

**INTERNATIONAL DEVELOPMENT ASSOCIATION AND
THE INTERNATIONAL MONETARY FUND**

RWANDA

Poverty Reduction Strategy Paper — Joint Staff Assessment

Prepared by the Staffs of the World Bank and the International Monetary Fund

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I. OVERVIEW

- 1. Rwanda's Poverty Reduction Strategy Paper (PRSP), building on the Interim Poverty Reduction Strategy Paper (I-PRSP) reaffirms the commitment of the Government to sustainable poverty reduction.** Based on intensive consultations, the PRSP provides a comprehensive poverty diagnosis and spells out the government's strategy and priority actions to reduce poverty in Rwanda.
- 2. The PRSP is comprehensive.** It encompasses: (i) a participatory process both within the government, and with civil society and the donor community; (ii) a comprehensive poverty diagnosis; (iii) country ownership with the Government in the lead; (iv) a frank discussion of issues and challenges faced; (v) a comprehensive strategy on socio-economic transformation of the country with a long-term perspective; and (vi) a detailed plan for monitoring and evaluation. This PRSP is innovative in linking its analysis and strategies to traditional decision and problem resolution systems. The PRSP also presents the government's assessment of risks involved in implementing the PRSP, mainly: (i) political conflict in the country and the region; (ii) external shocks, especially due to lower commodity prices for coffee and tea; (iii) capacity constraints of the Government; and (iv) financial constraints.
- 3. The Government's intention is to update the PRSP every two years, along with annual updates to reflect evolving circumstances and ensure that it remains on course.** As a part of this process, the Government plans to conduct surveys such as the Household Living Standards Survey (every five years), the Core Welfare Indicators Questionnaire (annually), and Public Expenditure Tracking Survey (every 3 years), and initiate Citizen Report Cards. Moreover, the Government has demonstrated its commitment to improve public expenditure management (PEM) for better public service delivery, and to this end has adopted the Medium Term Expenditure Framework (MTEF), which has been supported by the Bank, the Fund and some bilateral donors.

4. The Government's effort in putting together the PRSP is highly commendable and further efforts will be needed to refine the proposals to facilitate implementation.

The participation in the PRSP process and sense of ownership are impressive. The PRSP has articulated a strategy of social and economic transformation that Rwanda needs to make the transition to peace, stability and development. While the broad thrust of the strategy is clear and sectoral strategies are well articulated in some areas, for instance education, HIV/AIDs, technology and health, in some sectors – transportation, rural development, private sector, financial sector, institutional capacity building, the way forward is less clear. The PRSP recognizes this gap and has proposed a program for elaborating sector strategies. The staffs suggest that this effort should put emphasis on strategies for cross-cutting areas such as environment, private sector development including the financial sector, and capacity building. The PRSP team also carried out costings of priority programs and prepared the different financing scenarios included in the Annex of the PRSP. This work has to be regarded as preliminary and needs further refinement with a view to use it in the MTEF projections. While the PRSP made an effort to identify sources of growth, further analytical work is needed in this area. The PRSP agenda is challenging and assistance from the development partners for financing of development programs and capacity building is essential for success.

II. COUNTRY OWNERSHIP AND PARTICIPATORY PROCESS

5. The country ownership of the PRSP process has been consistently strong. The PRSP process was well received in Rwanda, a country with a tradition of consultation. Government commitment to poverty reduction and to participation was reflected in the emphasis on these issues in both the *Vision 2020* published in 1998, and the I-PRSP, published in 2000. Countrywide consultations undertaken in the course of 1999 and 2000 by the National Unity and Reconciliation Commission (URC) identified poverty as a major obstacle to national reconciliation in Rwanda, confirming the link between poverty and national reconciliation, as noted in *Vision 2020*. As a result of the PRSP, government officials at all levels have embraced poverty reduction as the key objective of government policy.

6. The National Poverty Reduction Program (NPRP), set up in 2000 in the Ministry of Finance and Economic Planning, coordinated the PRSP. The Participatory Poverty Assessment (PPA) was conducted nationwide and had three components: (i) National Poverty Assessment (NPA); (ii) Butare pilot of the community action plan; and (iii) Policy Relevance Test (PRT). The NPA was conducted at the district level and was based on standard Participatory Rural Appraisal techniques in which each community (or person) ranked the problems faced. The Butare pilot was also conducted at the community level, but went a step further by developing action plans to solve the problems that were identified in the NPA survey. The PRT assessed existing policies and those proposed in the I-PRSP at the individual and community levels for their effectiveness, inclusiveness and level of participation.

7. **The elaboration of the PRSP involved an extensive consultative process.** The I-PRSP was used to build support for the PRSP process. Its consultations focused at government and political levels, including the political parties and the members of the National Assembly, and key stakeholders including local authorities, commune development committees, religious groups, NGOs and community associations. The consultative process of the full PRSP concentrated at the grass roots levels and the results of the process have informed the identification of priority areas for the Poverty Reduction Strategy (PRS). The PRSP recognizes the key role of sector strategies in implementing the PRS and for extensive continuing consultations within the government and the civil society on these strategies to ensure their consistency with poverty reduction. The sector ministries in the Government participated fully in the national validation workshop that reviewed the priorities, and in developing the expenditure frameworks that reflected the results of the consultations. The Government regularly consulted the Bank and Fund missions and other development partners as a part of its consultative process. At a Government-organized conference in November 2001 in Kigali, attended by the civil society, the representatives from all bilateral and multilateral donors, as well as the Bank and the Fund, donors provided feedback on the draft PRSP, and indicated their support for the implementation of the PRS.

8. **The PRSP has been written with the Rwandese population as the primary audience and it is therefore quite elaborate.** The National Poverty Reduction Program (NPRP) conducted the PRSP process in a very open way. It worked closely with other Government officials and representatives of civil society and shared progress reports with a large group of people in Rwanda and elsewhere by e-mail. While the Rwandese welcomed the contribution from outsiders, they relished the opportunity to articulate their own vision and ideas to the world. The Government plans to publish the PRSP in English, French, and Kinyarwanda, make it publicly available and conduct workshops and other consultations on the implementation of the PRS. The wide dissemination will promote a continuing and constructive public debate on poverty reduction and public policy and performance. The coordination unit of the NPRP will be transformed into Strategic Planning and Poverty Reduction and will assist agencies in developing PRS implementation plans as well as monitoring progress.

III. POVERTY DIAGNOSIS

9. **The PRSP provides a sound assessment of living conditions in Rwanda, with data obtained through a wide variety of surveys.** These surveys were conducted over a two-year period with help from various donors, including DfID, UNDP, USAID and the World Bank. They include: the Core Welfare Indicators Questionnaire (CWIQ) 2001, Demographic and Health Survey (DHS) 2000, Multiple Indicator Cluster Survey (MICS) 2001, Household Living Conditions Survey (HLSS) 2001, the Food Security Survey 2000/01, and the Public Expenditure Tracking survey (PETS). With the results from these surveys and the qualitative information on the characteristics of households in Rwanda from the NPA, the PRSP set out a comprehensive analysis based on a wide range of indicators, including those related to income, consumption, health, education, access to water, crop production, nutrition, women's fertility, income distribution and region. The results of

the 2003 population census will be reflected in the next PRSP update. The staffs commend the Government for this extensive undertaking in the face of substantial capacity constraints.

10. **The PRSP candidly discusses the factors that contributed to high levels of poverty in Rwanda and draws on examples of policies that worked in other countries.** While the PRSP clearly sets out the relationship between poverty in Rwanda, long-term structural issues and the effects of the genocide, it would benefit from a better analysis of the effect of the country's conflicts (not only the genocide) and past policies of exclusion, and the impact of recent government policies on poverty. For example, it would be useful to assess the causes of a large increase in the Gini-coefficient and the significant urban-rural divide and identify associated policy implications.

IV. PROPOSED ACTIONS

A. PRSP Priorities, Targets, and Monitoring System

11. **The PRSP aims to reduce poverty to less than half the 2001 level by 2015 and improve social indicators in line with the UN Millennium Development Goals (MDGs).** The PRSP set out a private sector-led growth strategy and identified the transformation of agriculture and the rural economy as the engine of growth in the medium term. This strategy is broadly in line with the pre-PRSP strategy of the Government but the PRSP process has resulted in broader ownership and consensus on the approaches to implementation. The PRSP proposes a partnership between the Government, the civil society, the private sector and the donor community for attacking poverty, in contrast to the past approach that relied exclusively on the Government, the national budget, and donor funded programs. It also identified prioritization and sectoral strategy development as the key instruments for focusing public actions on poverty reduction and improving the effectiveness of these actions. The PRSP identified six broad priority areas: (i) rural development and agricultural transformation; (ii) human development; (iii) economic infrastructure; (iv) good governance; (v) private sector development; and (vi) institutional capacity building, compiled a matrix of policy actions for each of these areas, and identified specific budget priority programs in each area and provided preliminary costings. The identification of these priority areas and budget programs was based on the results of the PRSP consultations. The staffs agree with the overall growth strategy and welcome the emphasis on agriculture and rural development and on increasing the effectiveness of public actions.

12. **The PRSP's poverty reduction goals are very challenging, requiring exceptional efforts.** The poverty reduction target would require average annual growth of real GDP of 7-8 percent over a sustained period. The staffs believe that this target will be difficult to reach by 2015. The PRSP average growth projections for next 15 years of about 6 percent, while consistent with recent performance, are still ambitious as conflicts and insecurity in Rwanda and neighboring countries could continue to undermine the effective use of resources and deter the investments that are needed to achieve and sustain such growth rates. Progress on the broader MDG targets (infant and maternal mortality, increase in literacy, education of girls) would require sustained support from the donor community.

13. **The PRSP's approach to monitoring and evaluation of the targets are adequate and well defined in the PRSP.** The institutional structure proposed for the data collection and analysis and the monitoring mechanism for the PRSP process are ambitious and commendable. The list of indicators is comprehensive and consistent with the MDGs. Routine monitoring of performance indicators for all priority areas will be on an annual basis, coordinated by an entity established for this purpose (the Poverty *Observatoire*). Larger surveys, to be conducted every five years, will supplement annual monitoring and validate the poverty indicators. Citizens' Report Cards, if implemented, could also be an important monitoring tool. The PRSP presents a table of indicators, with medium-to-long-term targets, for monitoring performance. The staffs suggest a similar table be prepared, with annual targets, to be used to monitor progress on the implementation of the PRSP. The staffs are ready to work with the Government on a set of indicators and on formulating the targets. The staffs note that the Government will require substantial assistance from its partners to fully implement the monitoring and evaluation program, particularly to build up the capacity to collect and maintain statistics.

B. Macroeconomic Framework and Financing

14. **The PRSP commits to a set of policies aimed at reducing macroeconomic imbalances over time.** Macroeconomic stability is seen as crucial to stimulating export-based, private sector-led growth. The staffs consider that the projected average growth rate is achievable, provided that current plans for macroeconomic policies are being implemented.

15. **The PRSP states explicitly the need for certain transitional expenditures, on account of which the consolidation in the fiscal deficit is being somewhat lengthened.** While relatively large in the short term, staffs agree that expenditures in areas such as demobilization or *gacaca*, the system for accelerated resolution of the cases of the genocide suspects, are necessary for the country's reconciliation and development and thus growth enhancing in the longer term.

16. **A number of revenue measures are envisaged to support the authorities' poverty strategy.** The measures were chosen to be as of a progressive nature as possible in order to minimize any negative social impact. In addition, they were designed to increase the degree of harmonization with tax systems of neighboring countries, and to rely on a broad tax base rather than on high rates. The set of measures is carefully balanced and should achieve those objectives.

17. **Rwanda's macroeconomic sustainability including its external position is subject to uncertainty, given its exposure to terms-of-trade shocks and the large level of the current account deficit.** However, Rwanda's economy remains relatively closed with exports only accounting for 9 percent of GDP, and it is not expected that Rwanda's capital

account will be opened in the near term. Given the existing risks, the PRSP provides for a strong buildup in official reserves that provide sufficient flexibility to counter future terms-of-trade shocks.

18. **The financing of the PRSP is realistic and every effort has been made to limit the impact on debt sustainability.** Nevertheless, the net present value of debt to exports (on a post-HIPC basis) is projected to increase from 180 percent of GDP in 2001 to 211 percent by 2004. However, on the basis of a modest continuation of the fiscal consolidation process and taking into consideration productivity gains resulting from the measures to improve exports, the targeted ratio of 150 percent can be reached by 2014. It would be essential, in this regard, for donors to align their own strategies with the PRSP and to extend additional support in the form of grants.

C. Structural and Human Resource Policies

19. **The PRSP's proposals are broadly in line with the strategy for poverty reduction by private sector-led rapid economic growth.** The PRSP identifies the key structural impediments to growth (low productivity in agriculture, scarce human resources, high transport costs, etc.) and stresses that structural and institutional reforms are essential to facilitate private investment, promote enterprise development, exports, and market-based agriculture. However, some of the reforms needed to achieve these objectives are not well reflected in the PRSP due to its focus on detailed actions, some which may not be justified by its analysis. For instance, the PRSP does not establish a strategic justification for the proposals to establish an Agricultural Development Corporation to guide marketing and extension. The discussion on the financial sector does not address the fundamental problems of the sector, particularly the difficult legal environment and the lack of competition. The staffs feel that the proposals for the transformation of the Caisse Hypothecaire into a housing bank and the establishment of a guarantee fund for agricultural loans are inappropriate in the fragile financial sector. Rather, the emphasis should be on strengthening the commercial banking system by enforcing banking regulations, facilitating loan recovery, privatizing government holdings in the banks and building capacity. Staffs are particularly concerned about PRSP's advocacy of subsidies to credit unions and other microfinance institutions. Subsidies are likely to undermine the sustainability of these institutions.

20. **The PRSP identified agriculture and rural development as the engine of growth in the medium term.** Agriculture remains the main economic activity for the vast majority of rural dwellers but land scarcity, the degradation of the land, and related declines in productivity, have led to widespread rural poverty. While the PRSP articulates detailed strategy and actions for agriculture, there is little in terms of a rural development strategy. The agricultural strategy seeks to transform the sector from subsistence to market based, promote the adoption of improved inputs and new and appropriate technologies, and reverse the degradation of the environment. However, the problems of the rural environments (isolation from markets, poor purchasing power of rural dwellers, poor economic and social infrastructure) where agriculture takes place need to be addressed to facilitate the transformation. To its credit, the PRSP proposes small-scale rural credit to support agriculture, and public works schemes to help revitalize farm and non-farm activity, repair infrastructure and undertake environmental protection works. Land is scarce in Rwanda and land and resettlement issues are controversial. The PRSP presents some key elements of the proposed land policy and land laws. The staffs note that the land law has been under

preparation for close to five years. The PRSP indicates a welcome shift to a more participatory approach in the implementation of the controversial *imidugudu* (grouped settlements) policy. The PRSP also recognizes the urgency for arresting environmental degradation but does not articulate a strategy for doing this.

21. **The PRSP recognizes that exports will be an important source of growth for Rwanda.** Given the importance of export development, the staffs would encourage an integrated discussion of the ongoing initiatives for export development and the policies and prospects in a future annual report or PRSP update. Privatization of the key state enterprises such as in coffee and tea is expected to provide immediate stimulus to exports. However, the staffs note that after the initial burst of activity in 1999/2000, the pace of the implementation of the privatization program has slowed down. The importance of regional cooperation/integration was recognized but there was little discussion of how this can be achieved and the role Rwanda might play in achieving it.

22. **The PRSP stresses the importance of sound infrastructure for national reintegration and the reduction of poverty.** However, for a land locked country, the options identified in the PRSP do not fully reflect the issues of corridor road transport facilitation and development, which are vital for Rwanda's external trade. In addition, the institutional reforms needed to build and maintain private sector and community involvement in transport infrastructure financing and service delivery ought to be emphasized in the PRSP. With regards to water and sanitation, the PRSP rightly emphasizes the supply of water to households but the broader and important issue of the management of water resources does not receive attention.

23. **Human development received a strong emphasis in the PRSP, reflecting its importance to the well being of the population and for the transformation of the economy from subsistence agriculture to more knowledge intensive activities.** The PRSP's discussion of human development recognizes the key challenges and proposes appropriate approaches. This is probably due to the intensive focus on these issues in the last five years and in the PRSP consultations as well the availability of new data on social sector performance, particularly from the DHS, the PETS and the CWIQ survey. The staffs welcome the continuing priority to resettlement and reintegration, support to vulnerable groups, elimination of gender disparities and fighting the HIV/AIDS epidemic, the emphasis on access, quality, relevance, and equity in primary education and the proposal for government assistance to improve access of the poor to health services. However, the PRSP could usefully address the implications of the changing roles of local and central authorities in education and health and the associated resource transfers.

D. Governance and Public Sector Management

24. **The PRSP reaffirms the Government's commitment to good governance generally and transparency, and accountability in the use of public resources.** Poor governance was identified in the consultations of the National Unity and Reconciliation Commission as a one of the major causes of disunity in Rwanda. The PRSP's treatment of

good governance as one of the basic requirements of sustained poverty reduction reflects the acceptance of its importance to the transition program in Rwanda. Actions in this area, which were identified in the I-PRSP, will be complemented by strengthening the institutions responsible for audit and inspection and increased dissemination of information on government operations. Staffs commend the Government for the progress already made in these areas, including decentralization and civil service reform, especially given prevailing capacity constraints. The focus of actions in the justice area is appropriately on the implementation of the *gacaca*, however, the staffs suggest that actions on commercial, civil and criminal justice systems, particularly on the access of the poor to these systems, should begin to receive attention. Furthermore, the PRSP could have elaborated further on the plans to establish an Office of the Ombudsman to deal with corruption and injustice.

25. **The PRSP's focus on effective public actions as a key element for poverty reduction requires improvements in public expenditure management (PEM).** The staffs welcome the emphasis on improving the effectiveness of public actions through the sector strategy process, the prioritization of expenditures, the collaboration with supporting partners, and the implementation of the MTEF. The staffs note that the significant progress made in prioritizing the budget, monitoring expenditures, and the introduction of the MTEF provides a sound building block for the future. The key PEM challenges include improving in accountability, monitoring outcomes and strengthening implementation and service delivery. The staffs suggest that the realignment of human resources to priority activities should receive as much emphasis as the allocation of financial resources. Furthermore capacity building efforts in the local authorities should focus on the implementation of programs in priority areas.

26. **The PRSP identifies institutional capacity building as one of the six priorities for public actions.** However, the PRSP does not address the issue in a comprehensive way. Institutional capacity building for the public sector needs to be addressed in the context of a broad reform of the sector. The staffs encourage the authorities to develop a strategy to meet this challenge.

V. POTENTIAL RISKS

27. **The success of this ambitious strategy for growth and poverty reduction rests on three pillars—peace and stability, implementation, and adequate financing.** The fragility of prospects for peace, security and national reconciliation in Rwanda is underscored by its long history of conflict and the continued conflict in the Great Lakes region. Long-term political stability will be key to future security and peace.

28. **The fragile social capital and the limited institutional capacity of the Government are potential obstacles to the success of the extensive economic and socio-political reforms under implementation.** The active support of the people is critical for the success of these reform programs. The *gacaca* requires the active participation of the people and, moreover, its implementation presents a huge logistical challenge. The limited capacity at all levels of the Government and the private sector constitutes the most serious risk to the

successful implementation of the PRSP. The authorities recognize the problem of capacity and plan to accelerate human resource development.

29. **Achievement of the PRSP's poverty reduction objectives will require sustained economic growth at a high level.** Beyond the peace dividend and improved capacity building, this will depend on taking advantage of the benefits of market integration, including under the Common Market for Eastern and Southern Africa (COMESA), improved efficiency associated with privatization, and increased investment as reform efforts are consolidated. Failure to capitalize on these elements would clearly limit growth prospects.

30. **Failure to bring about improvements in fiscal revenue performance would jeopardize the reduction in macroeconomic imbalances.** Even if the high imbalances can be financed by additional foreign savings—the risks to macroeconomic stability would persist. Debt sustainability could be adversely affected and so would be the attainment of price stability. This would have a negative effect on the growth of private sector savings and investment, upon which the poverty strategy depends to a large extent.

VI. OVERALL ASSESSMENT

31. The staffs of the World Bank and the IMF consider that this PRSP provides a sound basis for Bank and Fund concessional assistance and for debt relief. The staffs recommend that the respective Executive Directors of the World Bank and the IMF reach the same conclusion.