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Rwanda

Towards Peace, Growth and Poverty Reduction in Rwanda

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This country economic report on Rwanda is part of a series of annual studies, which are undertaken by the departments of economics of three Swedish universities in collaboration with the regional departments of Sida, under an agreement with the Division for Policy and Socio-Economic Analysis. The purpose of these studies is to improve Sida's economic analysis and knowledge of the programme countries for Swedish development cooperation in order to enhance the effectiveness of programme as well as project support.

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TABLE OF CONTENTS

ACRONYMS

AfDB African Development Bank
HIV/AIDS Acquired Immune-deficiency Syndrome
CEPEX Central Projects External Finance Bureau
CPI Consumer Price Index
DFID Department for International Development
DRC Democratic Republic of the Congo
ex-FAR Former members of the now defunct regular army
ALIR Army for the Liberation of Rwanda (a regrouping of ex-FAR)
FRw Rwandese francs
GDP Gross domestic product
HIPC Highly Indebted Poor Countries
IDA International Development Association
IFIs International Financial Institutions
IMF International Monetary Fund
MTEF Medium Term Expenditure Framework
NGOs Non-governmental organisations
NPV Net present value
PIP Public investment programme
PPA Participatory Poverty Assessment
PRSP Poverty Reduction Strategy Paper
RDRC Rwanda Demobilisation and Reintegration Commission
RPA Rwanda Patriotic Army
RPF Rwanda Patriotic Front
RRA Rwanda Revenue Authority
Sida Swedish International Development Co-operation Agency
UNDP United Nations Development Programme
VAT Value added tax

EXECUTIVE SUMMARY

This macroeconomic report, the second one commissioned by Sida on the Rwandan economy, reviews the major factors and challenges determining the country's recent performance. Macroeconomic stability and institutional reform have been key ingredients of economic policy. The Report thus begins with an overview of changes in macroeconomic aggregates, and also looks at changes in key institutions such as the Central Bank and the Rwanda Revenue Authority, and how their operations have been affected. The Report then analyses the country's strategies for poverty reduction, notably the process of drafting a Poverty Reduction Strategy Paper and the adoption of a Medium-term Expenditure Framework.

Rwanda has by now surpassed the humanitarian crisis and rehabilitation phase and policymakers are emphasising issues of a more fundamental nature, such as political reform, structural reforms, and decentralisation. An important issue has been the trial of cases related to the genocide. The traditional court system, called Gacaca, has been reinvigorated and expanded and it is hoped that the cases of the thousands of prisoners currently in jail will finally be brought to closure.

Related to the need to return the country to normalcy is the demobilisation programme. The government is intent on reducing the size of its military, but the funds to do so are scarce. The recent changes in the DRC, forcing ex-rebel groups to surrender to Rwanda government forces have, however, complicated the picture. Still, donors and the Rwanda Demobilisation and Rehabilitation Commission believe that the time for undertaking far-reaching demobilisation is now. It will help reduce pressure on the budget, while also enabling the rehabilitation of soldiers and their return to civilian life.

In terms of economic performance, growth in 2000 was lower than expected. This has been blamed on the negative impact of external shocks and some reduction in aid flows. It might well be that the economy is going through a cooling point, following close to five years of rapid growth from a low post-genocide base. Lower growth has also had a negative impact on government revenue. The Rwanda Revenue Authority has put in place a number of strategies meant to raise government revenue, including better pay for its employees and an education campaign targeting taxpayers. However, the simple tax regime currently employed might lead to collusion, between assessors and the taxed. Again on the subject of institutions, the Report argues that the Central Bank has improved its capacity for the management of monetary policy and the supervision of commercial banks. However, given that Rwanda has been receiving substantial amounts of aid, the question of the central bank printing money to finance the budget has not arisen. In this regard the "independence" of the central bank is yet to be put to the test.

With regard to changes in the broader macroeconomic aggregates, Rwanda has achieved a degree of macroeconomic stability. The country will benefit from the enhanced HIPC initiative, with the released funds ploughed into poverty reduction. However, given the productivity problems in the dominant agricultural sector and the continued lethargy of the manufacturing sector, it cannot be said with certainty that the good performance is beyond reversal.

A major theme of the government's economic policy has been poverty reduction. To do this in a situation of limited resources, the government has had to adopt a Medium-term Expenditure Framework (MTEF). In so doing, it has abandoned the old line-item budget framework and has introduced one where inputs are correlated with outputs. However, although the MTEF is supposed to increase the government's flexibility in allocating resources, the reverse could well be the case, at least in the short run. This is because the major non-discretionary expenditures such as the army, the prisons and the feeding of school children leave very little discretionary expenditure. This problem will not become easier when the government introduces MTEFs at the district levels.

To provide the country with a master plan for poverty reduction, a Poverty Reduction Strategy Paper has been drafted. It marks the culmination of a process of consultation with all segments of society, combined with extensive data collection. It is hoped that the PRSP process will also guide donors in making their aid decisions.

Rwanda's profile fits well with that defined in Sida's policy programme for supporting economic reforms. Rwanda is very poor, but its government has embarked on reforms, backed by donors to ensure sustained growth and poverty reduction.

1. Introduction

Following civil war and genocide in the early 1990s, Rwanda had by 2000 made a spectacular economic recovery. The "peace premium" not only led to the rebuilding of capacities in the public sector as well as industry, but also enabled the government to embark on far-reaching plans for economic decentralisation, devolution of power to the local levels, and poverty reduction. Policymakers believe that it is only by getting population groups to participate in the decisions that affect their social welfare that national reconciliation and the poverty reduction strategies now being drafted will begin to take effect.

However, the tasks confronting the government are many and it cannot be said with certainty that the economic and political gains made in the past six years are beyond reversal. First, the government continues to fear that the presence of exiled members of the defunct security organs of the past, many still under arms in neighbouring DRC, pose a serious threat to Rwanda's security. The need to counter this and related threats has forced the government to keep soldiers in the DRC and also to maintain a relatively high defence expenditure. The latter would not have been a big problem if the country had sufficient resources of its own. However, donors fear that military activities will siphon resources from other areas of the economy. The government has argued on its part that while doing all it can to keep military expenditure in check, it considers a high level of national security crucial to its economic and political reform efforts.

Security concerns aside, the government and donors realise that Rwanda is now well beyond the crisis phase and the type of assistance and donor interaction required have changed as well. Much initiative will be required on the part of the government, including greater transparency and better prioritisation (as in the adoption of the medium term expenditure framework, MTEF), while donors will need to be more flexible in their aid delivery, providing more information about their intentions but de-emphasising direct control. Ultimately, however, the government will only be able to reduce donor dependence by improving the taxable base at home. This will demand the implementation of macroeconomic policies that are conducive to growth and private sector expansion.

Apart from returning the country to more peaceful conditions, the success of the policies pursued by the government will be judged by the extent to which they generate growth and reduce poverty. Like a number of African countries, Rwanda is scheduled to benefit from the HIPC initiative and has, after broad consultation, prepared a Poverty Reduction Strategy Paper, which outlines the government's development objectives and priorities, especially in the fight against poverty.

The Report proceeds as follows: section 2 looks at recent political and macroeconomic changes, bringing the reader up to date with new developments in the country. Section 3 looks in depth at the macroeconomic performance, with emphasis on recent years. It analyses shifts in macroeconomic aggregates as well as sector outputs. The situation of external debt and the implications of the HIPC initiative are also looked at. Section 4 looks at the budgetary and institutional implications of the introduction of the medium-term expenditure framework (MTEF) for Rwanda. Section 5 focuses on Rwanda's poverty reduction efforts, including the poverty assessment process and the drafting of a poverty reduction strategy paper (PRSP). Section 6 looks at the aid policy implications of the issues highlighted in the Report, specifically how Rwanda fits into Sweden's aid programme. Section 7 concludes the Report.

2. Recent Political and Macroeconomic Developments

2.1. Political and Related Developments

In Rwanda, the year 2000 saw further movement towards more normal conditions, six years after the genocide. Domestically, policymakers were focusing on the longer-term issues of reforming the political and economic structures to bring about reconciliation, ensure sustainable peace and reduce poverty. Still, events in the Democratic Republic of the Congo (DRC) have continued to have important impacts on Rwanda, and other countries in the Great Lakes Region in 2000 and 2001. The change of leadership in Kinshasha in 2001 seemed to improve peace prospects, although the collapse of the close relationship between Rwanda and Uganda, culminating in armed clashes of their forces inside the DRC, did little to enhance their common cause in the Great Lakes Region. In 2000, Vice president Paul Kagame was elevated to the Rwandan Presidency, thus removing the earlier discrepancy between title and formal power. Also significant, the government has set up a civilian police force, another sign that the authorities are intent on returning the country to normalcy and on fighting the "culture of impunity" that pervades the post-genocide era. Significantly, the force is partly funded by contributions from the population towards national security.

Bringing Genocide Cases to Closure

As a result of the crimes related to the Rwandan genocide, in which close to 1 million lives were lost, the country's prisons are full of individuals awaiting trial. In fact officials confess that the share of the government budget going towards feeding prisoners that are suspected of genocide crimes far exceeds that towards assuaging (for instance via the Genocide Fund) the suffering of the victims, notably widows and orphans that survived the onslaught. In 2001, the government decided to roll out the full extent of Rwanda's traditional justice system (Gacaca) in a bid to bring the genocide cases to closure.[1]

[1] It has been noted that if all genocide cases were tried under the same conditions as the International Tribunal for Rwanda in Arusha, the process would take decades. However, in spite of the large number of judges under the Gacaca system, the process will still take more than 5 years before completion.

It is estimated that Rwanda's over 10,000 cells (that is the lowest level of local administration) will altogether chose close to 300,000 judges to adjudicate the cases. The position of judge will not be contested for, however, rather citizens in each cell will be asked to recommend suitable candidates, who had not taken part in the genocide, to represent them on the cell court. Potential judges must be people of high integrity, honesty and good conduct, and never sentenced to more than 6 months imprisonment. The election of Gacaca judges will be done at the beginning of October 2001.

After the Gacaca courts have been established, the government hopes to embark on a broad training programme to ensure that the process is as smooth as possible and that the judges are fully aware of the important role they will be playing in bringing to closure an extremely difficult period in Rwanda's history. Moreover, the courts will not be able to judge all offenders. For example "category one offenders" i.e. the planners of the genocide, will not be tried by Gacaca since their crimes could entail capital punishment. These groups will be tried through the official judicial process. To lessen the burden on the jail system, it is planned that lesser offenders could be subjected to communal service.

Elections, New Constitution and Decentralisation

Recent years have seen political developments in Rwanda that touch on three interrelated areas. As part of its effort to return the country to normalcy, the government has held a number of elections. First were the local elections of 1999, with local representatives chosen in turn from the cell level upwards. Parliamentary elections are expected in 2003, after the new constitution has been promulgated. Currently, the composition of Parliament follows the format laid down by the Arusha Agreement, reached between the Rwanda Patriotic Front (RPF) and the government in 1993. Among other issues, the Agreement sought to have a broad representation in Parliament. Second, the country is currently debating aspects of the forthcoming constitution, with opinions sought from the various interest groups and stakeholders, including at the local level. The consultation work is being done by the Judiciary and Constitutional Commission. The Commission's goal is to draft a constitution that has the support of a broad majority. The government hopes that the elections as well as the new constitution will not only empower the population in matters of policymaking, but will also ensure that the public sector is more accountable. The third item, decentralisation, has similar goals. The government believes strongly that it is only when local people can influence policies that service delivery in their communities can improve and development there can begin to take root. However, as the experience of neighbouring countries attests, decentralisation has a high call on human resources. While Rwanda has embarked on various programmes to enhance its manpower in the public sector, the shortage of trained people remains a serious impediment to the realisation of government programmes.

Demobilisation

With the end of the civil war in Rwanda, and with the new government feeling more secure in Kigali, military demobilisation became inevitable. First, forces under arms on the opposing sides of the civil war had expanded beyond the capacity at which they would be properly maintained.[2] Second, the new leaders in Kigali were in great need of financial resources in order to embark on economic rehabilitation and expand social services without which the process of reconciliation would be difficult. Demobilisation was also expedient from the point of view of donors. It releases resources for basic services, such as health and education, which are the focus of donor programmes.

The Rwanda Demobilisation and Reintegration Commission (RDRC) was established in 1996 and became operational in 1997, but funding was not ready until 1998.[3] The goal of the commission was to raise skills among demobilised soldiers, undertake medical rehabilitation of sick and wounded soldiers (including their families) and introduce small-scale projects for generating income. Older soldiers would also qualify for veteran vocational training.

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[2] For obvious reasons the armed groups opposing government cannot undertake formal demobilisation, but lack of funds implies a rapid decline in supplies and morale.

[3] The commission has 5 commissioners and currently 14 employees. Note that there is a separate Reconciliation Commission.

Funding for the Demobilisation Commission was from a Trust Fund managed by the UNDP, to which various donors contributed. The programme document for the programme was only finalised in 1998, with costs set at 39 million dollars. However, only $7.8 million was actually raised with Sweden, Britain, The Netherlands, Switzerland, Austria and Norway being the principal contributors. A major reason for the low level of funds was the second round of fighting in the Congo, which led to much disruption in the whole of the Great Lakes Region. Ultimately, the resources of the Trust Fund were inadequate and the government recently approached the World Bank for an IDA credit to enable for a broader and faster demobilisation effort.[4]

How did the volume of soldiers to be demobilised come about? Before the outbreak of the civil war in Rwanda in 1990, the government forces, Rwanda Armed Forces (FAR) consisted of about 6,000 soldiers. During the four-year civil war, the army, including paramilitary forces, increased to 50,000 men. Most of those fled the country when the Rwanda Patriotic Front (RPF) took power in July 1994. The ex-FAR mixed freely with refugees in camps across the border in Zaire (today the Democratic Republic of the Congo) and posed a serious security threat to the new government in Kigali. In 1996, after the new government sought to "neutralise" the forces in the refugee camps, there was a mass return of refugees back home.

The Rwanda Patriotic Army (RPA) has itself grown considerably since its inception in 1990. In particular, it grew fast in 1994 as it marched southwards towards Kigali, with the twin goal of stopping the genocide and providing protection to those who had escaped death. By 1995 the RPA, which then was the regular army of the country, numbered about 40,000. The government was subsequently able to demobilise about 16,000 troops. However, this was then neutralised by the absorption of about 15,000 ex-FAR in the spirit

[4] By own admission, the UNDP programme was poorly run and the Trust Fund was mainly used as a conduit for funding the demobilisation but with little policy content or strategy. The credit components for funding the activities of the ex-soldiers were poorly developed. Still, it is doubtful whether the World Bank can claim a comparative advantage in undertaking demobilisation projects. Also it is doubtful whether demobilisation should be done on the basis of loans, however soft, instead of a grant as in the case of the UNDP Trust Fund.

of reconciliation and as an attempt to create a national army with soldiers from both ethnic groups.

More recently, the government had hoped to demobilise another 5,000 soldiers but funds were not available. On demobilisation, each soldier receives 300,000 francs (called a safety net allowance). A total of 1.5 billion francs was thus required. The Chairman of the Demobilisation Commission also expressed concern over the lack of a component for soldiers' families as originally intended. Old and married soldiers are currently expected get the same support package as young and unmarried ones. There is also no specific programme for the disabled. An earlier attempt to resettle them in one village proved impractical as it led to isolation from the rest of the population.

The demobilisation programme was thrown into confusion not only by the general lack of funds, but also by the unexpected return of large number of ex-rebels to Rwanda. While the Demobilisation Commission believes that these returning soldiers should be incorporated in the programmes, it is very difficult to estimate how many more x-FAR and other rebels are expected to surrender in the near future, and therefore what type of budget targets the Commission has in mind. Generally, the Demobilisation Commission as well as the UNDP and the donor community at large believe that the moment for broad demobilisation is at hand. However, this demands a huge amount of resources. To come on board with sufficient funds, the donor community wants answers to a whole array of questions, many of which the government has no ready answers to.[5]

[5] The government has a contingent in the DRC to "keep an eye" on the disparate armed groups that are bent on fighting their way back to power in Kigali. To remove the negative stamp associated to ex-FAR, some rebel troops in the DRC have reconstituted themselves into a new army called ALIR. Such opposition has forced the government to rethink demobilisation, as originally planned. A substantial net reduction in the number of government troops must be difficult to achieve in the short-run.

2.2. Recent Macroeconomic Developments

Macroeconomic Update

In a number of respects, the Budget Speech for 2001, delivered in December 2000, marked the formal change in emphasis at the Ministry of Finance and Economic Planning, although the ideas have been broadly discussed in the recent past. The major change is the shift from line-item budgeting to programme budgeting, based on an outcomes-oriented process. This is enshrined in a medium expenditure framework (MTEF), which links inputs to outputs. However, as the Finance Minister notes in his budget speech (Ministry of Finance and Economic Planning, 2000), human resource constraints make it difficult to achieve rapid results, notably the anticipated level of budget decentralisation demands that bureaucrats at the local level are efficient. This is yet to be achieved.

Following the economic boom related to the return of peace and high aid inflows in the late 1990s, the growth of the Rwandan economy in 2000 was disappointing. Although the slowdown is related to external factors, including low world prices for traditional exports, coffee and tea, and increases of fuel prices, the outcome could well be a natural cooling off period following a period of intense economic activity, fuelled by aid inflows and high military expenditure.[6] It is well worth asking, however, whether the country is now doomed to slow growth. It is quite likely that the aid inflows encouraged a pattern of growth, which was biased against agricultural exports, especially since it had led to the appreciation of the franc (or reduced its depreciation in the face of external shocks). For example, did real wages increases in the service sector hurt growth in agriculture and manufacturing? Was there a Dutch disease effect at work here as a result of aid inflows?

In the recent past, Rwanda has also experienced developments in the financial sector that are similar to those in neighbouring countries. During the initial phases of post-war

[6] The Minister of Finance blames the poor performance on higher transport costs, increase in petroleum prices and decline in commodity prices. However, there has also been a regional effect arising from the

reconstruction, the government expected commercial banks to be lenient in their lending (without of course asking them to abandon financial probity). A general increase in liquidity was considered important for the rehabilitation effort. The banks themselves, a number of them new establishments, tended to have relatively loose venting procedures for projects. In the event, the political elite tended to have easier access to credit than average, even though this could not be justified on the basis of their creditworthiness. The politicians' main asset is their political tenure. However, this tends to be shorter than the repayment period for the loans that they accumulate on their ascendancy to power. These extenuating factors tend to raise the ratio of non-performing assets in the banks' portfolio. During the inevitable restructuring that follows, banks are loath to lend money to projects other than a small number of lucrative ones in trade and services. They also prefer to lend short term, which helps them lower their risk exposure. This results in lower investment and increased pressure on firms, as working capital becomes scarce.

What has been the budget response? The year 2000 witnessed a general reduction in external budget support for Rwanda. The DRC problem has been a major contributor to this, as some donors are less willing to support Rwanda, while it continued to have troops in the DRC. However, although a number of countries appreciate Rwanda's unique security concerns, it nevertheless gave many bilateral donors a good excuse to adopt a wait and see attitude.

The government's budget continues to be heavily reliant on donor support, nevertheless. Donors fund up to 30 per cent of the recurrent budget, with British DFID, for example, paying a portion of teachers' salaries. Although the development budget is fairly small, it is funded up to over 90 per cent by donors. The heavy reliance on donor support has limited government's discretion to a large extent.

In a post-conflict economy, there is an inevitable tension between the need to focus on social service expansion and rehabilitation and that of maintaining national security. In

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DRC problem, which disrupted trade routes and raised the risk of doing business in Rwanda and indeed the

Rwanda this tension has been marked. Donors and multilateral agencies have prodded the government into reducing military expenditure. For many reasons, this has not been an option that the government has been able to commit to unreservedly. The government argues that as long as external security threats persist, especially from the DRC then military expenditure will not be allowed to fall.

With regard to "ownership" of reforms, many donors see the Government of Rwanda as exemplary in this regard. Although the country is in great need of resources, government ministers, notably that of Finance and Economic Planning, have sometimes been able to present a different view from that of donors, with the latter acquiescing. Still, when donor money is crucial for so much of what you can do in terms of expenditure and policy strategy, the meaning of ownership is severely distorted.

Taxation is a case in point. The Minister of Finance and Economic Planning has argued that taxation policy should be a long-term concern and should not be the subject of quick fixes. In post-conflict economies, there is need to bring business people back to the fold and to re-establish the credibility of the government since their collaboration is crucial for success. Thus what is needed is a simple, predictable tax system, with a low rate of taxation. While, this might be deficient in terms of coverage, it is bound to create the confidence needed within the business community to raise tax compliance. However, lower tax rates might imply higher donor support to cover the budgetary shortfall, explaining why donor enthusiasm for a low tax strategy is muted.

Important have also been the government's recent attempts to get the donor community to listen to the arguments of domestic interest groups regarding economic policy. In August 2001, the Ministry of Finance and Economic Plan arranged a meeting in a Kigali hotel, which brought together many private sector people and gave the IMF the opportunity to listen to arguments from the private sector, on key issues of economic policy, not least taxation.

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rest of the region.

Privatisation and Institutional Development

In the last few years, privatisation of state properties has gathered momentum. The government hopes that the process will be complete in a few years time. Most recently, the government has embarked on the process of privatising the management of Electrogaz, the electricity and water parastatal, with six foreign firms pre-qualified for the management concession. The successful bidder is expected to undertake the maintenance and modernisation of the structures. Currently, the management of Electrogaz is only able to collect about 40 per cent of the total billing, a considerable portion being owed by the public sector. The unpaid bills owed to the company total $40 million.

The government's privatisation agency is also in the process of privatising 9 tea factories, along with the attached tea estates. All were formerly held by the government's Office for Industrial Cultivation set up in 1964. The government hopes to retain a very small share in the tea industry, but hopes to encourage co-operative unions to purchase substantial stakes in the tea factories as a means of protecting the interests of workers and out growers. The rehabilitation of the tea sector is funded by the European Union and the World Bank.

In the area of institutional building, the establishment of the Rwanda Revenue Authority (RRA) in 1998 was a major achievement in the government's attempts at rejuvenating the civil service. In earlier years, tax collection was part of the civil service and corruption there was rampant. Officers at the RRA receive wages that are much higher than in the civil service and their performance is closely scrutinised. Still, in spite of rapid improvement in tax collection, Rwanda's taxable base remains very low. Although further improvements in revenue collection could raise receipts, meaningful increases will only be possible with the expansion f the economy.

Owing to still serious human resource constraints, RRA has emphasised the need for a relatively simple tax regime. There are three categories of taxes for the business sector: For businesses with a turnover of less than 15 million francs per year, the RRA imposes a presumptive tax (4 per cent of turnover). For businesses with a turnover of between 15-60 million francs, the RRA uses the income statement or balance sheets to determine taxes. For those with a turnover of over 60 million francs, books of accounts must be kept. For the latter, the corporate tax rate is 40 per cent. However, firms with a turnover of 180,000 francs or less are exempted from taxation. However, while the tax structure is thus simple, it leaves a consideration deal to the discretion of the assessors and the businesses paying the taxes. Collusion is thus bound be a problem until a more uniform structure is put in place.

Internally, the RRA has adopted a corporate code of conduct, and introduced disciplinary committees. To raise compliance and the sense of partnership, between it and the public, the RRA has introduced a tax payer education department. Generally, the rate of compliance is high, with 90 per cent of the big firms paying tax on time, although only 50 per cent of the smaller ones do so. There is also a Tax Advisory Council, which advises all interested parties on aspects of taxation. A future challenge relates to the implication of decentralisation on the tax collection effort. RRA has received technical assistance from donors, notably from DFID, which has paid for some of the salaries of the expatriate staff.

In terms of raising the efficiency of government expenditure an effective tendering process is crucial. To this end, the government, with support from the World Bank, has sought to revamp the Central Tender Board. The latter has adopted an operations model borrowed from the World Bank, with further inputs from models used in tendering and procurement of other multilateral agencies. The Central Tender Board now has a committee for the evaluation of tenders (a venting committee which essentially ensures that the bids meet the criteria). The tenders that successfully go through this stage are submitted to a Board of eight people, with the Managing Director of the Central Tender Board as its secretary. However, before a tender is given, consultations are undertaken with the Ministry of Finance and Economic Planning to ensure that finances are available to cover the cost of the goods and services tendered.

To improve procurement practices overall and to reduce the weight of bureaucracy, especially when the amounts tendered are small, tender councils have been set up in ministries. These cater for relatively small purchases (not exceeding 3 million francs in value). With the ongoing decentralisation, tender commissions are also planned at the district level. However, as with other aspects of decentralisation, for district tender boards to be successful will demand intensive training.

Central Bank's Independence Not Tested

In the aftermath of the genocide, the Rwanda Central Bank was left with a fairly limited capacity for management of the institution itself and the supervision of the commercial banks and monetary policy more generally. Following the repatriation of currencies by groups fleeing into exile, the Central Bank's official reserves were negative. There was also serious disruption in the financial sector. Among commercial banks, up to 80 per cent of the portfolio was non-performing. There had been serious disruption in bank management as well as with respect to the structure of the loan portfolios. A substantial number of creditors had fled the country, others had died during the genocide, while those who remained were not in a position to service their loans owing to the serious disruptions in economic activity.

However, as reported in the last Report (Kayizzi-Mugerwa 2000), the Central Bank together with the Ministry of Finance and Economic Planning were able to contain inflation by pursuing prudent policies. The Central Bank has kept a keen eye on base money (and thus on the performance and activities of the commercial banks).[7] Since 1997, inflation has, on average, been around 4 per cent. Although this exceeds the inflation target of 3 per cent, it compares favourably in regional terms.

[7] There are a total of six commercial banks, two new ones and four old ones. However, the Popular Bank, which had the best outreach among poorer groups before the genocide, was badly disrupted and it is proving difficult to turn it around. The government retains shares in the older commercial banks.

However, officials concede that the data used to calculate inflation are far from good. The consumption basket used to calculate the CPI is outdated. The basket currently used does not include rent, which has become a key expenditure item in the past couple of years. The basket is also dominated by local food, while imported food is ignored. Given the vast structural changes in production and consumption in the past decade, the index is thus unreliable. Similarly, measurement of the gross domestic productive (GDP) has been problematic, especially since much of the latter is composed of subsistence production. In recent years, the government has put considerable effort in the improvement of national accounts data as well as statistics in general. In 2002 a national census will be undertaken, and it is hoped that it will provide the basis for planning in a number of areas.

Apart from donor support to the budget, another factor that has put a limit on domestic monetary creation has been the statutory limit on the amount that the Government of Rwanda can borrow from its Central Bank. A daily statement of the government's standing with respect to this limit is undertaken everyday. The Ministry of Finance is warned whenever the risk of exceeding this limit is imminent.[8]

With regard to financial sector stability, the Central Bank has received support from the IMF and the World Bank to strengthen capacities. The Central Bank has in the past year been able to undertake an evaluation of each of the older commercial banks and to suggest restructuring plans. Minimum capital requirements have been raised and a new Bank Law was introduced in 1999.

However, although the Central Bank has a strong voice in the making of economic policy and considers itself "independent", it cannot be said that it has been brought under serious political pressure to print money in the recent past. This is because donors have been willing to provide funds to the government. The Central Bank's problem, ironically, has been how to manage these aid inflows in order not to expose the domestic currency to unnecessary appreciation. More often than not, aid funds are disbursed erratically, with

[8] Also by law, no government agency can spend money that is not approved by Parliament.

flows tending to bunch up at the beginning and end of the financial year. The Central Bank is thus forced to sterilise the inflows. With limited market instruments, this is often quite difficult to do properly.

3. Macroeconomic Performance at the Turn of the Millennium

In Rwanda, as indeed in the rest of Sub-Saharan Africa, the turn of the millennium was, in terms of changed perspective and policy focus, not the cataclysmic event that it was said to be. In political and economic terms, the country was still engrossed in the aftermath of the civil war and genocide of the early 1990s. Much rehabilitation work still had to be undertaken, the victims of the genocide had to be sheltered and those accused of genocide crimes, many of them in prison, had to be brought to justice. Simultaneously, the country sought to implement structural adjustment policies as well as put in place a poverty reduction programme, which would in turn help it qualify for debt reduction under the HIPC initiative. The continued instability in the region dictated that high military expenditures would persist and that the success of attempts at increasing social welfare-related expenditure substantially would be intermittent at best.

Changes in Macroeconomic Aggregates

Table 1 presents a number of macroeconomic indicators for Rwanda, covering the period 1995-2000. Starting from a very low base after the genocide of 1994, growth rebounded strongly as peasants returned to their farms and factories came back into production in urban centres. However, with investment ratios (investment/GDP) at about 10 per cent for much of the second half of the 1990s, the growth observed was hardly the result of high investment but more to do with "a peace premium". Towards the end of the 1990s, there was a discernible increase in total investment, up to 16 per cent of GDP. It is notable that more than half of this investment was from private sources, partly from the Rwandese diaspora and partly as a result of the privatisation programme, which expanded greatly towards the end of the 1990s. However, in 2000 the growth rate of the economy was about 5 per cent, that is less than 2 per cent per capita. Though adverse terms of trade are partly to blame for the decline in growth, there are still a number of impediments to growth in Rwanda, not least the high-risk environment under which business operates. To tackle poverty, a much higher rate of growth is desirable.

During the 1990s, Rwanda pursued a non-expansive monetary policy. This helped to stabilise the franc and to keep inflation relatively low. As noted above, sufficient aid inflows made it unnecessary for the government to finance its activities by printing money.

Table 1: Rwanda Macroeconomic Indicators, 1995-2000 (%, GDP ratios)

	1995	1996	1997	1998	1999	2000
GDP, growth (%)	36.8	15.8	12.8	9	5.9	5.2
Investment (% GDP)	8.6	10.3	10	9.9	16	15.7
Private investment (% GDP)	0.7	1.1	1.8	3.4	6.5	9.0
Current revenue (% GDP)	9.5	10.0	9.6	10.6	10.9	9.5
Current expenditure (% GDP)	12.1	12.6	11.0	13.4	13.3	13.2
Current fiscal deficit (% GDP)	2.6	2.6	1.4	2.8	2.4	3.6
Money/GDP (%)	18	16	15.5	15.2	15	16
Money (M2) growth (%)	68.5	8.3	12.6	13.6	12.7	13.3
Exchange rate ($/Frw)	262	306	304	316	340	430
Terms of trade change (%)	37.3	-15.9	45	-16	-15	-5.7
Inflation (%)	22	8.9	12	6.8	-2.4	3.9

Source: Banque Nationale du Rwanda (2000, 2001), Republic of Rwanda (2001e, 2000a,d)

Revenue and Expenditure

With respect to government revenue and expenditure (Table 2&3), the gap between the two has been kept in check by substantial donor support. However, as a share of total revenue, donor grants have fallen from over 60 per cent in 1995, the year preceding the genocide, to 25 per cent in 1999, a year when donors withheld support in protest at Rwanda's military engagement in the DRC. The structure of government expenditure has changed relatively little in recent years. The military has continued to claim the largest share of resources, at over 25 per cent of recurrent expenditure. The government has been reluctant to subject itself to spending limits on defence, however. It argues credibly that without defence much of what it is trying to do in the areas of economic reform and national reconciliation will not be possible. The difficult security situation in the DRC and the Great Lakes region as a whole makes it difficult to envisage a real reduction in military expenditure in Rwanda in the short to medium run.

Education expenditure accounted for 23 per cent of recurrent expenditure in 2000. However, within the education sector, serious imbalances in expenditure have persisted.

For much of the past three decades, the amounts spent on primary education were only a fraction of that spent on colleges and other public institutions of higher learning. This inequality of education expenditure is inconsistent with the thrust of the 2020 Vision, where it is postulated that in the next twenty years the population engaged in agriculture in Rwanda would have declined to 50 per cent of the total. It is doubtful, whether the latter structural transformation can be put to good use without educating the masses and giving them useful skills for non-agricultural employment.

Table 2: Government Revenue by Source, 1995-2000 (% of total revenue, sub-items in brackets)

	1995	1996	1997	1998	1999	2000
Tax Revenue	35.3	51.1	57.3	63.2	72	50
Direct taxes	(4.7)	(14.5)	(15.2)	(18.5)	(19)	(17)
Indirect taxes	(30.6)	(36.6)	(42.1)	(44.7)	(53)	(33)
Non-tax Revenue	2.2	4.5	3.2	3.2	4.5	2
Grants	62.4	44.4	39.5	33	23.5	48
Budget support	(19.5)	(1.5)	(2.9)	(3.5)	-	-
Capital grants	(42.9)	(42.9)	(36.5)	(29.8)	-	-
Memorandum item: Total Revenue (FRw billion)	61.5	70.8	95.8	99	102.6	132.4

Source: Banque Nationale du Rwanda (2000, 2001), Republic of Rwanda (2001e, 2000a,d)

Table 3: Government expenditures by item, 1995-2000 (FRw billion, % of total revenue)

	1995	1996	1997	1998	1999	2000
Military (%)	35	43.1	38.0	36	30.9	29.9
Administrative services (%)	17.1	16.1	16.6	14.6		
Economic services (%)	9.2	9.1	9.2	11.5		
Education (%)	16.3	16.3	20.5	18.6		23
Health (%)	3.0	2.1	2.5	3.0		4
Other Services (%)	3.4	1.1	2.4	8.7		
Debt Services (%)	15.6	12.2	10.8	8.2		
Capital Expenditure (FRw billions)	27.3	39.5	46.2	42.2	40.8	43.4
Foreign financed (%)	(100)	(99.6)	(99.8)	(94.1)	(87)	(96.6)
Memorandum item: Total Expenditure (FRw billion)	69.4	95.4	110.2	117.2	127.4	133.54

Source: Banque Nationale du Rwanda (2000, 2001), Republic of Rwanda (2001e, 2000a,d)

Balance of Payments

With respect to balance of payments, Rwanda's export trade remains small. Traditional crops (coffee and tea) comprise up to 80 per cent of exports. Manufactures have not been able to make a break through in the export market. However, thanks to aid inflows and other unrequited transfers, the country has been able to maintain imports at over 3 times export income. The question is to what extent this is sustainable?

Recent strategies to boost exports have included privatisation of tea estates, to make them more efficient, and the planting of new coffee trees, since the current stock is aged, with low productivity. There has also been a sharp increase in mineral exports and some revival of tourism.

Table 4: Balance of Payments and Foreign Debt, 1995-2000

	1995	1996	1997	1998	1999	2000
International reserves (months of imports)	5	5	5.4	6.2	6	-
Exports (US$ mn) f.o.b	50.4	62	93	62.4	61.2	68.4
Of which:						
- coffee and tea (%)	82	85	66	80	78	68
Imports (US$ mn) f.o.b	194	213	277	261	224.4	245.9
Of which: (%)						
- capital imports	25.8	25.3	22.4	23.3	29	-
- intermediate imports	20.7	25.7	25.5	26	26.8	-
- food	28	23.7	19	19	15.5	-
Current account bal. (% GDP)						
- without official transfers	-20.5	-19.1	-17.3	-16.8	-15.3	-16.8
- with official transfers	4.5	-0.3	-3.2	-5.0	-7.2	-
Foreign Financing/GDP (%)	11.4	10.0	13.5	16.5	10.9	13.9
Foreign Debt (US$ mn)	1064	1110	1176	1239	1159.3	-
Debt stock/GDP (%)	88.6	79.6	62.7	59.3	62.2	-
Debt service after debt relief (% exports)	54.4	44.4	24.8	26.1	34.3	7.7

Source: Banque Nationale du Rwanda (2000, 2001), Republic of Rwanda (2001e, 2000a,d)

Changes in Sector Output

In terms of output, the Rwandese economy in 2000 could be said to have returned to where it was in 1990, that is a decade earlier. In terms of gross output, the impact of the civil war and genocide thus amounted to a decade of lost growth. However, all sectors have not recovered equally well. Table 5 shows that agriculture, construction and services had returned to the levels of output of 1990 that is before the break out of the civil war. The expansion was most marked in construction. This is most probably because of aid-related rehabilitation of structures, new dwellings built by returnees for own use or for renting, as well as the government's own construction activities. It is notable that manufactures are still below the output level of 1990. Compared to other sectors, the rehabilitation of manufacturing companies, via privatisation for example, has been extremely slow. It is also probable that manufacturing activities are more constrained by the still poor infrastructure and utilities than other sectors.

Table 5: Rwanda: Changes in Gross Domestic Product by Sector, 1995-2000 (1990=100), %

	1995	1996	1997	1998	1999	2000	% of GDP 1990	% of GDP 1995	% of GDP 2000
Agriculture	63	76	79	88	95	103	44	43.8	45
Manufactures	56	66	78	83	82	81	12.3	10.8	9.6
Construction	46	62.5	80	93	103.8	115	7.5	5.4	8.4
Services	74	77	92	99	105	109	34	40.4	36
Total GDP	63	73.5	83	91	97	103	100	100	100
Total GDP in 1995 mn. Frw	335,783	388,452	440,199	483,059	512,453	544,730	--	--	--

Source: Banque Nationale du Rwanda (2000, 2001), Republic of Rwanda (2001e, 2000a,d)

Changes in Agriculture

Agriculture is the key sector in Rwanda, being virtually the only source of livelihood in the countryside. However, it has been beset by a host of problems – ranging from low productivity due to land degradation, poor development of real producer prices, and lack of enhanced inputs and markets (see Table 6&7). But the perhaps most disruptive impact in recent years has been the displacement and loss of assets (cattle, for example) caused by the genocide. It has been very difficult to rebuild stocks to earlier levels and in many areas in the countryside "corporate memory" with respect to farming practices has been lost. This might explain to some extent why many peasants have chosen to migrate to urban areas, in search of an alternative livelihood.

Other serious disruptions relate to access to land. During previous crises in Rwanda, households fled from their land and other property into exile. With the return of "old case" refugees in the mid-1990s, i.e. those that had lived abroad since the late 1950s and early 1960s, it was feared that they would claim their old properties back thus opening up old wounds and weakening the tender social fabric even further. According to the Arusha Agreement, which is still seen as the basis for governance in Kigali, "old case" refugees cannot claim the lands they owned when they fled 40 years ago. Still, the government has embarked on the formulation of a land Law, which will streamline land policy and enable the undertaking of a resettlement programme. To enhance labour mobility, the restrictions on labour movements that the government had imposed during the height of the insurgency were removed. This has enabled labour deficit areas better access to migrant labour.

Table 6: Rwanda: Agricultural Productivity by Crop Category, tonnes per hectare, 1990-2000

	1990	1997	1998	1999	2000
Cereals	1.02	1.14	1.02	0.83	0.85
Pulses	0.7	0.54	0.61	0.58	0.62
Roots and Tubers	3.6	3.9	4.0	3.8	6.8
Bananas	6.9	7.1	6.5	7.1	6.1
Average, tonnes/hectare	3.4	3.46	3.5	3.6	3.8

Source: Republic of Rwanda (2001e, 2000a,d).

Table 7: Rwanda: Evolution of Real Producer prices for Selected Crops 1992-1999 (1992=100)

	1992	1993	1994	1995	1996	1997	1998	1999
Cereals	100	105.5	89	89	67.6	69	59	48
Pulses	100	97	109.7	95	78	108	48.7	41
Roots and Tubers	100	129	189	74	65	113	47	38
Bananas	100	124	128	101	91	150	57	68
Memo. Item: Coffee	100	94	94	139	130	124	88	81

Source: Republic of Rwanda (2001e, 2000a,d).

However, due to land pressure, few farmers can undertake specialised farming. The government has thus encouraged the reinvigoration of farming co-operatives, which it is hoped will enable peasants to pool land resources. In light of the limited land, however, the government has also emphasised high value crops, among them pyrethrum, flowers and fruits. All have a ready export market, although profit margins remain thin owing to high transport costs and the still limited inter-continental flights to the country. To help boost agriculture at the local level, the government intends to devolve the activities of the Ministry of Agriculture to the districts and leave only the planning and policy components at the centre.

There is also need for the development of small-scale industries to provide for non-agricultural income in the countryside. This income source is not subject to similar swings as agriculture and could thus help limit the risk exposure of the farmers and thus allow them to undertake agricultural innovations. Such a development would be consistent with Vision 2020 of the government, which envisages a marked decline of the population directly engaged in agriculture in 20 years time.

External Debt Situation

Up to mid-2001 Rwanda has received debt relief, which in nominal term is worth US$810 million or US$452 million in net present value (NPV) (van Trotsenberg, Gaeta, Gilpin, 2001). Of this amount US$397 million will result from debt relief from multilateral institutions, mainly the World Bank, but with substantial amounts from the African Development Bank (AfDB). The savings on debt service from this relief on due basis (that is relative to what has been contracted) corresponds to 1.9 per cent of GDP. However, relative to what Rwanda actually paid in 1998-1999, it only amounts to 0.3 per cent.[9] The average debt service, after the enhanced HIPC, will be 7.7 per cent of exports or 0.6 per cent of GDP or 5.6 per cent of Government revenue.

Table 8: Debt Service Profile 1998-2005 (millions of US$)

	1998	1999	2000	2001	2002	2003	2004	2005
Debt service paid	10	8	6	-	-	-	-	-
Debt service due after HIPC	-	-	-	2	1	1	1	1
Debt service/ exports (%)	-	24	24	10	6	6	4	3
Debt service/ government revenue (%)	-	44	41	17	10	10	6	6

Source: van Trostenberg, Gaeta, Gilpin, 2001, Table 4a.

The main aim of HIPC is to shift poor indebted countries towards a sustainable debt level. Levels aimed at are a net present value debt stock to exports ratio not exceeding 150 per cent, while the debt service itself should not exceed 15-20 per cent of exports. According

[9] This discrepancy has led to the argument that poor countries gained more from defaulting on debt payments than from HIPC. Still, if the countries are to eventually return to normal commercial markets to service their loan requirements, they need to be seen to be meeting their dues in the normal way.

to the estimates in the Table above, Rwanda would have reached a sustainable debt level by 2001.

But even more important than the debt reduction will be the success with which the government converts these extra financial resources into poverty reduction. This issue is looked at in the next two sections.

4. Budgeting for Poverty Reduction

In 2000, Rwanda introduced the Medium-Term Expenditure Framework (MTEF), a three-year process meant to strengthen budgetary procedures within the government. The 2001 budget, which was presented in December 2000, was the first in the country to use the MTEF methodology in its presentation. So far a lot of the work has been devoted to training and institutionalising the process. This has been somewhat problematic because of the very high rate of turnover within the Ministry of Finance and Economic Planning.[10]

The MTEF is "a process that ensures that scarce available resources are allocated to predetermined government priorities that will result in the achievement of national as well as sectoral objectives. It demands the balancing of available resources against costed policies and priorities. It is iterative, involving both top-down and bottom-up participatory approaches." Thus the purpose of the MTEF is resource forecasting, follow-up (monitoring and evaluation) and proper budget preparation.

Steps in the MTEF Process

The first step in the MTEF process is to use macroeconomic forecasting to estimate the size of the resource envelope. The goal is to provide sustainable forecasts for a three-year period.

The second step is the budgeting process itself. The idea here is that budgets should reflect government objectives and priorities. Thus budgetary items have been reclassified in order to match activities against well-defined objectives. In the process one checks whether the sectoral and ministerial objectives are in line with government policies, strategies and objectives. If not, ministry programmes are restructured in line with the overall objectives of their activities, after which ministries proceed to cost their programmes at the level of outputs and activities. To ensure that both local and external

[10] Economists within the Finance Ministry earn some 30,000-35,000 francs (less than $100), while for example the Rwanda Revenue Authority is paying 200,000 francs. This means that the best personnel opt

resources are utilised for the realisation of national objectives the use of own and donor funds has to be co-ordinated within the budget system. The process should also ensure that there is integration of the recurrent and development budgets.

At the final stage of the process, outcomes are monitored and evaluated against the targets set out in the budget. Results are reported back and become an input in the next phase.

To sum up, the MTEF is based on four principles: 1) Transparency: The budget classification links objectives with outputs and costs and the process and accountability are clearly defined. 2) Comprehensiveness: it integrates all expenditures (current and investment), including those funded by local and foreign sources. 3) Co-ordination: The system ensures that there is no duplication and the links are well established. 4) Predictability: The system provides a medium term vision with medium term resource and expenditure planning.

Implementing the MTEF Methodology in Rwanda

The introduction of the MTEF methodology is thus the start of forward budgeting in Rwanda. However, to get good estimates of resource availability one needs estimates of domestic revenue plus inflows of donor money. Both these processes are problematic at present and the strengthening of this part of the process has not been given priority. The reluctance of donors to commit long term to Rwanda (because of the situation in the Congo, for example) means that these inflows are very poorly predicted.

In the course of the budgeting process, the Ministry of Finance and Economic Planning consults with the other ministries regarding their medium-term priorities and constraints and then distributes a preliminary Budget Call Circular, using draft ceilings based on the estimated macroeconomic constraints. The Ministry is then ready to prepare a Budget Framework Paper, which is discussed with other ministries as well as the donor community. The resulting documents, with amendments, are then submitted to the

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out to such institutions or the private sector, or in some cases are enticed to come back through some form

Cabinet for approval. After this the Ministry produces a revised Budget Call Circular with Draft expenditure ceilings for all the ministries. The ministries then submit their draft MTEFs, which are compiled into a budget proposal to be approved by the Cabinet before submission for debate and approval to the National Assembly. The budget then takes effect from the 1st of January.

There will be a similar and parallel process for local governments. Since there are currently 12 administrative provinces in Rwanda and as many as 92 districts, the number of budgets will be substantial. At present much of decentralisation stops at the province (prefecture) level, but the long-term aim is to only undertake budgeting at the central and district levels. There are also plans to introduce a Common Development Fund from which districts will be able to apply for money. There is also a proposal on the table that 6 per cent of VAT shall be allocated to the districts according to population, location and equalisation criteria. At present districts collect very little money on their own and once financial devolution is completed there will be less money left for central institutions, and it is anybody's guess how the centre will adjust, for example with respect to the need to relocate or shed people.

A problem related to the MTEF is that while it is meant to increase the government's flexibility in allocating funds, the truth of the matter is that the government has small revenue margins. When the major and non-discretionary, items of the budget, including defence, the Genocide Fund, prisoners, feeding school children and the military, are accounted for, there is very little money left for discretionary expenditure. This implies that the flexibility of the MTEF is limited. In a situation where control mechanisms are still rudimentary, the line ministries and other agencies tend to fall back on the practice of accumulating arrears. Recently, the Ministry of Finance was forced to take a full inventory of the arrears that the government has accumulated with the various departments and the private sector and has promised to clear the backlog in a period of 4 years.

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of advisory or topping-up arrangement financed by donors.

To be successful, the MTEF process demands a good capacity for resource forecasting. Currently, the basis for forecasting resources in the public sector is poor, with data on financial resource flows poorly kept. On the whole a poor aid database makes it difficult to project inflows with any degree of accuracy. Part of the problem is due to the rather high turnover within the Ministry of Finance and Economic Planning, whose officers are highly demanded by firms in the private financial sector. For example, CEPEX, the co-ordinating arm for aid flows has changed officers and heads frequently in its relatively short existence. Lack of good data also makes the integration of the recurrent and development expenditure budgets difficult to achieve. It is difficult to know, for example, what portion of donor aid goes to government-run projects and what portion to projects run by non-governmental organisations.

In spite the rhetoric, donors have been reluctant to commit resources to a common pool. So far, only British DFID has committed substantial resources directly to the government, for use in the budgetary process. The British are by far the most engaged bilateral donor in Rwanda. They have given over £70 million in assistance to the country since the genocide of 1994. They consider Rwanda to be a special case and seem most understanding when it comes to issues of the DRC. The only "conditionality" has been that funds be used in funding education and health programmes. Above all, they have adopted a quick-disbursing strategy for their grants, with expenditures by the government checked ex post by the Crown Agents, who maintain an office in Kigali. As in its other African programmes, DFID emphasises poverty reduction, via implementation of a poverty reduction strategy and, for Rwanda especially, programmes to support national reconciliation. The multilateral donors include the European Union, World Bank and the African Development Bank.

However, some of the MTEF targets have been unrealistic. Revenue projections are based on growth projections, but since the latter also include the growth of the subsistence sector, which expanded greatly with the return of peace but remains largely untaxed, actual revenue tends to fall far short of projections.

Table 9: MTEF Budgetary Process in Rwanda

Stage 1: The MTEF process derives from the Vision 2020 document. However, as a "vision" document, the Vision 2020 lacks operative concreteness.
Stage 2: From the Vision 2020 derives the national plan of action, in this case Rwanda's Poverty Reduction Strategy Paper (PRSP), which identifies needs and lays down priorities. In late 2000, the Interim-PRSP was published and has been subjected to intensive discussion and consultation with groups and institutions in Rwanda, the goal being to reach a final PRSP by November 2001.
Stage 3: On the basis of the PRSP, sector plans will be drawn up (At present this stage is very weak or non-functioning).
Stage 4: This is the actual MTEF stage where a medium term (3-years) expenditure framework is drawn up. At present the input will come directly from the PRSP, since stage 3 is essentially not operating.
Stage 5: After the MTEF has been worked out the actual annual budget is produced and subsequently approved by the Parliament.
Stage 6: Money is transferred to executing ministries to enable the supply of goods and services to the public.
Stage 7: Results of financial, physical and participatory monitoring are then reported back. The current monitoring system includes ministry reports on performance and selective public expenditure reviews. This is not satisfactory and a system of objective monitoring will have to be developed.

In attempts to smoothen the implementation of the new process, the financial system of the government has been computerised and the control of money flows is now reasonably efficient. However, although each franc can now be traced to its destination, the monitoring of outcomes remains weak. Thus one cannot be certain that on reaching its destination the money was used for the purpose intended. Still, in terms of financial monitoring and transparency the new system is a vast improvement on previous praxis.

When it comes to the development budget, however, little progress has been made. It remains fragmented, particularly with regard to coverage of aid-funded projects. Since 95 per cent of the development budget or 40 per cent of total expenditures are donor funded this is a serious problem. A semi-autonomous institution, CEPEX, was created specifically for the co-ordination of donor projects, preparation of the Public Investment

Programme (also done on a three-year basis) and monitoring of investment activity. However, giving CEPEX institutional autonomy, as a form of Ministry of Planning, is not a good idea. The work done there is very similar to that in the Ministry of Finance and duplication and related delays are bound to occur.

The 2001 budget followed the MTEF format, with clearly outlined programme and indicative outputs (although these are not yet linked to costs). Furthermore, Years 2 and 3 were not properly discussed this time for lack of time and the varying quality of the ministerial input.

Important to note, however, is that a large portion of donor money is still disbursed directly to projects and hence is not recorded at all in the government's budget system (Republic of Rwanda, 2000). It is obvious that existence of off-budget resources be it cash, technical assistance, equipment, or money that stays abroad, undermines the transparency and consistency of the expenditure programme. Thus, good information from external financing agencies is crucial for the MTEF process to be efficient.

It thus seems reasonable to suggest that since donors demand transparency and good governance in Rwanda's budgetary process they should not adopt less exacting standards in the administration of aid to the country. The simplest way to resolve the transparency problem on the donor side would be to provide all aid as budget support. This would automatically channel all donor resources into the government system. As already noted some donors such as DFID are moving in this direction. However, even where this step would be considered drastic, an improvement in information flow to the government, regarding size of commitments for example or by trying to allocate resources on a longer-term basis, would improve the situation. The government, on its side, could find donors more forthcoming in the their provision of budget support if it seeks a more open and flexible collaboration with them on project implementation.

5. Poverty Reduction in Practice

5.1. Who are the Poor in Rwanda?

Thanks to a number of studies in the 1980s, there is considerable information on the poverty situation in Rwanda before the genocide. There was, for example, a good household budget survey done in 1985. Post-1994, the information is much more limited, although some new work is underway. Since so much has changed since 1994, we have to be cautious about drawing too far-reaching conclusions about the present situation on the basis of information from the past.

According to data from the 1985 survey, inequality as measured by the Gini-coefficient was 0.27, which is very low compared to other countries in the region. There is evidence, however, that already before the genocide, inequality had increased in Rwanda following increasing population and land shortage. After the genocide, the distribution of livestock became more unequal, as some communities had lost their entire stock while some were spared, and one might presume that inequality went up. However, as yet there is no solid empirical evidence of this.

So who are the poor in Rwanda? Poverty in Rwanda is mostly rural, although there are some pockets of poverty in the urban areas as well. Before the genocide, poverty in Rwanda was not extreme by African standards. In 1985, it was estimated that 40 per cent of households lived below the poverty line. The limited data on poverty suggest that its prevalence in terms of the fraction of households below the poverty line increased from 53 to 70 per cent between 1993 and 1997. Recent estimates indicate that poverty had decreased to about 64 per cent by 2000 (see Table 10). This improvement follows from the rapid economic growth during 1998-2000. The Core Welfare Indicators Questionnaire (CWIQ) survey conducted in 2001 suggests that there was further improvement during the last year. More than half of the households (51%) reported an improvement in their economic situation, while only 33% reported a decline.

Although Rwanda is very poor, it is now better off than some neighbouring countries such as Tanzania both in terms of per capita incomes and some social indicators such as life expectancy.

Table 10: Rwanda: Changes in poverty since 1985

Year	Percentage below poverty line		
	Rural	urban	total
1985	48.4	16.1	45.7
1990	50.3	16.8	47.5
1994	82.4	27.5	77.8
1995	76.6	25.5	72.4
1996	75.3	25.1	71.1
1997	74.1	24.7	70.0
1998	70.7	23.6	66.8
1999	69.3	23.1	65.4
2000 est.	67.9	22.6	64.1

Source: Republic of Rwanda (2001d, p. 19)

Another way of assessing the poverty situation is to ask households questions regarding the difficulties they encounter in satisfying their food needs. Results from the CWIQ survey, reported in Table, 11 show that a considerable number of Rwandan households have difficulty in satisfying their food requirements during parts of the year.

Table 11: Percent distribution of households by the difficulty experienced in satisfying food needs during the year before the survey

	Difficulty experienced					
	Never	Seldom	Sometimes	Often	Always	Total
Total	21.0	18.5	31.9	26.7	1.8	100.0
Place of residence						
Rural	19.4	18.4	32.3	27.9	1.9	100.0
Rural poor	12.4	17.6	32.8	33.3	3.9	100.0
Urban	47.0	20.2	26.0	6.8	0.0	100.0
Urban poor	33.2	25.6	27.5	13.7	0.0	100.0

Source: Republic of Rwanda (2001d), p. 21.

Finally, we may also look at an indicator such as child mortality (Table 12). This confirms that the first half of the 1990s (including the genocide of 1994) represented a severe setback in living standards, while there has been some recovery thereafter. Still, this has not by a long way brought the country back to where it was prior to the crisis.

Table 12: Rwanda: Child mortality in 1975-2000

Period	Neonatal (below 1 month	Post-neonatal (1-12 months)	Infant (below 1 year)	1-5 years	Child (below 5 years)
1996-2000	43.9	63.5	107.4	99.5	196.2
1991-1995	58.1	70.7	128.8	103.1	218.6
1986-1990	45.6	39.9	85.5	60.2	140.5
1980-1995	48.7	35.7	84.4	90.0	166.8
1975-1980	55.3	51.7	107.0	141.1	233.1
Using estimates from 1992 DHS 1987-92	38.6	46.1	84.8	71.6	150.3

Note: Estimates (except for last row which is from 1992 survey) from 2000 Demographic and Health Survey
Source: Table 6: Child Mortality in Republic of Rwanda (2001d).

Mackinnon (1999) notes that poverty is closely related to household structure, partly due to the impact of the genocide, and lately also of HIV/AIDS. In 1996, a large number of households (21 per cent of total) were headed by widows, child-headed, headed by prisoners' wives or by the elderly. All households shared the characteristic that they were short of labour.

Land shortage was an important determinant of poverty before the genocide. The situation is illustrated in Table 13. High population density led to fierce competition for land. Andre and Platteau (1996) noted that there were numerous disputes even between children and parents regarding land, and the land situation did play an important part in the process that led up to the genocide. The connection between access to land and poverty seems to have weakened immediately after the genocide, but as people return and resettle, the link will certainly re-emerge.

Table 13: Land and poverty

Hectares/person	Proportion below poverty line
<0.08	0.56
0.08-0.13	0.46
0.13-0.21	0.46
0.21-0.38	0.38
>0.38	0.22

Source: World Bank (1994)

In terms of physical capital the most important defining category for the poor is livestock ownership. Livestock decreased dramatically in some areas as a direct result of the genocide. The civil war also led to extensive destruction of housing, which was another vital asset of the poor.

Another important indicator of poverty is source of income. But even here, we have to make do with data from before the civil war. The Table 14 shows clearly that the poor rely more on income from their own farm and agricultural labour than the non-poor.

Poverty has always been a mainly rural phenomenon in Rwanda. Before the war the share of the urban population was only 6 per cent, with 60 per cent of those in the capital Kigali. Of the Kigali population, only 6 per cent were below the poverty line, compared to 40 per cent in the whole population. Since then the urban population has increased as a share of the total, and the urban incidence of poverty has also increased. Still, it is fair to say that poverty is mainly rural.

Table 14: Income sources: Poor and non-poor

Share in income	Poor	Non-poor
Agriculture	64.4	49.9
Artisan/service	21.7	24.8
Commerce	5.1	7.5.
Agricultural wages	6.1	2.6
Other employment	1.3	11.7
Sale of assets	1.1	2.2
Rental	2	1.2

Source: World Bank (1994)

In terms of social indicators Rwanda is doing badly, but in many areas it is at levels similar to those of countries like Tanzania. Primary education is not too low, while secondary education is poorly developed. Child mortality is high and the prevalence of AIDS is now above 10%, but at the same time the life expectancy is slightly higher than that of Tanzania.

5.2. The Challenges of Poverty Reduction in Rwanda

Economic policy in Rwanda is geared towards poverty reduction. To achieve this, the government has undertaken a range of policy interventions, outlined in its poverty reduction action plan. John Mackinnon (1999) has written a useful review of the challenges and the policy options available, and his report was an important input into the PRSP process. The discussion here draws extensively on his study.

The poverty reduction challenge in the case of Rwanda is large and in some ways unusual. The country suffers from high population density and land pressure and coupled with this is that it has to cope with the legacy of the genocide from 1994. The government is developing a policy framework that endeavours to provide a basis for broad-based growth, requiring the generation of not only demand for the assets of the poor but also policies to help them accumulate physical and human capital. There is also a need for certain safety nets for particularly disadvantaged groups and also some insurance mechanisms to handle economic shocks.

Mackinnon identifies five major challenges, that Rwanda faces in its attempts at generating poverty-reducing growth. First, the need to increase agricultural productivity is crucial. This will require the introduction of new technologies and improved provision of fertilisers and possibly labour market interventions, such as rural public works to generate both infrastructure and incomes for the poor. Second, agriculture needs to be commercialised. To achieve this one needs to reduce transport costs and to develop marketing and credit channels for farmers. Third, the export-orientation of the economy must be expanded, requiring policy reforms from the macro-level and downwards. Fourth, also non-agricultural sectors need to expand. Higher incomes in agriculture will stimulate demand and supply. Agriculture needs to be supported by a whole range of measures, particularly training and credit interventions. Fifth, internal and external migration should be stimulated. Rwandans could benefit from working in other countries and also from skilled labour immigration.

One crucial aim in a poverty focused strategy it to accumulate land and capital in the private sector. One serious constraint here is the insecurity of land tenure, the issue of resettlement is thus important. However, it remains to be seen how successful the current villagisation scheme will be in comparison to earlier efforts elsewhere in Africa.

Appropriate savings institutions, as well as micro-credit, can help the poor to undertake private investment. Such schemes could help rebuild the rural capital that was damaged during the war. In the case of Rwanda, rural women would be a natural group to target for receipt of micro-credit.

Access to public services is important for poverty reduction. Notably, the educated are better able to access health information and to enhance their incomes. In the health area, the medical system needs to be improved, with proper incentives provided for health workers. To increase access for poor people to health services, the cost of care has to be affordable. There is also need for a nationally co-ordinated approach to HIV/AIDS treatment and prevention. In education, the government aims at raising primary school enrolment via higher investment in education infrastructure and teacher training. Apart from regular education there are also plans for the expansion of vocational training and adult literacy campaigns. Other areas that are important in poverty reduction are access to water, agricultural extension services, agricultural research, and diversified marketing infrastructure.

The context for poverty reduction in Rwanda is vastly different from that of neighbouring countries. Following the genocide of 1994, peace and security became top priorities also for the poor. Unless peace can be maintained the chances of ecoonomic reforms to work will be small. In this regard, the resolution of the conflicts in the Congo and Burundi would mean a lot for Rwanda, but until that happens, the government has a legitimate reason for maintaining a sizeable army. There is a two-way causation here. Peace makes it easier to reduce poverty, at the same time as poverty reduction increases the chance of peace. To increase security there is need for an environment, which fosters an inclusive national identity and political participation as well as respect for property rights. These factors need to be considered in all areas of policymaking and, in particular, when it comes to land, education, and institutional development.

5. 3. The Poverty Reduction Strategy Paper

Inputs in the PRSP

The Government is about to complete its first Poverty Reduction Strategy Paper. The Interim PRSP paper was completed in November 2000. The PRSP approach is an attempt at engaging a wider segment of the population in defining and finding solutions to poverty and development issues in the country. The goal is to achieve national ownership of the development process and to set out priorities for future action. The process thus amounts to an assessment of both government and non-government interventions in the country's development. As part of the process, a Participatory Poverty Assessment (PPA) exercise has been undertaken to make it possible for a cross section of citizens to contribute to the formulation and implementation of national policy.

Another major undertaking has been the National Poverty Assessment, with interviewers using standard participatory rural appraisal techniques. It was done at the sector level, that is the second lowest administrative level of Rwanda, covering all 1000 sectors in Rwanda (For a description of the process, see Republic of Rwanda 2001c). The process was expected to yield poverty profiles, community problem rankings, simple institutional service assessments, information on gender roles and land issues, both crucial given Rwanda's recent history. Using various ranking schemes, communities will be able to prioritise expenditure areas.

A community development plan (Ubudehe) has also been devised in collaboration with the Ministry of Local Government and Social Affairs, with the goal of enabling communities to plan own strategies for fighting poverty in their communities. The ultimate aim is for the government via the line ministries to develop packages of responses to the problems identified. It is hoped that this will lead to successful local collective actions. Major problems identified at the local level so far relate to sharply declining soil productivity and inadequate healthcare. In each cell, in depth-livelihood analysis will be undertaken within the poorest families in the community. This will complement the community level data. It is expected to contribute to our understanding of community-level coping mechanisms and to how interventions should be designed to help the poor.

On top of this, there is also a policy relevance test used to assess the various government interventions (actual and future). This is being conducted by a group of academics from the National University in Butare, supported among others by the Addis Ababa based regional research group, OSSREA. This methodology is based on focus group discussions to which a short questionnaire is administered. This will be done in 38 of the 100 districts. Two issues are to be addressed. First, what is the relevance of national poverty reduction programmes to community priorities and needs. Second, what is the relevance of policies to the lives of individuals in the society? The latter issues touch upon effectiveness, inclusiveness, participation and ownership, and the nature of the solutions.

The data collected in the PPA process will then go to the relevant ministries for analysis, after which the results are circulated in workshops and seminars for comments from the various stakeholders, including civil society, technical specialists as well as donors. This process will also be extended to the lower administrative levels in the country. Once results from the PPA process are available the line ministries will have to review the relevant ones to their sector and work closely with the PRSP drafting team to outline a PRSP that is realistic and can be implemented. Finally there will also be reviews of the process by NGOs, trade unions, the private sector and church organisations.

Other information that will enter into the PRSP process will come from the Core Welfare Indicators Questionnaire, Health and Education Public Expenditure Tracking Surveys, Multiple Indicator Cluster Survey, Demographic Health Survey, World Bank Country Status Report on Education and the Unity and Reconciliation Commission's work.

However, data from the National Household Living Conditions Survey will not be available in time for the completion of this year's process.

The PRSP process can hopefully be a starting point for a process where donor activities are better integrated in the national planning and prioritisation process. The donors should thus preferably use the PRSP process when they take decisions as to how to channel their aid. As part of the national poverty reduction programme, the government is also setting up a poverty-monitoring organisation called the Poverty Observatoire. This will not be another organ for collecting primary data but will use what is available to analyse poverty related issues and to also commission studies if the need arises.

The Interim PRSP

The Interim PRSP report does a reasonably good job in outlining the constraints on development in Rwanda. Structural microeconomic problems discussed include low agricultural productivity, famine and cyclical droughts, low human resource development, rising unemployment, high population density and growth, high transport costs, environmental degradation. These problems lead to macroeconomic problems such as a structural trade deficit, vulnerability to external price shocks, a large pre-aid budget deficit, a negative savings rate, and low levels of private investment. Underlying these problems is of course the legacy of the genocide that has created a range of Rwanda specific problems. There is a shortage of adult males in some areas and the costs of reconciliation and reintegration are large but unavoidable. Like other countries in the region the country is also suffering from the HIV/AIDS epidemic with an infection rate of about 11 per cent of the population over 12 years and it has increased dramatically in recent years.

The Interim PRSP provides a complete policy review of all areas of economic policy that have to be addressed to provide a growth enhancing and poverty-reducing environment. Three areas for policy intervention are identified: policies that enable households to increase their incomes, investment in rural transport and market infrastructure and the special needs of vulnerable and disadvantaged groups.

In raising household incomes in Rwanda the first issue relates to insecurity of land tenure, which is particularly acute in a country where large migration flows have occurred. The immediate task here is to produce a law that can guarantee security and legal status of tender, which will then provide the basis for land use intensification in the longer term. Second, there is a strong need for re-capitalisation of the rural sector that was hurt by the events in the 1990s, with the onset of civil war and genocide. Among the measures discussed here are short-term ones such as removing the taxation of capital or inputs in rural production, subsidising goods vital to rural welfare and developing financial markets in rural areas. Third, there are environmental challenges relating to water, soil fertility, and deforestation that need to be addressed.

With regard to investment in rural transport and market infrastructure, it is obvious that to raise incomes of peasant households and to reduce their costs of buying inputs and selling goods, the rural infrastructure must be developed. This is a vital part of the policy and one that is fairly straightforward in implementation.

The third group of measures relates to addressing the special needs of vulnerable and disadvantaged groups. This concerns the victims of genocide, widows, orphans, and disabled a prisoner's families.

The report also comments on the energy needs of the poor, research and extension services for agriculture and livestock, food security and the promotion of self-employment. Moreover issues such as HIV/AIDS, sanitation, reproduction health, population issues, security and the judicial system are also addressed. All these areas are obviously important, but since resources are extremely limited, the issue of prioritisation, and hence the MTEF, becomes important. In the context the PRSP is more of a description of the direction to be taken while the MTEF is the road map.

The question is again how best to channel donor resources to priority programme areas. Rwanda's budget system has become accountable and the government's preferred form of assistance is flexible budget support, with some donors already committed to providing such support. The second best approach, according to the government, is to co-ordinate aid flows, on an annual basis, with the Ministry's External Finance Bureau (CEPEX). Ad hoc and short-term donor behaviour makes it harder for the government to function properly and for aid money to be used effectively.

6. Aid Implications

6.1. The International Debate on Donor Relationships

There has been an extensive debate on why development efforts in Africa have been so unsuccessful. In the last few years, many observers have suggested that the aid relationship has been part of the problem itself. The attempt to bring about changes in the policy environment via conditionality was not very successful, and it has been argued that this may be due to the fact that recipient countries have not been able to "own" the programmes that they are supposed to implement. Therefore, implementation was partial and ineffective (Devarajan, Dollar, Holmgren, 2001). Particularly when it came to the more demanding second-generation types of reforms such as privatisation and civil service reform progress has been slow. It seems that successful reform requires not only committed leadership but also a consensus building process in the country. The type of donor relationship that is established affects the likelihood of this, however. Notably, stringent conditionality limits participation in decision-making by the population.

It may well be the case that it is the type of donor-recipient relationship that is important rather than the actual magnitude of the aid flows, although the latter may of course affect the character of the link as well. It seems as if it has been easier to bring about extensive changes when there is a clean break with the past or when there is a deep crisis that makes change inevitable.

The question of how one can get the important decision-makers to take the right decisions is the crucial one in Africa. In this respect, one could either have a carrot or a stick policy. The carrot would mean that one "bribes" those who are already well off in society so that they can see the benefits of adopting the "good" choice rather than simply one that preserves the old system. One could also have a stick policy. The main approach here is to encourage a credible democratic threat. That is when voters can get rid of the incumbent parties, thereby reducing the rents accruing from their position of power. One could view this as collective action to get to the good equilibrium. This requires, however, that politicians can be subjected to the voters' will.

So the issue for donors is how to proceed to establish a benevolent link. We think one needs to move in the direction of ex post conditionality, that is reward good performance, rather than to stick to ex ante conditionality of continuing to run and control projects. The HIPC debt programme is an example of ex post forms of aid, which rewards good behaviour.

Recently DFID has argued[11] that the aid recipients should have control over how the aid money is used, and that the way in which the money is transferred is important. As noted earlier, DFID has taken a step away from the approach where projects and programs are decided upon and controlled by the donor. One is instead trying to work within the framework of poverty reduction programmes set up by the recipient countries. In Africa one tries to reduce the number of separate bilateral deals and to increase those executed jointly with other donors.

6.2. The Official Swedish Position on Programme Aid

In 1999 the Swedish Foreign Office (UD) issued guidelines for support to economic reforms and debt relief in aid recipient countries (UD, 1999). They state that aid should be given to low-income countries, that is countries that borrow on IDA-terms, that undertake economic reform programmes, in collaboration with IMF, World Bank, and the donor community at large, with a clear emphasis on poverty reduction. Support should be given on the basis of the results that *have been* (our italics) achieved with regard to the goals of stated in the Poverty Reduction Strategy Paper, for example. Furthermore, that Swedish aid should be concentrated on Sida's programme countries, that is where the Sweden has enough competence to judge the macroeconomic situation of the countries and the role of poverty reduction policies in their budgets etc.

For this type of aid to be given some other important conditions must also be met: There must be an open and transparent budgetary process as well as evidence of good governance and low level of corruption. Furthermore, there should be respect for human rights and democratic government.

The instruments to be used for aid delivery include import support, general balance of payments support, budget support, plus debt relief. As general forms of aid become more important there is an increasing role for analysis of the budgetary allocations, the budget process, transparency of the budget etc. This makes the quality of the accounting and auditing systems crucial. Conditions should of course be given, but they should not unnecessarily complicate the budget work of the recipient country. They may concern prioritisation and controls regarding whether activities in the plans have been implemented. Other areas that need to be considered are macroeconomic performance, reform efforts, budget priorities, domestic resource mobilisation, efficiency in resource management (including level of corruption), and of course the key one of poverty reduction.

The amount allocated should be determined on the basis of need. One also needs to analyse internal and external financial situation and the budget as well as the ability of the country to benefit from this type of aid. So far, Swedish programmes have had a one-year cycle. For the benefit of continuity, predictability and transparency, however, a longer cycle is needed for countries, which have undertaken reforms with good results.

The above general guidelines have been further developed by Sida (2001b), which lists the following points that need to be considered when deciding on support to economic reforms (see Table 15).

[11] This is the same arguments that were in the SASDA reports on Zambia and Tanzania in 1994 (Adam et

Table 15: Issues to take into Account when Considering Support for Economic Reforms

1. Macroeconomic situation, balance of payments, budget, aid, debt – internal and external, debt strategy, HIPC.
2. Results – growth, macroeconomic balance, liberalisation, institutional development
3. The views of the IMF and the World Bank on the reform process and their planned further support.
4. The views of other donors.
5. Evaluation of the government's ability to fight poverty and a review of results so far. Where is the country in the PRSP process and evaluation of its content and the process of construction.
6. Good governance – corruption. Human rights – democracy.
7. Capacity and ability to control and account for the budget. Public expenditure reviews, donor support of the enhancement of governance etc.
8. Size and experience with regard to Swedish support to the reform process during the last 3 years. Forms (debt relief or budget support) and channels.
9. Total evaluation of the need for Swedish aid and the economic/institutional conditions for it to be effective. Careful evaluation of the financial system and efforts to improve it. Risk evaluation of the support, that is the ability of the recipient country to meet its obligations. A phased-out plan, analysis of tax collection and estimated of how long before the country can finance its own public expenditures.
10. Proposal of volume, form and channel for the aid. Methods for follow up. How active is Sweden in the dialogue. What are the main documents related to the support (and main conditions in those). Debt relief within HIPC. Is there an IMF programme?

In Sida's budget proposal for 2002 (Sida, 2001b) it is noted that Swedish aid will increase by about 6 billion kronor up to 2004. How should this increase be handled in a reasonable way? The main challenge is identified to be to contribute to the creation of conditions for sustainable growth in Africa (p. 6). The question is whether it is possible to increase aid

al, 1994a, 1994b).

flows to Africa, which is characterised by conflict, weak governments and aid dependence?

Support to economic reforms is one way of addressing the above questions. The purpose of the support should be to contribute to macroeconomic stability, lead to a sustainable level of debt, primarily in highly indebted low-income countries. The support is also supposed to be an incentive for future reforms with a clear poverty focus (p.33). This form of aid will be handled within the framework of country strategies. When the debt situation has stabilised, the aid will be converted to budget support. It will still be important, however, to scrutinise the recipients' budget work and accounting practices. Agreements should preferably extend over several years, cover larger activities, with increasing emphasis on programme support, support to economic reforms and sector programme support. Sweden will endeavour to work with other donors to renew aid modalities, with the main emphasis on programme support, partnership, competence and capacity development, and organisational changes within the aid organisations (p.26).

6.3. The Case of Rwanda

So what does all this mean for the Swedish relationship with Rwanda? First, we would like to point out that the weaknesses of the project link approach that has been noted in the general international debate also has been seen in Rwanda. We have also touched on these issues in our discussion above of the PRSP and the MTEF. In recent writing on the Rwandan economy, John Mackinnon (1999, p.35), notes that project aid causes a number of serious inefficiencies in Rwanda:

- excessive inflexibility (observed in the Public Expenditure Review on health)
- excessive administrative and capital spending relative to service delivery (also observed in the Public Expenditure Review on health, though some donors are providing important recurrent inputs in this sector)
- technical assistance is managed by donors in a rather segmented market, with wide variations in remuneration and different criteria for recruitment used by each donor

- gaps between salaries paid to local staff on projects and those in government make recruitment difficult for government. The perceived weakness of capacity in government – which is sometimes used as a reason for preferring project aid – is itself partly caused by this preference; there are many competent Rwandan nationals employed by donors and NGOs for salaries, which the government cannot match.
- serious gaps between cost structures on donor projects and in the rest of government
- difficulties in finding counterpart funds leading to project failure or slow disbursement
- lack of public knowledge about donor projects makes them vulnerable to corruption
- failure to co-ordinate different projects into a coherent programme.

So, should budget support be given to Rwanda? First, we would like to argue, somewhat controversially perhaps, that if one is giving project support to the Rwanda government, then one should also be able to give budget support to the country. However, since this is not the Swedish official position we will not base our discussion of budget support to Rwanda on this argument. However, we will take our starting point from the partnership notion, and argue that programme aid should be given to good performers on the basis of ex post evaluations.

So looking at the most important criteria listed above we first note that Rwanda meets the criterion of being a poor country. The government is still under threat from external guerrilla forces, but allowing for this, one must admit that economically the country has done very well. We believe that budget support should be given to government in countries, which do as well as can be expected given their starting conditions. The macro and microeconomic environment in Rwanda is not perfect, but considering the background, the country has done well. The budget structure is reasonable with sizeable allocations to education and agriculture, if one of course accepts as given the large share of military expenditure. The crucial question thus is whether one admits that such a level of military spending is legitimate given the conflicts in the Great Lakes Region.

The institutional quality seems fairly good, although the level of competence at the lower levels of organisations and ministries is weak. The budget process, however, seems to meet requirements in terms of transparency and after extensive consultations Rwanda's PRSP is virtually complete. Governance, at least at the higher levels, is reasonably good and corruption is lower than what is typical in the region. However, at the lower echelons of the bureaucracy the situation is still poor. The recent PRSP (2001d, p.91) notes the following:

"GOR, under the co-ordination of the National Poverty Reduction Programme, has just completed a "Public Expenditure Tracking Study" with the objective of tracking such budgetary and non-financial resource flows to primary health and education facilities. The study reveals that little funds are allocated to these two levels; there are no guidelines at all as to the institutional modes through which the funds flow or on how to dispose of the funds that flow through; there were hardly any book-keeping, filing system, nor record keeping; and there were no auditing nor accountability requirements in place.

A set of simple recommendations have been made and it is anticipated that when implemented would ameliorate the deficiencies identified by the study. GOR intends to expand similar studies in the other sectors of the economy. As part of MTEF process, GOR is moving towards a position where aid flows, which still constitute a high proportion of total public spending, are pooled with government's own funds and documentation of public expenditure flows and service delivery has taken on added importance from a wider public expenditure perspective. It is anticipated that donor agencies would be more comfortable and less reticent to pooling if they perceive that there is clear accountability and that they are able to monitor the performance of "their share" of spending."

We argue that Rwanda's budget process must be transparent and efficient, and that when achieved this should make it possible for donors to provide budget support to the country, as has been done by DFID. In spite of the problems just outlined we believe that Rwanda is a relatively good case. On the issues of human rights and democracy the situation remains complex and not altogether satisfactory. There is, for example, very little public criticism of the government in public debate or the press. Again, here one must take a decision as to how large deviations from the desired behaviour that is acceptable given the political background and the still difficult social and political issues still to be resolved.

So far, the outcomes of government policies have been good. The economic recovery has been sustained since the genocide in the mid-1990s and indicators show some reduction in poverty. International donor agencies and DFID are now willing to provide general forms of support. On balance, therefore, we argue that budget support would be a good option for Swedish aid.

7. Conclusion

Rwandan policymakers have in the recent past switched their focus from issues of economic rehabilitation to those of political reform, for example the drafting of a new constitution, structural reforms, capacity and institutional building in the public sector and decentralisation and devolution of power.

We have argued in the Report that the success of Rwanda's reforms will ultimately be judged by the extent to which they are able to sustain growth, reduce poverty and recreate more peaceful conditions in the country. However, addressing poverty demands not only financial but also institutional and human resources. All these are currently very scarce in Rwanda. The country still requires substantial support from its development partners. Recent debate has thus partly related to the form that the aid relationship should take. Rwandan policymakers argue that by implementing rapid reforms, introducing a medium term expenditure framework and drafting a PRSP, they have signalled their seriousness and transparency. They now demand in turn that donors be more flexible in their aid relationship in order to allow the government space in the implementation of its programmes. However, as long as the DRC problem persists donors will continue to drag their feet.

The success in the fight against poverty also depends on that achieved in the decentralisation drive. Two issues arise here. First, successful decentralisation is human capital intensive. The government will need to train individuals who will implement the various anti-poverty strategies, devised in the past few years. This especially will be the case when district-level Medium Term Expenditure Frameworks become operative. Second, devolution of power and finances to the districts means that many individuals in the central offices are going to lose their livelihood. In meeting demands in all these new policy areas the government will have to be flexible and innovative.

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Zimbabwe 1995: Domestic and External Debt in Zimbabwe	1996:8
Vietnam 1996: Approaching The Next Stage of Reforms	1996:9
Tanzania 1996: The Impact of Balance of Payment Support	1996:10
Angola 1996: Hyper-Inflation, Confusion and Political Crisis	1996:11
Eritrea 1996: A Peaceful Struggle for Sustained Independence	1996:12
Laos 1996: One Step Back or One Step to the Side?	1996:13
Kenya 1996: Economic Reforms and Impediments to Growth	1996:14
Uganda 1996: Security, Credibility and Market Development	1997:1
Guinea-Bissau 1996: Looking for New Development Paths	1997:2
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