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Rwanda: Poverty Reduction Strategy Paper Progress Report

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REPUBLIC OF RWANDA

MINISTRY OF FINANCE AND ECONOMIC PLANNING

Directorate of Strategic Planning and Poverty Reduction Monitoring

Poverty Reduction Strategy Paper Progress Report

June 2003

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LIST OF ABBREVIATIONS

AGOA	African Growth and Opportunity Act
CDF	Common Development Fund
CEPEX	Central Public Investment and External Finance Bureau
DfID	Department for International Development
EICV	Enquête Intégrale sur les Conditions de Vie
EU	European Union
GDP	Gross Domestic Product
GIS	Geographical Information System
HIPC	Heavily Indebted Poor Countries
ICT	Information Communication Technology
IMF	International Monetary Fund
MTEF	Medium Term Expenditure Framework
NEPAD	New Partnership for Africa's Development
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PRS-PR	Poverty Reduction Strategy –Progress Report
MIFOTRA	Ministry of Public Services
MIS	Management Information System
MIJESPOC	Ministry of Sports and Culture
MINAGRI	Ministry of Agriculture
MINALOC	Ministry of Local Government
MINEDUC	Ministry of Education
MINERENA	Ministry of Minerals
MINECOFIN	Ministry of Finance and Economic Planning
MINICOM	Ministry of Commerce
MINIFRA	Ministry of Infrastructure
MINIJUST	Ministry of Justice
MINISANTE	Ministry of Health
NBR	National Bank of Rwanda
PSIA	Poverty and Social Impact Assessment
RIPA	Rwanda Investment Promotion Agency
SIDA	Swedish International Development Authority
SPA	Strategic Partnership for Africa
SWAPs	Sector Wide Approaches
UNDP	United Nations Development Programme
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
WHO	World Health Organisation

EXECUTIVE SUMMARY

The PRS Implementation evolves around four principles: Policy Coherence, Prioritisation, Learning Process, and Partnership. This paper reports on progress in implementing these principles in various policy areas. It mainly shows key achievements and challenges in the different sectors with regard to actions stated in the PRSP.

Chapter 2 details Rwanda's recent macroeconomic performance and outlook, progress in public expenditure management as well as in the sector strategies process. With respect to macroeconomic performance, key accomplishments in 2002 include real GDP growth of 9.4%, an annual inflation rate of 2%; and continued improvement of tax collection beyond expectations. Prospects are a decline in real GDP growth rate to 3.2%, well below the period average and a rise in inflation to 4.7% in 2003 due to poor rains. The challenges in this area include reaching at least real GDP growth of 7–8% necessary over the next 15 years for sustainable poverty reduction, improving the trade balance through exports growth and financing of the poor.

Chapter 2 also assesses public expenditure management. The Government has managed to maintain fiscal discipline while promoting measures for poverty alleviation. It has met the criterion for recurrent priority spending under the PRGF and these expenditures have been increasing over the last three years. Budget ceilings under the MTEF were much better adhered to during budget preparation. A key problem has been the difficulty in implementing budgets due to the uncertainty of external assistance. The cash budget system has therefore been felt as an impediment to achieving outputs planned under the MTEF. Moreover, the recurrent and development budgets still need to be integrated.

Finally, Chapter 2 reports on the progress in the sector strategies process—Policy coherence has been advanced through the adoption of eight clusters to address sector challenges and strategies. The process of developing sector strategies is well advanced in some sectors. Clear guidelines have recently been produced by MINECOFIN. However, the progress is still uneven across sectors.

In Chapter 3, the implementation of sectoral actions is reviewed. In the sector of rural transformation and agricultural development, during 2002, the government liberalized the fertilizer market, encouraged fertilizer imports, and promoted growth of priority crops. In 2003, the government will move to privatise the Mulindi and Pfunda tea estates, encouraging further private involvement in the sector. The development of an export crop strategy, the operationalisation of the labour intensive public works programme to recapitalise the rural economy and the need for strengthened human capacity are key challenges in the sector.

In the human resources sector, there was progress to report in education and health. In education, the net enrollment rate for primary school was 75% in 2002, and will be above the target 76% in 2003. To address the shortage of qualified teachers in secondary schools, the government established a distance-learning program and a program to train 350 new secondary school teachers. For tertiary level education, a student loan program has been initiated. The major problem for all levels of education is the transitional rate. The primary education sector faces high drop out and repetition rates. Less than 20% of poor Rwandese households have access to secondary level education. Tertiary education faces the challenges of gender parity and financing.

In the health sector, the detection rate for malaria dropped from 13,115 cases per 100,000 in 2001 to 11,076 cases per 100,000 in 2002. The immunization rate for childhood diseases was 80%. In the HIV/AIDS area, there was a drop in the price of anti-retrovirals to a minimum of RwF 30,000 per month in 2002. HIV/AIDS education efforts have boosted awareness of the disease to 70% of the population. Challenges remain in that malaria continues to have a high prevalence rate; HIV/AIDS has now reached a prevalence of 13.5% in the population; and there remains a shortage of health agents and limited financial access to healthcare services by the poor, especially in rural areas. As youth below age 25 constitute more than half the population, efforts to address challenges in education and health will have a widespread positive impact on the economy.

Progress recorded in economic infrastructure in 2002 included: the reconstruction and rehabilitation of some roads; the upgrading of Kanombe Airport terminal building; the enlisting of two companies to exploit methane gas; and the expansion of rural water supply to more than 160,000 Rwandans together with increased involvement of the private sector and communities. Key challenges in the sector the availability of transport and energy for the rural area, the need for more resources and increased expenditure prioritisation and integration of the labour intensive approach to the sector strategy.

Good governance is a crucial feature of the nation's future development. In 2002, gacaca courts were established in 11,000 sites with over 258,000 judges. In May 2003, the Constitution was approved with a wide margin of support in a national referendum. Presidential and Parliamentary elections are slated for August and September 2003, respectively. The government maintained its commitment to security and peace by withdrawing 23,000 Rwandese troops from the Democratic Republic of the Congo and by demobilizing and reintegrating nearly 50,000 troops. However, there is a need to further the decentralization process through the *ubudehe* and greater socio-economic reintegration of demobilised soldiers, released prisoners, returnees and poor households.

Chapter 3 also considers actions to create a favourable environment for private sector development, where Rwanda made progress in 2002. Key achievements are related to the increased representation and participation of the private sector in policy formulation, financial sector reforms and privatisation. Challenges in this sector are the finalisation and implementation of the strategy to unleash the private sector together with removal of the constraints to investment (legal, administrative, utilities and skills development).

Chapter 4 gives a review of poverty monitoring and analysis. The PRSP's monitoring and evaluation framework for poverty alleviation revolves around Input and output monitoring, performance and Impact monitoring and partnership in monitoring. A key achievement in this area is the monitoring of recurrent budget execution through the SIBET system and the piloting of a joint outputs monitoring system. However, there are a number of challenges such as to cover execution of the development budget, the weakness in reporting on outputs achievements with relation to inputs utilisation. Another key challenge will be the development of an inclusive poverty monitoring and analysis strategy and framework with sector indicators accepted by all stakeholders.

1. INTRODUCTION

1.1. OBJECTIVES

Rwanda's Poverty Reduction Strategy Paper (PRSP) was produced in November 2001 following extensive consultations with all stakeholders and based on participatory assessments and quantitative surveys on households living conditions. The Joint Staffs of the World Bank and International Monetary Fund endorsed the strategy in July 2002, as a sound basis for concessional assistance.

This is Rwanda's first PRS progress report, based on developments in 2002 and, where possible, in 2003. As a consequence the report cannot demonstrate a direct causal link between PRS implementation during the period reviewed and impact on reduction of poverty. Instead, this report focuses on progress achieved in the adoption of the PRS as the national planning framework and associated medium-term, processes and actions.

In describing and analysing achievements and processes associated with PRS implementation, this report aims to share with all our stakeholders the strengths and weaknesses, successes and constraints that we have faced in implementing the PRS. Our wish is that the lessons and discussions that so arise should inspire and stimulate improved execution in the future.

This report is intended to address the need for information and our [Government's] accountability to the Rwandan population whose priorities are identified in the PRSP. In particular, this report and its subsequent discussion should address those Rwandans living in poverty who will be the primary beneficiaries of progress in PRS implementation. We aim to reinforce popular ownership of the strategy and by broadening the monitoring and evaluation of commitments by all stakeholders in poverty reduction, to promote mutual accountability.

This first PRS-Progress Report is the first step of a process of annual assessments of interventions and actions towardspoverty reduction in Rwanda.

1.2. METHODOLOGY

This report is based on various sources of information, notably:

- Performance analyses for 2002 conducted in health and agriculture sectors and the energy, water and sanitation sub-sector as well as a joint review in the education sector.
- Other sectoral performance data are drawn from routine administrative reporting systems of government ministries and agencies.
- Data on macroeconomic performance and prospects is drawn from the bi-annual economic bulletin of the MINECOFIN together with the Government of Rwanda memorandum of economic and financial policies, produced following the February 2003 IMF mission.
- Data are also drawn from the 2002 budget execution report and reports of the public expenditure reviews conducted in 2002 in the transport and agriculture sectors.
- In preparing for this report, the government commissioned a light participatory survey exploring the degree to which grass root populations express their satisfaction with public services and private initiatives towardspoverty reduction.

- Finally, the report takes into account recommendations of the annual Government of Rwanda and Development Partners meetings and those of the October 2002 Strategic Partnership for Africa (SPA) mission to Rwanda.

Therefore, the process of preparing and producing the report entailed a number of steps. This began with performance analyses for 2002 being conducted ministries responsible for the priority sectors of health, education, agriculture and energy, water and sanitation. Seminars were then organised for all stakeholders in respective sectors to validate the reports of these analyses, while a joint review took place in the education sector. Successive drafts of the reports were circulated and comments from different sources taken into account. On production of the first draft, a national seminar was organised to validate the process of this PRS-PR and allow open the debate on the report in order to improve it and identify weaknesses to be addressed. Finally, a simplified version of this report will be translated in Kinyarwanda shortly and largely circulated among the population.

1.3. PRINCIPLES AND CONTENT

Implementation of the PRS has been and will continue to be guided by the following key-principles:

- Policy coherence, horizontally between sector strategies and vertically between national policies, sector strategies and decentralised entities development plans,
- Needs and expenditure prioritisation, to ensure that strategies are consistent with the availability of resources,
- Continuous learning, through regular monitoring and evaluation to allow the development of evidence-based and results-oriented policies,
- Partnership, to ensure that all stages of the PRS, from formulation to monitoring and evaluation via implementation are fully inclusive and participatory

As noted above, this Progress Report will focus on achievement in PRS priority sectors, on the processes of their execution and constraints in implementation. It also makes recommendations for public action required to address any identified shortfalls. We also strongly recognise the importance of identifying progress in impact terms and where possible we have sought to identify change in certain impact indicators.

This report consists of three chapters; the first on Rwanda’s macroeconomic framework, public expenditure management and sector strategy process; the second discussing progress and constraints with regard to strategies, programmes and actions in priority sectors and crosscutting issues and, finally, the third chapter sets out monitoring of PRS implementation and poverty analysis.

2. MACROECONOMIC FRAMEWORK, PUBLIC EXPENDITURE MANAGEMENT AND THE SECTOR STRATEGY PROCESS

This chapter addresses the context within which the PRS is being implemented. It sets out national frameworks for macroeconomics and public expenditure and examines planning for the PRS, including the sector strategy process. More detailed sectoral discussions follow in the next chapter.

2.1. MACROECONOMIC PERFORMANCE AND OUTLOOK

The PRSP recognises that economic growth is a prerequisite for long-term poverty reduction in Rwanda. The challenge lies in achieving and stabilising real economic growth between 7−8% over the next 15 to 20 years. Rwanda's medium-term macroeconomic objectives are therefore to (i) achieve annual real GDP growth of at least 6 percent; (ii) keep annual average inflation at 3 percent; and (iii) maintain gross international reserves equivalent to at least six months of imports. (For an overview of Rwandan economic and financial variables, see Annex 1).

The year 2002 was favourable in this regard. Real GDP Growth was as high as 9.4 percent (2.4 percentage points higher than programmed) compared to 6.7% in 2001. The good results mainly reflect an exceptional harvest in subsistence crops due to good rain and above average performance of the construction sector. From a longer-term perspective, the fall in export prices for coffee and coltan were worrying. For 2003, provisional first quarter figures are encouraging: harvests are better than first expected, the construction boom continues, whilst electricity output, a reliable indicator of strong economic activity, registered a marked increase (+25.7% during the first four months over the corresponding period of 2002). The tertiary sector also continues to show strong performance. As a whole, the Rwandan authorities are confident that the conservative objective set for growth in the 2003 programme (+3.2 %) will be met, and may even be exceeded.

In general, the macroeconomic framework continues to be strengthened. Regular Debt Sustainability Analyses (DSA) are being conducted, a macroeconomic model is being developed (in the context of a Poverty and Social Impact Analysis or PSIA, see Annex 2) and partners have identified sources of growth as a key area for future research in Rwanda[1].

Monetary policy

During the first half of 2002, inflation remained subdued and below the 3% target. However, due to rising prices of petroleum products on world markets, the increase in VAT, a dry season that increased prices of locally produced goods and an accelerating Rwandan Franc depreciation, inflation reached 6.2% by the end of the year.

Excessive growth in the money supply is considered as one of the major causes of inflation. Broad money grew by 12.4%, 5.5% higher than targeted. In 2002, shortfalls in expected foreign assistance, in the first half of the year, pushed the Government to rely on credit from the banking sector. This, together with weak exports performance led to an important depreciation of the Rwandan franc in the second half of the year and rising interest rates in the monetary market as the central bank acted to tighten liquidity conditions during the last quarter. Credit to the economy grew by 14.3%, one percent above target.

[1] a.o. the World Bank's Poverty Report on Rwanda that will be finalised in 2003.

For 2003, average inflation is projected at 4.7%, well above the 3% target. Figures at the end of April show that consumption prices have risen by 2.6%, which means that if, as expected, prices continue to rise, even the 4.7% projection will not be met. Consequently, together with strong economic performance, it will be very difficult to attain the target set for the money supply growth.

Financing the poor remains a challenge to the Rwandan banking system. Agriculture only attracted 2% of bank credit in 2002, despite the existence of the Union des Banques Populaires du Rwanda (UBPR), which was created precisely to inject capital into the rural areas. An important reason for low take-up is that domestic savings are virtually non-existent, partly due to the central role of a non-monetised informal sector in rural areas. However, some progress was made in 2002–2003. The Common Development Fund (CDF) continues to aim at improving resource co-ordination at the decentralised level, the NBR has put in place a legal and regulatory framework for micro-finance and PI-HIMO, the labour intensive public works programme (see Box 2), intends to contribute to recapitalisation of the rural economy.

Fiscal Policy

Fiscal policy is an important aspect of macroeconomic stability. Annex 3 gives a comprehensive overview of Rwanda's fiscal policy for 2001–2004. The 2002 domestic fiscal deficit was kept within the limits agreed under the PRGF program except for exceptional outlays related to troop withdrawal from the DRC. The deficit before grants was placed at 11.0%[2] of GDP compared to 9.5% in 2001. The target for 2003 is 11.3%. The overall fiscal deficit was financed in a non-inflationary as it was more than covered by external grants and loans. Overall grants amounted to RwF 71 million, whilst total net loan disbursements amounting to RwF 32 billion.

A recurrent problem is the delay in the disbursement of external funds. In 2002, this was largely due to protracted negotiations between Rwanda and the IMF over the new PRGF agreement and postponement of the World Bank's IRC and the EU budget support.

Domestically, the tax base, while still small, continues to be strengthened. Tax Revenue collection was stronger than expected. Domestic revenue increased to 12.2% of GDP in 2002 up from 11.4% of GDP in 2001. The increase was mainly due to raising the VAT rate from 15% to 18% and improved collection on income taxes, despite the reduction in corporate income tax from 40% to 35%. Various revenue-enhancing measures were taken with adoption of the 2003 Budget (see Box 1 below) and domestic fiscal revenue is projected to increase to 13.4 percent of GDP in 2003. Turnover declared at Rwanda Revenue Authority (RRA) for VAT filing increased by 15% during the first quarter of 2003 over the corresponding period of 2002.

[2] 9.9% when the DRC troop withdrawal expenditure is excluded.

Box 1: Tax Framework 2002–2003

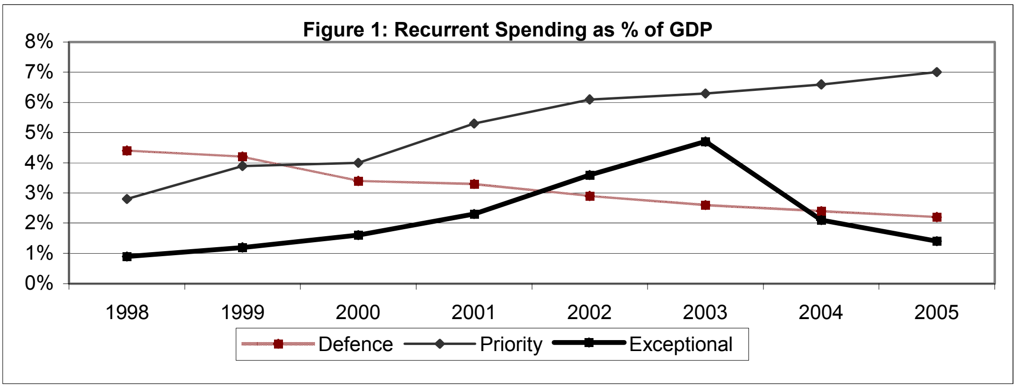
Taxes introduced in 2002

- Increase in VAT from 15% to 18%
- Import duty rates for COMESA members reduced by 80%
- Reduction in the corporate income tax rate from 40% to 35%

New taxes introduced with budget 2003

- tax on professional remuneration (TPR)
- extension of product range subject to excise taxation (cars and powdered milk)
- increase in the excise tax rate on industrial beer from 40 to 57%
- adjustment in the structure of taxes on international trade (see further)

As Figure 1 shows, the composition of expenditure is increasingly towards PRSP priority programmes[3] (for an overview see Annex 4A), whilst the decrease in military expenditure reflects the impact of demobilisation programmes and troop withdrawal from the DRC. Exceptional expenditure, that spending specifically related to Rwanda's need to deal with its unique post-conflict situation (for an overview see Annex 5), peaks in 2003 due to constitution, elections and gacaca related activities, and is then projected to decline in 2004 and 2005.



Source: Ministry of Finance Flash Reports 1998–2001, Finance Law 2002–2003, PEMR.

The discussion on the optimal fiscal deficit, critical for a post-conflict country like Rwanda, is ongoing with the International Financial Institutions. In this regard, the PSIA (Poverty and Social Impact Analysis) presents a convincing case for increased frontloading of essential public expenditure (see Annex 2). The Government of Rwanda strongly believes that current public expenditure levels must be increased in order to set a sustainable base for poverty reduction and social stability and to deliver its commitments to Rwandan citizens. Activities most strongly related to this aim such as the HIMO labour intensive public works programme (see Chapter 3, Box 2), the *mutuelles* health insurance scheme and rural electrification will be given priority as additional funding becomes available. It has to be acknowledged, however, that absorption capacity is still very low; as such, the target growth for foreign-financed capital expenditure was set at 6.5%. However, one of the key underlying issues regarding

[3] The most visible way in which PRSP implementation is financed are the priority programmes in the recurrent budget. These programmes are effectively the translation of the PRSP objectives into financing needs.

absorption is a lack of coherency and co-ordination between development projects and Government priorities. Progress in this area is reported later in the report.

Trade and investment

The continued decline in international prices for tea and especially coffee and coltan, has increased the vulnerability of Rwanda's balance of payments. The 2% decline in imports, mainly due to an 11% decline in food imports related to exceptionally good harvests in 2002, did not cover the 28% decrease in exports. As such, the external current deficit increased from 15.9 percent of GDP in 2001 to 17.2 percent in 2002. This has led to a strong decline in Rwanda's terms of trade. Encouraging is the growth in non-traditional exports such as pyrethrum, hides and skins, cement and UTEXRWA products[4].

In 2002, coverage of exports by imports was only 36%. Foreign savings more than fully covered this deficit, allowing the BNR to increase its gross international reserves from the equivalent of 5.8 months of imports in 2001 to 6.3 months in 2002. The target for 2003 is 7.4 months. The deficit on the external current account is expected to rise to 18.7% of GDP in 2003. This projection largely stems from an increase in imports, related to petroleum for strategic reserves and service payments linked to an increase in external assistance. A modest improvement in international prices and a robust growth of coffee and tea export volumes is expected.

In the medium term, the high level of external account deficit will remain a concern. In light of this, a substantial effort is being devoted to expanding and diversifying the export base, including through greater concentration on the specialty coffee market, privatisation of tea estates, the intensified use of fertilizer to increase yields in the production of export crops, and through the replenishment of Rwanda's ageing tree stocks.

Meanwhile, government has continued to promote economic openness as an incentive to economic growth. With a view of joining COMESA in January 2004, Rwanda has started to reduce interborder tariffs. Further, Rwanda will be able to benefit from the AGOA agreement that aims at enhancing trade and investment between the U.S. and Sub-Saharan Africa. The areas of focus in Rwanda are those in textiles and handcrafts.

As mentioned, domestic savings and investment are very weak. However, a significant increase in domestic savings will be required to finance the necessary increase in domestic investment to redress macroeconomic imbalances. In the medium run, ODA inflows should gradually be reduced to make place for an increased inflow of foreign investment. This is expected to be enhanced by the prospects of a return to stability in the Great Lakes Region and the continued implementation of prudent macroeconomic policies.

Achievements in the macro-framework
- Main macro targets for 2002 were met, 2003 targets are expected to be slightly missed
- 2002 Monetary and Fiscal Frameworks adapted due to unpredictable flow of funds
- Domestic resource collection is strengthening

Challenges
- Trade Balance worsened and exports development is a big challenge
- Financing the poor remains a challenge

[4] Consequently, the share of Rwanda's three main exports in the total export volume declined from 91.1% in 2001 to 76.7% in 2002.