjustment. • Accountability to PGBS IPs may complement and strengthen domestic accountability mechanisms and thereby enhance policy learning, though this is not automatic.	• Further pro-poor orientation of government policies requires a more thorough discussion of the balance between economic and social development (¶B5.22) and greater attention to inequality (¶B5.11). • PGBS influence on the policy process could be used to a greater extent to (i) expand and deepen domestic stakeholders' involvement in the process (decentralised levels, civil society and private sector – ¶B5.5–6) and (ii) strengthen domestic accountability mechanisms (¶B5.20). This has implications in terms of PGBS design and complementary support to strengthen (i) government policy capacity (including for engaging with other stakeholders) and (ii) non-government stakeholders (¶B5.12).	• R1. Dialogue on development paradigm, trade-off and linkage between growth/wealth creation and poverty reduction, inequality issues, as part of rebalancing of PRS agenda (¶D2.4). • R18. Strengthen accountability mechanisms throughout government systems (particular attention to how PGBS accountability mechanisms could further strengthen domestic systems) (¶D2.16). • R10. Support strengthening capacity of civil society, private sector, Parliament, etc. to enable them to engage more meaningfully in policy dialogue with GOR (¶D2.7–8).	• GOR and all IPs (I and continuing): during PRSP-2 preparation and WB–DFID–EC preparation of new country assistance strategies • GOR and IPs (all, and PGBS in particular) (MT) • IPs in consultation with GOR (MT)
• PGBS influence on policies is through the PRSP. It has been limited with regard to public–private sector issues. In the case of sector policies, PGBS may have brought some more "discipline" in prioritising pro-poor interventions within an affordable financing framework. But PGBS influence has been uneven across sectors and shared with other sector-specific factors.	• Greater influence of PGBS on the policy process requires a greater engagement with sector processes (¶B5.14) and with PSR and decentralisation (¶B5.13).	• R30. Further strengthen complementarity between IPs' portfolios and instruments (¶D2.28–29).	• DPCG to lead in strengthening functioning of sub-groups and clusters (ST)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ6 PGBS Effects on Macroeconomic Performance			
• PGBS policy dialogue, conditionality and capacity building have provided more focus on macroeconomic policy and processes than projects. Macroeconomic conditionality is enforced chiefly through the IMF, and through the link between disbursements and PRGF review.	• Overall, the GOR can point to good performance in the field of macroeconomic management (¶B6.5, ¶B6.15). • PGBS (including through the general focus on improving PFM) has supported features of disciplined budget management that were already present before its onset (¶B6.15).		
• Government exceeded PRGF spending targets in 2003 as a result of a combination of poor government macroeconomic management in an election year and uneven PGBS flows. These combined with weak economic output caused GOR to resort to bank and non-bank borrowing. • During 2002–04, government borrowing affected the private sector through some minor effects on lending interest rates. Lending to the private sector appears to have experienced a slowdown between December 2003 and June 2004, but with a strong revival during the second half of 2004. • Delays and arrears in government payments for goods and services have been more telling for the private sector.	• However, short-term volatility in PGBS disbursements has resulted in significant transaction costs in terms of budget financing (¶B6.21). In turn, budget deficit management strategies partly induced as part of PGBS lack of regularity have had mixed effects on macroeconomic variables affecting private sector activity (mild inflationary pressures, limited effect on interest rates, some crowding-out effects and, chiefly, economic activity hampered by rising government payment arrears) (¶B6.6-8; ¶B6.11; ¶B6.23). • Macroeconomic stability is necessary but not sufficient for growth. There has been limited engagement of PRSP/PGBS with PSD policies up until recently. Moreover, other structural factors tend to swamp the effect of public action (¶B6.26).	• R28. Improve decision-making process re disbursement of PGBS (¶D2.23-26). • R5. Balance progress made in overall macroeconomic stability and PFM with progress in private sector reforms (liberalisation, deregulation, follow-up on DTIS studies) (¶D2.4).	• PGBS IPs with IMF and GOR (I) • GOR and all IPs (I): during PRSP-2 preparation

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ7 PGBS effects on delivery of public services • Since 2000 there have been steady gains in service delivery, though mainly in terms of access. • PGBS has supported this through enabling government to operate rebuilt and new facilities and through assistance in designing relevant operational policies. PGBS within-year predictability and timeliness have been poor, which has hampered service delivery. This shows that it could also work the other way round. • TA in general has not been effective at operational level. PGBS effect on service delivery capacity through better PFM and M&E systems has yet to trickle down to facility level. PGBS has also been only weakly influential with regard to responsiveness of service delivery, due to its limited engagement with the PSR and decentralisation agenda thus far.	• Predictability and timeliness of PGBS funding is crucial for predictable and transparent budget management, which is key for performance in service delivery (¶B7.5 and ¶B7.14). • Priority programmes do not always finance pro-poor services/measures. This undermines the pro-poor nature of service delivery and the effect of PGBS on this (¶B7.4). • A number of other factors create resource shortfalls at service delivery level (within-year reallocation of resources, weaknesses in budget release / spending chain) which have the same effect (¶B7.6 and ¶B7.5). • Limitations in improving service delivery, while policies, PFM and budgets are improving, arise from weaknesses in (i) implementation capacity, (ii) reporting and M&E systems and (iii) local accountability mechanisms (¶B7.9). Addressing these issues has implications for PGBS "engagement" with the decentralisation capacity development agenda (¶B7.10, ¶B7.11 and ¶B7.23).	• R28. Tidy up decision-making process re disbursement of PGBS (¶D2.23-26). • R21. Improve definition and clarify role of priority programmes in public expenditure and domestic accountability framework (¶D2.15). • R19. Ensure that findings from assessments such as budget reviews and PETS are thoroughly discussed and acted upon (¶D2.14). • R8. Explore how PGBS design can simultaneously strengthen national sector strategies and decentralised service delivery (new context: territorial reform, Aug 2005) (¶D2.10). • R11. As part of this, provide support to capacity building of decentralised entities under the PGBS design or as a complement. Explore options for linking up with HRDA's strategy and work programme (¶D2.10–11).	• PGBS IPs with IMF and GOR (I) • GOR (Minecofin and LMs) in consultation with all IPs (I/ST: during PRSP-2 preparation) • GOR and all IPs (MT) • GOR and PGBS IPs: need engagement of Minaloc, Mifotra and LMs (ST) • IPs in consultation with GOR (central agencies, HRDA, LMs) (I/ST and continuous for the foreseeable future)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ8 PGBS Effects on Poverty Reduction			
• Poverty has been reduced, though in several respects the situation remains worse than prior to 1994. Progress is uneven and absent for some indicators including those related to inequality. The rebound effect specific to Rwanda, general time-lag effects and a lack of data and analyses consistent over time make it complex to assess whether existing progress is due to more effective public action. • PGBS funding has strongly supported public action and hence changes in poverty through the budget (new pro-poor social sector spending and spending on basic governance sectors). • PGBS has exerted some influence through non-funding inputs with regard to non-income poverty reduction. This has been almost nil with regard to the empowerment dimension and this is now rising from an initially low level, for the growth-related / income poverty reduction dimension.	• Inequality is an issue of concern. While recent research suggests that it is increasing, there is no agreement on government's side that this is the case. The link with trade-offs between growth / wealth creation and poverty reduction does not appear to be made (¶B8.8). This has implications for the PGBS policy dialogue during the preparation of PRSP-2. • New data and analyses will be available in the course of the PRSP-2 preparation (¶B8.15). It will be important to ensure that they are fully exploited in light of this concern, and more generally with a view to supporting the reorientation of the PRSP agenda through evidence-based policy-making.	• R2. Raise profile of issue of inequality in PGBS dialogue, supported by evidence, and link this to ongoing discussions on Rwanda's development paradigm and the reorientation of PRSP agenda (¶D2.4). • R15. Continue support to strengthening poverty and sector performance monitoring systems (data collection and analysis). Explore options for linking up with HRDA's strategy and work programme (¶D2.4; ¶D2.8). • R16. Support further development and implementation of a comprehensive and continuous research programme on poverty, growth and inequality in Rwanda, and of the required capacities in government and non-government organisations (¶D2.4; ¶D2.8).	• PGBS IPs and GOR (Minecofin) (I/ST: starting during preparation of PRSP-2) • IPs (all) (ST/MT) • IPs (all) (MT)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
EQ9 Sustainability of PGBS			
• Feedback loops are as good or weak as the government systems meant to carry them. This has implications for PGBS as it relies on those systems for M&E etc. (¶B9.5–6.	• Feedback loops necessary for GOR and PGBS IPs to be able to adjust courses of actions need strengthening. The recently agreed harmonised calendar outlines how feedback loops should work, linking M&E to planning and to PGBS operations, but it has yet to be thoroughly tested in a full cycle.	• R20. Further strengthen government systems with an emphasis on feedback mechanisms (¶D2.14).	• GOR and all IPs (MT)
• Feedback loops currently in place do not capture the institutional effects of PGBS.	• Underpinning PGBS sustainability is the issue of "where PGBS is going" (i.e. Rwanda's medium-term to long-term development perspectives; ¶B9.18). This issue has been identified for some time. Scaling up PGBS and other flexible aid modalities may not make sense if it is not addressed squarely.	• R4. Explore and agree on realistic long-term development perspectives for Rwanda (Vision 2020 or its update) and role of growth and aid (scaling up vs. reducing aid dependency) as a framework for medium-term to long-term commitment to PGBS (¶D2.4–5).	• GOR and all IPs (ST/MT)
• With regard to PGBS design itself, feedback to home constituencies has been problematic for bilateral IPs with regard to political conditionality in situations of tensions.			
• Existing learning mechanisms on PGBS itself are nascent. They have yet to prove that they would be sufficient to ensure that PGBS becomes more sustainable as a result of being consistently and consciously improved over time.	• Another key sustainability issue is the political nature of aid and PGBS in particular, considering Rwanda's geopolitical situation (¶B9.18; see also conclusions under EQ1).	• R22. Establish due process mechanism (¶D2.18).	• PGBS IPs (in-country offices) (ST) (see EQ1)
	• PGBS sustainability depends on how the design issues identified above will be addressed (e.g. linking up with sector dialogues; supporting rebalanced PRSP agenda and linking up with decentralisation). The magnitude of the challenges stresses the importance of strengthening PGBS self-learning mechanisms (¶B9.23).	• R24. Strengthen mechanisms of feedback to IPs' home constituencies (through more regular and comprehensive information; more generally through programmes of education of civil society, Parliament etc. on new aid paradigm and implications) (¶D2.19).	• PGBS IPs (lead with HQs) (MT)
		• R14. Strengthen PGBS review framework through development of, and link to, a process of review of institutional developments (PSR, decentralisation) (¶D2.12).	• GOR (Minecofin, Mifotra and Minaloc) with PGBS IPs (ST)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
	• Doubts about and constraints (on IPs' side) on PGBS as a modality per se could initiate a spiral of low PGBS level yielding limited results and hence creating further doubts and seriously undermining PGBS sustainability (¶B9.15). The causes of the doubts and constraints have not been transparently addressed. • Another risk to PGBS sustainability is GOR's capacity to maintain the partnership (capacity to engage in dialogue, to undertake and complete reforms etc.).	• R34. Strengthen PGBS self-assessment and learning mechanism, building on all existing mechanisms (including self-assessments under BS reviews) (¶D2.33). • R29. Further dialogue on choice of and balance/complementarity between, IPs and between aid modalities and instruments at various levels (¶D2.28–29). • R32. Sequence reforms and further decrease transaction costs, including of the partnership dialogue, as much as possible (¶D2.30).	• GOR (Minecofiin EFU lead) and PGBS IPs (ST and continuous) • See EQ1 • GOR and all IPs
Chapter C1 – Policy CCIs • Gender, HIV/AIDS and environment are not explicitly addressed in PGBS as IPs are satisfied that they are adequately addressed elsewhere. • Human rights and democracy issues are one of the dividing lines between PGBS and non PGBS IPs. For PGBS IPs these issues underpin the dialogue but they are not explicitly part of it (e.g. no "measurable conditions").	• PGBS does not "lead to neglecting CCIs" (e.g. gender, environment), but there may be scope for better linking dialogues and reinforcing PGBS's federating role (¶C1.13).	• R33. Strengthen application of harmonised calendar, including timing for PGBS disbursement, links between PRS, sector and BS reviews etc. – and therefore strengthen links between dialogues (¶D2.31).	• GOR with all IPs; special role for PGBS IPs and IMF (I and continuous)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
Chapter C2 – Public and Private Sector Issues • GOR and IPs agree on the principle that the private sector needs strengthening to become the engine of growth. However, PRSP/PGBS has been little engaged with the growth agenda until recently. On this basis it is not possible to assess whether GOR and IPs' have common views at a more detailed level.	• Growth agenda and issues of public and private sectors are gradually becoming more important on PGBS agenda, but it is still unclear how this will shape up beyond an expansion of the number of associated measures in the PRSC matrix (¶C2.5).	• R6. Clarify how PGBS as a whole will adjust to expanded agenda of the PRSP-2 (Economic Development and Poverty Reduction Strategy) + link to recommendations under *Government Capacity and Decentralisation* (¶D2.6).	• GOR and PGBS IPs (I): during preparation of PRSP-2 and new country assistance strategies

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
Chapter C3 – Government capacity and Capacity building			
• The PSR and decentralisation are government's main planks with regard to capacity of delivering poverty reduction. These processes are strongly owned at central agencies' level and comprehensive in their intent. The accelerated pace of reforms is a challenge, and sudden changes (e.g. territorial reform 2005) may undercut previous progress in the short term. • Government has also developed a comprehensive plan for building the country's capacity. IPs' response is hesitant and incomplete. "PGBS-related" TA and capacity building is not well defined; coordination is opportunistic. Nevertheless there have been positive systemic effects through reducing demands on government capacity and providing incentives to strengthen GOR systems.	• The territorial reform of August 2005. bringing closer together PSR, service delivery and decentralisation reforms, presents new challenges and opportunities which may require a more proactive engagement of PGBS with PSR and decentralisation (¶C3.6). • There is a recognised need for a more strategic approach to CB "associated with PGBS" but no agreement yet on how this could shape up, e.g. in relation to government MSCBP and the WB supporting project (¶C3.8).	• R9. Clarify how PGBS design will accommodate closer link between PSR, decentralisation and service delivery (¶D2.10). • R12. Strategic approach to capacity development: clarify role of IPs' support to capacity development vis-à-vis government MSCBP (¶D2.11). • R13. As part of the above, address issue of coordination between sector/thematic capacity development plans and support (e.g. PFM, education, decentralisation with DIP) and WB PSCBP (¶D2.11).	• GOR and PGBS IPs (consultation with all IPs): I (road map for territorial reform) • GOR and IPs (all, with special responsibility for PGBS IPs focusing capacity development on "core government functions") (MT) • GOR and IPs (all, with special responsibility for PGBS IPs focusing capacity development on "core government functions") (MT)

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
Chapter C4 – Quality of Partnership			
• Government ownership is strong, especially where capacities are greater (central agencies). PGBS supports this well, though government qualifies this with regard to political conditionality and policy intrusiveness at time.	• Conditionality content and assessment process is still an issue. The PRSC being a newcomer, it is not possible to assess the suitability of this more detailed approach to conditionality and dialogue with regard to government ownership. The PRSC raises a challenge for "intra-PGBS" harmonisation (¶C4.5).	• R26 and R27. Clarify / tidy up conditionality content and process + address issues of feasibility and relevance of joint performance assessment framework (¶D2.22–26).	• PGBS IPs with IMF and GOR (ST/MT)
• The interplay between aid modalities has been moderately good but largely shaped by opportunistic factors. In fact there were few options by way of aid modalities. This is now perceived as unsatisfactory. A number of initiatives are under way (including the design of sector support instruments), which will change the landscape for PGBS.	• The coincidence of stronger ownership, greater involvement in reforms and greater capacities raises the issue of how PGBS can "break in" and help initiate virtuous circles linking ownership and capacity beyond central agencies (¶C4.6).	• See recommendations above on capacity development.	• WB and other PGBS IPs
		• R29. Further dialogue on choice of and balance/complementarity between IPs and between aid modalities and instruments at various levels (¶D2.28–29)	• See EQ1
• On the whole, PGBS is perceived as having the potential for significantly reducing transaction costs of all kinds, and having begun to do so. Further reducing aid transaction costs is a general concern among all IPs, supporting government in this.	• The emerging, more complex aid landscape may require a more systematic approach to designing synergy between PGBS and other aid modalities (¶C4.9). • The development of new aid modalities also calls for attention to be paid to different types of transaction costs and trade-off among them (¶C4.16).		

Findings	Conclusions	Recommendations with cross references to Table D3.1	Implementation (who/when)
Chapter C5: Political Governance and Corruption			
• The political governance agenda is dominated by issues of human rights, national security and opening up of the political space. Chapter C1 shows that this is one of the factors demarcating PGBS and non-PGBS IPs (among bilaterals). It is unclear whether the "right" to dialogue on political governance comes with PGBS or with trust.	• Politically motivated crises in relations between GOR and PGBS IPs, especially when they lead to withholding PGBS resources without sufficient dialogue in GOR's view, may have repercussions for PGBS as a whole in terms of reducing the "capital of trust" between partners.		
• Corruption is not addressed in the PGBS dialogue (though it is in the PFM reforms) and more generally is perceived as not being an issue in Rwanda. Risks may be increasing, especially of subtle forms of corruption through exclusion patterns and concentration of power.	• Expectations that PGBS should, more than other aid modalities, actively raise political governance issues, may not be warranted.	• R23. Clarify expectations from PGBS versus other aid in relation to political governance dialogue (¶D2.20).	• IPs among themselves in the first instance

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JOINT EVALUATION OF GENERAL BUDGET SUPPORT 1994–2004

Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam

Rwanda Country Report

ANNEXES

April 2006

Joint Evaluation of General Budget Support
RWANDA COUNTRY REPORT ANNEXES

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ANNEX 1: APPROACH AND METHODS

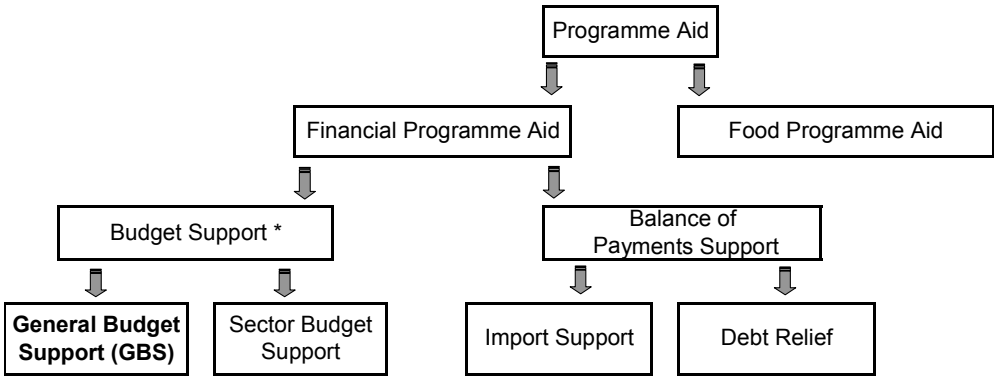
Annex 1A: Summary of the Evaluation Methodology

1,

1. This Annex provides a short summary of the evaluation methodology. For full details please refer to the Inception Report (IDD & Associates 2005), and see also the Note on Approach and Methods which accompanies the Synthesis Report. Box 1A.1 shows how General Budget Support (GBS) relates to other forms of programme aid, while Box 1A.2 defines the DAC (Development Assistance Committee) evaluation criteria. Figure 1A.1 provides an overview of the Enhanced Evaluation Framework (EEF).

Box 1A.1: General Definition of Budget Support and GBS

As defined for the purpose of this evaluation, **programme aid** can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support (SBS) and general budget support (GBS).



*Referred to as direct budget support in the *Evaluation Framework*

The general characteristics of **budget support** are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems and that it is not linked to specific project activities. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of the policy dialogue and conditionality.

Sector Budget Support is distinguished from **General Budget Support** by being earmarked to a discrete sector or sectors, with any conditionality relating to these sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

Source: IDD & Associates 2005, Box 2.1.

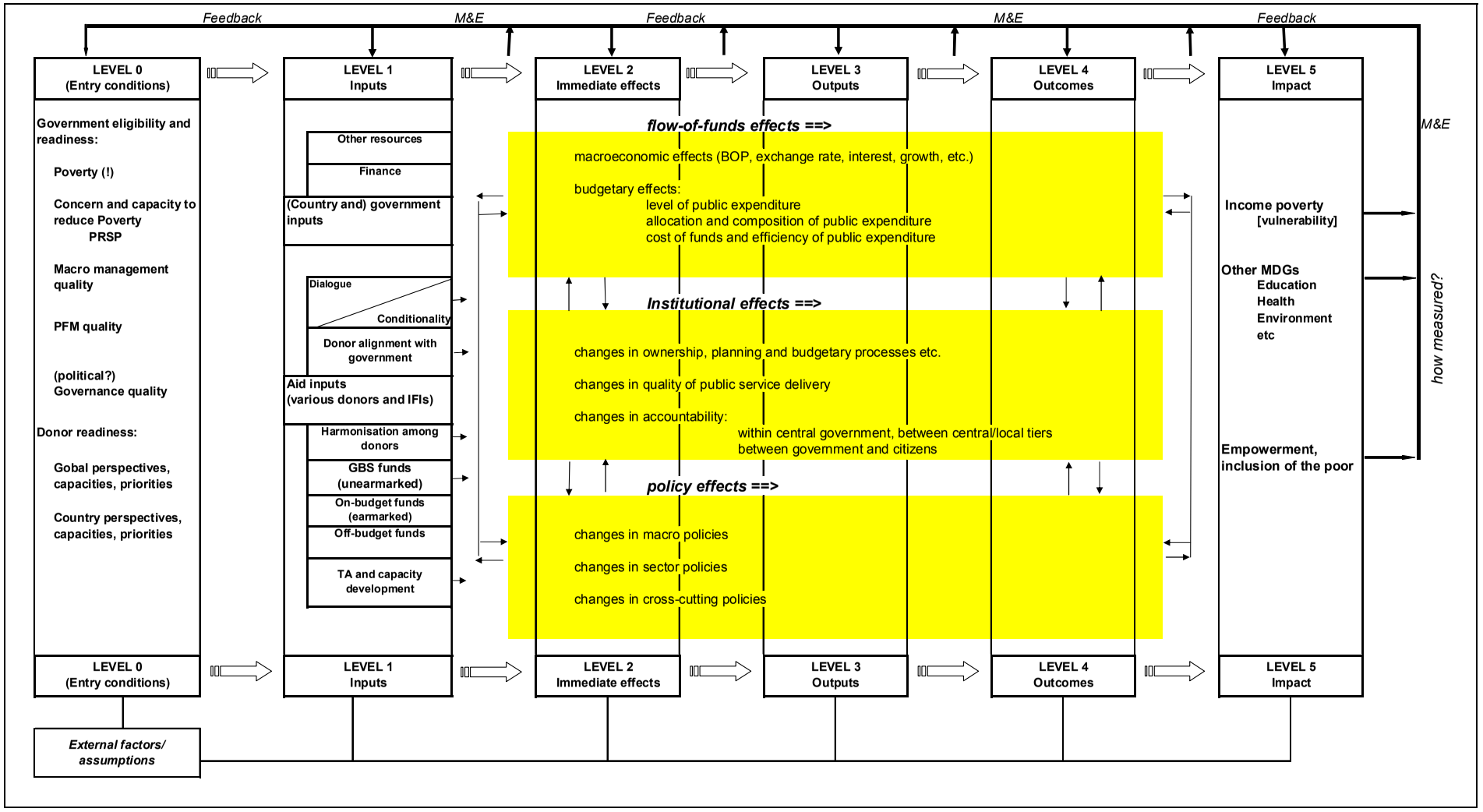
Box 1A.2: The DAC Evaluation Criteria

The five DAC evaluation criteria are:

- *Effectiveness:* The extent to which the development intervention's objectives were achieved, or are expected to be achieved, taking into account their relative importance;
- *Efficiency:* A measure of how economically resources/inputs (funds, expertise, time, etc.) are converted to results;
- *Relevance:* The extent to which the objectives of a development intervention are consistent with beneficiaries' requirements, country needs, global priorities and partners' and donors' policies;
- *Impact:* Positive and negative, primary and secondary long-term effects produced by a development intervention, directly or indirectly, intended or unintended;
- *Sustainability:* The continuation of benefits from a development intervention after major development assistance has been completed. The probability of continued long-term benefits. The resilience to risk of the net benefit flows over time.

Source: IDD & Associates 2005, Box 3.1.

Figure 1A.1: The Enhanced Evaluation Framework (schematic view)



2. Box 1A.3 shows, for each level of the logical framework, the main effects that are hypothesised to result from GBS. These hypothesised effects form the first column (the "logical sequence") of the detailed evaluation questions which are annexed to the Final Inception Report (IDD & Associates 2005; see Annex G for the full set of detailed evaluative questions).

Box 1A.3: Enhanced Evaluation Framework – Logical Sequence of Effects

Level 1 (the design)

1. Adequate quantity and quality of inputs are provided by new GBS:

1.1 Funds
1.2 Policy dialogue
1.3 Conditionality
1.4 TA/capacity building linked to:
- Public finance management (PFM)
- Pro-poor sectoral policies and good governance

1.5 Alignment and harmonisation:
- IPs' alignment to government goals and system
- IPs' harmonisation

Level 2 (the immediate effects/activities)

2.1 More external resources for the government budget (additionality)
2.2 Proportion of external funds subject to national budget process increased (increased fungibility)
2.3 Increase in predictability of external funding of national budget
2.4 Policy dialogue and conditionalities focused on pro-poor policy framework and improved PFM
2.5 TA/capacity building established:
- To improve PFM processes including budgeting, accounting, financial control, audit
- To improve the linkage between PFM and pro-poor sectoral policies and good governance

2.6 Actions to ensure IPs' alignment are in place
Actions and agreements to improve IPs' harmonisation are in place

Level 3 (the outputs)

3.1 Increased resources for service delivery:
- External resources are treated as additional
- Cost of funding budget deficit reduced

3.2 Partner government is encouraged and empowered to strengthen PFM and government systems:
- To use the budget to bring public sector programmes into line with government goals, systems and cycles (Poverty Reduction Strategy Paper / Medium-Term Expenditure Framework)
- To set up performance monitoring systems to measure the effectiveness of public expenditure at the level of the final beneficiaries
- To promote alignment and harmonisation by IPs

3.3 Partner government is encouraged and empowered to strengthen pro-poor policies:
- To establish and execute an adequate sequence of reforms to ensure macroeconomic stability and private sector development
- To establish and execute pro-poor policies and targeting in health, education, agricultural and rural development
- To enhance social inclusion policies, through decentralisation and participation of the civil society, reform of the administration of justice and respect for human rights

3.4 Improved aggregate fiscal discipline:
- More predictable funding flows
- Incidence of liquidity shortfalls reduced, hence less use of Central Bank overdrafts and less accumulation of arrears

3.5 Operational efficiency of public expenditure is enhanced:
- By reductions in certain types of transaction costs to partner government (e.g. non-standard procurement systems, brain-drain effects of parallel project management structures)
- Better planning, execution and oversight reduces wasteful spending, controls corruption better, spreads positive lessons across the public sector

3.6 Allocative efficiency of public expenditure is enhanced:
- By a more effective budget process: multi-year, results-oriented, transparent, participatory; with effective execution and audit; with an adequate tracking system
- By increased capture of project funds in budget
- By stakeholders taking the domestic budget more seriously (because that's where the money is)

3.7 Intra-government incentives and capacities are strengthened:
- Official reporting lines are more respected (vertical through government to Cabinet, not horizontal to IPs)
- Public service performance incentives are strengthened, so that policies are made and implemented, audit and procurement systems work, and corruption is reduced

3.8 Democratic accountability is enhanced:
- Greater role of Parliament in monitoring budget results
- Accountability through domestic institutions for IP-financed spending is enhanced
- Conditions for all-round democratisation are thereby improved, including the trust of people in their government and hence their levels of expectation

Level 4 (the outcomes)

4.1 Macroeconomic environment is favourable to private investment and growth:
- Inflation controlled
- Realistic exchange rate attained
- Fiscal deficit and level of domestic borrowing sustainable and not crowding out private investment

4.2 Regulation of private initiative works to ensure business confidence, equity, efficiency and sustainability:
- Policies on corruption, property rights resolutely pursued
- Market-friendly institutions developed

4.3 More resources flowing to service delivery agencies

4.4 Appropriate sector policies include public actions to address major market failures, including those arising from gender inequalities

4.5 More effective and accountable government improves administration of justice and respect for human rights, as well as general confidence of people in government

4.6 More conducive growth enhancing environment

4.7 Public services effectively delivered and pro-poor:
- Service delivery targets met for key pro-poor services
- Evidence of increased use of services by poor (including poor women)

Level 5 (the impact)

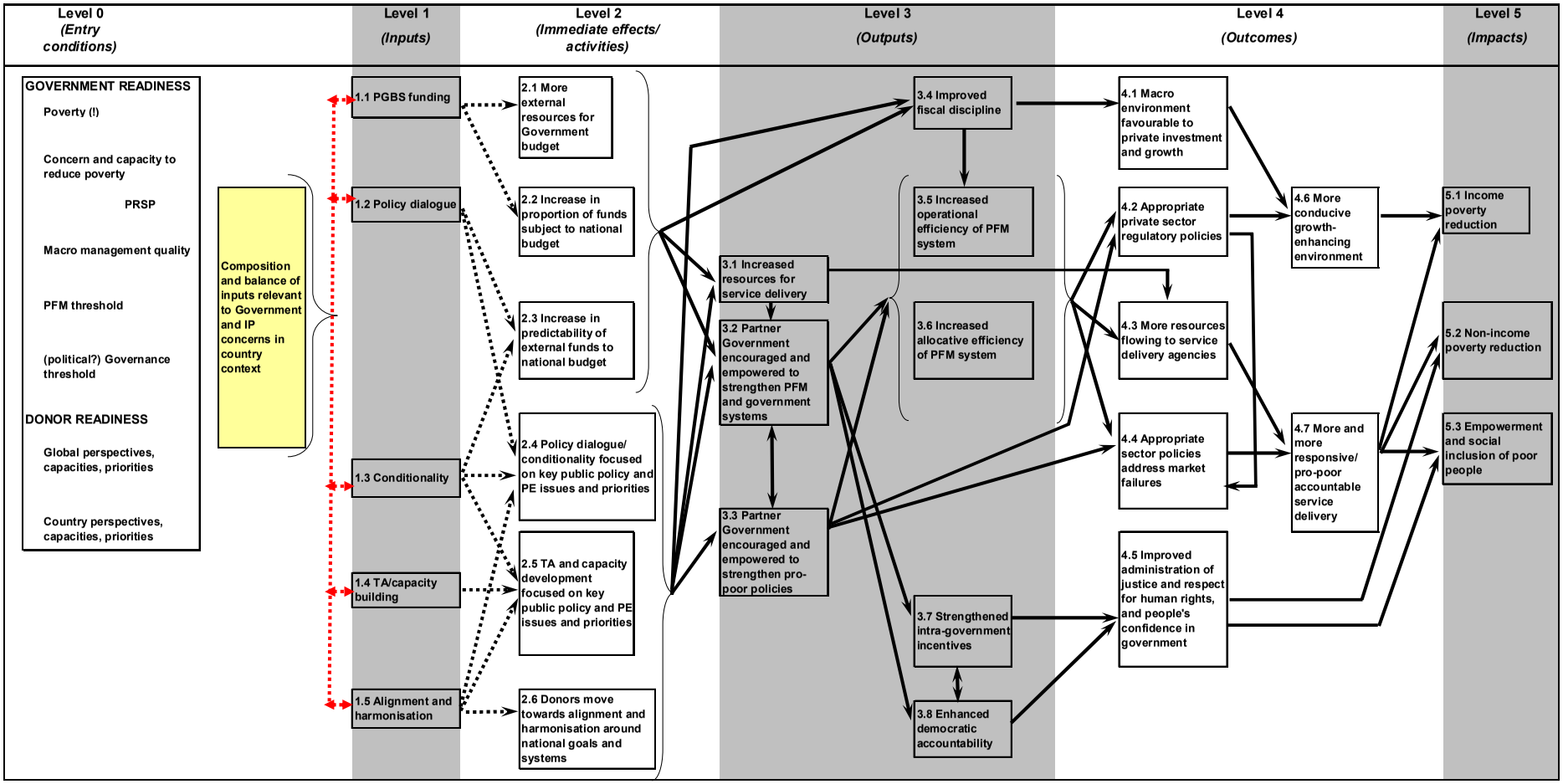
5.1 Income poverty reduction

5.2 Non-income poverty reduction

5.3 Empowerment and social inclusion of poor people

3. The main hypothesised links between inputs and subsequent effects at different levels are depicted on the causality map (Figure 1A.2). Note that these are not the only possible links; the evaluation teams also considered whether other links appeared important in particular countries.

Figure 1A.2: Causality Map for the Enhanced Evaluation Framework



4. A set of overarching key Evaluation Questions (Box 1A.4) provides an organising framework for the country evaluation and a structure for the country reports.[1]

Box 1A.4: Key Evaluation Questions

1. How does the evolving Partnership GBS (PGBS) design respond to the specific conditions, strengths and weaknesses of the country, to government priorities and to the priorities and principles of the international partners?
2. Has PGBS contributed to greater harmonisation and alignment of the aid process?
3. How efficient, effective and sustainable has been the contribution of PGBS to the performance of the public expenditure process?
4. How efficient, effective and sustainable has been the contribution of PGBS to improving government ownership, planning and management capacity, and accountability of the budgetary process?
5. How efficient, effective and sustainable has been the contribution of PGBS to improving public policy processes and policies?-
6. How efficient, effective and sustainable has been the contribution of PGBS to macroeconomic performance?
7. How efficient, effective and sustainable has been the contribution of PGBS to improving government performance in public service delivery?
8. How far has PGBS strengthened government impact on poverty?
9. Is the PGBS process itself sustainable?

5. Under each main evaluation question, a series of sub-questions (evaluation criteria) are posed (the shaded boxes in each of the chapters in Part B of the main report). To facilitate comparisons and consistency across the countries studied, symbols are used to give approximate ratings for the general situation and for the influence PGBS is judged to have had. The key to the ratings and symbols is as follows:

(a) Where the logic of the (implicit) question requires it – i.e. in Chapters B2–B8[2] – the ratings distinguish between the general situation to which the question refers and the influence of PGBS upon it. For the general situation, the rating is expressed as a *level* and a *trend*.

(b) PGBS influence is expressed in two ratings:

- For *effect*: This assesses the difference that PGBS makes to the general situation.
- For *efficiency*: It is perfectly possible that PGBS will be found to have a weak or null effect not because PGBS is inherently ineffective, but because it is relatively small ("a drop in a bucket") vis-à-vis the general situation. "Efficiency" therefore assesses whether PGBS has a significant effect relative to the resources deployed via PGBS. (Roughly, has PGBS been a "value-for-money way of pursuing this effect?)

(c) For both the general situation and the PGBS influence, a separate *confidence* rating is given.

(d) The same symbols are used against "level", "effect", "efficiency" and "confidence" ratings:

***	*strong/high*
**	*medium/moderate*
*	*low/weak*

[1] See !DD & Associates 2005, Annex K for the full matrix of key Evaluation Questions, including judgement criteria, evidence, data sources and counterfactuals. The final Note on Approach and Methods will note minor amendments and assess the experience of using the Enhanced Evaluation Framework.

[2] The Evaluation Criteria in Chapters B1 and B9 refer directly to PGBS itself, so there is no separate "general effect" to consider.

null	*the level/effect is either zero or negligible*
nf [not found]	*we found no evidence either way*
na	*rating is not applicable to this question*

(e) The "'trend" is the trend at the end of the evaluation period, and the options are:

+	*increasing/improving*
=	*stable (or no discernible trend)*
–	*declining/worsening*
na	*not applicable if the accompanying level is rated null / not found / not applicable*

(f) In the few cases where perverse effects are identified (a negative effect when the question implies a positive one is expected), this is shown as "perverse" (and is always be highlighted in the text explanation).

(g) As a rough guide to confidence ratings:

***	strong/high confidence: *We're sure what evidence is needed to answer this question, and the evidence we have appears robust and conclusive (so we would be surprised if more evidence changed the rating).*
**	medium/moderate confidence: *There is some uncertainty whether the evidence we have is both robust and sufficient; more evidence might lead to a somewhat different rating.*
*	low/weak confidence: *There is uncertainty about what evidence is relevant to the question, and/or the evidence we have is limited or unreliable.*

(h) The ratings for "general situation" and "PGBS influence" may be based on different (though overlapping) sets of evidence; it is perfectly possible that confidence levels will differ, so they are rated separately.

(i) As a rough guide to ratings for effect

***	strong effect: *PGBS has made a definite and very significant difference to the general situation; it is not necessarily the only factor which has made such a difference, but it is an important one.*
**	moderate effect: *PGBS has made a definite and moderately significant difference to the general situation but it may be a subsidiary factor or one amongst a considerable number of significant factors.*
*	low/weak effect: *PGBS has made only a small difference to the general situation.*
null	*PGBS is assessed to have made no difference, or only a negligible difference, to the general situation.*
nf [not found]	*We did not find evidence either way of a PGBS effect.*
na	*The implied question is not applicable in this case.*

(j) As a rough guide to ratings for efficiency:

***	highly efficient: *PGBS exerts a strong influence towards the effect in question, in proportion to the resources embodied in PGBS.*
**	moderately efficient: *PGBS exerts a moderate influence towards the effect in question, in proportion to the resources embodied in PGBS.*
*	low efficiency: *PGBS exerts only a weak influence towards the effect in question, in proportion to the resources embodied in PGBS.*
null	*PGBS is assessed to have exerted no influence, or only a negligible influence, towards the effect in question.*
not found	*We did not find evidence either way of a PGBS influence.*
na	*The implied question is not applicable in this case.*

6. The evidence used to assess ratings is explained in the text, and it follows general guidelines in Annexes G and K of the Inception Report (IDD & Associates 2005). The ratings have been checked for broad consistency across the country studies. At the same time, the study team recognises their limitations. It is neither possible nor desirable to reduce qualitative issues entirely to quantitative judgements. The ratings are only an adjunct to the text.

Annex 1B: Note on Approach and Methods adopted in Rwanda

Introduction

1. The purpose of this brief note is to describe the approach and methods adopted by the Rwanda country team and to reflect on what worked well, as well as what did not and why. This note is also intended to complement Chapter A1, which outlines the conceptual framework for the evaluation as a whole.

Team and Timetable

2. The study involved two visits to Rwanda. A two-week inception visit took place early November 2004. It was followed by a three-week visit early May 2005.

3. Team members were Ray Purcell (Country Team Leader), Gaspard Ahobamuteze (local consultant), Catherine Dom and Charles Harvey for the inception visit. The second visit was carried out by Ray Purcell, Gaspard Ahobamuteze and Catherine Dom.

4. All in-country arrangements were coordinated and facilitated by the Head of the Strategic Planning and Poverty Reduction Unit in the Ministry of Finance and Economic Planning (Minecofin) on government's side and the DFID Senior Economist on the donors' side. The group of PGBS IPs is small in Rwanda (AfDB, DFID, EC, Sida and World Bank) and the team had direct access to a designated individual in each agency (except for AfDB which does not have an office in-country). The team had also very good access to senior officials in government agencies most concerned. The team was accompanied for part of the time on both visits by members of the GBS Evaluation Study Management Group.

5. The main events during the visits were three workshops and two one-day field visits at provincial and district level. The first workshop was held towards the end of the inception visit. The second workshop was held in the first half of the second visit and scheduled to coincide with a broad consultation event in relation to PGBS programmes in Rwanda. The third workshop was held toward the end of the second visit, focusing exclusively on the GBS study. The field visits took place in the interval between the two workshops organised during the second visit.

6. The team had also the opportunity to attend two joint GOR–IP (Government of Rwanda – International Partners) meetings organised as part of the regular partnership dialogue in Rwanda. The first was the Development Partner Coordination Group (DPCG) meeting in November 2004 preparing for the annual Development Partner Meeting (DPM) of December, chaired by the Secretary General (SG) of Minecofin, as usual. The second was a working meeting of the Harmonisation and Alignment in Rwanda for Projects and Programmes (HARPP) sub-group of the DPCG. The Evaluation Team was asked to contribute to the meeting, which aimed at exploring existing and envisaged better-harmonised sector support modalities in Rwanda.

7. The study outputs consist of an Inception Report prepared after the inception visit, a draft country report prepared after the second visit and this Final Country Report. Comments were elicited on both the Inception Report (end 2004–early 2005) and the draft country report (September–October 2005).

Research Methodology

8. A wide variety of literature was reviewed. In addition to the documentation directly relevant to Rwanda, team members reviewed a number of generic documents (see the bibliography provided in the Final Inception Report for the overall study) in order to strengthen their understanding of the study methodology and to ensure that they would be aware of the latest thinking on the main issues to be analysed. Focusing on Rwanda, the literature reviewed includes, but is not limited to, the bibliography which is appended to the Rwanda Final Country Report. The bibliography includes only those documents which are essential to the study. In addition to those, a large number of other documents were reviewed, including government policy documents in final or draft form, implementation reports, concept notes and other preliminary documents related to IPs' programmes, minutes of meetings of the partnership architecture and other grey literature.

9. The team used the questionnaire that had been designed as a generic tool for use in all seven countries to collect basic information from donor agencies (quantitative and qualitative information on the perspectives of donors, on the financial aid being provided and on the immediate results of that aid). The questionnaire was sent ahead of the inception visit to PGBS IPs and the IMF. The experience with this was mixed. In the best cases the information contained in the questionnaire was incomplete and additional materials were provided to the team to extract the relevant data. Overall, the usefulness of the questionnaire was quite limited – even in terms of collecting basic information on IPs' portfolio it proved necessary to review IPs' country strategy documents (CAS, CSP, CAP etc.) in order to gain a real understanding of each IP's orientation in Rwanda. Searches on the web also proved useful to complement some of the data. The exception is for AfDB, where neither the questionnaire nor web searches proved sufficient.

10. Information was also gathered during interviews with key stakeholders (see list of organisations met in Table 1B.1 below). This proved to be extremely important as a way of refining the team's understanding gained through reviewing the literature. The team had access to a number of senior officials in government including the SG Minecofin, the SG Mifotra in charge of the PSR and the SGs of the ministries of Education and Commerce and Industry. This was a privileged way of obtaining direct insights on government policy. In these ministries and a number of other government agencies the team also met senior managers who provided a more operational perspective. On the donor side, in addition to regular contacts with their designated contact point, the team met all PGBS IPs' Heads of Agency (with exception of the EC) and the IMF Resident Representative. The team also met with a number of non-PGBS IP representatives active in key sectors for the study (e.g. USAID for private sector development matters, the Belgian Embassy for the health sector). There were also opportunities to interact with various missions, e.g. a WB mission on decentralisation and a DFID education consultancy mission in charge of taking forward the development of an education-specific support modality.

11. The team carried out two field trips during which meetings were held with senior provincial and district level officials and, at district level, elected mayors and their teams. The field trips also gave the team the opportunity to meet with civil society and private sector organisations active at these levels. It proved more difficult to meet representatives from civil society/non governmental organisations at central level. It was also not possible to meet with representatives from the private sector, though the team met with an official in the secretariat of the recently established Public–Private Partnership Forum.

12. A number of focus groups were held, all being the result of spontaneous initiatives on the part of the individuals/agencies the team was trying to meet. This proved particularly useful with Minecofin macroeconomic and external finance units, as well as during the field trips. One of

these was with a group of women beneficiaries of project assistance, and this, combined with views expressed by civil society and NGO representatives during the workshops, was quite useful for circumscribing issues of ownership, accountability and visibility of government action at grassroots level.

13. The three workshops were the main instrument for disseminating the work and findings of the team to stakeholders and for providing feedback to the team from a wide range of stakeholders. The first workshop (at the end of the inception visit) was mainly organised for the representatives of the two main stakeholder groups (government and IPs) whom the team had met during this visit and their colleagues (a group of 40 participants). During the second visit, the work of the evaluation and its preliminary conclusions were disseminated to a broader range of stakeholders including representatives of civil society, Parliament and provincial and district officials (see list of participants to the second visit workshops in Table 1B.2 below).

14. As noted above, the first of the workshops in the second visit coincided with a consultation by GOR and PGBS IPs on their future PGBS programmes (organised by DFID in coordination with the EC and Sida). The team presented the main findings from the inception phase to this broader audience. The final chapter of the inception report, summarising those, had been translated into French and widely circulated ahead of the workshop. The team also used the EEF, EQs and Causality Map to directly elicit views from the participants (organised in working groups each focusing on sub-sets of links logically demarcated) on the existence and strength of chains of links and the effects of PGBS on these. The second workshop at the end of the second visit took this forward. The same group of stakeholders was invited, together with representatives from provincial and district levels. The team presented to the participants their views collected during the previous workshop combined with the team's own findings and views and asked working groups to validate, invalidate or enrich this information. Participants were divided into focus groups (6–10 to a group) to explore and provide in-depth feedback on conclusions relating to the macroeconomic (Chapter B6), public finance management (B3 and B4) and institutional aspects (B5 and B7) dealing with policy and service delivery effects of PGBS. This proved to work very well.

15. The inception report outlining the preliminary findings of the team after the first visit was not an official output according to the TOR for the overall evaluation study. Nonetheless, it was shared with the group of closely involved stakeholders in Rwanda (Minecofin and the group of PGBS IPs) so that they could comment and help focus the second visit. The draft country report (CR) prepared after the second visit was submitted for comments from in-country stakeholders and others in September 2005. As with all draft CRs the draft CR for Rwanda was discussed at a meeting of the Steering Group (SG) for the overall study in October 2005. By end of October 2005 the team had received comments from SG stakeholders and in-country stakeholders. These were taken into account as well as generic comments made by the SG for all country reports in preparing this Final Country Report, which is the final official output of the country study. From in-country stakeholders the team also received much useful updated information on significant developments that had taken place since the second visit, so that recommendations could be made as relevant as possible to the current context (e.g. taking account of the August 2005 territorial reform for recommendations related to PGBS and decentralisation).

16. Finally, the country study was enriched by continuous interaction with the teams carrying out similar studies in the six other countries under the overall study and structured interaction with the Management Group and the Steering Group. The feedback provided in this way was very useful in sharpening the drafting and ensuring that no key issue was forgotten.

Applying the Evaluation Framework

17. During the inception visit the team organised its work and its findings along the five thematic analyses (partnership, public finance management, macroeconomic, institutional, poverty reduction) that had been proposed as part of IDD's approach to the evaluation. The methodology for the whole study was then considerably refined following the country inception visits and in the process of finalising the Final Inception Report for the overall study. This generated the EEF, the set of EQs and the Causality Map which were the team's methodological tools for the second visit.

18. This meant that the inception visit was perhaps less focused than might have been the case if these second-generation tools had already been available. However, beside the fact that it might not have been possible to develop these tools without inputs from the country inception visits, in the case of Rwanda at least, this less strict focus for the first visit is thought to have contributed significantly to ensuring sufficient depth and breadth for the more focused analyses undertaken during the second visit.

19. As noted above, the set of methodological tools developed for the second visit proved effective and were instrumental in focusing discussions. This was the case during the workshops and during smaller focus groups too. The logical framework approach to assessing the links between inputs and ultimate impact and following through the effects of PGBS proved to be attractive to many.

Reflections

20. Because of changes to the methodology introduced after the inception phase, the Evaluation Team applied, during the course of the study, analytical approaches from two different orientations – thematic and Evaluation Question (EQ). To a large extent, the approaches turned out to be complementary, enabling an extensive area of research to be covered. The approach applied the first time round in the inception visit provided a general sweep through the thematic areas, with a view to developing a broad understanding of those areas, and within those contexts to see what led back to GBS. The second round was more focused on what the EEF considered to be key hypotheses and links at the different levels of the PGBS paradigm. The two approaches combined to provide the Evaluation with (i) a broad and in-depth understanding of the complex, multifaceted context in which PGBS operated and (ii) the analytical focus and rigour required to bring hypothesised relationships, co-relations and attributions into sharp relief. The Final CR in particular covers a lot of complex arguments.

21. The Evaluation Team were conscious of weaknesses in the analysis in the areas of government-civil society relations and private sector development. These reservations are mentioned in the report. However, in the context of learning from the exercise, the Evaluation Team feels that the Final CR provides a useful base to take future GBS preparation and analytical work forward in the key areas covered by the report.

Table 1B.1: Organisations Visited

Organisation	Function
Ministry of Economy and Finance (Minecofin)	Secretary General; Accountant General; Inspector General; Strategic Planning and Poverty Reduction; Macroeconomic; External Finance; Budget/MTEF; Fiscal Decentralisation
CEPEX	Director; UNDP Support Project Coordinator
Minecofin/ Belgian Technical Cooperation	Project for Institutional Strengthening of Strategic Planning Process
Minecofin/ UNDP	Aid Coordination Unit
National Bank of Rwanda (Banque Nationale du Rwanda, BNR)	Departments of Change and BOP; Research; Capital and Money Market
Ministry of Labour & Public Service (Mifotra)	Secretary General
Ministry of Local Government (Minaloc)	Decentralisation Unit; Coordination of LG Unit; WB DCDP Project Coordinator
Ministry of Education (Mineduc)	Secretary General; Research and Planning
Ministry of Agriculture (Minagri)	Secretary General; Planning
Ministry of Health (Minisanté)	Planning
Ministry of Commerce, Industry, Investment Promotion	Secretary General; Secretariat of Public/Private Partnership Forum
Multi-Sector Capacity Building Programme Facilitation Unit	Ag Director
Butare Provincial Administration	Planning; Internal Audit; Development, Environment and Infrastructure
Institute for Agricultural Research of Butare	Director General; Finance and Administration
District of Kiruhuru (Butare)	Mayor
District of Maraba (Butare)	Mayor
Imbaraga Syndicat (Butare)	Executive Secretary
Gitarama Provincial Administration	Executive Secretary; Economic Development; Public Relations
District of Ntenyo	Mayor; Vice-Mayors
Conseil Consultatif des Femmes, Gitarama	President; Secretary; focus group
Ongera Microfinance, Gitarama	Branch Manager
DFID	Head of Office; Senior Economist; Education; Governance; Agriculture; Programme Officer; Education consultancy mission
European Commission	Economist
Swedish Embassy/Sida	Counsellor; Secretary Development Cooperation
World Bank	Country Manager; Economist; Decentralisation mission
International Monetary Fund	Resident Representative; Economist
UNDP	Deputy Resident Representative; Governance; Economist; Aid Coordination and Harmonisation
USAID	Programme Officer; Agriculture and Rural Enterprise Development project; Health
Embassy of Belgium	Counsellor; Secretary Development Cooperation
Embassy of the Netherlands	Counsellor

Table 1B.2: Workshop Participants (second mission)

1	Embassy of Belgium	Attaché
2	Banque Nationale du Rwanda	Director
3	Belgian Technical Cooperation (BTC)	BTC / Minecofin
4	Conseil de Concertation des Organisations d'appui aux initiatives de base (CCOAIB) (national NGO network)	In charge of Information & Documentation
5	Community Development Fund (Minaloc)	Director CDF
6	CESTRAR (national NGO)	Secrétaire Organisation Nationale
7	CLADHO (national NGO)	Chargé des Programmes
8	German Development Service (DED)	
9	DFID	Economic Adviser
10	DFID	Education Adviser
11	DFID	Education Assistant
12	EC	Economist
13	GTZ	Director of Programme
14	IMF	Resident Representative
15	Migeprof (Women's Affairs)	SG
16	Migeprof	Director of Planning
17	Mijespoc	Director PGR
18	Minadef (Defence)	Gestionnaire Crédit
19	Minafet (Foreign Affairs)	Director AI
20	Minagri (Agriculture)	Director of Planning / Minagri
21	Minaloc (Local Government)	President CA CDF
22	Minecofin (Economy and Finance)	Economist
23	Minecofin	Foreign Operations Manager
24	Minecofin	External Finance Minecofin
25	Minecofin	Head of Unit / Public Ac.
26	Minecofin	Economist
27	Minecofin	MAGN
29	Mineduc (Education)	SG
28	Mineduc	Planning
30	Minijust (Justice)	SG
31	Mininter (Interior)	SG
32	Mininter	Director GPGRI
33	Minisanté (Health)	URPGRI /Minisanté
34	Minitere (Land)	SG Minitere
35	Minitere	Director of Planning
36	Office of the Ombudsman	Ombudsman
37	P.E.	Journaliste
38	Parliament	Member of Parliament
39	Province Kigali-Ngali	Director IAFL
40	RALGA (Local Government Association)	Administration Officer
41	Swiss Development Cooperation	Chef Finance
42	Sida	Programme Manager
43	UN Resident Coordinator's Office	Head of Unit
44	UNDP	Economist
45	UNDP	DRR
46	World Vision (national branch)	Finance Director

ANNEX 2: COUNTRY BACKGROUND

Annex 2A: Basic Country Data

Table 2A.1: Average Annual Growth Rates

	1982–92	1992–02	2001	2002	2003 (actual)	2004 (proj.)	2004 (est.)
GDP	1.4	4.2	6.7	9.4	0.9	5.1	3.8
GDP per capita	–1.5	1.8	3.7	6.3			
Exports of goods and services	0.9	6.4	30.8	–6.8			

Source: World Bank (2004d), Annex 4 for 1982–2002, PRSP APR2 for 2003 and for 2004 projections, IMF 4th PRGF review report for 2004 estimates (under discussion as at April 2005).

Table 2A.2: Business Environment Indicators

Indicator	Rwanda	Regional Average
Starting a business:		
Number of procedures	9	11
time (days)	21	64
cost (% of income per capita)	317	224
minimum capital (% of income per capita)	0	254
Employment regulations:		
difficulty of hiring index	89	53
rigidity of hours index	80	64
difficulty of firing index	60	51
rigidity of employment index	51	56
Securing rights to property:		
number of procedures	5	6
time (days)	354	114
cost (% of property per capita)	10	13
Measures of credit information, legal rights of borrowers and lenders:		
cost to create collateral (% of income per capita)	5	42
Legal Rights Index	3	5
Credit Information Index	1	2
Public Registry coverage (per 1000 capita)	0	1
Private Bureau coverage (per 1000 capita)		39
Investor protection through disclosure of ownership and financial information:		
Disclosure Index	1	2
Difficulty of enforcing commercial contracts:		
number of procedures	29	35
time (days)	395	434
cost (% of debt)	50	43
Time and cost of resolving bankruptcies:		
time (years)	no practice	4
cost (% of estate)	no practice	21
recovery rate (cents on the $)	0	17

Source: World Bank (2004) Doing Business. http://rru.worldbank.org/DoingBusiness.

Annex 2B: Public Expenditure Data

Table 2B.1: Education Sector Performance Indicators (ESSP)

	2000/01	2001/02	2002/03	2003/04
Input Indicators				
Government spending on education as % of total public expenditure	30.0	27.0	23.7	24.2
Ratio of higher education to primary education unit costs	141.0	137.0	112.0	89.0
Output Indicators				
Pupil: teacher ratio (at primary)	51.0	58.9	65.8	66.9
Non-salary recurrent spending as a % of recurrent spending for primary education	—	—	—	27.9
Primary teachers certified to teach according to national standards (%)	62.7	81.2	85.2	88.2
Male qualified (%)	62.1	80.8	84.4	87.1
Female qualified (%)	63.3	81.6	86.0	89.3
Secondary teachers certified to teach according to national standards (%)	49.7	51.9	52.1	50.6
Male qualified (%)	90.4	90.9	90.5	89.6
Female qualified (%)	9.6	9.1	9.5	10.2
Outcome Indicators *(primary education)*				
Gross enrolment rate (%)	99.9	103.7	128.4*	134.1*
Net enrolment rate (%)	73.3	74.5	91.2*	95.4*
Completion rate (%)	24.2	29.6	38.1	44.9
Average repetition rate (%)	31.8	17.2	20.6	—
Average drop-out rate (%)	14.2	16.6	15.2	—
Transition to secondary (%)	37.0	43.0	53.0*	54.2*
Ratio of students to qualified teachers	72.6	70.6	70.3	75.8
Impact Indicators				
Youth literacy rate (15–24) (%)	52.4	—	—	—

The table shows the education indicators which are currently monitored regularly, as part of the ESSP review process (see PRSP APR2). Note that some of the PRSP/PRSC indicators (table above) are not yet monitored.

**Rates based on World Bank calculation formula.*
Source: Mineduc.

Table 2B.2: Rwanda Tax Revenue

(RWF billion)

	2001	2002	2003	2004	Change 2003 %	Change 2004 %
Total	79.50	94.60	114.60	134.56	21.1	17.4
Direct taxes	24.51	30.50	35.10	37.40	15.1	6.6
Tax on goods and services	41.00	47.36	57.50	71.52	21.4	24.4
Taxes on international trade	14.00	16.70	22.10	25.65	32.3	16.1

Source: Table 16, Annual Economic Report 2004, Ministry of Finance and Economic Planning.

Table 2B.3: Health Sector Performance Indicators (HSSP)

	Baseline	2010
Input Indicators		
Government budget allocated to health (Ministry and provinces) as % of total public expenditure	6.1	12
Total allocation to health per capita (US$)	8.25	16.00
Health budget execution as % of total budget executed	6.2	12.0
% of Ministry's budget transferred to provinces as conditional block grants	0	Tbd
Ratio of health professionals (doctors & nurses) to population by province	1/50,000 1/3,900	1/37,000 1/3,900
Output Indicators		
Average outpatient attendance per capita per year	0.33	0.50
% of estimated smear-positive TB cases detected and registered under DOTS each year	45	70
% of children 6–59 months who received a dose of vitamin A in past six months	69	85
% health facilities with at least minimum staffing norms by level	30	50
Outcome Indicators *(selected)*		
Proportion of births attended by skilled personnel (%)	31	60
Proportion of youth (15–19) reporting use of condoms in most recent premarital sex (%)	0.3	10
Proportion of population covered by *mutuelle* schemes (%)	12	50
Proportion of children fully immunised (%)	78	> 85
HIV prevalence rate 15–19 years old (%)	5.2	< 5.2
Impact Indicators		
Infant mortality rate	107/1,000	61/1,000
Under-five mortality rate	196/1,000	110/1,000
Maternal mortality rate	1071/100,000	600/100,000
Prevalence of under-weight in under-5 children (%)	24.3	18.0

Table 2B.4: Priority Spending Trends

	2001	2002	Actual 2002	Budget 2003	Actual 2003	Budget 2004	Revised 2004	Actual 2004	Budget 2005
Total recurrent **expenditures** (RWF bn)	107.4	134.6	134.6	142.9	151.9	164.7	164.7	156.4	181.3
Flash reports (expenditures) to 2001 and budget 2002 from WB PEMR, budget books and flash reports afterward (see detailed table).									
Priority programmes (RWF m)									
Internal Affairs (Police, Prisons)	3,521	4296	4,641	4,739	5,917	5,552	6,492	5,648	7,558
Agriculture	1,485	1819	2,285	2,142	1,237	2,238	2,151	1,409	2,828
Commerce, of which	437	773	777	768	604	803	1,068	912	1,435
export promotion		*465*	*241*	*212*	*148*				
Education (recurrent)	25,045	11,966	12,576	12,878.	16,083	17,379	20,417	22,188	25,484
Education (capital)									**450**
Youth and Sports	830	556	556	421	472	439	379	381	298
Health (recurrent)	5,180	3,690	3,963	4,601	5,738	7,214	8,212	8,026	10,536
Health (capital)									**1,000**
Transport and Communications	692	2,764	4,196	3,313	2,654	3,625	5,138	3,991	5,551
Gender	463	249	320	286	165	299	287	147	277
Public Service	85	448	420	501	293	524	503	221	2,176
Lands and Resettlement	328	609	759	684	267	715	688	415	609
Local Government, of which	1,761	3,845	6,591	6,448	8,643	6,516	9,467	5,143	7,821
Transfers recurrent budgets (LABSF)		*1,370*	*1,701*	*1,526*	*1,526*	*2,832*	*3,228*	*2,528*	*3,584*
CDF		***2,000***	***1,000***	***4,000***	***4,088***	***2,750***	***5,500.0***	***2,063***	***3,500***
Export promotion (recurrent)						2,000	2,989	2,191	2,033
Export Promotion (capital)						**2,002**	**4,870**	**1,688**	**1,074**
Electricity						**14,000**	**0**	**11,756**	**6,929**
Agriculture Guarantee Fund						**200**	**300**	**200**	**300**
Minijust (*gacaca*)						110	230	70	300
HIMO (Minaloc)						290	580	217	300
Water (capital)									**1,000**
Study for manufacturing sector									**100**
PROVINCIAL PROGRAMMES		21,293	21,293	23,416	22,692	24,361	28,057	27,340	31,104
Grand total	**39,827**	**52,308**	**58,377**	**60,197**	**64,765**	**88,267**	**91,830**	**91,945**	**109,163**
TOTAL recurrent	**39,827**	**50,308**	**57,377**	**56,197**	**60,677**	**69,315**	**81,160**	**76,238**	**94,810**
Priority recurrent as % recurrent expenditures	**37.1**	**37.4**	**42.6**	**39.3**	**39.9**	**42.1**	**49.3**	**48.7**	**52.3**

Sources: Minecofin 2001–2002 Budget Execution; PRSP APR Oct 2004; Minecofin data from BS review March 2005; IMF 4th PRGF review April 2005.
Bold fonts indicate capital priority spending. Figures for budget 2005 exclude contingency spending (activated only if PRSC–2 is disbursed in 2005).

Annex 2C: Poverty Trends

Table 2C.1: Selected Poverty-related Indicators: Long-term Trends

	Pre–1990 or at 1990		Post–1994		Recent	
Population (millions)	4.4	*(1975)*	5.7	*(1995)*	8.2	*(2002)*
Population density					329	
Annual population growth rate					2.80%	
Fertility rate					5.8	
Population below 15 years old					45%	
GDP per capita	370	*(1990)*	220	*(1995)*	242	*(2002)*
Human Development Index	0.341	*(1975)*			0.431	*(2002)*
Life expectancy at birth	44.6	*(1975-80)*			39.3	*(2000-05)*
Adult literacy rate	53.3	*(1975)*			69.2	*(2002)*
Youth literacy rate	72.7	*(1975)*	78.5	*(1995)*	84.9	*(2002)*
Cellphone subscribers (/1000 people)	0	*(1990)*			14	*(2002)*
Electricity consumption per capita (kWh)	32	*(1980)*			23	*(2001)*
Population below minimum dietary energy consumption level (food-poor) (%)	43	*(1990)*	50	*(1995)*	41	*(2001)*
Parliamentary seats for women (%)	17	*(1990)*			49	*(2003)*
Forested land (%age)	18.5	*(1990)*			12.4	*(2000)*
Income poverty incidence (%)	48	*(1990)*	78	*(1994)*	60.3	*(1999/2000)*
in rural areas	50	*(1990)*	82	*(1994)*	65.7	*(1999/2000)*
in urban areas	19	*(1990)*	28	*(1994)*	14.3	*(1999/2000)*
Gini coefficient	0.27	*(1985)*			0.455	*(1999/2000)*

Sources: Data in shaded areas are from the UN Development Report 2004. Data in unshaded areas are from the PRSP (2002) and PRSC (2004).

Table 2C.2: Selected Poverty-related Indicators: Recent Trends

	Pre- or at 1990		Recent trends			
Ratio higher/primary educ. unit spending			141	*(2000/01)*	89	*(2003/04)*
Net enrolment rate (primary)	65.9	*(1990)*	**73.3**	***(2000/01)***	**95.4**	***(2003/04)***
Completion rate (primary)			24.2	*(2000/01)*	44.9	*(2003/04)*
Infant mortality rate/ 1000	**103**	***(1990)***	**124**	***(1995)***	**107**	***(2002)***
Maternal mortality rate/ 100,000	**1300**	***(1990)***	**2300**	***(1995)***	**1071**	***(2002)***
Utilisation health services (%)			25.0	*(2001)*	33.4	*(2003)*
Severe malnutrition in under-5s (%)	29.4	*(1990)*	24.0	*(2001)*	24.0	*(2003)*
Assisted deliveries (qualified staff) (%)	25.8	*(1990)*	30.5	*(2001)*	35.5	*(2003)*
Mutuelle coverage rate (%)			3.0	*(2001)*	7.0	*(2003)*
Fiscal decentralisation			18%	*(2002 act)*	22%	*(2004 budg.)*

Sources: Shaded areas present data extracted from government PRSC APR2 (draft, Sep 2004). Other data are from various UN reports/sources. Data in bold type are MDG indicators.

Table 2C.3: Indicators of Progress towards MDGs

	1990	2001	2002	2003	Source
Poverty incidence rate (%)		64.1			
Education					
Primary					
➢Gross enrolment rate (%)		99.9	103.7	108.9	Mineduc
Girls (%)	—	98.2	102.3	108/0	
Boys (%)	—	101.9	105.8	109.9	
➢Net rate (%)	—	73.3	74.5	95	
➢Dropout rate (%)	—	14.0	16.6	—	
➢Repetition rate (%)		31.8	17.2	—	
Book/pupil ratio	—				
Ratio pupils/qualified teacher	—	82	72.6	70.3	Mineduc
Secondary	—	—	—	—	
➢Gross rate (%)		12	12	13	Mineduc
Health/Nutrition					
Under-five mortality rate/1000	—	198	—	—	DHS and SIS
➢ Poorest 20%	—	225	—	—	
➢ Richest 20%	—	120	—	—	
Infant mortality rate/1000	103	107	107		
Vaccination/100, measles	83	77	85	—	
➢ Poorest 20%	—	73	—	90	
➢ Richest 20%	—	82	—	—	
Malnutrition, under-fives	—	29	—	—	
				—	
Maternal mortality ratio/100,000	25%	1071	1071	37%	DHS and SIS
➢ Skilled deliveries (%)	21.2	31	35	9	
➢ Rate of contraceptive (%)		7	8	45	DHS & SIS
➢ Rate of antenatal care (%)	—	30	35		Minisanté
	—				
HIV/AIDS					
➢ Prevalence rate (%)	—	11.2	13.5	8	Minisanté
➢ Voluntary testing	—	—	50,000	10.5	Minisanté
Malaria					
➢Use of mosquito nets (%)	—	20	—	—	
➢Malaria new cases/	—	13,175	14,175	—	
100,000	—				
Service delivery	—				
➢ Distance to health centre		4km	—		DHS
➢ Population/doctor		54,500	50,000	—	DHS
➢ Population/nurse		5,555	5,000	—	DHS
➢ Access to *mutuelles* (%)		15	20	25	DHS

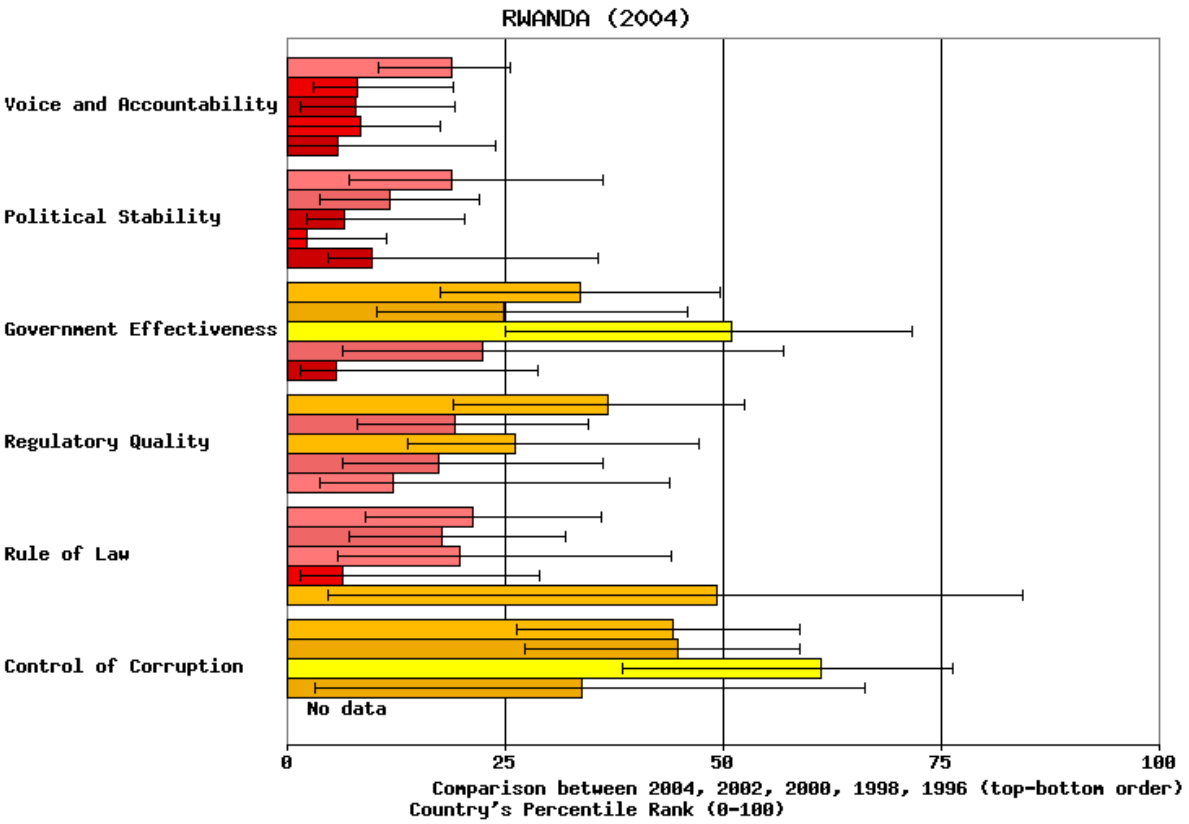
Box 2C.1: Inequality in Access to Social Services (data *c.* year 2000)

- The under-five mortality rate is 225/1,000 for the 20% poorest quintile of the population against 120 for the 20% richest;
- The proportion of assisted deliveries is 12.1% for the 20% poorest women against 57.7% for the 20% richest ones;
- Utilisation of health services in event of illness is three times lower for the 20% poorest people as it is for the 20% richest, and their children are 2.5 times more likely to be underweight;
- Poor people are almost as likely to be able to send their children to primary schools as rich ones. But students from the poorest quintile families are 10 times less likely to have access to secondary education than those from the richest quintile families, (this was only three times in 1992), and 30 times less likely for higher education.

Sources: Poverty Reduction Support Credit, Table 3, from Poverty Assessment, The World Bank, forthcoming, and Pauvreté et Santé au Rwanda: vers les OID, forthcoming.

Annex 2D: Governance Data

Figure 2D.1 Rwanda Governance Indicators



Source: D. Kaufmann, A. Kraay, and M. Mastruzzi 2005: Governance Matters IV: Governance Indicators for 1996-2004 (http://www.worldbank.org/wbi/governance/pubs/govmatters4.html)

Box 2D.1: NEPAD APRM Report

Corruption: CCOAIB survey (2000) on corruption:
64.7% respondents indicated that corruption was at low level in Rwanda.
Most corrupt was justice (31%), followed by
Public finance managers (23%);
Central government administration (21%);
Education (14%);
Security agency quite remarkable 8%.

Gender: Women in decision-making positions (2004):
33% of 29 Ministers and State Ministers;
6% of 16 SGs;
48% of MPs and 35% of Senators;
9% of Prefects (one woman only out of the 12 Prefects);
7.5% of 106 district mayors (there are district councils entirely composed of women).

Tax reform: Survey: 32 out of 34 respondents from the private sector expressed dissatisfaction:
No adequate consultation with taxpayers in designing the tax policy;
No adequate information;
High tax rates on intermediate goods undermine investment incentives;
Rwandan Revenue Authority (RRA) not seen as cooperative;
Respondents were not aware of the existence of an appeal body.

Corporate/economic governance

A little over 200 medium-sized and large enterprises (plus a handful of large public sector enterprises).

FDI between Aug 2000 and Dec 2003: created 5,616 jobs.

In 2001, only 4% of the population had a bank account (300,000).

Tourism employs 5,000 people (undated but recent).

Roads: close to 50% of the population lives more than an hour away from the nearest market; only 23% of tar roads are in good conditions and only 5% and 2% of the secondary and communal roads.

Trade unions: 4 apex unions; largest has a membership of 70,000 persons; together they are estimated to cover 20% of the formal sector labour force.

Source: Government of Rwanda 2005.

ANNEX 3: AID TO RWANDA

Annex 3A: Aid Data

Note on Data

1. Since Rwanda's systems and capacity were destroyed almost completely ten years ago, the capacity to monitor and coordinate data from donors for the hundreds of aid projects has been very constrained. CEPEX, the body set up in 1998 with the responsibility for recording external assistance, has struggled with shortages of skilled personnel and has been unable to build a comprehensive aid flow picture.

2. Further, a lot of aid is off-budget and capturing this is difficult. An agriculture sector PER carried out in 2002 suggested that the equivalent of half of the recorded development flows were being provided off-budget to the sector (Public Expenditure Review, Agriculture, Livestock and Forests, Draft, Ministry of Agriculture, Livestock and Forests, the World Bank, 30 July 2002). The main example of the latter was the US government PL480 programme for commodity and monetised food aid administered directly through NGOs.

3. In the last two years, CEPEX has tried to go directly to the donors for disbursement information, including off-budget flows, and has developed a register. But even in 2004, it was unable to capture information from 60 projects out of a total portfolio of 160. Further, the questionnaire generating the inputs to the database asks donors to provide figures cumulatively until 2002, i.e. not disaggregated by year or by type of aid (by GBS, non-GBS, food aid etc.). Some of the CEPEX data differs widely from that provided to the Country Evaluation Team by donors, and also with OECD DAC data. In sum, aid data is patchy and incomplete. In the absence of alternatives, the CEPEX data is used for illustration below but the major health warning as to its accuracy should be noted. OECD DAC data of ODA disbursements for Rwanda shows much higher figures of disbursed aid than the CEPEX data.

4. The GBS donor questionnaires by the Evaluation Team have become important in terms of quantitative as well as qualitative information on GBS. But this data is limited to the GBS donors – the African Development Bank, DFID, the EC, Sweden and the World Bank – which are among the major donors in terms of size of overall disbursements. Comparison of the data collected by the Evaluation Team with CEPEX data suggests that GBS accounted for around one quarter of recorded aid flows in 2003, a relatively light year for GBS.

5. Table 3A.1 gives the order of magnitude indicators of disbursed aid flows by sector. According to this data, 45% of aid has been for government and sovereignty, with a further 28% for human and social development. Only 10% has been allocated for the economic and infrastructure sectors.

Table 3A.1: Disbursed Aid by CEPEX Sectors (US$ millions)

	Cumulative to 2002	2003
Government and sovereignty	318.5 (45%)	136.3 (43%)
Production and environment	71.0 (10%)	30.5 (10%)
Infrastructure	121.2 (17%)	39.8 (12%)
Human and social development	194.7 (28%)	113.1 (35%)
TOTAL	**705.4 (100%)**	**319.7 (100%)**

Source: CEPEX 2004a.

6. Table 3A.2 provides CEPEX information on the amount of aid allocated (committed) up until the end of 2003, cumulative disbursements until the end of 2002 and disbursements in 2003, by donor. The figures in the table indicate low levels of aid disbursement against commitments in both categories, particularly for disbursements as they may be under-reported. According to these figures, the lowest rate of disbursement is by multilaterals (35.9%). The bilaterals disbursed at nearly twice that rate (57.3%), but partly because this figure includes the near 100% disbursement rate of GBS. Again the health warning on the reliability of the data should be observed.

7. OECD disbursement figures in Table 3A.2 are broken down into three sub-periods over the decade, consistent with the periodicity defined in Box A2.1. Overall, these figures are much higher than the CEPEX data, often by very significant amounts, though the figures for 2003 are comparable with CEPEX data. Upwards of USD 2bn were disbursed in the immediate post-genocide emergency relief period 1994–1997, with a further USD 1.7bn recorded during 1998–2002. Of the PGBS donors, over the two periods, shares of disbursed aid increased substantially for DFID (from 5% to 11%), for EC (from 8% to 12%) and for the World Bank (from 6% to 17%). For the multilaterals, these increased shares are the result of the wind-down in emergency aid through the UN agencies (WFP, UNHCR, UNICEF), and its substitution by development aid. Only in the case of DFID, which was the first PGBS adopter in 2000 closely followed by Sweden, could PGBS be partly responsible for the expansion. However, in the third period which is represented by 2003, a PGBS effect can probably be seen for the EC whose share rose again by 50%.

Table 3A.2: CEPEX Data on Aid by Donor to End 2003

(USD millions)

Donor	Allocated	Cumulative Disbursed	Disbursed	Disbursed as % of Allocated
Bilaterals	**to 2003**	**to 2002**	**2003**	**to 2003**
Austria	5.1	0.0	1.5	29.4
Belgium	153.8	56.3	18.1	48.4
Canada	25.5	10.7	6.3	66.7
China	8.8	3.3	3.5	77.3
EU	399.6	29.8	58.8	22.2
France	21.1	17.6	4.7	105.7
Germany	67.7	39.9	4.8	66.0
Italy	4.6	0.2	1.3	32.6
Luxembourg	11.8	8.6	2.6	94.9
Netherlands	120.6	81.3	19.8	83.8
Sweden	20.7	13.1	14.0	130.9
Switzerland	10.4	2.3	4.0	60.6
UK	172.3	114.6	49.0	95.0
USA	74.3	41.9	20.0	83.3
Subtotal	**1096.3**	**419.6**	**208.4**	**57.3**
Multilaterals				
AfDB	162.3	27.9	11.0	24.0
IMF	40.7	37.9	0.8	95.1
UNDP	130.1	32.1	13.4	35.0
World Bank	305.2	72.2	30.8	33.7
Other	168.3	26.6	36.7	37.6
Subtotal	**806.6**	**196.7**	**92.7**	**35.9**
NGOs	**158.7**	**89.1**	**18.6**	**67.9**
TOTAL	**2061.6**	**705.4**	**319.7**	**49.7**

Source: CEPEX 2004b.

Table 3A.3: Rwanda: Aid Disbursed by Donor

	(USD Million)				% of Total			
	1994-1997	1998-2002	2003	1994-2003	1994-1997	1998-2002	2003	1994-2003
USA	314	163.14	52.58	529.72	14.85	9.60	15.86	12.78
IDA	125.71	289.99	26.47	442.17	5.94	17.07	7.98	10.67
EC	164.98	201.17	54	420.15	7.80	11.84	16.29	10.14
UK	108.41	189.18	42.88	340.47	5.13	11.14	12.93	8.21
WFP	209.37	67.71	6.69	283.77	9.90	3.99	2.02	6.85
Netherlands	149.21	108.54	23.01	280.76	7.06	6.39	6.94	6.77
Germany	170.27	78.42	13.87	262.56	8.05	4.62	4.18	6.33
Belgium	95.06	92.79	20.67	208.52	4.50	5.46	6.23	5.03
UNHCR	175.38	21.98	5.4	202.76	8.29	1.29	1.63	4.89
Canada	76.74	35.27	10.82	122.83	3.63	2.08	3.26	2.96
France	50.43	53.55	7.86	111.84	2.38	3.15	2.37	2.70
UNICEF	89.94	12.41	2.95	105.3	4.25	0.73	0.89	2.54
Switzerland	70.03	26.6	6.86	103.49	3.31	1.57	2.07	2.50
Sweden	25.25	61.68	13.14	100.07	1.19	3.63	3.96	2.41
Norway	60.67	26.03	7.97	94.67	2.87	1.53	2.40	2.28
AfDB	36.55	47.02	5.26	88.83	1.73	2.77	1.59	2.14
SAF+ESAF+PRGF(IMF)	-3.79	78.31	-0.88	73.64	-0.18	4.61	-0.27	1.78
UNDP	23.68	32.12	3.52	59.32	1.12	1.89	1.06	1.43
Japan	26.65	21.77	0.66	49.08	1.26	1.28	0.20	1.18
Italy	24.53	9.31	0.19	34.03	1.16	0.55	0.06	0.82
Ireland	19.81	10.11	1.95	31.87	0.94	0.60	0.59	0.77
IFAD	5.1	18.08	3.33	26.51	0.24	1.06	1.00	0.64
Luxembourg	6.67	12.89	3.87	23.43	0.32	0.76	1.17	0.57
Spain	19.6	2.17	0.68	22.45	0.93	0.13	0.21	0.54
Austria	10.06	8.63	2.6	21.29	0.48	0.51	0.78	0.51
UNTA	8.61	9.47	2.19	20.27	0.41	0.56	0.66	0.49
Australia	16.77	1.61	0	18.38	0.79	0.09	0.00	0.44
Other UN	13.51	1.24	0.57	15.32	0.64	0.07	0.17	0.37
Denmark	3.4	7.88	1.78	13.06	0.16	0.46	0.54	0.32
UNFPA	3.44	6.6	1.95	11.99	0.16	0.39	0.59	0.29
Finland	6.95	2.93	0.89	10.77	0.33	0.17	0.27	0.26
Arab Agencies	0	-0.91	6.45	5.54	0.00	-0.05	1.95	0.13
New Zealand	2.48	0.33	0.12	2.93	0.12	0.02	0.04	0.07
Other Bilateral Donors	2.03	0.39	0.06	2.48	0.10	0.02	0.02	0.06
Arab Countries	2.31	0	0	2.31	0.11	0.00	0.00	0.06
Portugal	0.31	0	0.98	1.29	0.01	0.00	0.30	0.03
Korea	0.35	0.13	0.04	0.52	0.02	0.01	0.01	0.01
GEF	0	0.13	0.17	0.3	0.00	0.01	0.05	0.01
Turkey	0.19	0	0	0.19	0.01	0.00	0.00	0.00
Poland	0	0.14	0.01	0.15	0.00	0.01	0.00	0.00
Greece	0	0.04	0	0.04	0.00	0.00	0.00	0.00
Total	2114.66	1698.85	331.56	4145.07	100.00	100.00	100.00	100.00

Source: OECD DAC.

Table 3A.4: The Profile of GBS and Related Operations in Rwanda

	1999	2000	2001	2002	2003	2004
DFID (GBP m) *(a)*						
Window 1		5.00	19.00	12.00	18.76	20.90
Window 2		4.00	7.00	5.00	2.02	
Sida (SEK m) *(b)*						
GBS				50.00	0.77	
Education (?GBS)				18.00		0.24
EC (EUR m)						
Tranche 1 *(c)*	11.00		17.00			
Tranche 2 *(d)*	13.40	20.80		18.50		12.50
Tranche 3 *(e)*	4.60					
Floating tranches			15.90	7.00	17.75	20.00
Variable tranche						
World Bank (USD m)						
ERC *(f)*	25.00	25.00	38.30			
IRC fixed *(g)*				46.00		12.85
IRC floating						12.85
PRSC-1						65.00
TOTAL GBS (USD m)	55.9	57.9	105.2	108.1	56.5	171.6
Of which PGBS (USD m)	0.00	13.7	37.4	32.5	34.18	129.7
Memo item:						
total aid USD m *(h)*	373.19	322.02	298.52	355.04	331.56	

Source: GBS donor questionnaires, agreements with the government, for figures up to 2002.

Figures for 2003 and 2004 based on April 2005 updates.

Notes:

(a) For its second PGBS programme 2004-6, DFID folded its two windows (one general and one education) into one single GBS window.

(b) Sida plans 40% of total aid as GBS, plus 60% of the remainder as education BS, which gives 76% of total aid as one or other type of BS. Sida education BS window is additional to the GBS allocation. There is no requirement that funds should be targeted/earmarked for education, nor even an explicit request for additionality of the funds for the education sector. But the support is accompanied by education-related policy dialogue and conditionality (through Sida silent partnership with DFID).

(c) Financing internal debt service.

(d) Recurrent expenditure in education, health and justice (latter includes salaries).

(e) Compensation for elimination of export taxes on coffee.

(f) Economic Recovery Credit (1) $75m from 13 Mar 1999 to 31 March 2001, ERC (2) $15.3m from 22 December 2000 to 31 March 2001.

(g) Institutional Reform Credit.

(h) Source: OECD DAC

Exchange rates

	1999	2000	2001	2002	2003	2004
USD/GBP	1.62	1.52	1.44	1.50	1.64	1.85
USD/SDR	1.37	1.32	1.27	1.29	1.40	--
SEK/USD	8.26	9.16	10.33	9.74	8.09	7.01
RWF/USD	337.83	393.44	442.80	476.33	537.66	562.16
USD/EUR	1.07	0.92	0.90	1.16	1.26	1.30

Table 3A.5: Shifts toward Non-project Aid by GBS Donor

United Kingdom (DFID)	**(%)**
Average non-project aid throughout period 1994–2004	76
Average non-project aid up to 1998	80
Average non-project aid up to 1998 excluding food aid	66
Average non-project aid after 1998	76
Average non-project aid 1999–2001	77
Average non-project aid 2002–04	75
European Commission	
Average non-project aid throughout period 1994–2004	32
Average non-project aid 1999–2002	38
Average non-project aid 2002–04	45
Sweden (Sida)	
Average non-project aid throughout 1994–2004	58
Average non-project aid since 2002	67
World Bank	
Average non-project aid throughout period 1994–2004	53
Average non-project aid, 1994–1998 (pre-BS operations)	45
Average budget support from 1999	59

Source: GBS Donor questionnaires and meetings.

Table 3A.6: Summary of Aid Flows in Rwanda 1994–2004 (generic format)

	(all in USD million unless indicated otherwise)	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Source
(A)	**Total ODA (actual) [1]**	722.98	721.22	481.05	246.92	365.60	403.21	342.34	320.08	374.89	357.01	500.47	*OECD DAC*
(B)	**Total ODA excl. emergency and food aid (actual) [1]**	707.08	487.93	320.31	131.13	264.91	314.26	323.50	295.18	345.24	321.61	450.32	*OECD DAC*
(C)	**Total Partnership GBS disbursements [2]**	0.00	0.00	0.00	0.00	0.00	0.00	13.68	37.44	32.48	34.18	129.67	
	Donors providing PGBS							*DFID*	*DFID, SIDA*	*DFID, SIDA*	*DFID, EC, SIDA* [2a]	*DFID, EC, SIDA, WB*	*Annex 3A Table 3A.4*
(D)	**[ESAF programmes] followed by PRGF (disbursements)**	[8.76]	[13.00]		[20.50]	[16.10]	29.30	25.10	12.10	0.70	0.80	1.70	*IMF various*
(E)	**Total other unearmarked programme aid disbursements**						55.94	44.22	67.77	75.65	22.36	41.93	*Annex 3A Table 3A.3, Annex 3C.*
	Donors providing unearmarked programme aid						*EC, WB*	*EC, WB*	*EC, WB*	*EC, WB*	*EC, WB*	*EC, WB*	*See[3]*
(F)	**HIPC funding**								23.94	25.61	27.10	28.35	*See [4]*
(G)	**Central Government Expenditure (USD) [3]**	188.69	265.19	311.45	365.58	374.96	411.03	346.43	362.13	400.99	346.28	no data	*IMF International Financial Statistics (IFS)*
(Ga)	**ODA as % of GNI**	95.51%	54.05%	34.09%	12.51%	17.65%	19.44%	17.93%	17.76%	20.73%	20.16%	25.80%	*OECD DAC*
(H)	**PGBS as % total ODA (%)**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	4.00%	11.70%	8.66%	9.57%	25.91%	
(I)	**PGBS as % central government expenditure (%)**	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	3.95%	10.34%	8.10%	9.87%	no data	

Notes

[1] ODA consists of grants and total loans extended, as distinct from total net aid disbursed in Table A2.1 which includes net lending.
[2] In line with Annex 3B (inventory), PGBS excludes EC Structural Adjustment Facility (SAF) programmes and WB pre-PGBS policy lending programmes. IMF PRGF is considered as BOP.
[2a] EC: Planned disbursement of 1st tranche PPARP in 2003; took place in January 2004.
[3] IMF 2004 and 2005 (Third and Fourth Reviews under the Three-Year Arrangement under the PRGF); IMF 2002 (Article IV Consultation and Requests for a new PRGF).
[4] 2003 and 2004 (projected) figures from Minecofin Budget Framework Papers 2004–06 and 2005–07. 2001 and 2002 figures from IMF2004.

Memorandum items

(J)	**Emergency Aid**	0.19	163.37	135.75	83.9	63.99	63.51	14.36	8.58	13.88	10.99	38.93	*OECD DAC*
(K)	**Development Food Aid**	15.90	69.92	24.99	31.89	36.70	25.44	4.48	16.32	15.77	24.41	11.22	*OECD DAC*
(L)	**Government Expenditure (Rw millions)**	26,550	69,528	95,335	110,157	117,632	138,858	136,298	160,350	191,000	186,181	no data	
(M)	***OFFICIAL RATE (Units: National Currency per US Dollar)***	140.704	262.182	306.098	301.321	313.717	337.831	393.435	442.801	476.327	537.658	574.622	

Annex 3B: Inventory of PGBS and Related Programmes

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
Period	**Pre–1998/99 : early BOP** **1998 – current: IMF**	**Pre-HIPC (pre–2000)**	**Pre–2004 for WB; pre–2003 for EC**	**Various entry points - current**
1. Volume of funding	Pre-1998/99 BOP: • ERC+ERRC+IMF: USD 120 million • Other donors Post-1998/99 BOP: • IMF ESAF: USD 92m (closed, only 80m drawn down) • IMF PRGF: USD 6m (current, USD 3m drawn down end 2004).	"A significant amount of the $20 million annual debt service is paid from the Multilateral Debt Trust Fund" (Jubilee Coalition, 2000). "The MDTF will aim to cover about one third of servicing on multilateral IDA and AfDB debts over the next three years… The $17 million on offer remains an inadequate sum compared to the amount of total external debt-servicing – US$197 million payable through to 2001" (Oxfam, 1999).	• ERC+IRC = USD 175 m • SAF1+SAF2 = EUR 108.5m	• DFID 2000–03: GBP 63m • DFID 2003/04–2005/06: GBP 86m • Sweden since 2001: between 40m and 50m SEK general window + approx 20m SEK education window up until 2004 (intention to raise education window to 30m). • EC PPARP (2003–05): EUR 48m • WB PRSC (2004–): USD 65m
2. Programmes Included	Pre-1998/99 BOP : • WB Emergency Recovery Credit (1995–97) • IMF Emergency Post-Conflict Assistance (1997) • WB Emergency Recovery and Reintegration Credit (1999–2001) • Commitments: EC, UK, Canada, France, Switzerland to support government ERP (see point 4 below) alongside WB, IMF and AfDB. Actual disbursements: Canada, UK, EC (restructuring GIP/SIP). AfDB (see WB ICR on ERC • IMF ESAF/PRGF (1998–2002): renamed PRGF in Nov 1999. • IMF PRGF (2002–2005/06): extension to 2006 agreed in 2005	All budget support earmarked to the Multilateral Debt Trust Fund. Contributions: UK, Sweden, Netherlands, USA (USD 5m in 1999).	• WB Economic Recovery Credit (1999–2001) • WB Institutional Reform Credit (2002–04) • EC SAF 1 (1999–2000) • EC SAF 2 (2001–02)	• DFID 2000–03 • DFID 2003/04–2005/06 • Sweden since 2001 • EC PPARP (2003–05) (Programme Pluriannuel d'Appui à la Réduction de la Pauvreté) • WB PRSC (2004–05)

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
3. Intent of Programmes *What were/are the stated objectives of the programme (e.g. structural adjustment, poverty reduction, sector support)?* *What were/are the particular areas of focus (e.g. public services, economic reforms, etc.)?*	Pre-1999 BOP: WB ERC formulated as part of a broad-based donor-funded programme to finance GOR Emergency Recovery Programme (restore key economic and social services and rebuild institutional capacity necessary for sustainable economic recovery). ERRC intending to consolidate ERC achievements and assist in resettling 1996 returnees. Finance for public and private sector imports (BOP) from an agreed positive list of high priority commodities. Counterpart funds financing reconstruction. IMF: transition to a full ESAF. Initial structural reforms: tax administration, treasury and budget management; public sector reform. IMF ESAF/PRGF (1998–current): ESAF: Support to GOR macro stability and structural reforms (Letter of Policy jointly developed early 1998): fiscal consolidation and prioritisation, enhancement of administrative and institutional capacity (incl. tax administration); acceleration of structural reforms (private sector development). In Nov 1999 ESAF was renamed PRGF and its purposes were redefined, for it to be based on Rwanda's forthcoming PRSP (PR is meant to become the main driver of macro-policy rather than a by-product of a stable and enabling macro environment). Current PRGF supposed to provide PRSP macro/fiscal framework. See experience: up until recently divergences of views on acceptable/desirable spending levels and inconsistent macro forecasts.	Provision of debt relief following the signature of ESAF (1998) and preceding HIPC decision point (2000). "The fund will support Rwanda's balance of payments and could help avoid a build-up of arrears with bilateral creditors and delay in GOR's reform programme. It will also make available significant funds in the recurrent budget …" (Oxfam, 1999). Represented an interim modality for flexible/ programmatic aid for the UK and Sweden before moving to PGBS.	General intent of WB pre-PRSC operations: support to "full" economic reform programme (i.e. structural adjustment support operations to accompany ESAF agreed in 1998) + continuation of support to reconstruction agenda. Conceived as transitional, following previous mixed economic reform support/recovery operations through BOP, and put in place before full PRSP was available (2002). Start of WB ERC was delayed because of war with DRC in 1998. – Areas of focus for WB ERC: 'Assist rapid transition from a lethargic state-controlled system to a liberal economy': revitalising agriculture and rural economy; building human resources / social sector reform; private sector development and gender; public sector resource management. – Areas of focus for IRC: 'Support GOR in strengthening budget process, improve public sector capacity and governance (CSR), promote private sector investment, production and employment creation, and develop human resources'. Main components: public expenditure reform (MTEF	All PGBS is provided explicitly to support the implementation of government's poverty reduction strategy, in the specific context of rebuilding a collapsed, post-conflict state. GOR and DPs largely share the following perspective, stemming to a significant extent from the country's recent history: • That GBS is not just about money, but is equally about rebuilding government systems, institutions and processes which were destroyed during the genocide; • That in an environment where systems are being rebuilt and where capacities are in short supply, GBS is an instrument that has the potential to reduce dramatically the transaction costs associated with the conventional aid modality, i.e. projects. However, because of the volatile regional political environment in which Rwanda plays a key role, aid in general and PGBS in particular also has a pronounced political character. Main joint objectives (through Partnership Framework, see point 4 below, incl. for WB PRSC): a) Reduction of transaction costs and increased GOR effectiveness. b) Streamlining of conditionalities c) Joint government–donor reviews d) Donor alignment behind PRS e) Increased GOR ownership of economic and social policy f) Greater predictability of donor inflows g) Provision of lessons for broader harmonisation efforts. Others: for DFID: a) The core PRS cycle is improved. b) Capacity for pro-poor macroeconomic and financial management, including MTEF process, improved. c) Policy, planning and delivery improved in selected sectors / targeted programme areas. d) Accountable, effective and democratic governance enhanced. For AfDB: Assist government in achieving the MDGs. For EC: Programme aims: securing budget financing; pursue strengthening of PFM; pursue strengthening education and health performance, in support to PRSP.

RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
			and financial accountability), private sector development including financial sector and privatisation of state-owned enterprises (SOEs), and human resource development (HRD) including gender reforms. In the case of EC: Aim: reinforce use of national budget as tool for expenditure prioritisation and control; financing internal debt service and support recurrent spending in education, health and justice. Areas of focus: social sectors, public expenditure reforms, justice sector (*gacaca*), CSR, and trade and regional integration issues.	PGBS emerged at different points in time for different DPs, through a progressive shift from other forms of programme aid (less clearly aligned on less owned national strategies) toward the new GBS for more effective support/ implementation of GOR pro-poor strategic plan. (+ PFM reforms): • K, Sweden: (BOP?) → MDTF → PGBS • EC: BOP → pre-PGBS (earmarked BS) → PGBS • WB: BOP → SAC-type instruments → PGBS. Often, additional specific sectoral focus (education through PGBS education windows or tranches in 1st UK programme and in Sweden's programmes; education and health through result-based conditionality in EC variable tranches; education, health, water and energy through triggers and policy actions in PRSC policy matrix for PRSC-1). This to continue for Sweden, EC and WB ("sector readiness approach" → likely progressive expansion/shift in sectoral focus). UK is considering rolling its support to education into a different instrument.

RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
4. Alignment with National Strategies *Is/was the programme aligned with a particular national strategy (e.g. the PRSP)?* *Please give details.*	Pre-1999 BOP: ERC and other contemporary BOP aligned with GOR Emergency Recovery Programme (prepared by WB mission with GOR and discussed at Round Table 1995). ERRC and other contemporary BOP aligned with jointly (WB–UN–GOR) prepared emergency programme that would "move the country from humanitarian relief to the path of reintegration and reconstruction and facilitate the transition to sustainable development". A subsequent joint WB– IMF–AfDB–GOR mission prepared a policy framework for the transition from emergency to sustainable development and identified budgetary requirements. IMF ESAF based on Letter of Policy prepared jointly (WB, IMF, GOR) in 1st half 1998. Renamed into PRGF in Nov 1999, with corresponding change of main intent (see above) toward support to Rwanda's forthcoming PRSP. Current PRGF: provides macro/ fiscal framework to Rwanda PRSP. See experience with implementation.	There was no explicit alignment with national strategies, but there was little need for it, as the role of MDTF funding was simple.	Aligned with the Letter of Policy prepared by GOR to secure ESAF agreement, and with GOR programme presented at Donor Meeting in June 1998 (whole process got stuck for a few months following start of war with DRC in July 1998). Letter of Policy embracing principles of market economy etc. In addition, EC focus on emerging strategies/ key reconstruction measures (e.g. piloting of gacaca in justice sector).	Aligned with PRSP (and MTEF) as of 2001/02. Led to Partnership Framework for Harmonisation and Alignment to BS laying out joint PGBS objectives (see above). Signed in 2003 by GOR, EC, and UK, endorsed by WB, AfDB and Sweden with intention of signature once HQ agreement is secured. Tightest alignment is WB through PRSC policy matrix meant to be a subset of the PRSP policy matrix. The latter was prepared in the course of the simultaneous preparations of the WB PRSC-1 and of the APR2. Close correspondence between the two, for the areas covered in WB PRSC. For sector focus, alignment with sector strategies in place or emerging, with support to strengthen them further (e.g. DFID support to ESSP formulation, WB support to education and health development of longer term financing frameworks).
5. Earmarking *Is/was there any form of earmarking? Please give details.*	Pre-1999 BOP: • Imports from positive list, criteria: (i) relevance in meeting emergency needs; (ii) contribution to restoration of key economic and social activities; and (iii) importance for reconstruction and development. • Re: national budget, WB–GOR agreement that education, health, water and sanitation and reintegration of refugees be budget priorities in years 1995–97. No earmarking for IMF ESAF and PRGF.	No earmarking, but "At the 1998 Stockholm Conference, the donor community conditioned the establishment of the MDTF on GOR meeting increased targets for social sector spending. The targets were not quantified but … the IMF has been monitoring the GOR's commitment". (USAID, 2002).	No earmarking for WB ERC and IRC. EC funding was targeted on specific budget lines.	No earmarking. Even education window/tranche (UK, Sweden) is released as GBS – but against education-specific performance, see point 7 below.

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
6. Disbursement Procedures *(a) Any arrangements to align disbursement with the recipient's FY?* *(b) Route for transfer of funds? (e.g. direct to central bank, to Treasury, via a special account, etc.)* *(c) Tranches? (fixed/variable etc?).*	Pre-1999 BOP: No arrangements for alignment with budget cycle. Forex provided to private sector for imports (through BNR). Counterpart funds generated for government budget. "ERRC benefited from ERC experience, BNR collection, filing and submission of relevant documentation was well organised" and "counterparts funds promptly deposited in government account". ESAF/PRGF: Traditional arrangements of releases in tranches over an agreed number of FYs, actual releases depending on performance reviews. But ESAF: annual loans in series of 3.	No arrangements for alignment with FY. Transfer of funds: "World Bank-managed Multilateral Debt Trust Fund (MDTF)" (Oxfam, 1999).	Provision for disbursements (though depending on GOR performance) indicated in programme documents but no specific arrangements for alignment with FY. Check route for disbursements WB and EC (double signature NAO?). WB: ERC: 3 tranches (effectiveness, fixed and floating); IRC: 3 tranches (effectiveness + 2 floating). EC: SAF1 (4 tranches with varied triggers); SAF2 (2 main tranches, of which 2nd composed of 3 sub-tranches focused on macro/PRSP; PFM; social sectors + 4 floating tranches).	New "harmonised calendar" (agreed end 2004/early 2005 for all aid modalities) contains provisions aimed at PGBS committed in year (N) for year (N+1) based on assessment of performance year (N–1). This will require significant adjustments to current practice. Currently, none of the PGBS programmes matches the rolling MTEF cycle (UK and EC fixed 3-year programmes; Sweden annual programmes with intention to move to two-year programmes; WB: annual PRSC in series of three-year fixed period). Disbursement (see PGBS flow profile diagram attached to this matrix): - In 2nd programme UK commits to disburse quarterly (not dependent on PRGF review timing though annual macro assessment through PRGF). Experience: untenable, due to political conditionality in 2004. - Sida disburses annually, no specific arrangements for alignment to date but plans to move closely to "ideal schedule" noted above: general window and education window disbursed separately given different conditionality frameworks (see point 7 below). - EC disbursement is in theory aligned with FY for fixed tranches (Oct/Nov IMF Board meetings determine Feb/Mar disbursements). Problematic in practice, due to delayed PRGF. For variable tranches, APR / specific reports on performance indicators should trigger releases still within-year. Always delayed hence variable tranche year N actually disbursed year (N+1). - WB in the process of advancing PRSC pre-appraisal and appraisal timing (and aligning with agreed calendar) so that disbursements can be made earlier in the year, but to date disbursement decision triggered year N for budget support for year N. Disbursements in one-off tranches (except for PRSC-1: planned disbursement across 2004 and 2005 but this did not happen, see point 11 below). Route for disbursement: forex disbursed to BNR and credited on GOR Treasury Account immediately (EC). See comments (in point 12 below) for plans for enhancing disbursement procedures in future operations.

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
7. Framework of Conditionality and Performance Indicators *(a) Is there an underlying MOU or similar agreement?*	Pre-1999 BOP: Bilateral agreements. IMF: regular ESAF/PRGF documentation.	There were simple agreements for providing MDTF support.	Bilateral agreements.	Relevant donors and GOR have agreed on a formal Partnership Framework for Harmonisation and Alignment of Budget Support between the Government of Rwanda and its Development Partners (see point 4 above). In addition, all PGBS DPs have country strategy frameworks (CAS, CSP, etc.) and specific programme agreements for each PGBS operations (multi-annual for EC, UK; annual for WB and Sweden up until now). Moreover, UK and Sweden have overarching bilateral MOUs (10 years established in 1999 for UK; annual moving to biannual for Sweden), providing the framework for all aid from these countries, including PGBS (UK MOU includes a commitment to minimum GDP 30m per annum of 'flexible assistance').
(b) Performance indicators, including: ➢ *Number of indicators;* ➢ *Nature (e.g. process indicators, result indicators);* ➢ *Are they drawn from PRSP or other national policy documents?* ➢ *Are they linked to performance indicators for SWAps etc?* ➢ *Are special reports required? how often?*	Pre-1999 BOP: No performance indicators. IMF programmes: Usual mix of performance criteria and structural or quantitative benchmarks,[3] drawn from GOR Letter of Intention (themselves inspired from PRSP-stated reforms since PRSP in place). ESAF/PRGF: typically each year, 8–9 quantitative performance criteria and benchmarks (classical macro and fiscal indicators) + 3 macro/fiscal indicators with indicative targets (wage bill, budgetary revenue) + 8–10 structural performance criteria and benchmarks (including measures in CSR, "agreement with IMF staff on 1999 budget" and various other budget measures; from 2nd year programme also included detailed quantitative targets for social sector spending).	No performance indicators but IMF monitored GOR's commitment re: social sector spending.	WB ERC & IRC: policy matrix with (process and result) indicators drawn from various documents (not yet "national policy documents" as they were only emerging) including ESAF Letter of Policy and I-PRSP. Special reports for ERC and IRC review process. EC SAFs: General conditions to be met at any time + specific conditions for each tranche disbursement (CSR reforms; establishment of RRA; PERs & three-year financing expenditure education, health and justice; outturn education, health and justice consistent with agreed	At the broadest level, the Partnership Framework states that PGBS performance framework has three axes: macro (followed up through PRGF process); implementation of GOR's poverty reduction strategy (followed up through PRSP/APR process); implementation of agreed measures to strengthen PFM. The Framework also includes a calendar organising the various follow-up events/reviews. This is being revised in light of the newly agreed harmonised calendar. At a more detailed level, PGBS donors continue to stress different parts of this overall performance framework. DPs' conditionality frameworks also vary in how closely policy implementation is being followed up: • UK: no target-related disbursement triggers, no special review/report requirements. General conditions (PRGF and PRSP 'on track') + reference to good governance through referring to overarching MOU. • Sweden: similar approach to UK. • EC fixed tranches 2003–05 and general conditions: PRGF and PRSP "on track" + progress in political transition and good governance. Variable tranches dependent on meeting targets for selected education,

[3] In the context of IMF programmes, a benchmark is a point of reference against which progress may be monitored. Benchmarks may be either quantitative or structural in content, and may be set on a quarterly or semi-annual basis. Performance criteria are macroeconomic indicators such as monetary and budgetary targets that must be met, typically on a quarterly or semi-annual basis, for the member to qualify for releases of IMF assistance (purchase of SDR).

RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
	Current PRGF: Tighter focus on macro/fiscal and limited structural fields given WB ERC, IRC and now PRSC conditionality framework now complementing IMF PRGF. Same number of quantitative benchmarks or criteria. List of around 35 structural benchmarks, performance criteria and prior actions but focused on tax administration and various PFM measures. Huge list of reporting requirements for IMF ESAF/PRGF (with weekly data submission for some indicators) though data meant to be useful/used in government management systems.		budget shares and allocations consistent with PER recommendations and MTEF; macro TA in post; removal of all export taxes on coffee; signature of agreement on use of STABEX 92 & 95 funds; tracking of spending at facility levels in education and health; progress in MTEF implementation as per action plan. Achieved targets for result indicators derived from I-PRSP. Milestones in *gacaca* process, in HIPC process and in implementation of specific provisions on external tariffs related to COMESA adhesion). Hence, mix of results and process. Increasingly linked to emerging national PR and sector strategic frameworks but not formally as these documents (PRSP, ESSP) were not in place when the programmes were signed. Special reports to be provided on indicators linked to each tranche.	health and PFM result indicators (11 in total) – some of which not currently included in regular GOR PRSP reporting hence need for special reports (though merely compiling information existing in various documents e.g. sector review documents). • WB PRSC: PRGF and PRSP "on track" + Operation Policy Matrix derived from the PRSP Matrix (though PRSP policy matrix prepared while drafting APR2, simultaneously to and requisite for PRSC-1 preparation). PRSC policy matrix: covers three years (outer two years subject to revision); in each year more than 50 policy measures and follow-up of more than 25 outcome indicators, generally taken from PRSP and sector documents for sectors covered (sector readiness approach). In principle no special report required as PRSP APR should report on policy matrix. Disbursement of education-related PGBS (UK 1st programme, Sweden) requires a successful sector review process including progress against agreed actions and achievement of agreed performance targets (each JESR will agree a series of undertakings and performance targets, drawn from and/or aligned with the ESSP). As with the general window this involves a mixture of due process and specific actions taking place. No other sector is involved in a similar manner in the PGBS process. DPs consider moving toward a joint performance assessment framework but some are uncertain about the feasibility and relevance of this move. In any event not easy to reconcile broad performance assessment approach (UK, Sweden) and more policy-intrusive sector readiness WB approach.
(c) Types of condition, including: ➢ *Triggers for tranche release?* ➢ *Due process conditions (legally binding requirements for donors and recipients in*	<u>Pre–1999 BOP</u>: Prerequisite for WB ERC: by 13 January 1995, bilateral donors had contributed USD 9.54m (Belgium, Canada, Switzerland, Sweden, Norway, USA) to clear Rwanda's arrears and to make debt service current for the period January 1995 to mid-July 1995. These events paved the way for subsequent approval of the ERC by the Board on 31 January, 1995. Political conditions linked to the	No information. Likely to be minimal if any. Presumably, being on track re: ESAF/PRGF and progress toward HIPC eligibility was a condition. Also understanding that social sector spending was to increase and military spending to continue to decrease.	WB: policy matrix identifying triggers for releases among other policy measures to be carried out. EC SAFs: general conditions for overall monitoring and specific conditions as triggers for disbursements (see above). Satisfactory IMF status part of the general	"Due process" as per Partnership Framework for the signatories: - GOR commitments: budget transparency, implementation of conditionalities, improved political governance (through GOR Action Plan on Good Governance), and convening of quarterly meetings of the Budget Support Group; - Donor commitments: greater predictability of timing and future GBS disbursements, alignment with budget cycle, conditionalities drawn from PRS, synchronisation of missions with review processes, and keeping down the size of missions.

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
giving and receiving money); ➢ *Is satisfactory IMF status a condition?; other policy and performance conditions (cf. performance indicators;* ➢ *Political conditions (e.g. related to democracy, human rights, corruption, military spending and activity);* ➢ *Broader political conditionality (beyond the formal conditions, e.g. as revealed by interruptions and problems mentioned against Item 10).*	reconstruction and reunification situation, including emphasis on progressively reining in military spending. IMF: as usual (clarify differences between structural benchmarks, performance criteria etc.).		conditions. Also due process conditions, e.g. EC involved in macro discussions. Political conditions addressed in the context of broader cooperation between EC and Rwanda and through the SAF programme focus on justice sector.	Satisfactory IMF status condition for all PGBS programmes but degree of flexibility varies: EC has built more flexibility (e.g. disbursement even if temporary delay in a PRGF review), UK as well (see above). WB PRSC: triggers for disbursements are a sub-set of the agreed policy measures (11 triggers for PRSC-1, all process, i.e. actions to be completed in the various sectors targeted, e.g. privatisation of tea factory, preparation of long-term financing framework for education sector, preparation of APR, law establishing Ombudsman published in official gazette, OBL approved by Cabinet and presented to Parliament etc.). No triggers for UK and Sweden, but bottom line assessment related to political situation as illustrated in 2004. No specific political conditions, rather reference to MOU, which lays down the expected broad political governance framework. Hence, PGBS as a form of "political reward". Appears to be little explicit analysis among donor community of impact/consequence of withholding PGBS and not project aid, bearing in mind issues of fungibility. IFIs tend to be oriented toward technical assessment rather than influenced by political governance performance (hence WB disbursed PRSP-1 fully in 2004, according to some, in order to "make up for politically delayed disbursements of other DPs"). However, there are policy measures and triggers related to democracy, accountability and transparency but less "politically oriented", e.g.: 1) UK MOU: "GOR recognises the linkages between conflict and poverty and will work with others towards the aim of peaceful resolution of disputes and the restoration of regional stability. GOR will work towards a negotiated settlement of the conflict in the DRC which will respect the sovereignty and territorial integrity of all countries in the region, protect the interests of their people and which will take account of the legitimate security concerns of all these countries". "GOR will present legislation aimed at promoting the freedom of media". 2) WB PRSC: "Law establishing the Ombudsman office is published in the Official Gazette and mediators elected in all cellules and sectors".

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
8. Links to TA and Capacity Building ➢ *Is capacity-building an explicit objective of this programme?* ➢ *Are any TA/capacity building conditions attached to this programme? Please give details.* ➢ *Are the GBS donors providing relevant TA/capacity building support in parallel to this operation? Please give details.* *Are other donors providing relevant TA/capacity building support in parallel to this operation? Please give details*	WB ERC and ERRC including TA as explicit objective of the programme and part of a broader-based programme sponsored by bilateral donors, UNDP, ODA (now DFID) and IMF, to restore government operational capacity (urgent financing of consulting services for ministries of planning and finance, and BNR + consultants to manage public sector imports procurement and build government capacity for procurement). Inputs under ERC: macroeconomics (30 months) for Ministry of Planning; and monetary statistics (3 months), balance of payment (BOP) statistics (5.5 months), bank supervision (12 months) for central bank (BNR). For Ministry of Finance, advisors for treasury (16 months); debt management (3 months); customs (5 months); and computerisation (12 months). National fiscal advisor for 24 months as Director of budget. In-service training for staff of the ministries of planning and finance and BNR. IMF ESAF/PRGF: Usual TA to support programme focal areas and diagnostic work (e.g. ROSC). AFRITAC missions increasingly planned within govt-led, multi-donor supported action plan (FARAP, and successor under development).	No associated TA / capacity-building.	Continuation of TA provided during emergency recovery and transition period, to strengthen basic macroeconomic and budget capacities. EC: TA included in PGBS programmes for capacity-building measures, studies, audit and evaluation. TA to Minecofin: assistance to macro and public accounting fields (incl. for managing EC assistance) through LTAs and STA + pool of resources for Minecofin staff training. Parallel "Technical and Logistical Support to Minecofin" (rehabilitation of building, support to NAO unit, and STA and training for Minecofin staff) → mix of TA for implementing EC programme and TA for strengthening govt core functions. WB TA and analytical work: • ERC: support to legal development in various fields; support to PFM alongside DFID and EC (MTEF, OAG, NTB). • IRC: CB in sectors through other credits. Planned multi-sectoral CB project (but this was not operational before 2005). Main assistance: TA and other inputs in	Improvements of government capacities and systems are specific objectives of PGBS programme (see above). PGBS DPs provide a lot of TA and capacity building for government core functions but this is often not included in, and not always explicitly linked to, PGBS operations. Similarly intended TA is also provided by non-PGBS DPs. • DFID: MTEF (3 LT local experts, training and developing budget IT system; ODI Fellow in Budget Department); PRS (core funding for Minecofin Directorate in charge + ODI Fellow + ODI Fellows in Health, LG and Privatisation Secretariat); financial sector policy (LTA Minecofin); financial accountability (DFID staff member working with GOR and WB on development of FARAP); development of statistics (finance for statistical surveys; LTA, STA and financial support to set up autonomous central statistics office); domestic revenue raising (LTA and finance for IT in RRA); civil service reform (STA and now broader programme supporting various aspects of GOR CSR); STA in external and internal debt management; education (wide-ranging financial and technical support to education policy making and the development of a sector strategy). Also active in HIV/AIDS, land reform, gender mainstreaming. • Sweden: no TA attached to PGBS. Silent partner with DFID in education. • EC: TA included in PGBS programme: Support to macroeconomic policy (LTA since 2000); Support to PFM reforms (esp. public accounting and internal audit: STA and LTA since 2003, now also resources for TNA and training). Contribution to ROSC, FARAP and PEFA assessments. Support to M&E systems (in future: surveys and PERs). Various audits and evaluations. Support to implementation of EC programme phased out as BS is not earmarked any longer. • WB: Analytical work underpinning "'sector readiness approach" (e.g. 2004/05 DTIS policy/ strategic development work in growth-related areas to be included in future PRSC rounds; support to piloting Citizens Report Card system and to development of long term financing framework in health and education in support to meeting triggers or policy actions in PRSC policy matrix). Multi-sector capacity building project about to start. Continued support to

RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
			preparation for PRSC (development of sector strategies, MTEF, CSR, PERs, support to FARAP preparation and implementation, CPIP). Assessment (by WB): limited efficiency and effectiveness due to lack of comprehensive and holistic approach → preparation of multi-sector capacity building project meant to support PRSC. WB support (project) to decentralisation: building public sector capacity at decentralised levels (participatory planning systems and structures) on a pilot basis and at central level to manage decentralisation policy. Decentralisation: most support provided outside the pre-PGBS framework (Netherlands, USAID etc.).	decentralisation, though less clearly linked to PGBS. As for pre-PGBS period, some non-PGBS DPs provide "core function TA" including in areas critical for PGBS., e.g. USAID, GTZ and Netherlands support to decentralisation; UNDP support to PRSP process and aid coordination functions; Belgium providing support to strategic planning function in Minecofin; USAID in private sector development. In several areas, move toward better coordinated DP support to government-led institutional strengthening plan (under Development, e.g. for PFM, education and health; already developed for decentralisation in Decentralisation Implementation Plan).

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
9. Procedures for Dialogue *What is the general context of dialogue (.g. CG meetings etc.)?* *Specific dialogue arrangements linked to this programme?*	Pre-1999 BOP: General context: Round Table Jan 2005 was starting point. No specific dialogue forum. Effort at coordination in mobilising BOP assistance to GOR ERP was notably insufficient. IMF ESAF/PRGF: Very close follow-up by IMF (small country office, hence crucial importance of missions from Washington, which may make in-country consultation and coordination more complex). Progressive enlargement of macro and budget dialogue, previously IMF and WB only, to PGBS DPs. But this is still imperfect and PRGF and PGBS processes are not yet "talking to each other" as well as they should (e.g. PGBS March 2005 BS review worked on a set of macro projections different from those being developed by IMF and GOR). Dialogue through APR and JSA: joint between IMF and WB but not other DPs.	General context: following Donor Meeting in June 1998 and pre-HIPC context. No specific dialogue forum.	General context: following Donor Meeting in June 1998, progressive shift of leadership over to government, incl. for aid management/coordination (alongside preparation of I-PRSP, then PRSP). EC: SAF dialogue focuses quite narrowly on spending on eligible budget lines, audits. WB: Very close supervision of ERC (related to tense context at onset). Recognition (at the end of ERC) that there needed to be more consultation among DPs.	General context (agreed in 2001, but genuine start 2003 esp. for clusters): Government/DP dialogue through government-led structures and process: DPCM (meeting once a month), DPM (annual conference replacing CG) and clusters (as required/work programme), including both PGBS and non-PGBS donors and programmes: • Clusters organised around sectors/areas (e.g. education, health, previous governance cluster now in several distinct ones including decentralisation, justice etc.) • Two cross-cutting groups, on H&A of projects, and on H&A for BS programmes (see above, Partnership Framework agreed for the latter). Overall lead is Minecofin at SG level, with support from key structures (recent restructuring → new division of tasks between newly established External Financing Unit (EFU) and CEPEX, yet to be fully worked out); supported initially by UNDP, now Trust Fund-financed Aid Coordination Unit – for the time being separate, but intention is to move it within Minecofin to support EFU more closely. Clusters led by relevant government structure and lead donor to assist (e.g. DFID for education, Belgium for health, USAID for private sector and HIV/AIDS; Netherlands for decentralisation) → non-PGBS donors are lead in focal PGBS sectors (current ones or foreseen to become such). Newly developed (end 2004/early 2005) overall harmonised calendar linking aid dialogue to government cycles (PRS, sector reviews, MTEF/budget) and including BS dialogue calendar. Work in progress. Outstanding issues: alignment of sector processes with other processes (important for PGBS as PGBS programmes include sector focus and sectors are progressively getting to organise annual or twice yearly sector reviews), link PRGF review cycle with PGBS (macro "signal" → important for commitment/disbursement of PGBS funding), alignment of PRSC and other PGBS programmes with budget cycle.

RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
				Recent revitalisation of specific dialogue arrangements agreed in Partnership Framework (twice-yearly review meetings focusing on budget performance and macro and budget forecasts; and on PFM reform progress). First joint BS review in March 2005. Link with macro/PRGF dialogue not yet fully worked out. On the positive side, PRSC pre-appraisal and appraisal process is meant to be subsumed within the overall PGBS dialogue and calendar. Capacity constraints on both, government and DPs' sides → Some stakeholders question the complexity of arrangements for GOR–DP dialogue and the heavy workload entailed (transaction costs resulting from efforts to reduce transaction costs). Overarching political bilateral dialogues have a critical importance for PGBS programmes of bilateral IPs (UK, Sweden) in Rwanda given the regional and internal post-conflict / post-genocide situation (see point 7 on conditionality framework).
10. Donor Harmonisation & Alignment *General context of H&A activities (e.g. is there a CDF pilot? SPA active?)* *Is H&A built in to the BS operation (e.g. common calendar, joint missions, common set of indicators, pooling of BS funds, delegated cooperation or silent partnerships)?* *Joint diagnostic and performance reviews (do these also incorporate non-BS donors, e.g. as part of SWAp, PER etc.)?*	Pre-1999 BOP: Alignment: see points 4 and 9. Harmonisation: check procedures for import. Initial concerns re: procurement capacities → emergence of first round of reforms (setting up) of government procurement systems. Several joint missions (e.g. WB–UN) to prepare the ground for ERC and ERRC. Otherwise limited H&A activity. Coordination by UN agencies in the initial period after 1994. IMF ESAF/PRGF: Progressively closer link between PRGF and PGBS processes but not yet perfect (see above). Most importantly, need for GOR, IMF and (PGBS) DPs to agree on fiscal framework and desirable/ feasible spending level. This has been an issue in the recent past (e.g. debate about budget deficit and debt sustainability issues arising from PSIA	Donor procedures in the MDTF seemed to be well aligned with each other, and represented a very simple, low transaction costs, way of delivering programme aid.	GOR established CEPEX, a dedicated aid coordinated body in 1998, but its effectiveness remained limited. The period 1998–2001 saw the emergence of an agreement on government-led aid coordination modalities (see point 9 in PGBS column), alongside the I-PRSP and PRSP preparation. Rwanda is not a CDF pilot, and it does not play a prominent role in the OECD DAC-led H&A work. H&A was not built into the pre-PGBS operations. But DPs and GOR recognised that more in-country consultation among DPs was required (see above,	SPA active: concluded on poor performance of BS programme alignment and generally in Rwanda (but 2004 survey on 2003 data, quite a lot of improvement since then). The prevalence of HQ views can frustrate efforts by country office to coordinate with other donors and/or to "enter" into PGBS modalities. Small-sized country offices (e.g. IMF and in particular WB) also prevent better H&A ("H&A seen as joint products, e.g. reports instead of joint processes"; WB process is driven by Washington mission). PGBS donor coordination was not main impetus for aid management process. Now signed "Framework for Harmonisation of BS": the agreement foresees joint PGBS missions within a common calendar, but this has only recently been happening (1st joint BS review March 2005, and newly agreed overall harmonised calendar, including BS events, agreed end 2004/early 2005). The PGBS agreement states that bilateral agreements and international obligations will take precedence, and it is acknowledged that different donors will meet their commitments in the framework at different speeds. Donors committed to greater predictability of timing and future PGBS, but for various reasons (political, technical and

RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
	challenging IMF position). It looks set to get better with a slightly more "relaxed" position of IMF (provided additional aid is grant aid).		WB assessment) and this began to occur (e.g. WB participation in FARAP alongside EC and DFID). However, there continue to be "glitches" of importance, e.g., the 2004 WB education sector report does not mention the ESSP although it had been prepared for the last 2 years (mainly with DFID support) and was already approved by Cabinet by then.	administrative) this has not been put into practice to any great degree (see point 11 below). In light of point 7 above it appears that H&A will be hardest re: PGBS conditionality framework. Donor coordination (SWAp-type) leading to progress in alignment, in place in some sectors (e.g. education ESSP, JESR and now work on sector aid management framework; decentralisation DIP) and generally improving through revival of clusters in 2004/5 (e.g. first joint review of agriculture sector early 2005). Least developed in terms of harmonisation around common DP procedures (though some pooled funding, e.g. for Aid Coordination Unit, a trust fund managed by UNDP). In a number of sectors donors jointly review sector performance (and this is increasing every year – though often not yet replacing project-specific review missions) and allow themselves to be represented by the chairpersons of the donor groups. In several sectors DPs are considering moving to flexible sector support modalities (SBS or basket funding, e.g. education, health for sub-sectors/programmes). While this is a progress for non-PGBS DPs, it is less clear what the rationale for PGBS DPs is behind this thinking (signalling effect to other IPs, risk mitigation have been mentioned). PGBS donors participate to various degrees in different clusters: e.g. DFID is lead donor in education (and has prominent role in private sector development and governance). EC aims at harmonising though clear sector policies do not yet exist in most of EC sectors of intervention: OK for PFM; getting OK for justice, rural development. Participation in cluster meetings for health, education, rural development (lead donor), infrastructure (lead donor but largely un-operational), good governance, Budget Support Harmonisation Group.

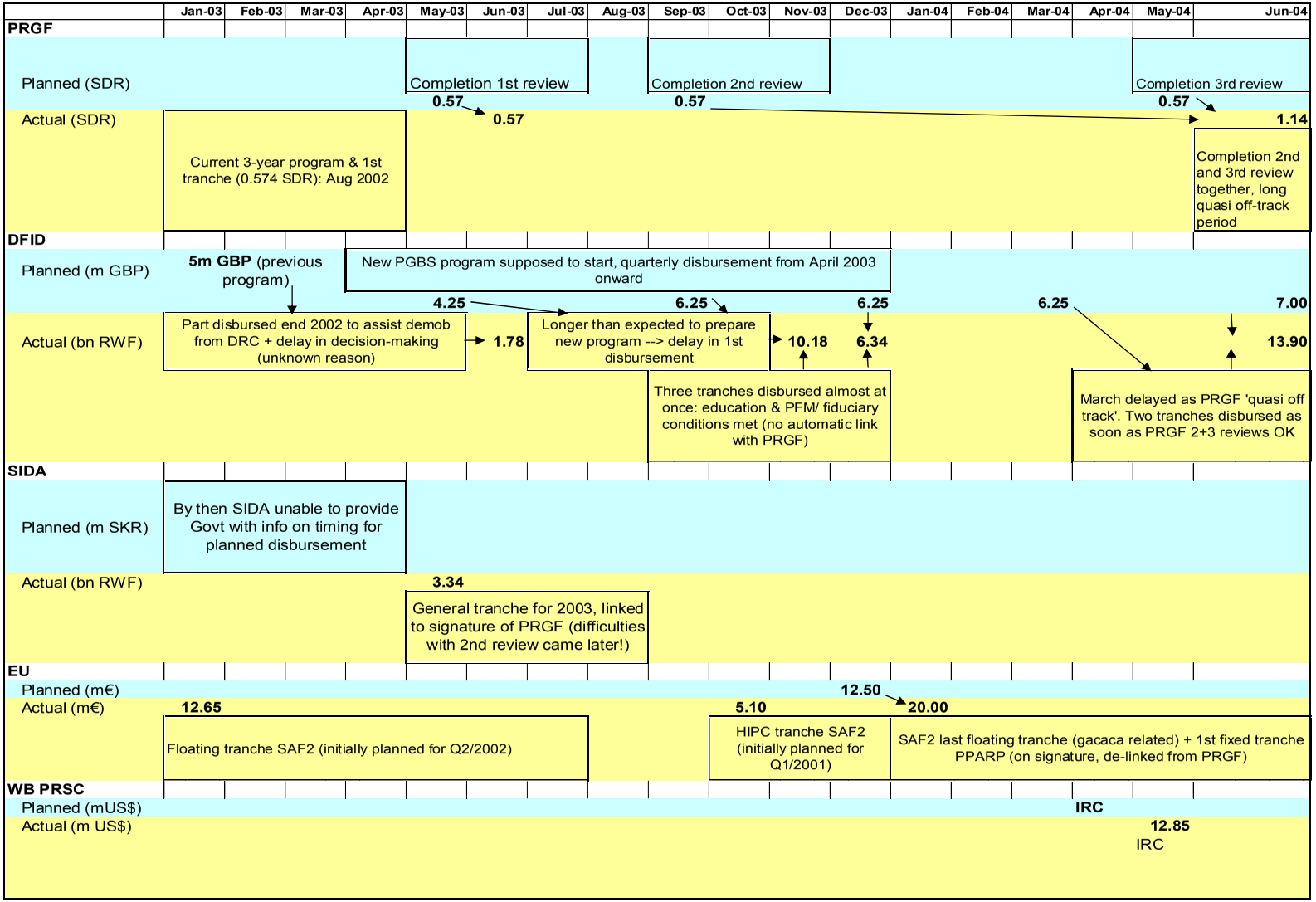
RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
11. Experience in Implementation *If completed, how was it rated?* *Any particular problems, interruptions etc? Please give details.* *Any specific reviews or evaluations available? Please give details.*	Pre–1999 BOP: Delay in WB ERC public sector import component (no procurement capacity) → reallocation to private sector imports for ERC and ERRC. Delay in ERC TA due to security concerns of expatriate personnel. Problems of mobilisation of other donors' resources led to reviews of spending forecasts. However, overall, ERC, ERRC and parallel donor operations were successful in revitalising economy, stabilising exchange rate and inflation, raising level of reserves, providing budget support for reconstruction. TA was successful in building capacity at ministries of Finance and Planning and BNR to improve macro management, restart budgetary process, and initiate economic reform. Issues arising from link BOP–BS (identified in WB programme evaluations) → Justification for move to pre-PGBS operations with no link to import/BOP support. "The use of a positive list of eligible imports, the floor placed on the value of import transactions which could be financed by the Credit, and the stringent import documentary requirements, slowed disbursements and perhaps reduced the developmental impact of the Credit … The link of disbursements to imports and the stringent documentation requirements delay the flow of urgently needed funds for the budget." IMF ESAF/PRGF: Gap between ESAF/PRGF expiration (Apr 2002) and 2nd PRGF (approval June 2003), due to disagreements between IMF and GOR over fiscal targets and over GOR intention to increase spending in conflict with IMF targets (presumably fuelled by PSIA discussion of spending and indebtedness in light of PRSP	GOR met its social sector spending commitments (from 13.3% in 1997, social sector spending increased to 26.6% in 1999) (USAID, 2002). Difficulties in mobilising assistance to concurrence of pledges: "of the $55m pledged by the donor community in 1999, $22m had been received by the end of 2000" (USAID, 2002). Some contributors did not switch to other forms of programme aid after the termination of the MDTF (USAID, Netherlands) → HIPC status meant a "loss" of flexible resources.	Pre-PGBS programmes and ESAF prepared and initiated in very tense political environment (end 1998 – early 1999, DRC war) which did not facilitate convergence of views (among DPs and between GOR and DPs). Improvements with I-PRSP/PRSP process and GOR taking the lead. Various difficulties in disbursements prevailed throughout programmes, linked to GOR late in meeting some prior actions and/or delays in concluding PRGF reviews. WB: • Lack of dialogue and coordination among DPs → wide divergence of views remain outstanding. • Under-estimation of capacity constraints, e.g. in legal development for ERC implementation. EC monitoring mission in June/July 2002: programme actually weakening budget process because of loosely defined conditions → protracted negotiations for each tranche → delays in disbursement, un-predictability of funding → maintenance of cash budgeting practices. Useless targeting. Lack of resources necessary for	See attached "GBS flow profile" diagram illustrating the main difficulty in PGBS implementation in Rwanda, i.e. within-year unpredictability, largely due to postponed/delayed releases for various reasons. *As a result, the SPA 2004 survey of BS alignment (on 2003 data) indicates that Rwanda stands out as a case where over half of the funds disbursed in 2003 were disbursed late, and all five donors had difficulty disbursing on time – two of these identified administrative problems on the donor side as the primary cause, while three indicated that the government had failed to meet policy related conditions.* In a number of cases reasons were related to problematic progress of PRGF-supported programme (see IMF ESAF/PRGF in BOP column). In other cases GOR was late in meeting conditions / fulfilling reporting requirements (e.g. for result indicators for EC variable tranches; late APR2 because of much more participatory process). In yet other cases delay and inefficiencies occurred on the donor's side, e.g. linked to reorganisation of responsibilities among Sida and Sweden Foreign Ministry → delay in concluding new MOU. Most recent disruptions (end 2004) were due to political conditionality: UK and Sweden "unilateral decisions of withholding" triggered by presidential statement about military means for ending threats from rebel groups in DRC. No dialogue, even though provisions for such dialogue are foreseen in the bilateral MOUs between UK and Rwanda and between Sweden and Rwanda. As a result: disruption in cash management and cash planning, and in budget releases to implementing agencies → MTEF and annual budget process losing credibility (e.g. some officials from agriculture and health sectors are quite happy to have mixture of aid modality, e.g. fear total reliance on GBS), and DPs are encouraged to think about alternative sector support modalities that would "insulate" sector activities against such disruption. However, in spite of the difficulties GOR (esp. central agencies) remains strongly committed to PGBS, owing to its visible effects on strengthening policy ownership and aligning intra-government incentives. GOR and DPs

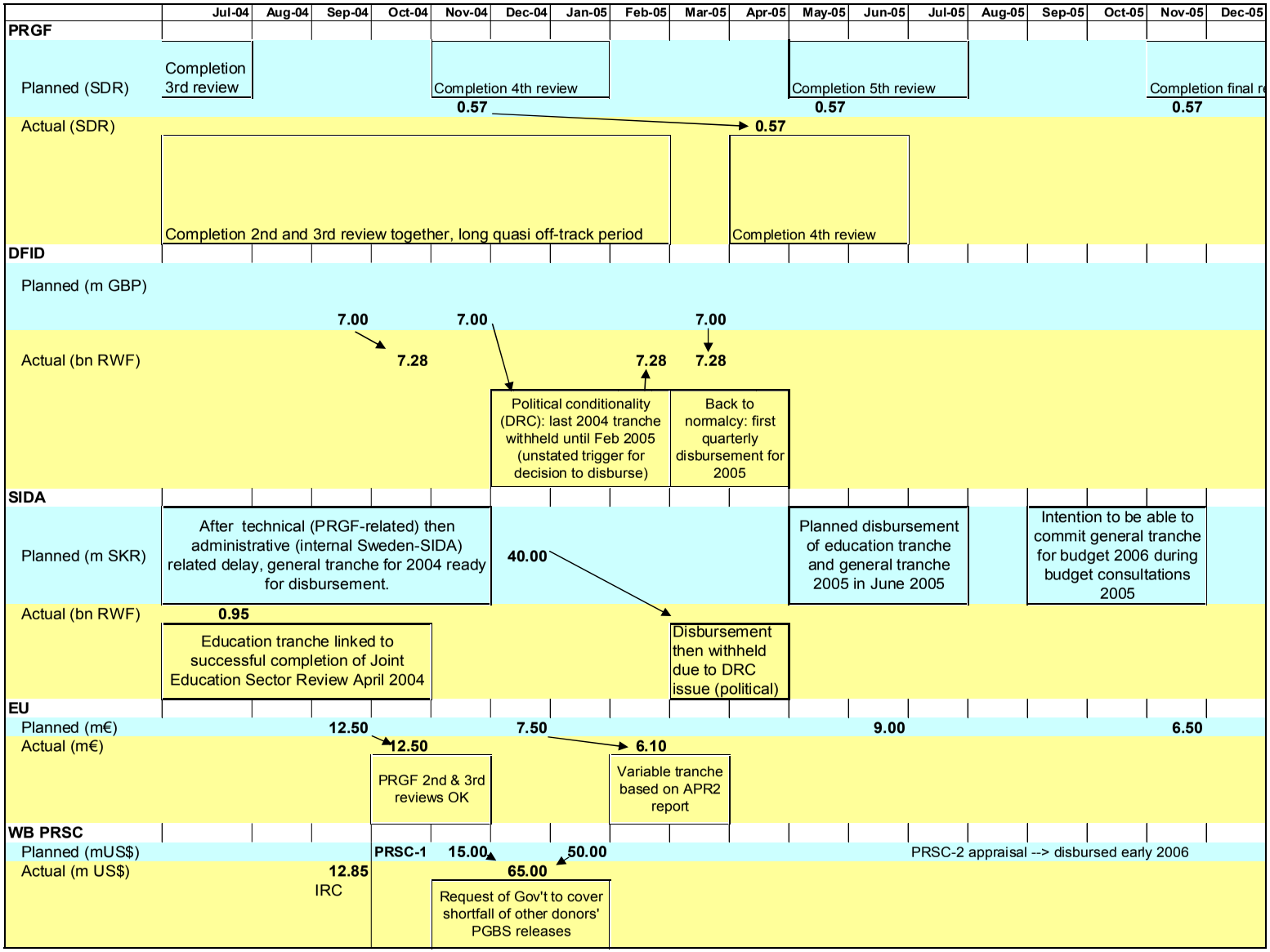
RWANDA	Balance of Payments Support	Multilateral debt fund (MDTF)	Pre-PGBS and parallel BS	PGBS
	requirements). Strict IMF targets prevailed then. Further disruption when US and French delegates advocated that further PRGF funding be linked to immediate withdrawal of the RDF from the DRC. This did not happen. Relations between IMF and GOR continued to deteriorate, leading to a suspension of the PRGF late 2003 (GOR overspending on elections and hotel construction). This led to PGBS DPs withholding releases. GOR adopted a stricter fiscal stance for 2004 which led to resumption of PRGF (and PGBS releases) early 2004. Of late, IMF is more amenable to higher deficit and spending provided additional aid is grant funding.		adequate follow-up. Other remarks: - Inappropriate to include sensitive measures for which it is difficult to assess all imponderables as disbursement triggers (e.g. *gacaca*). - Earmarked BS creates its own management and follow-up, diverting attention and capacity (and TA) away from strengthening GOR's core functions. - Problems arise also because of mechanistic link to conclusion of PRGF reviews.	committed to finding solutions to issues of unpredictability and political conditionality, as illustrated by recent revision of harmonised calendar and as stated in annual review of Sweden/Rwanda MOU implementation. There has been no review of PGBS as a modality, although in March 2005 during the joint BS review partners briefly assessed how they had respectively performed with regard to their commitments in the Partnership Framework for BS. But the follow up that had been agreed then was postponed; hence it is not yet clear whether and how this could evolve into a more systematic process of PGBS review / self-learning. WB pre-PRSC operations have been evaluated (through the regular Implementation Completion Reports). GOR and the DPs concerned (UK, Sweden and Netherlands) also conduct annually an independent review of the overarching MOUs guiding their relationship. Usually these reviews are joint/common for the three DPs. This time (early 2005) the reviews were held separately, in order to allow for more specific assessments in light of the political difficulties just resolved by then. Finding a way of tackling political conditionality in the volatile regional context and in light of the still fragile national context is key to PGBS sustainability in Rwanda.
12. Any additional comments	WB ERC and EERC operations were preceded by a Special Assistance Grant channelled through UN agencies for emergency and humanitarian programmes immediately after the new government took power (1994–95). This already helped rebuilding basic government capacities (including critical equipment), and allowed for the preparation of the ERC and accompanying restructuring of pre-1994 WB portfolio. A similar exercise of restructuring was undertaken by the EC and led to reviving pre-1994 GIP/SIP. AfDB portfolio restructuring also led to mobilising quick disbursement support for the same period as ERC/ERRC.	MDTF was succeeded by the HIPC initiative. Decision point: Dec 2000. Completion point: May 2005. HIPC resources counted as budgetary resources in GOR–IMF macro/fiscal framework but not treated separately. No earmarking but notional "reconciliation" between HIPC resources and spending in priority programmes in GOR budget.		PGBS IPs have different views on the role and importance of PGBS in their future portfolio. For Sweden, provided "political conditionality" can be tackled more effectively than as been the case (including in relation to home constituencies), PGBS will continue to represent the bulk of its assistance to Rwanda. Project assistance will finance mainly activities that would not fit properly as government-led activities, e.g. civil society strengthening. The UK is the only IP for which commitment to budget support is enshrined as a long-term commitment – of provision of "flexible assistance" in its overarching MOU with Rwanda. However, DFID's country office is currently examining complementary sector budget support modalities. The reasons given for this include the ability of better addressing strictly sectoral concerns, a signalling effect assisting non-PGBS donors to move toward better-

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
	IMF had a Compensatory and Contingency Financing Facility programme in 1995, and a TA and staff-monitored programmes in 1996. In contrast, Sweden and the UK were newcomers in Rwanda post–1994.	With GOR achieving completion point status, it may be easier to reconsider the balance between social and growth-related areas in PRSP-2.		aligned and more harmonised aid modalities and 'risk mitigation'. The WB has undertaken to ensure that PGBS will be grant funding (which is critical for Rwanda). But PRSCs are unlikely to represent a much higher proportion of the WB portfolio than is currently the case. There are technical justifications given for this (i.e. massive investments still better catered for under project modalities). Other factors inherent in the nature of the WB business prevent PGBS growing indefinitely as a share of their portfolio. The EC will also continue to channel a significant proportion of its assistance through other modalities, albeit as close as possible to PGBS, e.g. channelling funds for local development through the government CDF and supporting the road sector through the Road Fund. The rationale given for using these alternative modalities is technical. Notwithstanding these differences there is a shared commitment to improving the design of PGBS programmes: • In line with emerging "good practice", Sweden are now moving to two-year budget support agreements and to a programme design which should allow them to commit in year (N –1) for the year N budget. • The EC is incorporating a lag time between decision-making and actual disbursements in its information to GOR on PGBS releases. This will provide a more realistic within-year forecast of cash availability. DFID have already started preparing their next PGBS programme (due to start in April 2006), based on their experience that the on-going programme had been much longer to prepare than initially envisaged. The process also includes opportunities for broad consultation and awareness raising, in line with general "good practice" for programme design. The EC and Sweden have joined in this consultation process.

RWANDA	**Balance of Payments Support**	**Multilateral debt fund (MDTF)**	**Pre-PGBS and parallel BS**	**PGBS**
13. Information Sources	Source: DAC (2005), *Creditor Reporting System*, International Development Statistics Online. WB and IMF documents on ERC, ERRC, ESAF and PRGF.	HIPC documentation (IMF). Oxfam (1999), International *Position Paper: Debt relief for Rwanda, an opportunity for peace building and reconstruction*. USAID, Rwanda FY 2002 Congressional Budget Justification, web material. Jubilee 2000 Coalition report, web material.	Completed donor questionnaire. EC and WB programme documents.	Completed donor questionnaires. WB PRSC Project Appraisal Document (2004). EC PPARP Financing Convention: Technical Annexes (2003). DFID programme documents.

Annex 3C: GBS Flows Profile




Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
Jul-05
Aug-05
Sep-05
Oct-05
Nov-05
Dec-05
PRGF
Planned (SDR)
Completion 3rd review
Completion 4th review
Completion 5th review
Completion final r
0.57
0.57
0.57
Actual (SDR)
0.57
Completion 2nd and 3rd review together, long quasi off-track period
Completion 4th review
DFID
Planned (m GBP)
7.00
7.00
7.00
Actual (bn RWF)
7.28
7.28
7.28
Political conditionality (DRC): last 2004 tranche withheld until Feb 2005 (unstated trigger for decision to disburse)
Back to normalcy: first quarterly disbursement for 2005
SIDA
Planned (m SKR)
After technical (PRGF-related) then administrative (internal Sweden-SIDA) related delay, general tranche for 2004 ready for disbursement.
40.00
Planned disbursement of education tranche and general tranche 2005 in June 2005
Intention to be able to commit general tranche for budget 2006 during budget consultations 2005
Actual (bn RWF)
0.95
Education tranche linked to successful completion of Joint Education Sector Review April 2004
Disbursement then withheld due to DRC issue (political)
EU
Planned (m€)
12.50
7.50
9.00
6.50
Actual (m€)
12.50
6.10
PRGF 2nd & 3rd reviews OK
Variable tranche based on APR2 report
WB PRSC
Planned (mUS$)
PRSC-1
15.00
50.00
PRSC-2 appraisal --> disbursed early 2006
Actual (m US$)
12.85
IRC
65.00
Request of Gov't to cover shortfall of other donors' PGBS releases

Annex 3D: Summary of PGBS Donor Questionnaires and SPA 2004 Survey Data

Question	Sida	DFID	EC	WB	IMF
Objective of portfolio	Peaceful development and good governance. Economic growth and socio-economic development based on sustainable use of natural resources.	The core PRS cycle is improved. Capacity for pro-poor macroeconomic and financial management, including MTEF process, improved. Policy, planning and delivery improved in selected sectors / targeted programme areas. Accountable, effective and democratic governance enhanced. Donor coordination, alignment and harmonisation improved.	Poverty reduction through PRS based rural development support and macroeconomic support.	CAS: 4 themes: (a) revitalisation of rural economy; (b) private sector development and employment creation; (c) human and social development; and (d) improvement in governance and effectiveness of public sector actions. Greater emphasis on economic and sector work.	

Question	Sida	DFID	EC	WB	IMF
Changes over 1994–2004	In the years following the genocide (1995–2000) Sweden mainly provided humanitarian assistance to Rwanda through the UN and international organisations. In 1997, Sweden established a representation in Kigali. Since 1999 Sweden's development cooperation with Rwanda was gradually transformed into a more regular bilateral development cooperation programme.	The portfolio has grown and moved rapidly from emergency relief to budget support and assistance to core government processes.	1995–1999 under the 6th–8th EDFs. Focus was largely on post-conflict reconstruction and rehabilitation. Reliance on rehabilitation projects with multiple and flexible components, focused on infrastructure. The 8th EDF began the shift towards sustainable development interventions (budget support, institutional support, rural development interventions) which has been continued in the 9th EDF (NIP signed in March 2003). Shift towards budget support began in 2000 with SAP I. SAP I and SAP II targeted budget support (eligible budget lines). Shift towards programme support in 2003: selection of focal sectors (rural development and macroeconomic support). PPARP: untargeted BS.	Immediate post-genocide period: emergency lending. Followed by lending for economic policy reform (including macro stabilisation and development of legal framework for private sector development). Emphasis on poverty reduction, reconciliation, improvement of basic services & institutions, & participatory development. Support to PERs and preparation of PRSP. Shortcomings in investment lending and most notably absence of a concerted effort to promote agricultural development now being addressed under current CAS, and including through analytical work and links with export promotion and other growth-related strategies.	
Aid instruments used to date[4]	Budget Support (macro and education), project support and NGO support.	General Budget Support, project and NGO support.	Budget Support, project and NGO support.	CAS promoting move to SWAps and budget support. Used to date: projects and PRSC, plus earmarked BS for demobilisation.	

[4] Note that food aid was used by DFID and EC, and Sida and DFID provided debt relief in the past.

Question	Sida	DFID	EC	WB	IMF
Sectors supported	Institutional development, public administration through projects; education and macro/structural reforms through budget support. Support to political and civil governance (NURC, professionalisation of police).	Education, health, rural development, public administration, SMEs and private sector development and institutional development through project (large amount of TA operations).	EC has project assistance in all sectors except education. Among others: support to justice and rule of law, and community-based development (Ubudehe).	See above.	
Dialogue with government	Including political dialogue based on MOU between governments.	Including political dialogue based on MOU between governments.	Earmarked BS entailed dialogue on spending on eligible budget lines, audits (now abandoned). Projects entail dialogue on tender procedures, project management, financial procedures, and increasingly policy discussions too.	Bilateral dialogue progressively replaced by dialogue through GOR–IPs aid management structure including for PRSC.	
TA provided in relation to BS	None	Assistance to policy, budgeting, tax administration, education provision. Linked TA to PSR.	Support to macroeconomic policy (LTA since 2000). Support to PFM reforms (public accounting and internal audit): STA and LTA since 2003. Support to implementation of EC budget support programme (LTA 2000–2003). Support to M&E (in future). Various audits and evaluations. TA shifted from 40% to 90% focused on government mainstream business.	Large projects for capacity-building across the whole administration at decentralised and central levels (DCDP and PSCBP), including emphasis on PFM capacities. Analytical work and TA in relation to sectors under, and preparing to 'join in', the PRSC (e.g. development of local accountability mechanisms in education and health, DTIS in growth-related strategies).	
Aid programmed based on PRSP	Yes, in general and for education.	Yes, in general and for education in particular.	BS: indicators etc. drawn from PRSP APR. Other: areas of project support determined by PRSP priorities.	Yes, PRSC matrix is a (large) sub-set of PRSP matrix. PRSP matrix was developed through APR-2 at the same time as PRSC matrix development.	

Question	Sida	DFID	EC	WB	IMF
APR influencing aid allocation decisions	Yes	Yes	BS variable tranches determined by indicators in PRSP APR and analysis of PFM in PRSP APR.	Yes, through prior actions being reported on in APR. Mechanism yet to be fully tested with appraisal of PRSC-2.	
Multi-annual BS commitments	No, until 2004. MOU covering 2005 and 2006.	Current programme to 2006. Process for committing funds for the 2006–08 budgets already started.	3-year Financing Agreements.	CAS: 3-year horizon for indicative annual funding.	
Commitments timely vs. budget cycle	No, until 2004. Current programme design better and future should allow timeliness, commitment year N for year (N –1).	No response but see SPA survey.	In theory yes for fixed tranches (Oct/Nov IMF Board meetings determine Feb/Mar disbursements). Problematic in practice due to delayed PRGF.	In theory yes, following pre-appraisal and appraisal in line with govt budget cycle. Recently improved with harmonised calendar.	
Sector-level harmonisation	Yes (budget support including focus on education sector, and silent partnership modalities behind DFID).	H&A with ESSP/education SWAp. Participation in formalised donor coordination process for rural development, private sector, governance. DFID lead donor in education (and prominent role in private sector development and governance).	Yes, though clear sector policies do not yet exist in most of EC's sectors of intervention. Works for PFM; will work for justice, rural development etc. under 9th EDF. Participation in cluster meetings for health, education, rural development (lead donor), infrastructure (lead donor but largely unoperational), good governance, BSHG.		
Regular info on aid flows	No	Yes, to government	Reports to CEPEX and provides info to anyone who requests it.		
SPA 2004 survey					
Difficulties in disbursing: main reason	Administrative (donor).	Administrative (donor)	Government failed to meet policy-related conditions.	Government failed to meet policy-related conditions.	Government failed to meet policy-related conditions.
Difficulties in disbursing: secondary reason	Government failed to meet policy-related conditions.	Govt failed to meet policy-related conditions	Administrative (donor).		
APR sufficient for financing decisions	Yes	No	No	Yes	No

Question	Sida	DFID	EC	WB	IMF
APR weaknesses		Macro, budget & education info insufficient but no expectation that it should all come from APR.	Fixed tranches linked to IMF Board decisions rather than APR.		PRGF need detailed data regarding macro and other structural performance.
Multi-year commitment	No	Yes	Yes	Yes	Yes
Government informed in time for inclusion in next year's budget	No	Yes	No	Yes	Yes
Disbursements for year (N+1) firmly committed year N	No	Yes	No	Yes	Yes
Timing of disbursements coordinated with government budgetary requirements	No	Yes	No	Yes	Yes
Total number of conditions minimised	Yes	Yes	Yes	Yes	Yes
Gradual response mechanism	No	Yes	Yes	Yes	No
Others		New programme: no performance triggers.	New programme: explicit indication of delay between decision and disbursement.	PRSC	
Conditionality in PFM	Yes	Yes	Yes	Yes	Yes
	Drawn partly from PRSP APR, agreed bilaterally.	Drawn from PRSP APR + FARAP, agreed multilaterally.	Additional to government plans and documents, agreed bilaterally.	Drawn partly PRSP + PRGF, FARAP, HIPC AAP, agreed multilaterally.	PRSP + various IMF TA reports, agreed bilaterally.
Conditionality in political governance	Yes	Yes	No, but informally some	No	No

Question	Sida	DFID	EC	WB	IMF
	Drawn from other document but broadly consistent with PRSP APR, agreed bilaterally.	Drawn from PRSP + MOU, agreed bilaterally.			
Conditionality in macroeconomics	Yes	Yes	Yes	Yes	Yes
	Drawn PRSP APR + PRGF, agreed bilaterally.	Drawn from PRSP APR + PRGF, agreed multilaterally.	Drawn from PRSP APR + PRGF, agreed bilaterally (?)	Drawn PRSP + PRGF, agreed multilaterally.	Drawn entirely from PRSP and APR, agreed bilaterally.
Conditionality in sector policy measures	Yes	Yes		Yes	Yes
	Drawn from PRSP APR + JESR, agreed multilaterally.	Drawn from PRSP APR + ESSP, agreed multilaterally.		Drawn entirely from PRSP APR, agreed multilaterally.	Drawn from PRSP APR + various IMF TA reports, agreed multilaterally.
Conditionality in sector results	Yes	No	Yes	Yes	No
	Drawn from PRSP APR + JESR and sector MTEF, agreed multilaterally.		Draw entirely from PRSP APR, agreed bilaterally.	Drawn entirely from PRSP APR, agreed multilaterally.	

ANNEX 4: PUBLIC FINANCE MANAGEMENT IN RWANDA

Introduction

1. Budget support is always accompanied by a focus on public finance management (PFM). Donors considering disbursing through government systems have a special interest in the government's fiduciary standards. Moreover, one of the principal claims for budget support is that using government PFM systems can make a special contribution towards strengthening them. Hence a growth in the number of PFM diagnostic reports (PERs, CFAAs, Country Procurement Assessment Reviews [CPARs], etc), as well as donor-specific fiduciary analyses. In six of the seven GBS study countries, the donor demand for tracking of HIPC relief funding was pivotal, with Assessments and Action Plans (AAP) as path-breakers. In Rwanda, HIPC AAP exercises were undertaken in 2001 and 2004.

2. The scope for collaboration and harmonisation in PFM analysis and PFM capacity development has been increasingly recognised. The second volume of DAC guidelines on *Harmonising Donor Practices for Effective Aid Delivery* (OECD DAC 2005) includes a chapter on capacity development for PFM. A PFM Performance Measurement Framework has been developed under the auspices of the multi-agency PEFA (Public Expenditure and Financial Accountability) programme (PEFA 2005).

3. The Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:

1. **Credibility of the budget** – The budget is realistic and is implemented as intended.
2. **Comprehensiveness and transparency** – The budget and the fiscal risk oversight are comprehensive and fiscal and budget information is accessible to the public.
3. **Policy-based budgeting** – The budget is prepared with due regard to government policy.
4. **Predictability and control in budget execution** – The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. **External scrutiny and audit** – Arrangements for scrutiny of public finances and follow up by executive are operating.

4. A set of 28 high-level performance indicators has been developed as a basis for assessing improvements in PFM performance over time. Three further indicators assess aspects of donor performance. PEFA has developed a detailed scoring methodology (fully described in PEFA 2005), in which the assessment for each high-level indicator is based on a number of specified components.

5. It is beyond the scope of this study to undertake a full PEFA-based analysis (and in any case the PEFA scoring system was not finalised until 2005). However, in the interests of standardisation and comparability, the PFM analysis of the GBS study has been oriented towards the PEFA indicator framework as far as possible. We have used a standard matrix to consider PFM issues against the principal dimensions defined by PEFA, drawing on the secondary sources available (these are listed at the end of this Annex). This matrix also shows

the HIPC AAP indicators and diagnostic results. Our main assessment is of the current state of PFM, although we also examine developments during the evaluation period and offer a judgement as to whether systems are improving. The resources available for the evaluation did not allow for collection of data needed for application of the PEFA methodology. Therefore we do not attempt the rigorous scoring prescribed by PEFA. We had access to information collected and analysed through a PEFA testing exercise conducted in 2004 in the course of finalising the PEFA methodology. However, as indicators and scoring method have changed since then, our assessment uses the information but does not use the ratings given during the test. We express our judgement as *good*, *moderate* or *weak* on the basis of available data. Where insufficient information was available, no such judgement is offered.

6. In the future, rigorous assessment and reporting according to the PEFA guidelines should provide a much more robust and transparent basis for assessing the quality of PFM systems than was available during the evaluation period. It will also allow progress in capacity development to be more systematically monitored. It is noteworthy that GOR and PGBS IPs have already agreed to make use of the PEFA methodology to conduct the regular review of the PFM systems and reforms which is provided for in the PGBS partnership framework. This is planned to start with the review of the year 2006.

Overview of PFM in Rwanda

7. After the genocide in 1994, Rwanda's PFM system collapsed, with no budget, no accounts and no audit function. Since that time the PFM institutional structure has gradually been reconstructed, using a sequenced approach that recognises the severe capacity constraints faced by GOR.

Current status

8. From 1997 to 2005, Rwanda consolidated its economic recovery from the genocide and civil war. In recent years excellent progress has been made in constructing a modern public financial management system in Rwanda. The legal framework for PFM is currently undergoing a major revision in line with the new constitution. A PFM action plan based on the 2003 FARAP and summarised in the PRS matrix has been adopted to implement PFM reforms.

9. Restoration of the budget system has been ongoing since the late 1990s. Between 1997 and 2000 the system was rebuilt from scratch, the main building blocks being put into place (see Box 4.1). The focus was on reviving the tax administration, restoring processes for budget preparation and execution, and accountability, and building capacity for budget and economic management. Since 1998, fiscal and budgetary reform has been an ongoing reform process and budget procedures and calendar have generally been respected, with the draft budget being adopted by the National Assembly before the beginning of the fiscal year.

10. A key reform in 1997 was the merger of the Ministry of Finance and the Ministry of Planning into one Ministry of Finance and Economic Planning (Minecofin). A macroeconomic planning function was re-established in Minecofin. Customs and income taxation were consolidated in the Rwanda Revenue Authority (RRA). The Central Projects and External Finance Bureau (CEPEX) was established as a semi-autonomous body under the Minister of Finance and Economic Planning to coordinate the shift from emergency to project support, and to streamline the preparation of the Public Investment Programme (PIP) and the development budget. Production of monthly reports on budget outturns began manually in 1997, and computerisation of budget transactions was introduced in 1999. The Office of the Auditor General (OAG) and the National Tender Board (NTB) were established. The Office of the Inspector General for Public Finances was given responsibility for setting up internal audit units and systems in line Ministries, training and risk auditing. Finally, the Division of Government

Accounts was created, to prepare and publish regular accounts of government financial operations.

Box 4.1: First Stage PFM Reforms 1997–2000: Rebuilding PFM Systems

(supporting donor in brackets)

- Merger of ministries of Planning and Finance, 1997
- Monthly reports on budget outturns, 1997 (UNDP)
- Consolidation of RRA, 1998 (DFID)
- Re-establishment of macroeconomic analysis (IMF/World Bank)
- Creation of CEPEX, 1998 (AfDB)
- Creation of OAG, 1998 (World Bank, CIDA, Sida)
- Creation of National Tender Board, 1998 (World Bank)
- Creation of Office of Inspector General for Public Finances, 1999
- Creation of Department of Government Accounts, 1999
- Computerisation of budget transactions, 1999 (IMF/ World Bank)

Trends since 2000

11. Since 2000, GOR has been building on the first stage of PFM reforms and on the basic systems in place, including the introduction of a Medium-Term Expenditure Framework (MTEF) which set the basis for further PFM reforms. By 2004 the MTEF had developed to cover all ministries, provinces and districts for the 2005–07 MTEF. In 2001 expenditure ceilings were defined and a broad poverty-focused budget prioritisation programme was introduced. In 2002, budget submission formats were changed to reflected classification of expenditures according to programmes and sub-programmes, expected outputs and inputs. Challenges that remain are to strengthen the predictability of the MTEF system (through improved revenue and expenditure forecasting both within year as well as year on year), its coverage (in particular with respect to off-budget projects), its result-orientation and usefulness in following budget execution (by improving performance monitoring), and to review its currently overly detailed format.

Box 4.2: Second Stage PFM Reforms 2000 to Present – Refining the System

(supporting donor in brackets)

- Introduction of the MTEF in 2000 (overall MT budget framework and sector strategies) (DFID)
- Public Expenditure reviews carried out in 1999, 2000, 2002, and 2003 (World Bank)
- Constitution elaborates PFM framework, 2003
- OAG strengthening and accountability switched to Parliament, 2003 (Sida and Dutch Aid)
- Organic Budget Law and Financial Regulations processed, 2004 (IMF)
- Public Expenditure Tracking Surveys (PETS), 2000 (published in 2003) and 2004 (WB)
- FARAP 2003 (WB)
- Fiscal decentralisation (IMF/USAID)
- Reorganisation of Minecofin, 2004 (EC/DFID)

12. The PRSC identified the biggest medium-term challenge as being the development of a centralised, integrated, and high quality accounting system. Government has been introducing a wide-ranging action plan for strengthening financial accountability with the FARAP (World Bank 2003b). Broadly this study found that GOR is making substantial efforts to address the lack of accounting information provided on budget execution and GOR is undertaking the installation of

a new comprehensive, reliable, uniform and integrated accounting system. On the other hand the shortages in the quality of human resources and the absence of consolidated and audited government financial statements are major weaknesses identified although they are being addressed. Limitations in the country's legal and regulatory framework, the proliferation of bank accounts, the lack of integration between the recurrent and investment budget, the weakness of the accounting function and the reinforcement of internal controls were all deemed areas which could be strengthened.

Aid and PFM

13. The donors continue to be constructive partners in addressing PFM issues. The MTEF has been supported by PERs sponsored by the development partners, social sector expenditure reviews taking place in 1999 and 2000, and review of the transport and agricultural sector in 2002. The first and second stage of reforms outlined above demonstrates the strong role that GBS donors have taken in supporting PFM reforms. TA support to PFM from GBS and like-minded donors looks set to continue with a current and planned TA programme coming on-line. PGBS overall is considered by GOR and donors to have played a strong and significant role in improving PFM systems.

14. Our perception is that:

- The movement towards PGBS reflects changing donor attitudes and a greater confidence in Rwanda's PFM systems and generally in the use of government systems in the delivery of aid.
- Improvements in the quality of PFM have been institutionalised within the GOR. The restoration of the system as PFM reforms have been carried out in tandem with PGBS bears testimony to the internalisation of the PFM and budgetary process improvements in the key central planning ministry Minecofin.

PFM weaknesses remain but are being systematically addressed by GOR with technical and capacity building support from in particular PGBS donors.

Table 4.1: PEFA PFM Performance Measurement Indicators[5] for Rwanda

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
	A. PFM OUTTURNS: Credibility of the Budget				
PI–1	Aggregate expenditure outturn compared to original approved budget		NA		Significant information gaps exist for aggregate expenditure outturn with respect to the original budget estimates.
PI–2	Composition of expenditure outturn compared to original approved budget		Moderate		Budget Execution is generally close to budgeted expenditure, although there is significant variance at some levels
3	*Reliability of budget as guide to outturn (Level and composition of outturn is quite close to budget)*	*B*	*B*	→	Expenditures are generally kept close to original appropriations. The government was able to keep the variation between the original budget and the budget outturn less than 10% in 2002, and 6% in 2003. At the aggregate level, the variation was 2% in 2001, 10% in 2002, and 6% in 2003. Also, there was no systematic under-budgeting at the aggregate level. On the contrary, in all three years during 2001–2003, budget outturns were less than the original budgets. Even for recurrent expenditure, the variation average was about 4.3% only during this period. There were no systematic under-budgeting issues for recurrent expenditure. The main reason for the reduction in variation in the budget and improved execution was due to several factors: (i) transition out of post-conflict to a more stable economy and institutions following the war; (ii) the introduction of the MTEF in 2000; (iii) the use of a cash budgeting system. Some weaknesses, however, remain. For example, the variation for capital expenditure was less promising than recurrent expenditure. The average variation was about 13% (10% in 2001, 4% in 2002, and 24% in 2003). The performance in 2003 was less encouraging mainly because of some implementation problems of some infrastructure projects which were closely tied with unmaterialised donor funds. Within the recurrent spending, the performance was uneven. Since Rwanda relies heavily on donor funding for the whole budget, unpredictability of donor funding and weaknesses in budget preparation are two major reasons for the variations between original budgets and budget outturns.
PI–3	Aggregate revenue outturn compared to original approved budget		Good	↑	Between 2001 and 2004, domestic revenues outturn was above budgeted domestic revenues. However, shortfalls of external revenue are a major concern.

[5] The PEFA indicators (PI–1 to PI–28 and D–1 to D–3) are taken from the June 2005 version of the PEFA PFM Financial Management Framework. The 16 HIPC AAP Indicators (2004 version) are included in Italics. The assessment is based on a review of secondary sources, not on a rigorous application of the PEFA diagnostic criteria; scores are indicative, with a moderate level of confidence

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–4	Stock and monitoring of expenditure payment arrears		Weak	↓	Significant arrears exist, largely due to the pre- genocide and immediate post-genocide periods. Despite important government attempts to clear old arrears, new accumulation continues, in part due to unpredictable budget support. Evidence of end-of-year arrears is readily available from the Treasury Department, as received but unpaid request for payment from budget users. These have increased over the last three years, from a low of around RWF 3bn in 2001 to RWF 8bn in 2002 and RWF 11bn in 2003. These arrears are generally cleared in the subsequent budget year. The significant arrears of 2002 and in particular 2003 were in part explained by the late disbursement of budget support funds from donors, in part due to the spending pressures of the election year. There is no evidence of accumulation of additional arrears at the level of budget users, due in part to the effective system of commitment control in Rwanda, and in part to the hardened stance of some of GOR's key creditors such as ElectroGaz and RwandaTel. In summary, the current stock of outstanding arrears is estimated to exceed RWF 80 billion, representing around 24% of the 2004 budget. Once the agreement is reached with the CSR, the pending arrears will be reduced to around 7.5% of the 2004 budget, a figure which will be revised upwards once the full stock of claims has been established and verified. On the positive side, the arrears have on the whole been identified and their age profile established. GOR also has clear strategies to settle each category of arrears, and has been gradually paying them off through the annual budgets. The annual accumulation of new arrears, however, remains a matter of concern. *This benchmark is not me*t.
8	*Level of payment arrears (Very few or no arrears accumulated)*	*B*	*C*	↓	
	B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI–5	Classification of the budget		Good		Since 2002, the GOR budget has been prepared using administrative, programmatic and economic classification (GFS 1986 based). Functional classification (COFOG 1986) has also been used, but not in a consistent manner. Economic and programmatic classifications are printed in the annual financial law. Programmes and sub-programmes are mapped into functional classification, allowing budget information to be presented in this format too, as evidenced in the annual budget documents. However, the recurrent and the development budget are still prepared separately. Minecofin is considering upgrading its classifications from the GFS 1986 to GFS 2001 framework. As it is not contemplating moving towards accrual accounting, the change will be relatively straightforward, though it will require significant effort and training, and should therefore be carefully considered given capacity limitations.
5	*Classification of budget transactions (Functional and/or programme information provided)*	*A*	*B*		

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–6	Comprehensiveness of information included in budget documentation		Moderate	↑	Significant improvements have been made, but significant central government activities (particularly those of quasi-autonomous agencies) are not included in budget reports.
1	*Composition of the budget entity (Very close fit to government finance statistics (GFS) definition of general government)*	*B*	*B*	↑	Ex-post fiscal reports prepared by Minecofin cover only the central government budget. The reports include the transfers made to semi-autonomous agencies of central government, as well as the central government transfers to the districts (both the recurrent budget support and the CDF project support). The fiscal reports specifically exclude the following elements: • Own revenues (excluding those collected and transferred by central government) of semi-autonomous agencies and extra-budgetary funds of central government (excluding the Social Security Fund of Rwanda – CSR), some of which fund poverty-reducing spending, which are estimated to be between 2.5% and 3% of the total general government revenues excluding CSR; • The CSR, whose revenues are estimated to be around 5% of general government revenues; • the local taxes, other revenues (including external grants), and borrowing of districts, estimated at 5% of total general government revenues excluding CSR; • and the actual detailed expenditures of provinces, semi-autonomous agencies of central government, extra-budgetary funds, including CSR, and local governments (districts) are not included in the fiscal reports, only the transfers that are made to them. Key components of general government revenues and expenditures, as mentioned above, are either missing or not adequately reported in the ex-post fiscal reports – i.e. CSR, and actual revenues (including from donors), and spending from provinces, districts and semi-autonomous agencies.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–7	Extent of unreported government operations		Moderate		Central government expenditures from domestic resources are largely accounted for, including those from non-tax revenues. This was not the case two years ago, when non-tax revenues (fees and charges) were spent directly by ministries and agencies. The shift occurred when RRA took on the responsibility for collection of non tax revenues, in addition to tax revenues. However, some funds (e.g. the National Forestry Fund, Road Maintenance Fund, and Common Development Fund) directly receive earmarked resources that are recorded in the budget as transfers. However, these funds do not report back to Minecofin on their spending of these transfers, nor do they report on their own revenues. This latter issue also applies to semi-autonomous agencies. These institutions retain accounts at the BNR, yet their expenditures are not integrated in the consolidated fiscal report, neither as budget nor as actuals. This area has been covered in more detail under indicator 1. The rating arises from the size of transfers received that are inadequately reported, along with the existence of own revenue generated by some of these institutions, which is estimated at between 7.5% to 10%, excluding the CSR, and between 12.5% and 15% including the CSR.
2	*Limitations to use of off-budget transactions (Extra-budget – or off-budget – expenditure is not significant)*	*A*	*B*		
PI–8	Transparency of inter-governmental fiscal relations		N/A		Insufficient information available; the organisational framework for decentralisation has been recently (Aug 2005) significantly modified. It is likely to prompt new developments related to fiscal decentralisation in the near future.
PI–9	Oversight of aggregate fiscal risk from other public sector entities		N/A		Insufficient information available; indicators suggest oversight is insufficient.
PI–10	Public access to key fiscal information		Weak	↑	Information is not regularly available, although this is improving, particularly with the OBL.
	C. BUDGET CYCLE				
	C(i) Policy-Based Budgeting				
6	*Identification of poverty-reducing expenditure (Identified through use of classification system)*	*A*	*A*	↑	GOR defines as priority programmes, those key sector programmes directly derived from the priority areas of the PRSP. These programmes are clearly identified in the government budget. Priority programmes are occasionally reclassified, as new priorities emerge, or old ones become less pressing. An example of a recent priority programme is the extension of free education to three years beyond primary education. These priority programmes are protected from expenditure cuts in the budget. Under the IMF's PRGF agreement, Rwanda committed itself to a 0.1% increase in allocation (over the previous year's GDP) to these programmes. Since 2001 when these types of expenditures were identified and defined, Rwanda has continually met this target in budget execution, without any significant incidence of overspending. Currently, the 0.1% annual increase in GDP pertains only to the recurrent budget, pending the integration of the development and recurrent budget.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–11	Orderliness and participation in the annual budget process		Good		A budget calendar exists, which is broadly respected. The key steps in the process are well known and include all relevant actors, but the steps are often delayed.
PI–12	Multi-year perspective in fiscal planning, expenditure policy and budgeting		Moderate		MTEF introduced in 2001, multi-year perspective in aggregate terms but not always respected.
7	*Quality of multi-year expenditure projections (Projections are integrated into budget formulation)*	*A*	*A*	→	A 3-year rolling MTEF, introduced at end 2000, has been integrated into the budget process beginning with the budget for 2001. The framework includes both recurrent and development expenditure. The MTEF development process has been led by Minecofin under a plan of action endorsed by the Cabinet. Training manuals were developed and extensive training workshops have been conducted for the staff in line ministries and provinces. The World Bank and DFID provided sufficient long-term/short-term technical assistance and prepared two public expenditure reviews with focus on the MTEF process. Implementation of the MTEF during the last three years has made significant progress towards improving the policy, planning and budgeting stages of the annual budget process. This planning and budget preparation calendar under the MTEF process has become a year-round activity. Medium term expenditure projections on detailed basis are fully integrated with the annual budget process. The improved central budget management system (SIBET2), which is expected to be released in a few months, made improvements to further institutionalise the integration of medium term projections with the budget process. Medium-term projections under the MTEF process are good guidance for annual budgets and fully integrated into the budget formulation process. Outer-year projections, although uneven, are reliable and create sound basis for annual budgets.
	C(ii) Predictability and Control in Budget Execution				
PI–13	Transparency of taxpayer obligations and liabilities		N/A		Tax revenue has increased from RWF 94.6m in 2002 to RWF 134.7m in 2004. Although the revenue to GDP ratio has improved considerably in recent years, it is still slightly lower than the average for HIPC decision point countries. This could reflect a possible overestimation of GDP, particularly of agricultural production, as well as substantial tax exemptions reflecting over reliance on tax incentives. Rwanda has made exemplary progress in making the Large Taxpayer Department operational and is in the process of strengthening its audits. New income tax and customs laws and investment code together with the improvements in tax administration have been introduced and are expected to broaden the tax base and increase efficiency.
PI–14	Effectiveness of measures for taxpayer registration and tax assessment		N/A		
PI–15	Effectiveness in collection of tax payments		N/A		
PI–16	Predictability in the availability of funds for commitment of expenditures		Weak		Cash planning is being strengthened from a low base although it still faces many constraints.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–17	Recording and management of cash balances, debt and guarantees		N/A		Institutional responsibility for debt management is clearly defined and a computerised database exists for public debt. No debt sustainability analysis is undertaken. Insufficient information on other dimensions of the indicator.
PI–18	Effectiveness of payroll controls		N/A		Insufficient information to assess.
PI–19	Competition, value for money and controls in procurement		Moderate	↑	The introduction of the NTB has been a success, although capacity is limited and it is sometimes by-passed. New procurement legislation will soon be in place to further improve the situation. The creation of the National Tender Board has introduced the principles of good practice in the public procurement system. When the NTB procedures are used, government goods and services are generally procured through a competitive and transparent process. The NTB has recently made significant efforts to overcome the delays in the processing dossiers related to the volume of files submitted to the NTB resulting from the relatively low threshold level of RWF 3m (USD 6,000) for tenders sent to the NTB. The current processing delay for straightforward tenders has now been reduced to 2 weeks, although more complex tenders may still take several months. Further efficiencies in processing are expected with the proposed raising of the threshold to RWF 40m (USD 80,000) for central government and RWF 20m (USD 40,000) for districts. As a result of its current workload, the NTB acknowledges weaknesses in the area of post tender monitoring, which it is not able to perform. Although the establishment of the NTB has generally improved transparency and accountability in the GOR tendering process, serious management weaknesses in budgetary institutions have undermined these improvements. The Auditor General's audit of government institutions for FY 2002 cites numerous and widespread occurrences of failure to abide by tendering procedures. This is in part due to inadequate awareness of the regulations and availability of training and manuals. In addition, many institutions are still not preparing annual tender plans, as required by the regulations.
16	*Effective procurement (Procurement processes promote competition, transparency and value for money)*		*B*		
PI–20	Effectiveness of internal controls for non-salary expenditure		Moderate to weak		Internal control has been very centralised and generally effective, although there is some by-passing of regulations. The OBL (pending Parliament approval by mid 2005) fundamentally changes the internal control system, from pre-spending controls by Minecofin, to internal pre-spending controls by spending agencies and post-spending control.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–21	Effectiveness of internal audit		Moderate		The internal audit function is still in the early stages of development but is already showing its effectiveness. Each line ministry, government agency, province, and district now has an internal auditor, although due to limited human resource availability and staff mobility, positions may sometimes not be filled. The development of their roles and responsibilities is still ongoing, and is complicated by the presence of numerous financial inspection services whose activities often overlap with those of the internal auditors. In addition, the workload assigned to internal auditors in some institutions (e.g. provinces) is beyond the capacity of a single individual, yet there are no moves to increase staffing levels. Recent evaluations of the internal audit function by the General Inspector of Finance (IGF) of Minecofin point to lack of training and lack of awareness/appreciation of the internal auditor's role among the senior managers that they are supposed to serve. Despite these capacity problems, many internal auditors are preparing routine reports highlighting deficiencies in financial management and recommending actions to be taken by management to address them. These reports are further strengthened by periodic inspection reports of both IGF and Minaloc financial inspectors, which also highlight problems and actions that management should take to improve their performance. These reports are considered important by the Office of the Auditor General, which consults the internal auditors when making their annual audit of institutions.
9	*Quality of internal audit* *(Effective internal audit function)*	*B*	*B*	→	

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
	C(iii) Accounting, Recording and Reporting				
PI–22	Timeliness and regularity of accounts reconciliation		Very weak		Reconciliation is complicated by multiple banks accounts and is not conducted systematically. Reconciliation reports do not exist.
11	*Quality of fiscal/banking data reconciliation (Satisfactory and timely reconciliation of fiscal and monetary data)*	*C*	*C*	→	The 2002 Report on the Public Sector Bank Accounts lists 1,468 bank accounts opened in the name of various government institutions and projects. The underlying reality of the current operations indicate that many payments made by the Treasury Department are made to government institutions bank accounts, including ministries, and not to final beneficiaries. Of particular concern is the fact that these intermediate transactions are treated as final payments by the Treasury Department, with no return of accounting information showing how the benefiting institution has settled its accounts. Furthermore, most projects operate their own bank accounts which receive funds from both the Treasury Department and directly from donors, and provision of accounts and bank reconciliation statements from these projects is very weak. These issues were highlighted again in a recent East AFRITAC report on treasury management, which also outlined a strategy and action plan for implementing reforms in this area. The main treasury account is reconciled manually on a monthly basis, but surprisingly no bank reconciliation statement is produced. There is a similar absence of routine bank reconciliation statements in line ministries and semi-autonomous government agencies. For local governments, however, bank reconciliation statements have been included as part of the monthly accounting procedures. The Treasury does not routinely monitor balances on accounts outside its control, and is therefore not able to manage the government's overall cash position effectively. Combined with the lack of accounting mentioned above, it comes as no surprise that the government has significant difficulties in reconciling its fiscal and monetary accounts.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
PI–23	Availability of information on resources received by service delivery units		N/A		The first PETS in Rwanda were conducted by the Strategic Planning and Monitoring Department (SPPMD) in Minecofin in 2000. The surveys covered fiscal years 1998 and 1999 for the Ministries of Education and Health, with a focus on Province, Districts, and service facilities –i.e. schools and health centres. The timing of the PETS allowed for collection of information to coincide with budgetary reforms which were initiated in 1998. Coverage of the PETS was representative of facilities in the education and health sectors. The PETS results found that there was a lack of capacity, especially in financial management, which was compounded by a high turnover of staff. This led to a loss of institutional memory. Since then, there has been a move to improve financial management capacities at the district level, although, capacity issues still exist. One weakness of the previous PETS is that it did not track salaries and wages which account for over 80% of recurrent costs in these sectors. Also, the results of the last PETS were not widely disseminated among stakeholders in Rwanda, to facilitate feedback into reforms. The PETS to be implemented in 2005 will cover salaries and wages.
10	*Use of expenditure tracking surveys (Tracking used on regular basis)*	*B*	*B*	→	
PI–24	Quality and timeliness of in-year budget reports		Moderate		In-year reports on budget execution are regularly prepared and are largely comprehensive for central government. Budget tracking (including information on commitments) is carried out through the centralised budget management system (SIBET) maintained in Minecofin. This expenditure information is supplemented by revenue information, external support flows, and debt service information to produce the monthly flash report. These reports do not, however, reflect information on externally funding of the development budget. Budget reports do not depend on data collected from budget users, as most payments are settled directly through the Treasury. However, budget users do receive limited monthly cash advances, usually not exceeding 10% of their goods and services budgets, to cover travel, fuel, small incidental purchases, and utility bills, e.g. for the recurrent budget. For the purposes of the fiscal reports these cash advances are treated as expenditures, with no reconciliation accounts presented to Minecofin by budget users. Instead, Minecofin tracks budget user spending through the central bank (BNR), which provides the Treasury with summarised balances showing individual budget user spending. This bank account information is used to adjust the monthly fiscal reports, ensuring a closer match between monetary and fiscal accounts. Provinces, which are a deconcentrated arm of central government, also receive cash advances from the Treasury. Development budget expenditure is entirely different, as each project has its own bank account, given that the greater part of development budget spending is externally financed that does not pass through the main Treasury account. Quarterly development budget execution reports are prepared by CEPEX, but with some delay.
12	*Timeliness of internal budget reports (Monthly expenditure reports provided within four weeks of end of month)*	*B*	*B*	→	

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
13	*Classification used for tracking poverty-reducing expenditures (Good quality, timely functional reporting derived from classification system)*	*B*	*B*	→	Reports in a functional classification can be produced for in-year reports through the SIBET system to allow for a functional analysis of recurrent outlays. In-year reports on the development budget, however, are not so readily available, as development project expenditure is not currently recorded on the SIBET system, as most projects are externally financed and they operate their own bank accounts. Although the Poverty Progress Report is produced on an annual basis, in-year PRS reports are limited to information available on the SIBET system, and are therefore incomplete. To date, no regular in-year reports based on functional classification have been produced, owing to an apparent lack of demand. Because the development budget uses the same programme structure as the recurrent budget, and the functional classification is derived through a cross-walk procedure from the programme structure (at least on an aggregate level) a functional analysis of the development budget should be possible, in principle. It is not clear, however, whether the database system for the development budget as currently managed can readily provide this in-year information. Moreover, incomplete tracking of development expenditures is an issue due to unpredictable and incomplete reporting on donor financed projects. In brief, although poverty reducing programmes are presented separately in the budget, the ability to produce regular in-year reports is limited. Therefore, *this benchmark is not met.*
PI–25	Quality and timeliness of annual financial statements		Very weak		Although the first consolidated public accounts in 20 years have been presented to Parliament in 2004, these were deemed to be unauditable.
14	*Timeliness of accounts closure (Accounts closed within two months of year-end)*	*A*	*A*	→	The Treasury Department of Minecofin closes all accounts related to internal spending on the 31st of December each year. Transactions received after that time are recorded in the following year's accounts. It should be noted, however, there are serious weaknesses in the preparation of public accounts, with no accounts prepared between the early 1990's and 2002. The 2002 accounts were only completed and submitted to the OAG in December 2003. Recently the Treasury Department has begun monitoring balances on budget user accounts more closely, as part of its cash management improvement actions. However effective Treasury control over these accounts has yet to be implemented.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
	C(iv) External Scrutiny and Audit				
PI–26	Scope, nature and follow-up of external audit		Good		The OAG has been established and has sufficient capacity. It carries out regular audits of individual ministries, local administrations and agencies. However, the effectiveness of external audit is handicapped by the lack of consolidated public accounts. The new constitution voted in June 2003 stipulates that annual accounts are to be presented to the OAG and to Parliament within three months after the end of the financial year, and that the audit report should be completed, and submitted to Parliament, within six months after the end of the financial year. The annual consolidated accounts were prepared for the 2002 financial year (these were the first accounts prepared and submitted for audit since before 1990), and submitted to the OAG in December 2003. However, the OAG declared that the accounts submitted were impossible to audit, owing to serious inconsistencies, absence of an opening balance, and absence of accompanying accounting reports from budget institutions. The OAG prepared a review of these accounts and made a number of written recommendations to the Minister of Finance on how they should be improved. There was therefore no audit of the consolidated 2002 accounts. The OAG, however, did prepare separate audit reports for FY 2002 for each line ministry and associated agencies, which were then consolidated and submitted to Parliament in December 2003, i.e. within one year of the end of the fiscal year. The 2003 audit reports of line ministries, agencies and provinces indicate some encouraging improvements over the 2002 audit findings. It does however reveal continuing serious concerns over lack of adherence to financial procedures (including procurement), weakness in management oversight, accounting skills, and internal control and audit, and a few of cases of outright fraud. In the area of accounting, the OAG report finds that books and journals are not adequately maintained, transactions are recorded long after the event, budgetary limits are not observed, and bank reconciliation is infrequent and often non-existent. These brief highlights of the audit reports of 2002 and 2003 show that the public accounting system remains in serious difficulties, despite three years of assistance in preparing a new chart of accounts, and the accounting regulations and procedures, provided by the AfDB during 2001–02 and the EC in 2003.
15	*Timeliness of final audited accounts (Audited accounts presented to legislature within one year)*	*C*	*B*	↑	
PI–27	Legislative scrutiny of the annual budget law		N/A		
PI–28	Legislative scrutiny of external audit reports		Moderate		Legislative scrutiny is generally good. No full exercise has been completed since the passing of the constitution, so more information is needed for a firm assessment.

No.	Subject	Score [2001]	Score [2004]	Trend	Comments and Analysis
	D. DONOR PRACTICES				
D–1	Predictability of Direct Budget Support		N/A		Direct Budget Support has not been predictable in Rwanda since disbursements tend to be late.
D–2	Financial information provided by donors for budgeting and reporting on project and programme aid		Weak		Donors are generally recorded in the development budget but little in-year or ex-post reporting exists. At the aggregate level, projections for donor-financed government projects are well captured for both recurrent budget support and donor financing. All donor assistance to the recurrent budget is captured by budgetary support and is reported for each donor in the financial law. A semi-autonomous unit (CEPEX), affiliated to Minecofin, is responsible for the monitoring of donor-financed projects, as well as the timing at which funds are expected to arrive and subsequently be used and project implementation. However, there have been serious difficulties in performing this role as the flow of information between donors, line ministries – under which project management units operate – and CEPEX has been prone to being incomplete and late. Support to the provinces is captured through the national budget, as is an amount of support to districts. However, programmes in the districts also receive a degree of funding from donors, and particularly NGOs, which is recorded in the district budget but not the national budget. In conclusion, budget reports include all donor funds, but fiscal outturns do not show all donor-funded expenditures.
4	*Data on donor financing (Donor-funded expenditures included in budget or reports)*	*B*	*B*	→	
D–3	Proportion of aid that is managed by use of national procedures		Weak		Increasing proportions of budget support but efforts to align project support have yet to bear fruit.

Key Source Documents on PFM in Rwanda

Table 4.1 draws particularly on:

EC Delegation Rwanda (2004). *Rwanda PFM Performance Report. A Desk Study, (Draft).* Kigali: EC Delegation Rwanda.

IDA and IMF (2005). U*pdate on the Assessments and Implementation of Action Plans to strengthen Capacity of HIPCs to track Poverty-Reducing Public Spending*. Prepared by IMF Fiscal Affairs Department and the World Bank Poverty-Reduction and Economic Management Network.

Table 4.2: Sources of Information

Sources of Information	Issues/Topics Covered and Relevant for the PFM/PR
Country Context	
Government of Rwanda (2002). *Poverty Reduction Strategy Paper.* Kigali: Government of Rwanda.	
Government of Rwanda (2003). PRSP *Progress Report.* Kigali: Government of Rwanda.	
Government of Rwanda (2004). PRS Annual Progress Report. Draft. Kigali: Government of Rwanda.	
World Bank (2004x). *IDA Programme Document for Rwanda PRSC.*	
Public Financial Management Assessment	
EC (2003). *Rwanda Public Financial Management Assessment.***	Budget trends and execution; internal control; cash flow management
Government of Rwanda (2003). Constitution of the Republic of Rwanda. Kigali: Government of Rwanda. **	Legal and institutional framework
Ministry of Finance and Economic Planning (2004b). *Draft Organic Budget Law*. Kigali: Government of Rwanda. ***	Legal and institutional framework
Government of Rwanda (2004). PRS Annual Progress Report. Draft. Kigali: Government of Rwanda. **	PFM reform overview; PFM Action Plan
Government of Rwanda (2004x). *Ministerial Order on Financial Regulations Implementing the Organic Budget Law*. Draft. Kigali: Government of Rwanda. *	Legal and institutional framework
Government of Rwanda (2004y) *Report on the 1st Public Financial Management Review.* Kigali: Government of Rwanda. **	Various issues
IDC (2004a) Audit du SAF II (funded by EC) **	Public accounting
IDC (2004b) Development of a Public Financial Management Capacity Building and Technical Input Plan (funded by EC for GOR) ***	Public accounting, internal and external audit, treasury management
IMF and World Bank with the Rwanda Authorities (2004). *Rwanda: Tracking Poverty-Reducing Spending: Second Assessment and Action Plan (AAP)*. Washington DC: IMF and World Bank. ***	Indicators 2, 4, 6, 8, 9, 11, 18, 22, 23, 24, 25
IMF (2003). *Rwanda: Report on Observance of Standards and Codes – Fiscal Transparency*. Washington DC: IMF, Country Report No. 03/223. *	Fiscal transparency

Sources of Information	**Issues/Topics Covered and Relevant for the PFM/PR**
Office of the Auditor General for State Finances (2003) *Report of the Auditor General on the financial year ended 31 December 2002*. Kigali: Government of Rwanda. **	Audit; public accounting; procurement
World Bank (2003b). *Rwanda: Financial Accountability Review and Action Plan (draft).* Washington DC: World Bank. **	Public accounting, audit, legal framework, treasury management.
World Bank (2003c). *Rwanda: Public Expenditure Management Review,* World Bank.*	MTEF; budget preparation; budget execution and trends.
World Bank (2003x) *Public Expenditure Performance in Rwanda: Evidence from a Public Expenditure Tracking Study in the Education and Health Sectors*. Africa Region Working Paper Series No. 45. *	Public Expenditure Tracking
World Bank (2004c). *Country Procurement Issues Paper, Rwanda*. Washington DC: World Bank *	Procurement
*** Primary Source of Information ** Secondary Source of information * Information limited to a single issue	

ANNEX 5: SUMMARY OF CAUSALITY FINDINGS

1. In Figure 5.1 (Key to the Causality Map) links between elements at the different levels have been "keyed". The findings related to each link and PGBS effect on this link are recorded in Table 5.1 (Causality Map: Summary of Findings on Causality in Rwanda) in an entry which refers to the "key" of the link on the map. Each entry in the table also indicates the chapters in which related findings are to be found (mainly in the "Principal Causality Chain" section of the chapters).

2. A few cross-cutting features affecting potentially all the causality chains have been "keyed" too, namely feedback and transaction costs. Corresponding entries in Table 5.1 present an overview of how these features have affected the causality chains and PGBS effect on these on the whole.

3. While reading the Rwandan ex post Causality Map one should bear in mind that PGBS began to flow in 2000 and that it took its current shape (with the WB joining with PRSCs) only in 2004. The brevity of the PGBS period means that in some cases there was simply not sufficient time for a link to be established and/or for PGBS influence to be felt. There are two more nuances to take into consideration. First, in some cases PGBS would simply continue to support actions initiated before its emergence (e.g. strengthening of fiscal discipline), which means that there can be effects even though the PGBS period is short. Second, the time-lag issue is a complex one. In the logic of the EEF, "more resources flowing to service delivery agencies" (4.3) is hypothesised as an outcome of PGBS. In spite of it being an outcome, this effect of PGBS could occur immediately following an increase in the overall budget envelope (e.g. thanks to PGBS), and if prioritisation mechanisms were strong (and service delivery considered as a priority) and budget execution was reasonably good. Of course, if a lot of work is to be done on all these factors, it will take time for this PGBS outcome to materialise. But even if this PGBS outcome was immediate and transformed immediately too into better services (4.7), it remains the case that it takes time, in any event, for better service delivery outputs (e.g. increased primary school enrolment) to generate better outcomes/impacts (e.g. higher primary education completion rate, better educated workforce, higher literacy rate).

Figure 5.1: Key to the Causality Map

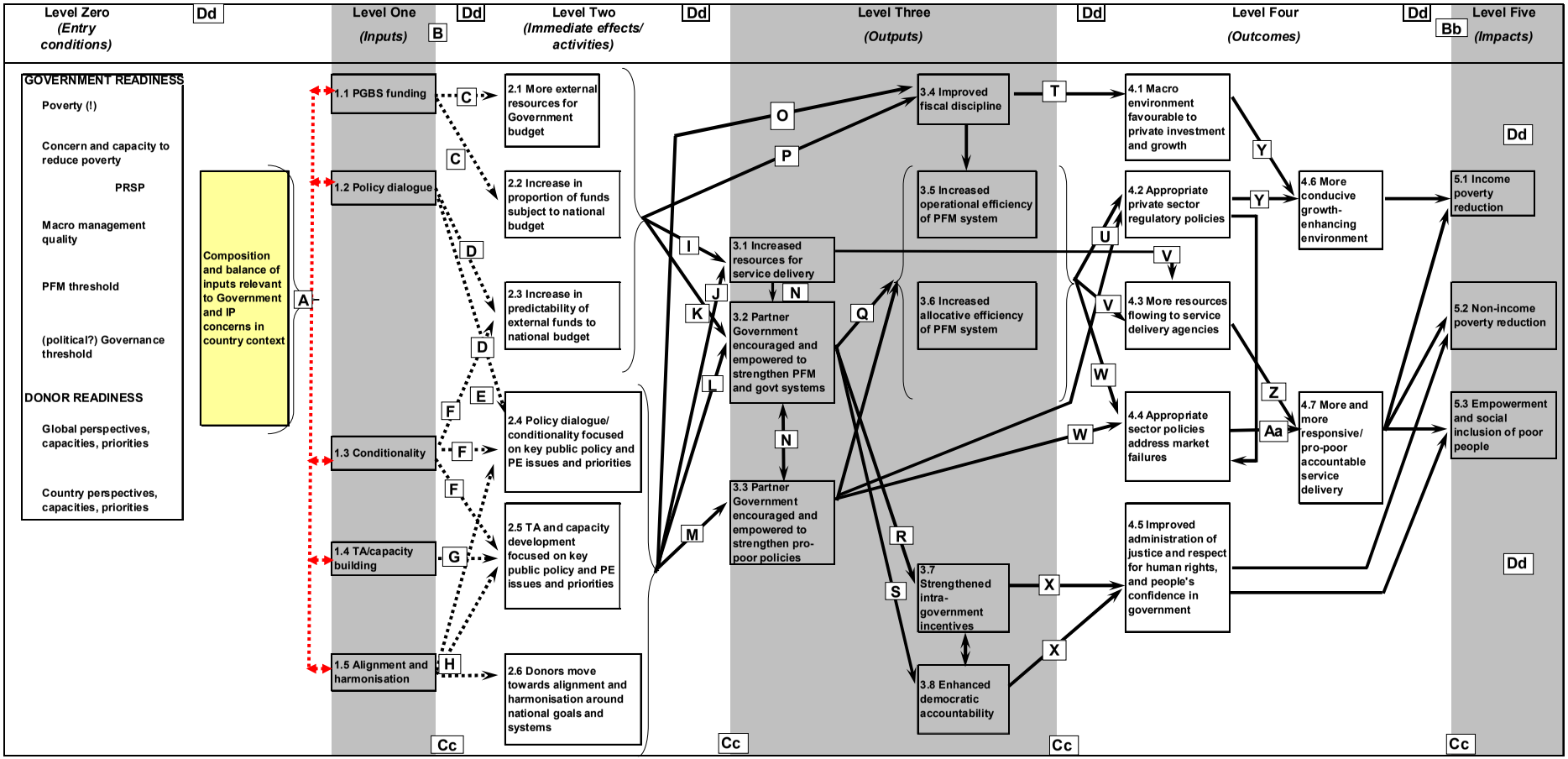


Table 5.1: Causality Map: Summary of Causality Findings in Rwanda

A	**Level 0 → Level 1** *The design and its relevance*
Relevant design (esp. balance funding/institutional support); weakness with regard to political (for bilateral IPs) and (to a lesser extent) financial context. Emerging "stress" between recently introduced PRSC approach and other IPs' broader assessment approach. Policy dialogue, H&A and in particular, TA inputs somewhat "merged" in broader processes involving all IPs [B1].	
B	**Level 1 → Level 2** *Overview of inputs to immediate effects*
Link level 1 to Level 2 present. Significant flow-of-funds effect of PGBS. Effect of other PGBS inputs "commingled" with, and significantly reinforcing inputs from other IPs and aid modalities within GOR-led PRSP dialogue.	
C	**1.1 → 2.1/2.2** *PGBS effect on total external resources and the proportion of funds subject to the national budget*
Strong effect of PGBS in increasing external resources for the budget (impossible to channel such volume through projects). Effect on bringing resources on budget limited to PGBS programmes/IPs. Moderate as PGBS has become significant share of ODA. [A3, B3]	
D	**1.2/1.3 → 2.3** *Effects of dialogue and conditionality on predictability of external funding to the budget*
PGBS more predictable and higher disbursement rate compared to projects. Significant lack of predictability and timeliness within-year for varied (technical, political and administrative) reasons on GOR's and IPs' sides. Medium/long term predictability not explicitly improved: IP's' commitments still mostly short term/ fixed in time (except DFID 10-year MOU incl. GBS share). [B3]	
E	**1.2 → 2.4** *Increased focus of dialogue on key public policy and expenditure issues*
Dialogue focused but not driven by PGBS; facilitated by GOR-owned PRS, GOR-led aid management structures, and (unevenly strong) sector processes. PGBS supports these processes but the small number of PGBS IPs may be a limit to its "proactiveness". [B2]	
F	**1.3 → 2.3/2.4/2.5** *Influence of conditionality on predictability of funding, on focus of dialogue, and on TA/CB*
Conditionality affected predictability negatively (technical PRGF-related; performance-related for EC vertical tranch; political for bilateral IPs). PGBS focused on PFM and less on PSD, notable in (im)balance of TA/CB until recently. PRSC "newcomer", thus too early to assess influence on prioritising policy dialogue. PRSC raising intra-PGBS harmonisation challenge. [B3, C4, B6]	
G	**1.4 → 2.5** *PGBS immediate (direct) effect on TA/CB*
TA/CB inputs not tightly specified part of PGBS "package" but perceived as crucial by GOR especially for PFM. Good complementarity with other TA/CB inputs but rather opportunistic (e.g. PSR, education). Scope for further strategic thinking and coordination in relation to capacity development. [B1, B2, B4, C3]	
H	**1.5 → 2.4/2.5/2.6** *Moves towards harmonisation and alignment with national goals and systems, reflected in dialogue and TA/CB work.*
Continuous progress toward H&A since 1997/98 with recent acceleration and deepening. Key drive is government leadership. H&A inherent in PGBS reinforced by emulation effect. Alignment good at overall policy level, uneven at sector policy level, weak but work-in-progress with regard to systems. Least reflected in streamlining of TA/CB though this too is in progress. [B1, B2]	

I	**2.1/2.2/2.3 → 3.1** *Increased resources for service delivery (flow-of-funds effects)*
Strong increase in allocations to priority expenditure, including but not restricted to social sectors and service delivery. Some lack of clarity in the nature of priority expenditure. Fungibility limited by still large proportion of "non-discretionary" spending in the budget (wages, debt, exceptional spending linked to post-genocide measures). [B3]	
J	**2.4/2.5/2.6 → 3.1** *Increased resources for service delivery (dialogue/TA/H&A effects)*
PGBS pursued pre-existing effect (HIPC and PRGF discussions on expenditure restructuring). Specific conditionality supports increased spending on social sectors(EC Variable Tranche, WB PRSC) but this is mainly reflecting agreed GOR–IPs' positions reached through dialogue. [B3]	
K	**2.1/2.2/2.3 → 3.2** *Flow-of-funds effects on empowerment to strengthen PFM etc.*
Strong empowerment effect of PGBS funding especially at Minecofin level (sense of control over resources; necessity of greater focus on PFM systems, including MTEF and accountability). But limitations prevailing in actual PFM systems (esp. reporting and accountability aspects). [B3, B4]	
L	**2.4/2.5/2.6 → 3.2** *Dialogue/TA/ H&A effects on empowerment to strengthen PFM etc systems*
Strong empowerment effect. Continuity in PFM TA/CB allowed rebuilding PFM system from scratch: pre-PGBS 1st phase; now increasingly coordinated 2nd phase with PGBS. Role of inclusive (all PGBS IPs) dialogue on budget composition not yet entirely clarified (transition from HIPC/ PRGF to PGBS reviews; new harmonised calendar). Weaknesses on the side of LMs. [B2, B4]	
M	**2.4 → 3.3** *Dialogue encourages and empowers strengthening of pro-poor policies*
PGBS supports other processes (PRSP, joint overall GOR–IP dialogue); support is uneven across sectors/themes (depends on PRSP coverage and strength of link with sector/theme dialogues). Better structured GOR–IP dialogue enables GOR to adopt more participatory policy processes. Link between participatory policy-making and pro-poor nature of policy (analysed by sector). [B5]	
N	**3.1 → 3.3** *PGBS funding encourages and empowers strengthening of pro-poor policies*
Strong effect of PGBS funding (through better budget financing) on government empowerment/ incentive to strengthen policy (e.g. fee-free education, PSR). [B4, B5]	
O	**2.4/2.5/2.6 → 3.4** *Non-flow-of-funds effects on fiscal discipline*
Moderate to weak effects, disciplined macroeconomic management embedded before PGBS. [B6] Conditionality linked to PRGF on track may have been instrumental in stopping temporary bout of fiscal indiscipline in 2003.	
P	**2.1/2.2/2.3 → 3.4** *Flow-of-funds effects on fiscal discipline*
Weak effect on fiscal discipline but effect on providing "fiscal space" for higher expenditure. Perverse effect at time due to short-term unpredictability in PGBS disbursement. [B6]	
Q	**3.2 → 3.5/3.6** *PFM empowerment of government → improved allocative & operational efficiency*
Link present (note: PFM empowerment preceded but was strongly supported by PGBS). Allocative efficiency showed in reorientation of expenditure toward priority spending GOR; better balance recurrent–capital spending (use of PGBS funding to finance policy measures with recurrent cost implications). Weak link MTEF/budget and budget execution. [B3, B4]	

R	**3.2 → 3.7** *Government empowerment to strengthen systems → stronger intra-government incentives*
Strong effect of PGBS on intra-government incentives, mainly through funding supporting empowered policy-making, and associated TA/dialogue (including sector-specific). Uneven in various dimensions of government (central agencies > LMs > decentralised levels), [B3, B4, B5]	
S	**(2.2 →) 3.2 → 3.8** *Government empowerment to strengthen systems → enhanced democratic accountability*
Weak to moderate effect of PGBS on democratic accountability. PGBS emphasises need for better reporting and generally increased accountability (e.g. OBL) but weak domestic demand. Gradual strengthening of Parliament largely unrelated to PGBS. [B4, B5]	
T	**3.4 → 4.1** *Link from fiscal discipline to growth-enhancing macro-environment.*
Fiscal discipline is necessary but not sufficient for growth-enhancing macro-environment. In Rwanda, fiscal discipline has been one, but not a major, factor determining a conducive macro-environment (note that gross fiscal indiscipline would probably be an issue). Policy and regulatory environment is improving but still weak. PGBS/ PRSP has been weakly engaged with this agenda. [B5, B6]	
U	**3.3/3.5/3.6 → 4.2** *Better PFM system and government empowered to strengthen policies → Appropriate private sector regulatory policies*
Unusual structure of private sector dominated by small-scale subsistence agriculture. Little PRSP/PGBS engagement with PSD until recently. This is changing; in PGBS mainly reflected in PRSC matrix, not yet in other programmes. [B5, C2]	
V	**3.1/3.5/3.6 → 4.3** *Increased resources for service delivery and better PFM → More resources flowing to service delivery agencies*
Link present but hampered by still weak PFM operational efficiency. However, PGBS (funding) effect is significant (funding new policies affecting service delivery; predictability and timeliness of PGBS affecting budget execution hence service delivery performance. [B5, B7]	
W	**3.3/3.5/3.6 → 4.4** *Better PFM system and government empowered to strengthen policies → Appropriate sector policies address market failures*
Link present but moderate to weak. Uneven across sectors. PGBS funding effects present in sectors in which other inputs helped to develop policies (e.g. fee-free education). Presence of other (non-PGBS) factors (e.g. sector-specific TA and dialogue) also influencing policies. PRSC-led expansion of involvement at sector level is currently changing PGBS effect on this link. [B5, C4]	
X	**3.7/3.8 → 4.5** *Government incentives/democratic accountability → people's confidence in government, administration of justice and human rights*
Weak link, progress little related to aid except for PGBS funding: effect through government budget as main contribution to restoring basic governance systems. No/limited effect of non-funding inputs (few specific conditionalities in PRSC; long and complex process of restoring people's confidence in state in post-genocide context; limited effects of decentralisation thus far). [B5, B7, B8]	
Y	**4.1/4.2 → 4.6** *Influence of macro-environment and private sector policies on environment for growth*
Link weak. Other structural factors tend to swamp effect of public action and PGBS through it. However, recognition that policies should be further strengthened and recent shift in government agenda to focus further on this, including emerging support from PGBS in this. [B6, C2]	
Z	**4.3 → 4.7** *More resources reach service delivery agencies → more and more responsive pro-poor service delivery*
More resources are allocated to service delivery, flows can be problematic. Responsiveness to the poor is mixed. Main focus has been rehabilitation and expansion of services. Data show continued inequality in access to basic services, which is not raised in the dialogue. [B7]	

Aa	**4.4 → 4.7** *Influence of sector policies on pro-poor service delivery*
Rebound effect mixed up with policy effect, but apparently greater rebound where policy has been more developed and funding available. Weaknesses in "public action chain" cause uneven policy influence (weak links between policies, funding and action; few specifically pro-poor measures; emphasis on access; weak implementation capacities; weak monitoring systems). PGBS effect on service delivery limited: limited engagement with PSR and decentralisation. [B7]	
Bb	**Level 4 → Level 5** *PGBS outcomes → poverty impacts*
No recent data on outcomes. Progress in all dimensions though from very low post–1994 basis. Income poverty has fallen but inequality seems to have risen significantly from pre–1994 level. Progress in empowerment hard to detect. Public action effect on non-income poverty reduction is mixed up with rebound effect. Indicators are mixed. PGBS funding effect on non-income poverty reduction mainly. Effects of PGBS non-funding inputs through links explored above: weak on income and empowerment dimensions, stronger/moderate for non-income dimension. [B8]	
Cc	**(all levels)** *Transaction costs*
GOR perceives significant t-cost savings from an initially high level. PGBS seen as effective in reducing aid management t-costs (no parallel systems) and reducing indirect costs (strong empowerment effect), with qualification on role of conditionality. GOR and IPs explore various ways to reduce t-costs further. No detailed review of t-costs. Trade-off between different types of t-costs little explored. [B3, C4]	
Dd	**(all levels)** *Feedback*
"Quality" of PGBS dialogue and review structures depends on quality of GOR monitoring and review systems. All work in progress, scope for strengthening (e.g. PSR APR, budget & sector reviews). Weakest part: no systematic review of institutional developments (PSR, decentralisation) built into PGBS dialogue. PGBS "learning from itself" though scope for further formalising mechanism(s) and for more attention to issues affecting long-term sustainability of PGBS (e.g. political nature of aid/PGBS; role of aid/PGBS in long-term development path). [B9, C5]	

Summary of Findings on Attribution to PGBS

4. The Causality Map (Figure 5.1 and Table 5.1) indicates that in the case of Rwanda the strength of the links and the attributability to PGBS become weaker when travelling from lower (Level 1) to higher (Level 5) levels in the EEF. The most complex picture is at Level 3 (strengthening of government systems, processes and institutions). This is the level at which the effects of PGBS "switch" from strong or moderate at Levels 1 and 2 and up to Level 3, to generally moderate or weak after Level 3.

5. The picture within Level 3 is complex. Some links within this level are strongly influenced by PGBS (e.g. effect of PGBS funding on link from empowered government to strengthened intra-government incentives; effect of PGBS TA and policy dialogue on PFM systems) while others are weakly influenced (e.g. weak effect of PGBS on enhanced democratic accountability). Moreover, PGBS influence on links belonging to the same stream of postulated effects (e.g. institutional change) can be strong (e.g. on strengthened intra-government incentives) or weak (e.g. enhanced democratic accountability).

6. The Causality Map also shows that the effects of PGBS funding are more easily discerned than the effects of other PGBS inputs for which attribution is shared with other processes such as the PRSP, the PSR and decentralisation, the overall aid dialogue, non-PGBS TA working on "PGBS areas", and sector-specific processes and effects.

7. It is possible to demarcate funding and non-funding effects of PGBS further. In this respect, the Causality Map suggests that PGBS funding has had significant institutional and policy effects (e.g. on intra-government incentives and through encouraging and financing new policy spending). In contrast, a number of flow-of-funds effects have been weak (or even perverse at the time, owing to unpredictability of releases). One explanation in light of the analysis in Part B is that the chain of links from systems (Level 3) to outcomes (Level 4) is still rather weak. This is due to a number of institutional and policy weaknesses, including weak capacities and unbalanced policy development among sectors and poverty dimensions. These weaknesses hamper the full deployment of PGBS flow-of-funds.

8. With regard to PGBS "soft" inputs, conditionality is seen as a factor hindering rather than enabling the desired streams of effects. First, conditionality has generated unpredictability and – particularly for political conditionality – government perception is that this was unjustified. But more generally, as it is applied at the moment in Rwanda, conditionality is seen as not living up to expectations arising from the "partnership-oriented" PGBS paradigm underlying the EEF. Thus, for instance, conditionality hinders government empowerment, which is central to the streams of effects.

9. Policy dialogue and TA have had strong effects on PFM systems and capacities. They have heightened awareness of the need to strengthen PFM systems, and provided inputs into the PFM reform process. Outstanding weaknesses are identified and will be addressed with continued PGBS support. In contrast, the influence of PGBS policy dialogue and TA on other institutional changes was more limited (e.g. in relation to sector policy-making and, in particular, service delivery and social inclusion / empowerment patterns). Recent research on capacity development suggests that a stronger concentration of efforts and clearer outcomes in the area of PFM may be due to the fact that this is an area in which it is somewhat easier to define performance required relatively precisely.

10. It has also been noted that the effect of those PGBS inputs on policy changes is at most moderate, and it is uneven across sectors and dimensions of poverty.

ANNEX 6: PRSP FRAMEWORK AND IMPLEMENTATION

PRSP Priorities	Including	Core programmes	Selected progress	Challenges
Agriculture transformation and rural development → Impact on poor people's ability to raise their income	Agriculture & environment, land, supporting off-farm employment, credit, rural energy, small-scale rural infrastructure, labour-intensive rural public works.	Intensifying small-scale agriculture and livestock (extension, credit and support to marketing); labour-intensive public works programme.	• Bad rains → Increased vulnerability in 2003 (deterioration of living conditions perceived by > 50% households – QUIBB-2003). • Continued consultations on land issues. • Micro-finance policy developed (2004). • Establishment of Rwanda Environment Management Authority. • HIMO programme has started operations (2004).	• Design and implementation of export strategy. • Increase research and extension services → raise knowledge and use of improved seeds and fertilisers. • Higher productivity of livestock raising. • Training for farmers; market information; development of export opportunities. • Institutional development of Minagri.
Human Development → Influence poor people's quality of life	Health, family planning, skill development and education, water (and sanitation) and settlement, HIV/AIDS control and prevention.	Skill development for youth, women and small business start-up schemes; adult literacy; primary-school textbooks; malaria and HIV/AIDS prevention, support to health *mutuelles* and *animateurs*.	• Improved planning, coordination and decentralisation in education management: elaboration and rollout of ESSP 2003–08, EFA Strategy, JESR 2003 and 2004. • Abolition of fees and provision of capitation grant for primary schools (2003 onward) → increased enrolment and access for children from poor families. • Reform of higher education financing: Higher Education Bill, Student Financing Agency for Rwanda, continued expansion of private tertiary education, reduction of public unit spending. • Draft policy for technical education. • Health Policy and Strategic Plan ready for adoption. • Increased utilisation of health services & proportion of population covered by *mutuelles* (plan ready for scale-up). • Reduction in price of ARV drugs; integration of HIV/AIDS issues in all relevant sector strategies. CNLS being strengthened.	• Raising teachers' qualification and affordability of wage bill. • Supply of textbooks in all primary schools. • Addressing continued low transition rate to secondary education. • Ensuring access to tertiary education for poor students. • Tertiary education to be responsive to market needs and economy capacity. • Develop framework for education decentralisation. • Address disconnection between HSSP and programme activities. • Enhance involvement of private sector in health policy formulation and strategic planning process.

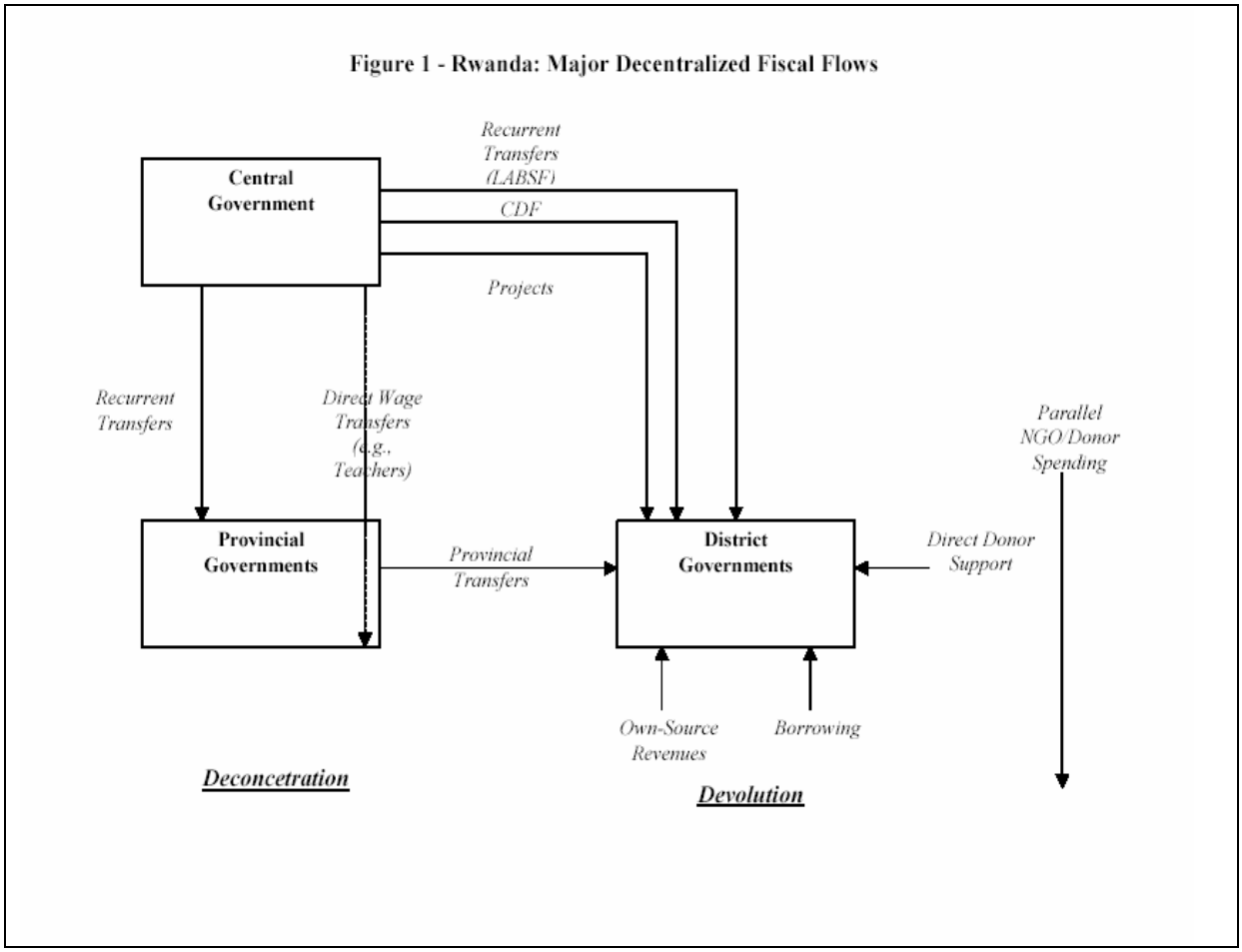
PRSP Priorities	Including	Core programmes	Selected progress	Challenges
Economic infrastructure → Support economic development and growth	Development of roads (and transport and communication at the grassroots level), energy (for formal sector, poor households and rural enterprises) and communications.	Rural road maintenance and rehabilitation, rural electrification.	• Construction and maintenance of feeder and communal roads to be taken care of under decentralisation process (CDF, HIMO public works). • Energy crisis: short term subsidies for low-use consumers. • Water and sanitation: progress in legal and policy framework and in diagnostic studies for sector strategy development. • Two telecom companies started operations in rural areas. • ICT development given high priority; ICT included in all sector strategies.	• Huge financial requirements and lack of adequate resources for investing in energy. • Water: lack of information on actual situation. • Low level of involvement and interest of private sector in energy and water sectors • Decentralisation not yet well established (water sector).
Governance	Security, demobilisation, national reconciliation, human rights, constitutional reform & democratisation, justice system, decentralisation, sector strategies, accountability and transparency, and PSR.	*Gacaca*; demobilisation and reintegration; development of sector strategies.	• Adoption of constitution; elections. • Continued professionalisation of army and police. • Start of judiciary reform; progress with *gacaca* process. • Progress in decentralisation (though slow in fiscal decentralisation). • Creation of Ombudsman offices. • Progress in developing sectoral strategies as basis for full PRS review in 2005 and stronger links with MTEF.	• Continued rehabilitation of justice infrastructure. • Further progress in decentralisation: link up with PSR and sector strategic planning and implementation; sectoral budgeting for basic services to be fully decentralised; strengthen M&E and enhance flows of information.
Building enabling environment for PSD	Promotion of investment, reduction of costs and risks of doing business, promotion of exports.		• Establishment of "one-stop shop" (RIEPA) for existing and potential investors, refinement of investment code, restructuring of Centre for Support to Small and Medium Enterprises, regulatory framework for micro-finance activities established.	• Difficult to capture real data on private investment. • Access to credit still very costly and inadequate for rural activities.
Institutional capacity-building	Design of institutional structures and incentives to encourage development and retention of relevant skills in public and private sectors.		• Public Sector Transformation preparation: organisational restructuring, staff redeployment, pay reform. • Multi-sector capacity building programme developed.	• Weak synergy between CDF, Ubudehe and PDL-HIMO activities. • Poor data availability on private sector and civil society capacity building needs and achievements.
Mainstreaming cross-cutting issues: Gender, HIV/AIDS, Environment, Technology, Inequality, Harmonisation and Coordination				

ANNEX 7: DECENTRALISATION AND SERVICE DELIVERY

Box 7.1: Roles and Responsibilities of the Various Tiers of Government

Central Government		**Policy Development, Strategy & Finance**
Provinces (11 plus Kigali City) (appointed *Préfet*, technical Coordination Committee)	Administrative structure representing central government, deconcentrated entities Have budget autonomy (*Préfet* is Authorising Officer for provincial budget) but for mainly centrally defined operations/programmes No capital budget	Coordination of policy implementation by LGs, oversight of LGs on behalf of central government
Districts (106) (elected Council, Executive Committee)	Autonomous administrative structure with legal status (right to raise taxes and to borrow) and financial autonomy	Policy implementation, coordination of sectors and cells for planning development In principle, management of basic social services including primary and secondary education, etc.
Sectors and cells	Administrative entities (though have elected Committees)	Administration, community needs identification, project implementation

Figure 7.1: Major Decentralised Flows



Main Flows of Funds at District and Provincial Level

Districts

1. LABSF: Target: 3% of central government domestic revenue. Supposed to complement district own-source revenue in order to meet administrative costs of district structure. Transferred as "block grant". Up to new *cadre organique* (2005) this did not include any sectoral professionals. From 2005 onward districts should be able to recruit sectoral professionals accountable to the district council (e.g. school inspectors).

2. CDF: Target: 10% of central government domestic revenue. Supposed to finance projects included in the District Development Plan (DDP), based on bottom-up planning from cells and sectors. Transferred up to 2004 on an "approved project" basis (CDF managed by a Board at central level). From 2005 progressive shift toward budget support type of modality, i.e. block grant for investment financing. Several donors interested in channelling quasi-budget support through CDF (EU, WB considering the possibility at mid-term of ongoing DCDP, Netherlands having temporarily opted for channelling funds through mirroring modalities but not co-mingling funds).

3. Direct support to districts: usually NGOs.

4. Parallel NGO/donor spending: direct support to beneficiaries e.g. USAID to Cocof women's programme, Netherlands to cooperatives.

5. Provincial transfers: for specific deconcentrated activities implemented by district-level agents themselves on provincial/central payroll (e.g. school inspection). In some provinces (e.g. Gitarama) this can also be project funding when the province managed to attract donor support at its level.

6. Projects from central government: e.g. in agriculture sector.

7. In principle all these flows of funds (except for funds channelled directly to beneficiaries) should be reflected in districts' DDPs and MTEFs.

Provinces

8. Recurrent transfers: deconcentrated recurrent budget. Development budget not de-concentrated although provinces can act as implementing agents for sector ministries and therefore receive earmarked project-related funds. Some provinces have managed to attract donor support at their level (though this is meant to finance development priorities emanating from districts too,e.g. Gitarama with Netherlands support, see point 5 above).

9. Recurrent transfers budgeted for and released against same budget structure as for central ministries' programmes. Provincial executive are staff of Minaloc and of their respective parent sector ministry. Recurrent transfers finance costs of provincial staff, goods and services at provincial level, further transfers to districts for "agency functions" (see point 5 above) and support for operations of facilities (e.g. district hospitals and support to schools – though this appears to be problematic according to the PETS 2004).

10. Direct transfers are used for wages of sectoral front-line workers, e.g. teachers and health workers.

11. In addition, in education the capitation grant provided to schools is directly channelled from Mineduc to school bank accounts.

ANNEX 8: CHRONOLOGY OF KEY EVENTS

Date	Political governance processes	Poverty reduction policy development process	Donor mobilization processes	Macro/PGBS
1994	RPF takes power			
Dec-94	Gov't of National Unity "Declaration of Principles"			
Jan-95			Geneva First Round Table	
July 95			MTR 1st Round Table (Kigali)	WB Emergency Recovery
Nov-95			Thematic Conference Repatriation	
Jun-96			Geneva 2nd Round Table (recommend develop sector strategies)	
Nov-96	Returnees crisis			
Dec-96			Consultation on reintegration program	
1997		Establishment of the FARG		WB Emergency Reintegration and Recovery
1998		Urugwiro Village meetings Start-up preparation of Vision 2020		
1998/99		National Dialogue (discussions on NURC, gacaca, decentralization/ democratization etc.)		
1998/2000		Gov't set out to develop an operational poverty reduction strategy in 1998 and subsequently embraced the PRSP process when BWIs introduced it in 1999		
Jun-98				Stockholm meeting for Multi-Lateral Debt Relief
Jun-98				Signature of ESAF
Aug-98	Start of war in DRC			
1999		Establishment of National Unity and Reconciliation Unity (NURC)		
1999				
Feb-99			Gov't organized conference: thematic & sectoral consultations (education; agriculture; private sector promotion)	
Mar-99		Start-up National Consultation (NURC)		Signature of WB Economic Recovery Credit
Mar-99	Local elections: cell and sector levels			
Jul-99	Signature of Lusaka Agreement on DRC war (but no action)			London meeting for Multi-Lateral Debt Relief
Nov-99		Creation of Poverty Observatoire (Presidential Decree)		
2000		National Consultation ct'd (NURC)		Start of UK and Sweden GBS programmes
Apr-00	Resignation of Pasteur Bizimungu (ex-President)			
May-00	Decentralization Policy	Creation of Ministerial Commission on Poverty (under PM); PRS Steering Committee (SG Minecofin, & incl. selected donor representatives); PRS Technical Group		

Date	Political governance processes	Poverty reduction policy development	Donor mobilization processes	Macro/PGBS
Jul-00		Vision 2020 (other documents mention 1998 as publication date)		
Oct-00	Law on Gacaca			
Oct-00	National Summit on Unity and Reconciliation, Kigali, October 18-20, 2000			
Nov-00		Finalisation of I-PRSP		
Dec-00				HIPC Decision Point
2001				
Jan-01	Start-up implementation Lusaka Agreement			
Mar-01	Local elections at district level			
Oct-01		Validation workshop zero draft PRSP		
Nov-01	National Strategy Framework Paper, on: Strengthening Good Governance for Poverty Reduction in Rwanda (Minaloc)		DPM: I-PRSP; aid coordination for PRSP implementation; good governance, stability and regional security	
Jun-02	Pasteur Bizimungu emprisonned	**PRSP completed** (BWI endorsement July 02)		
Jul-02				Signature of new PRGF (9 months of negotiation)
Nov-02			DPM: Review of economy and prospects; MTEF (03-05); PRSP implementation; NIS; review of aid coordination mechanism and agreement on clusters; demobilization and reintegration; sectoral strategies.	WB Institutional Reform Credit. EC preparation of first untargeted BS programme in support to PRSP (first disbursement scheduled for FY 2003).
Jun-03	Constitution adopted	PRSP Progress Report ready		PRGF off-track
Aug-03	Presidential election			
Sep-Oct 03	Legislative elections		Signing of PGBS Partnership Framework document	
Mar-04				
May-04		PRSP-PR1 and JSA endorsed by BWIs		
Jun-04	Pasteur Bizimungu found guilty			
Aug-04				PRGF on-track (completion of 2nd & 3rd Review)
Sep-04		PRSP-PR(2) draft ready, including joint donor comments incorporated		
Oct/Dec-04	Attacks by rebel groups (ex-genocide militia) from within DRC prompt reaction from Rwanda President, indicating that Rwanda might enter into DRC to tackle this vital security issue by itself. Reactions from international community, including PGBS donors in Rwanda withholding releases.		Intensive preparation for DPM meeting Dec 2004 through DPCG and new aid architecture. Background of political difficulties prompted by DRC-related crisis. Nevertheless DPM considered as a success.	WB PRSC-1 approved by Board. UK and Sweden decide to withhold PGBS disbursements owing to DRC-related political tension. WB disburses full PRSC-1 end 2004.
Jan-May 2005	Tensions appearing end 2004/early 2005, with renewed commitment from international community re: DRC/Rwanda issues.	Initial preparations for PRSP-2 formulation process: elaboration of PRSP-2 road map. APR2 endorsed by BWIs (May 2005).	High-level DPCG retreat following up on DPM and paving the way for PRSP-2 preparation. Formulation of new 'harmonized calendar'. Agreement on preparation of an Aid Policy Document by GOR.	Completion of PRGF 4th Review; HIPC Completion Point achieved. Resumption of PGBS disbursements. EC and DFID preparing for next 3 year programmes.

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