DFID Rwanda

Growth and Poverty Reduction Grant to the Government of Rwanda (2012/13-2014/15)

BUSINESS CASE

V3.6

July 2012

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List of Acronyms

ACC	Anti-Corruption Commission
ADB	African Development Bank
AFR	Access to Finance Rwanda
BCR	Benefit Cost Ratio
BSHG	Budget Support Harmonisation Group
BSEF	Budget Support Evidence Facility
CBA	Cost-Benefit Analysis
CPAF	Common Performance Assessment Framework
DFID	Department for International Development
DoL	Division of Labour
DPAF	Donor Performance Assessment Framework
EAC	East African Community
EICV	Enquête Integrale sur les Conditions de Vie *(Household Survey)*
EU	European Union
EDPRS	Economic Development and Poverty Reduction Strategy
FRA	Fiduciary Risk Assessment
GBS	General Budget Support
GDP	Gross Domestic Product
GNI	Gross National Income
GoR	Government of the Republic of Rwanda
GPRG	Growth and Poverty Reduction Grant
HDI	Human Development Index
IFMIS	Integrated Financial Management Information System
JGA	Joint Governance Assessment
JSR	Joint Sector Review
JBSR	Joint Budget Support Review
LTR	Land Tenure Regularisation
MDG	Millennium Development Goal
MIC	Middle-income Country
MMR	Maternal Mortality Ratio
MoU	Memorandum of Understanding
MP	Member of Parliament
NISR	National Institute of Statistics of Rwanda
NPV	Net Present Value
OAG	Office of the Auditor General
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PSI	Policy Support Instrument
RPF	Rwandan Patriotic Front
SBS	Sector Budget Support
SWG	Sector Working Group
TMEA	TradeMark East Africa
VfM	Value for Money
VUP	Vision 2020 Umurenge Programme

Project Summary
RWANDA GROWTH AND POVERTY REDUCTION GRANT

What support will the UK provide?

1. A Growth and Poverty Reduction Grant (GPRG)[1] will support Rwanda in delivering its national development plan goals of sustainable growth and poverty reduction. The project budget is **£111 million over the period 2012/13 to 2014/15**. This will enhance the Government of Rwanda (GoR)'s ability to reduce poverty and inequality, provide better essential services to poor Rwandans (especially education, health, water and sanitation, social protection) and increase equitable, pro-poor economic growth through increased investment in infrastructure, energy and agriculture.

Why is UK support required?

2. **Rwanda is pushing for, and achieving, exceptionally fast development.** The past decade has brought macroeconomic stability and strong economic growth, averaging 8% over the past five years. Recent household surveys[2,3] conducted in Rwanda reveal that the **poverty rate has decreased by almost 12 percentage points** in the last five years. Poorer households particularly benefitted from recent economic growth, resulting in **reduced inequality** in Rwanda. This is coupled with progress across many of the Millennium Development Goal (MDG) indicators, including towards achieving **universal primary education** and significantly reducing **child mortality**.

3. Rwanda's vision sees the economy completing its transformation from a poor, post-conflict nation, to a thriving, middle income, regional trade and investment hub by 2020. Progress towards this vision has been impressive: the government has re-built the core functions of a collapsed state including establishing long term and predictable revenue streams, minimising corruption, and managing its finances efficiently and effectively.

4. However, **despite remarkable progress, the development challenge in Rwanda remains huge.** It is still one of the poorest, and most unequal countries in the world: 45% of Rwandan population are poor and 24% live in extreme poverty.[4] Relatively high levels of inequality remain a constraint to economic growth and poverty reduction.[5]

5. There is still much more that needs to be done to help Rwanda achieve its development objectives, including the MDG targets. Rwanda remains off-track to meeting MDG indicators for maternal health, HIV prevalence and access to improved drinking water. Other development challenges include low secondary education attendance rates, lack of access to energy, low levels of private sector investment, gender inequality in the household and climate change. Rwanda will also need to address the challenge of opening up political space and strengthening various dimensions of

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[1] Also referred to as General Budget Support (GBS). These two terms (GBS and GPRG) are used interchangeably in this Business Case

[2] Integrated Household Living Conditions Survey (Enquête Integrale sur les Conditions de Vie des ménages au Rwanda – EICV) 2010/11, the third in the series following surveys in 2000/01 and 2005/06

[3] 2010 Rwanda Demographic and Health Survey (RDHS), the fifth of its kind, following surveys in 1992, 2000, 2005, and the 2007-08 Rwanda Interim DHS

[4] 'poverty' and 'extreme poverty' are both defined as the ability to afford a given basket of basic goods

[5] National Institute of Statistics of Rwanda (2012), The Evolution of Poverty In Rwanda From 2000 to 2011: Results From The Household Surveys (EICV) pp19-23

accountability.

6. **Continued UK support and dialogue is required to help the Government of Rwanda address these challenges.** In the medium term graduation from aid is foreseeable, but for the next few years, aid has a vital role to play in both enhancing the funding available for service delivery and in supporting the cross-cutting public sector reforms that will provide the platform for equitable and sustainable economic growth.

7. **A new Growth and Poverty Reduction Grant (GPRG) is well suited to supporting the Government of Rwanda to achieve its results-focused vision** and ambitious economic growth and poverty reduction targets. With its blend of financial resources, focused policy dialogue on key cross-cutting reforms and targeted complementary technical assistance, a GPRG will transfer aid in a flexible, efficient and predictable way, enabling improved resource allocation in support of poverty reduction and reduced inequality in Rwanda.

8. Rwanda has a strong track record of using budget support to deliver improved services and increase pro-poor expenditure. Based on a decade of experience, this form of aid is particularly appropriate for Rwanda because:

   - Rwanda has a strong track record on **economic stability**
   - **Fiduciary risk is relatively low and is decreasing** with stronger public financial management systems and continued government commitment to fighting corruption.[6]
   - Budget Support in Rwanda is governed by a written agreement[7] which specifies the Government's **commitments to underlying partnership principles:** poverty reduction, and the Millennium Development Goals; respecting human rights and other international obligations; improving public financial management, promoting good governance and transparency and fighting corruption; and, domestic accountability. Provision of the GPRG will be conditional on the Government's continued commitment to these principles.[8]

What are the expected results?

9. The intended **impact** of the programme is sustainable and equitable growth and poverty reduction in Rwanda. The expected **outcome** is improved effectiveness and accountability of the Government of Rwanda. The **outputs** will flow through two parallel channels: delivery of services (e.g. health, education, social protection); and strengthened government systems (e.g. improved public financial management and accountability).

10. The GPRG will contribute to deliver a broad and ambitious set of results in Rwanda, set out in the logframe. Service delivery outputs to which UK support will contribute include[9]:

   - 189 fewer maternal deaths per 100,000 live births by 2015
   - 155,113 more extremely poor people benefiting from cash transfers by 2015
   - At least 175,000 more households connected to the national electricity grid by 2015
   - 0.3 billion additional tonnes of key food security crops produced by 2015

[6] The creation in 2011 of a Public Accounts Committee in Parliament has significant potential to strengthen accountability for public spending.
[7] UK Budget Support to Rwanda is underpinned by the 2006 UK GoR MoU. The MoU is currently being updated to reflect the four partnership principles (i.e. including domestic accountability).
[8] These principles are set out in a July 2011 Technical Note on "*Implementing DFID's strengthened approach to budget support*"
[9] These results will be updated at the completion of the development of the new EDPRS (2013-2017) due by December 2012. Approximately 3.8% of GoR results can be attributable to DFID, in proportion to DFID GBS as a share of the GoR budget.

- 260,000 new non-farm jobs created by 2015
- 1,595,000 more people with access to clean drinking water by 2015

11. In addition, policy dialogue under the programme will support strengthening of government systems and reforms needed for sustainable and equitable economic growth including:

    - Sound macroeconomic management with the fiscal deficit and inflation consistent with IMF targets
    - Development and implementation of a clear and convincing strategy to tackle low levels of private sector investment, broaden economic space and strengthen the business environment
    - The mainstreaming of climate change into government planning and budgeting processes
    - Consideration of equity outcomes in the delivery of government policy

12. Delivery of programme results will be monitored using the logframe attached at annex 1 which draws heavily on the indicators and targets set by the GoR in discussion with DFID and other development partners. Levels of budget support will be dependent on the degree to which the Government meets these targets, with a £5m variable tranche linked to performance.

Business Case[10]

I. Strategic Case

A. Context and need for DFID intervention

Evidence of need

Background

13. The current Rwandan government has an impressive record of achieving results. It ended the genocide, secured Rwanda's borders, brought political and macroeconomic stability, minimised corruption and has re-built the core functions of a collapsed state.

14. Rwanda's vision is to:

"…*transform Rwanda's economy into a middle income country [requiring] an annual growth rate of at least 7%. This will not be achieved unless we transform from a subsistence agriculture economy to a knowledge-based society, with high levels of savings and private investment, thereby reducing the country's dependence on external aid. Economic growth, alone, is not sufficient to bring about the necessary rise in the standard of living of the population. To vanquish hunger and poverty, growth must be Pro-Poor…*"[11]

However, to achieve this vision, the country still has a mountain to climb: Rwanda is one of the poorest and most unequal countries in the world, ranked 166th out of 187 countries in the Human Development Index 2011, and remains off-track on several MDGs (see below).

15. In pursuit of its vision, Rwanda uses external finance well: pushing for, and achieving, exceptionally fast development. The government has demonstrated strong leadership on poverty reduction through the development and implementation of two key documents: **Vision 2020** (a medium term strategy), and the **Economic Development and Poverty Reduction Strategy** (EDPRS) which sets out the government's plan and priorities over the period 2008-2012. A recent OECD report gave Rwanda the highest rating for 'leadership over development policies and strategies' - the first time a country covered by the survey had received the top rating on the five-point scale.[12]

Recent achievements are impressive…

16. Since the genocide in 1994 and particularly over the last ten years, Rwanda has made substantial progress across a range of economic, social and governance issues:

17. ***Macroeconomic performance:*** For Rwanda, the last decade has been one of macroeconomic stability and strong economic growth, with the latter averaging around 8% per year over the decade. Sound macroeconomic management, combined with strong agricultural growth and good export performance of key commodities (tea, coffee and minerals) have contributed to this strong economic performance. Donor support has also played its part: contributing to stability by providing foreign exchange to allow the government to effectively manage its balance of payments.[13]

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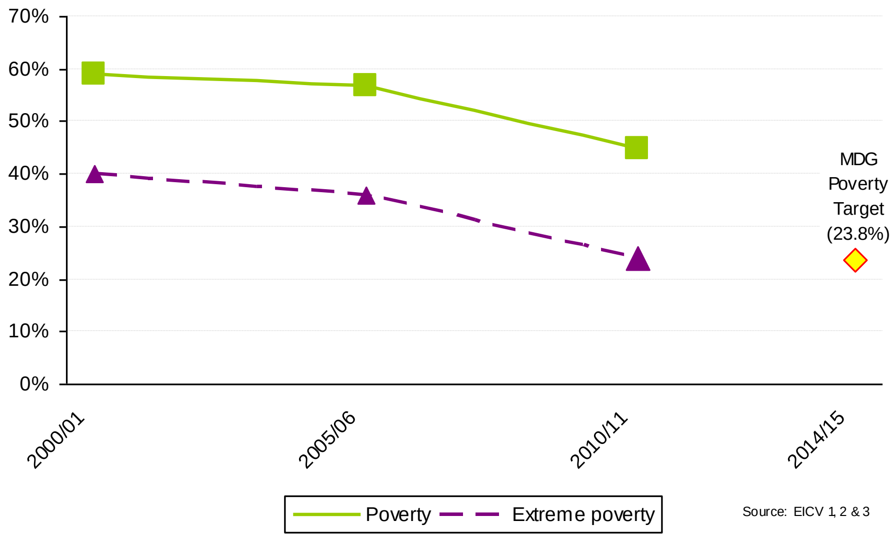
[10] This Business Case was finalised during May 2012 and submitted for internal quality assurance in April 2012. Ministerial approval was given in July 2012.
[11] Rwanda Vision 2020, page 4; latest figures suggest that growth would need to be 10-11% if Rwanda is to achieve its vision of becoming a middle income country by 2020.
[12] OECD (2011) Aid effectiveness 2005-2010: Progress in Implementing the Paris Declaration
[13] Joint Evaluation of General Budget Support: Rwanda country report (May 2006) page 93

18. Whilst inflation in Rwanda increased in 2011, mainly driven by high fuel and food prices, it remains the lowest in the region[14] due mainly to improvements in food production that have kept food markets stable, a relatively stable exchange rate, and coordinated government policies to mitigate external inflationary pressures.[15]

19. The medium term outlook for Rwanda remains strong with low and stable inflation, improved current account deficits driven by increased exports, and international reserves at comfortable levels. The fiscal deficit is expected to narrow over time as a result of higher domestic revenues and lower overall spending, despite reduced aid flows.[16] The government of Rwanda has also championed regional integration and made good progress in creating a conducive environment for investment. Rwanda has been ranked among the top reformers by the World Bank Doing Business Index for the last three years, and was ranked third in Africa in the 2011 Index.[17]

20. ***Poverty***: Recent data from the 2011 national household survey ("EICV")[18] shows that significant gains have been made in poverty reduction with income poverty (the percentage of people living on less than $1.50 per day) reducing from 57% in 2005/6 to 45% in 2011. Extreme poverty (the percentage of people living on less than $1 income per day) has also fallen from 35.8% to 24.1% in the same period. [19,20] ***Inequality*** has improved slightly with the gini co-efficient[21] improving from 0.52 to 0.49 between 2005/6 and 2010/11 reversing the trend seen in the previous household survey.

Figure 1: Proportion of the population in Rwanda in poverty or in extreme poverty, 2000/01-2010/11



Source: EICV 1, 2, 3

[14] The inflation rate in Rwanda was 8.3% in 2011, compared with 18.9% in Kenya, 19.8% in Tanzania and 27% in Uganda (Data from the National Bank of Rwanda)
[15] IMF (Jan 2012), Rwanda: Third Review Under the Policy Support Instrument – staff report
[16] Ibid
[17] World Bank Doing Business Index, 2009, 2010, 2011
[18] National Institute of Statistics of Rwanda (2012), *The Evolution of Poverty In Rwanda From 2000 to 2011: Results From The Household Surveys (EICV) pp19-23*
[19] Integrated Household Living Conditions Survey (Enquête Integrale sur les Conditions de Vie des ménages au Rwanda – EICV) which is the third in the series following surveys in 2000/01 and 2005/06
[20] 2010 Rwanda Demographic and Health Survey (RDHS), which is the fifth of its kind, following surveys in 1992, 2000, 2005, and the 2007-08 Rwanda Interim DHS.
[21] The gini co-efficient is an internationally agreed measure of inequality. It can range from 0 (perfect equality) to 1 (maximum inequality).

21. ***Progress on other MDGs***: Reductions in income poverty have been accompanied by progress across many of the MDG indicators:

- Rwanda has made progress towards **achieving universal primary education** with net enrolment rates up to 92% (from 87% in 2005/06) compared with 76% across Sub-Saharan Africa (SSA).[22] Access to secondary school is still very low but increasing, having more than doubled to 21% from 10% between 2005/6 and 2010/11. Literacy rates have also increased from 65% to 70% for over 15 year olds.

- Rwanda remains broadly **on track to achieve its MDGs on child mortality**. Under-5 mortality levels have decreased to 76 deaths per 1,000 live births from 152 in 2005 (compared to 121 deaths per 1,000 live births across SSA in 2010[23]). Infant mortality decreased to 50 deaths per 1,000 live births in 2010 from 86 deaths in 2005. In comparison, the infant mortality rate across SSA was 76 deaths per 1,000 live births.[24]

22. There has also been **remarkable progress in the decline of malaria prevalence** in Rwanda, which has decreased by half since 2007-08, from 2.6% to 1.4% among children under 5 and from 1.4% to 0.7% among women age 15-49.

23. ***Gender***: The Government of Rwanda (GoR) has demonstrated a strong commitment to girls and women, through explicit consideration of gender issues in its development strategies; in its political rhetoric and in ratification of the Convention on the Elimination of Discrimination against Women (CEDAW) and in its application of gender responsive budgeting since 2008. Political representation by women in Rwanda is frequently lauded with 56% of parliamentarians being women, the highest in the world.

24. ***Government systems:*** A raft of governance indicators shows the government to be strong and capable. [25] Transparency International rank Rwanda as the fourth least corrupt nation in Africa[26]. Fiduciary risks were judged as moderate in DFID's 2011 Fiduciary Risk Assessment, and moving in the right direction. In 2011, the Rwandan Parliament established a Public Accounts Committee to strengthen value for money in public spending and indicators demonstrate that the Office of the Auditor General is also making progress in terms of public financial accountability.[27] Rwanda's civil service is recognised to be lean, reasonably paid and well-equipped by regional standards.[28] Administrative responsibility for service delivery is highly decentralised with strong provisions for ensuring achievement of performance targets in line with national objectives.

…but significant challenges remain

25. If Rwanda is to continue on the same strong poverty reduction and economic growth trajectory, the country will need to address a number of economic, social and governance issues:

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[22] SSA (developing countries) comparison statistics taken from African Development Indicators 2011, World Bank (the data point for the indicators in this publication was 2009). The World Bank definition of SSA (developing only) countries covers 47 SSA countries excluding Djibouti & Equatorial Guinea (http://data.worldbank.org/about/country-classifications/country-and-lending-groups#Sub_Saharan_Africa)
[23] Levels and trends in child mortality (2011)
[24] Ibid
[25] For example, Rwanda scores an average of 3.7 (where 1 is low and 6 is high) for 'public sector management and institutions' in the World Bank's Country Policy and Institutional Assessment (CPIA). This score is higher than equivalent scores for Tanzania, Uganda and Kenya.
[26] Transparency International, 2011 Corruption Perceptions Index
[27] Rwanda's PEFA score for scope and follow up of external audit has improved from a D+ in 2007 to a B+ in 2010
[28] Rwanda scores 4.0 (where 1 is low and 6 is high) for 'quality of public administration' in the World Bank's Country Policy and Institutional Assessment (CPIA). This score is higher than equivalent scores for Ghana, Ethiopia, Tanzania, Uganda and Kenya.

Economic challenges

26. Economic growth, reduced aid dependency and much-needed employment creation are currently constrained by **low levels of international investment** and a **weak private sector** in Rwanda. Despite government efforts to encourage private sector development, concerns have been raised by the donor community and the IMF that investment, and especially Foreign Direct Investment (FDI) has not been responsive to recent reforms. As a small landlocked country with poor infrastructure, the **high cost of trade** is a critical constraint and Rwanda will need to further promote regional trade and integration if it is to maintain its economic growth record.

27. In an economy where 73% of the population relies on **agriculture** for a living[29], increasing agricultural productivity is a first step needed for Rwanda to develop and buffer the effects of future food price rises. However, suitable land is in short supply and typically held in tiny holdings (averaging 0.7 ha).[30] By regional standards, crop yields are low, post-harvest services weak, and the export base undiversified. Rwanda's reliance on rain-fed agriculture both for rural livelihoods and its significant exports of tea and coffee means that it is **highly vulnerable to climate change**. Existing climate variability is already affecting economic growth and predicted increases in temperature and rainfall increase the risk of landslides, crop losses and damage to infrastructure.[31]

28. Lack of **access to energy** presents a further development challenge: only 11% of households have electricity as a source of light.[32] This is despite Rwanda having large, untapped, clean energy resources (hydro, geothermal and solar) which offer significant potential for low carbon growth and improved energy security. However, many of these technologies require substantial upfront finance and rely on the private sector to take them from concept to implementation.

Social challenges

29. Despite recent progress, **poverty** levels still remain some way off the MDG target (see figure 1) and **inequality** remains high.[33] There are also distinct regional variations in poverty levels which remain a concern.[34] Geographic variations in inequality are also apparent, with the Northern Province, one of Rwanda's five provinces, experiencing an increase in inequality.[35]

30. **Gender inequalities** persist with girls and women facing inequality in terms of assets, continuing to experience violence and missing critical care around safe childbirth and abortion. Latest data shows that 26% of female-headed households are extremely poor compared to 23% of male-headed households[36] and only 18% of women decide for themselves how their earnings are used.[37] Political representation at decentralised levels does not yet reflect progress made at the national level: for example, only 10% of Mayors are women[38]. Sexual and gender based violence remains a significant issue with 1 in 3 women reporting that their husbands have used

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[29] National Institute of Statistics for Rwanda, 2011
[30] Government of Rwanda, 2006, EICV II, op.cit.
[31] Stockholm Environment Institute (2009) references a CGIS-NUR study which estimates that direct measurable economic costs of a 2007 flood event were $4 to $22 million (around 0.1 – 0.6% of GDP) for two districts alone.
[32] National Institute of Statistics of Rwanda (2012)
[33] Ibid
[34] Ibid; Profile of Living Conditions in Rwanda 2010-11
[35] National Institute of Statistics of Rwanda (2012)
[36] Ibid
[37] Rwanda Demographic and Health Survey (RDHS) 2010
[38] Rwanda Statistical Yearbook 2011

force to engage in sex[39] and 56% of women believing that wife beating is justified for at least one of the specified reasons.[40]

31. Amongst MDGs and other development indicators, particular challenges remain in **maternal health**, where the maternal mortality ratio (MMR) remains high, at 487 deaths per 100,000 live births, **HIV prevalence** which remains unchanged from 2005 at 3% for people aged 15-49 (3.7% for women and 2.2% for men), and **access to clean water**, where 26% of the population are without access to improved drinking water sources. Attendance rates in **secondary education** are only around 21% and the **quality of education** at all levels remains a concern: a national Early Grade Reading Assessment found that only 32% of students in the final year of primary (P6) could fully comprehend a very simple grade 3 level text in Kinyarwandan.[41] Access to **social protection** for the extremely poor is still limited with the GoR's social protection programme currently reaching 120 of 416 sectors.[42] Addressing inequality and building resilience for the extreme poor will require significant scaling up of this programme.

Governance challenges

32. Rwanda's current political stability is rooted in the strong leadership provided by the President and ruling party. But there is concern about the degree to which **power is centralised**; about **restrictions on political space**; and about the strength of institutional provisions to ensure **accountability and citizen participation** in the decisions that affect and concern them. In the coming years, Rwanda will need to place increasing emphasis on reinforcing accountability to citizens and lifting constraints on rights and freedoms to create greater political pluralism and openness. This will help to consolidate and sustain development results; to reinforce the legitimacy of Rwanda's political system; and to help Rwanda to overcome the legacy of conflict and fragility.

Further progress depends on continued high levels of aid

33. Given the challenges outlined above, and the scale of its development needs, Rwanda still requires external support to finance its development plans. Rwanda remains heavily dependent on foreign aid: as figure 2 shows, aid makes up a significant proportion of the government budget (45% of current expenditure in 2010).[43]

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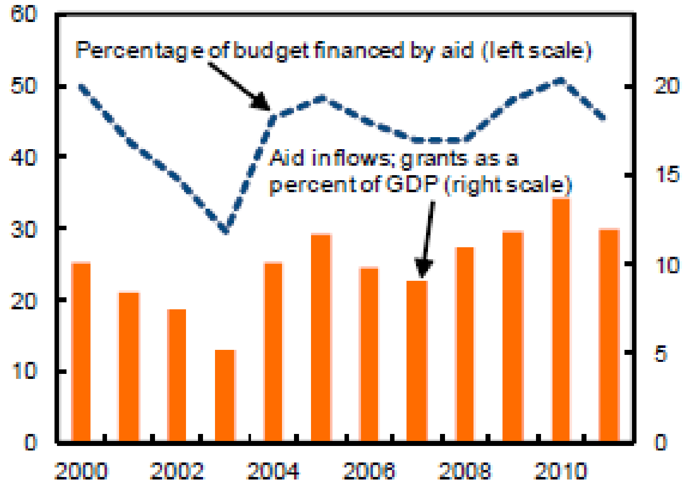
[39] UNIFEM Baseline Survey on Sexual and Gender Based Violence in Rwanda 2008
[40] DHS 2010
[41] USAID (2011)
[42] The GoR Vision 2020 Umurenge Programme (VUP) currently reaches the extreme poor in 120 out of 416 sectors with cash transfers, public works and AF services. From July 2012 the programme will target those districts and sectors within them where there is the greatest concentration of poverty, using new data available from the EICV. It should therefore be more effective in reaching the poorest.
[43] International Monetary Fund, December 2010, Rwanda: Staff Report for the 2010 Article IV Consultation, First Review under the Policy Support Instrument and Modification of Assessment Criteria.

Figure 2: Aid inflows as a percentage of government budget and GDP



Source: IMF (2012) Rwanda: third review under the Policy Support Instrument

34. In 2010, the International Monetary Fund (IMF) agreed a first-time Policy Support Instrument (PSI) with Rwanda. Rwanda was the 7th Country to sign such an instrument, which is designed for low income countries that may not need IMF financial assistance but who seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. This form of cooperation reflects Rwanda's strong macroeconomic track record. The programme provides an additional level of scrutiny of the government's economic policy which helps ensure continued macroeconomic stability. **The PSI seeks to reduce aid dependency** through increased domestic revenue mobilisation, limited and affordable non-concessional borrowing to ensure debt sustainability, and improved exports. Key features of the programme include continued public financial management reform, greater exchange rate flexibility and effective use of monetary policy to maintain low inflation and enhanced financial sector supervision capacity. Following its recent mission in Rwanda in March, 2012, the IMF confirmed that PSI performance is on track and Rwanda has had a fourth clean PSI review with most of quantitative targets and benchmarks being met.

Why should DFID intervene?

DFID's role within the donor landscape

35. DFID is the second largest bilateral donor to Rwanda (after the US) and the fifth largest donor in Rwanda (after the World Bank, African Development Bank, European Union and US). DFID's track-record of strong commitment to poverty reduction in Rwanda, backed up by proven in-country expertise mean UK Aid is well respected by both the government and donors. Through its balance of aid modalities, UK Aid is able to deliver results at scale and to support and influence the government of Rwanda on key budgetary and policy issues. Over the years, the UK has been very influential in Rwanda, encouraging and supporting progress in many key areas including public financial management, private sector engagement and monitoring and evaluation.

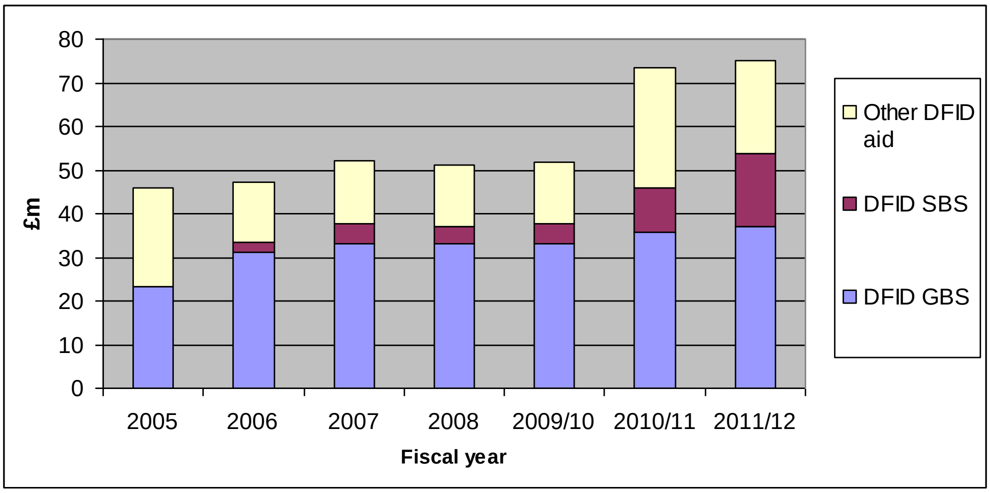
36. For example, in 2011, DFID input led to the strengthening of the GoR's monitoring framework, reducing the number of target indicators from 100 to 45, in order to improve accountability and focus effort in key areas (pro-poor sectors and governance). In 2010, following discussion led by DFID, the GoR agreed to conduct an 'interim household survey' every 2.5 years, to supplement data obtained every 5 to 6 years through the national household survey. This will significantly improve monitoring of poverty and will enable better targeting of GoR poverty reduction policies.

37. As a lead General Budget Support (GBS) donor (second only to the World Bank in scale of support[44]), and active participant in the over-arching Budget Support Harmonisation Group (BSHG), the UK is particularly well placed to influence discussions on policy and budgetary issues. DFID Rwanda is due to co-chair the BSHG from June to December 2012.

38. The UK has been providing multi-annual GBS to Rwanda since 2000, at which point it was the first donor to provide support in this way. Other development partners have since followed the UK's lead (see figure 4).[45]. The EU provides 80% of its funding to Rwanda as budget support, in contrast to its other Sub-Saharan African programmes which typically provide no more than 50% budget support. This reflects the effective institutional set up in Rwanda and the country's strong record in delivering results, which has given development partners increasing confidence in budget support as a powerful aid instrument in Rwanda. Additionally some donors, including the UK, provide budget support at sector level.

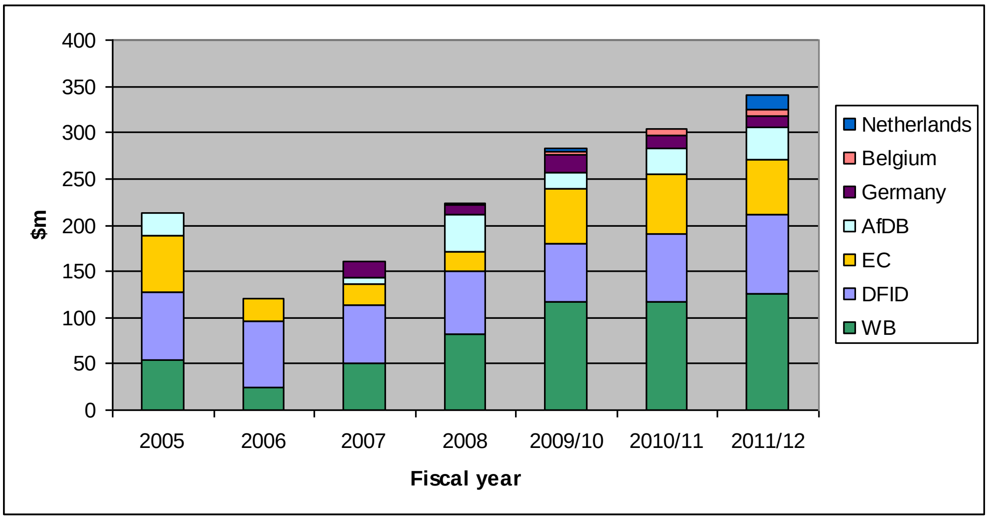
39. DFID is also distinct in terms of complementing significant GBS with a major focus on strengthening domestic accountability and transparency. For example, DFID is currently the largest and most closely engaged donor to the Rwandan Parliament and to the Office of the Auditor General (OAG).

Figure 3: DFID Overseas Development Assistance (ODA) to Rwanda (2005-present)



44 Other General Budget Support donors are the African Development Bank (AfDB), the EC and Germany
45 The Swedish International Development Cooperation Agency (Sida) followed in 2001, the European Commission (EC) in 2003 and the World Bank in 2004

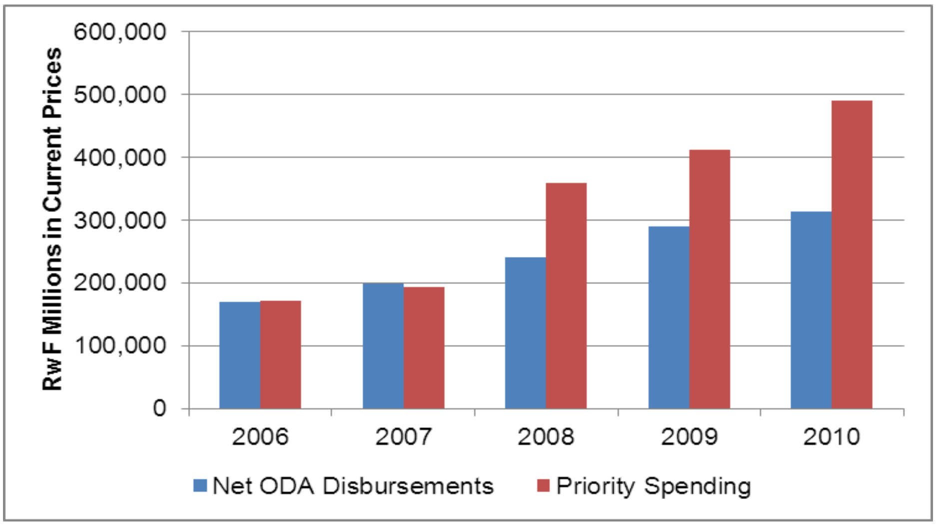
Figure 4: All donor budget support (SBS and GBS) to Rwanda



DFID support has delivered results

40. Budget support in Rwanda has facilitated significant increases in pro-poor expenditure through flexible funding, focused policy dialogue and targeted technical assistance. As figure 5 shows, recent years, have seen substantial increases in priority spending on health, education and social protection, which have more than outstripped increases in donor contributions.

Figure 5: Priority spending (on health, education, social protection)



Source: IMF (2012) Rwanda: third review under the Policy Support Instrument; OECD Statistics.
Note: Priority spending data is for Rwanda Financial Years that run from June to July. ODA data is for calendar years.

41. Integral to the implementation and success of the GoR's Economic Development and Poverty Reduction Strategy (EDPRS) has been regular monitoring of performance, through the Common Performance Assessment Framework (CPAF). The CPAF enables close monitoring of priority service delivery targets and capital investment programmes with a particular focus on addressing quality and equity of outcomes. It also tracks the Government's reform progress in key areas of competitiveness, public financial management and accountability. Targets are agreed, and performance assessed, jointly between government and development partners in an open and transparent manner. Recent performance has been strong. For the two full financial years (2009/10-2010/11), over 91% of all CPAF targets due for assessment were

either fully achieved or partially achieved (86% fully met and 5% partially met). Only 9% of targets were not met.

42. Some of the key results achieved by the GoR[46], with DFID support, during the 2009/10-2010/11 budget cycle include:

- an increase in electricity generation capacity from 84 MW to 97 MW,
- healthy growth in agriculture output (over 9%) which has contributed to economic growth by generating over 33.8% of GDP;
- an increase in the overall rate of use of modern contraceptives from 32% to 45%;
- Strong performance in education including an increase in the primary completion rate from 76% to 79%, (with a significant increase in the primary completion rate for girls from 75% to 82%).

43. Channelling aid through the GoR budget and systems has also brought wider benefits. It has ensured that responsibility for poverty reduction programmes rests with the GoR; helped strengthen government systems and institutional capacity[47]; and provided a platform for the UK to engage on policy dialogue across the breadth of government, including on national macroeconomic and fiscal policy, as well as at sector level. It has also enabled the UK, as a preferred partner, to engage on sensitive political issues at the highest government levels. In doing so, DFID Rwanda work closely with colleagues in the Foreign and Commonwealth Office (FCO).

44. Budget support has also provided a useful platform for **mutual accountability** between donors and the GoR. The budget support Joint Donor Memorandum of Understanding (MoU) specifies the use of complementary frameworks for assessing performance, including the CPAF and the Donor Performance Assessment Framework (DPAF). Whilst the CPAF tracks GoR performance in the implementation of the EDPRS, the DPAF contains a set of monitorable performance targets aligned to aid effectiveness commitments. It is through DPAF that the GoR judges donors' performance in adhering to Paris and Accra Declarations on Aid Effectiveness.

Looking forward: a strengthened approach to engagement

45. The government's current Economic Development and Poverty Reduction Strategy (EDPRS) draws to a close in June 2013. An evaluation exercise commenced in late 2011 in order to inform the development of the successor EDPRS II (2013-18) and development partners, including DFID, are heavily involved in this process. Findings from the 2011 national household survey are also expected to influence the successor strategy. For instance, the survey results released in February 2012, and on-going dialogue with development partners has prompted the government to increase its planned budget for the social protection sector in FY 2012-13, which is likely to positively influence the focus on poverty reduction in EDPRS II. Recent indications from senior GoR figures suggest that agricultural productivity, job creation and energy access are also likely to be areas of renewed focus for EDPRS II.

46. Dialogue with the GoR suggest that the priorities embodied in the 'flagship' EDPRS programmes (focusing on growth, poverty reduction, better governance) will not change in EDPRS II. Nevertheless, within these three areas the focus of government spending is shifting. Subsidies to energy and fertiliser imports are consuming an ever greater share of the budget, and strategic investments in the national airline and infrastructure have the potential to absorb much of the growth in government revenues in coming years. The effectiveness of these policies needs to be carefully monitored.

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[46] CPAF 2011

[47] Joint Evaluation of General Budget Support: Rwanda country report (May 2006) page 22

47. Given this context and the challenges outlined above, future UK support will need to focus dialogue on a number of key areas, in particular, how to:

- ***Accelerate income poverty reduction:*** extreme poverty and on-going inequality continue to affect the rate of poverty reduction and have a potential impact on social cohesion. Building on the performance of agriculture and social protection sectors in contributing to growth and poverty reduction, there will be a continued need to focus on financing these sectors and ensuring equitable, pro-poor growth and poverty reduction are policy priorities.
- ***Target other off-track MDGs and key constraints to growth:*** Rwanda's vision is to become a knowledge-based economy with a strong private sector to drive economic growth and close integration with the East Africa region. This ambition requires a healthy, highly skilled labour force with access to improved and increased public services particularly education, health, water and sanitation and energy. It will also require a substantially strengthened private sector and much greater inflows of Foreign Direct Investment (FDI). DFID will continue to press for joint analysis of the constraints to FDI in Rwanda and development and implementation of a strategy to address these.
- ***Deliver results for girls and women:*** evidence shows that investing in girls and women is transformational with benefits for themselves, their families and communities and multiplier effects for poverty reduction, economic growth and MDG achievement[48]. Progress on political representation, policy, ratification of international conventions and gender responsive budgeting need to be built upon to ensure girls and women have greater choice and control over decisions that will support them break out of the cycle of poverty and inequality.
- ***Enhance government effectiveness***: Despite significant progress on Public Financial Management (PFM), capacity remains limited, particularly at decentralised levels. DFID will continue to support PFM reforms to address key capacity constraints, and to promote transparency and good governance.
- ***Mainstream climate change into EDPRS II:*** DFID will support the implementation of the National Climate and Low Carbon Development Strategy (launched in December 2011), by engaging in policy dialogue across sectors to encourage mainstreaming of climate and environment across the EDPRS. A key step towards implementation is establishing the National Fund for Climate and the Environment (FONERWA). DFID will use the dialogue around the GPRG to help mobilise national and international resources to capitalise the Fund.
- ***Strengthen domestic accountability and respect for human rights:*** Rwanda's impressive progress in many aspects of development contrasts with continued constraints on political rights and freedom of expression. Robust domestic accountability mechanisms, including greater political and press freedom, are necessary to reinforce incentives for future administrations (beyond 2017) to continue to focus on service delivery, pro-poor growth and value for money. DFID will continue to support key accountability institutions including the Auditor General and Parliament, as well as supporting civil society to empower citizens to hold local and national government to account.

A portfolio approach to DFID support

48. A significant element of DFID's programme to-date has involved partnering with the GoR to support the establishment and development of core state functions in the aftermath of the genocide. Through its governance programming, for example, DFID has supported areas such as revenue-raising; financial and macro-economic management; and civil service reform. While

[48] DFID Strategic Vision for Girls and Women 2011

significant elements of this emphasis continue to be relevant and will remain part of DFID Rwanda's portfolio, the office is redirecting its emphasis beyond state functionality to include accountability systems and relationships, both across and between different state organs, and between the state and Rwandan citizens. Therefore, whilst GBS has so far played a crucial role in Rwanda, there remains a need for complementary support in particular areas and a balance of aid instruments.

49. The combination of general budget support (GBS) and other aid instruments can enhance overall results and help ensure the sustainability of outcomes. For instance, research by the Overseas Development Institute (ODI) argues that sector budget support (SBS) can complement GBS by making reform more responsive to the needs of sector service delivery.[49] Similarly, positive effects of SBS have been enhanced by overall improvements in countries' PFM systems, which have been strengthened by GBS programmes.[50] Specific sectoral issues can be more effectively addressed through SBS which allows a more detailed sector-specific focus and dialogue. For example, DFID Rwanda's continuing SBS programmes in agriculture, education and health and financial aid to the social protection sector provide a strong platform for targeted discussion and influence in these areas.

50. Direct programming can also complement budget support, strengthening its impact and effectiveness. For example, some issues are less effectively addressed through support to government and are best tackled through direct support to non-government entities, i.e. the private sector and civil society organisations. Given current low levels of foreign investment in Rwanda, the importance of the East African market and governance challenges, notably the need to reinforce government accountability to citizens and lift constraints on rights and freedoms, DFID Rwanda has made a deliberate shift from almost exclusive support to government towards increased support to the private sector and civil society, including by providing additional focused support in key areas such as regional trade promotion, improving access to finance and strengthening accountability.

51. DFID's use of GBS and SBS in Rwanda places an added premium on strengthening Rwanda's domestic public financial accountability systems and institutions so as to guard against abuse and to ensure maximum results and value for money from UK aid and from public spending in Rwanda overall. In view of this, an amount equivalent to approximately 5% of UK Budget Support will be spent on strengthening domestic accountability over the Comprehensive Spending Review period.[51] Programmes include supporting key accountability institutions such as Parliament (including the Budget Committee and the Public Accounts Committee) and the Office of the Auditor General (OAG). DFID's support to Parliament is directed at delivering greater Parliamentary autonomy, transparency and effectiveness in overseeing public spending and engaging Rwandan citizens. Support to the OAG will help to ensure more effective and comprehensive auditing of public spending in Rwanda, thereby contributing to greater value for money and accountability. Support to the PFM Reform Strategy will also advance transparency and openness in PFM.

52. DFID will also continue to support citizens and civil society to hold government to account through – amongst other initiatives - a programme focused on public policy information, monitoring and advocacy.[52] The purpose of the programme is to enable Rwandan citizens in districts targeted by the programme to engage with and shape national and local processes of policy formulation and implementation. This programme is consistent with DFID's increasing

[49] ODI (2010) Sector Budget Support in Practice: Good Practice Note - Making Sector Budget Support work for service delivery, pg. 4
[50] ODI (2010) Making Sector Budget Support work for service delivery: an overview, Project Briefing no. 36
[51] DFID operational Plan, Feb 2011
[52] Public Policy Information, Monitoring and Advocacy programme (PPIMA).

focus on the role of citizens in the development process and on developing programmes and approaches that empower individuals and communities to take their development into their own hands and to hold their governments to account. There is scope to build on this work through the mainstreaming of empowerment and accountability in other DFID programmes (e.g. complaints and appeals procedure in the social protection programme; parent/teacher committees in the education sector; and the dispute resolution process in the Land Tenure Regularisation programme). DFID Rwanda is also currently considering establishing a new programme to support media development.

53. The relationship between general budget support and other aid modalities is a mutually supportive one: the strengthening of GoR systems is an essential platform for the success of DFID's other bilateral projects which rely on strong government systems for effective and efficient delivery of results. Providing GBS can also strengthen influence over GoR budget decisions and gain greater access to information for monitoring and assessment purposes.

54. Evidence is key to ensuring UK aid is spent effectively and efficiently. DFID Rwanda has recently approved the Budget Support Evidence Facility (BSEF), a £2.4m fund. The Facility will provide evidence and analysis that will result in better poverty-targeted, evidence-based, equitable and cost effective GoR public policy, including providing evidence to support the effective development of EDPRS II. The BSEF will also strengthen development partners' budget support programmes through better assessments, analysis and evidence related to (for example): the drivers of poverty and inequality in Rwanda, gender dimensions of poverty and inequality, improved GoR information management and poverty targeting and monitoring systems, and improving the value for money of GoR spending.

55. The Bilateral Aid Review and the subsequent operational planning process set out DFID Rwanda's proposed approach to programming, delivery and results. As described in the Operational Plan (OP), GBS is expected to comprise 45% of the UK's total (£330m) programme in Rwanda over the period 2011/12-2014/15. SBS in education, agriculture and health will represent an additional 20% and the remaining 35% will be delivered through a mixture of projects and programmes. This 'mixed' approach is consistent with DFID's technical note on implementing a strengthened approach to budget support which suggests that "both budget support and non-budget support can complement one another to achieve more results and better value for money". Following discussions around the OP in 2011, Ministers agreed that DFID Rwanda will continue to provide a significant proportion of the UK's aid as budget support.

Rwanda's commitment to partnership principles

56. Rwanda is assessed to have demonstrated sufficient commitment to DFID's four partnership principles[53] although challenges remain in some areas as discussed in section B of the Appraisal Case and section B of the management case.

57. DFID is in the process of updating and reinvigorating the 2006 MoU to ensure it is fully consistent with the revised partnership principles – notably with respect to the domestic accountability partnership principle and DFID's renewed focus on making well-evidenced assessments of commitment to human rights. Commitment to the partnership principles will be monitored through the Joint Governance Assessment (JGA)[54], or, if necessary, through other evidence-based assessments and sources of data. Any concerns identified in these

[53] The four principles are 1) poverty reduction and the Millennium Development Goals; 2) respecting human rights and other international obligations; 3) improving public financial management, promoting good governance and transparency and fighting corruption; and 4) strengthening domestic accountability. These principles are set out in a July 2011 Technical Note on "*Implementing DFID's strengthened approach to budget support*"

[54] The Joint Governance Assessment is a joint process between Development Partners and GoR designed to provide an evidence-based assessment of GoR's progress against governance commitments.

assessments or elsewhere will be raised and resolved through UK Government and wider dialogue with the GoR.

Rwanda and the Open Government Partnership

58. The UK recently announced that performance against Open Government Partnership (OGP) criteria would be a consideration in decisions about providing budget support. According to OGP scoring criteria, (fiscal transparency, access to information, asset disclosure and aspects of citizen engagement), Rwanda would be unlikely to meet the eligibility threshold for OGP membership.[55] A number of reforms that are planned or already underway, including publishing the Executive Budget Proposal, and passing an Access to Information Law (currently being reviewed by Parliament), should increase Rwanda's score significantly.

B. Impact and Outcome that we expect to achieve

59. The expected **impact** of the programme is that the Government of Rwanda is helped to achieve its sustainable and equitable growth and poverty reduction goals as expressed in Vision 2020 and the Economic Development and Poverty Reduction Strategy and its successor (EDPRS 2008-2012 and EDPRS II 2013-17).

60. The expected **outcome** of the programme is improved effectiveness and accountability of the Government of Rwanda.

61. Programme performance will be monitored using the logframe attached at annex 1which draws heavily on the Common Performance Assessment Framework (CPAF) developed with the GoR and other development partners.

[55] For an account of the OGP see: www.opengovpartnership.org.

II. Appraisal Case

A. What are the feasible options that address the need set out in the Strategic case and what is the strength of the evidence for each?

62. Three feasible options have been identified and are assessed against the counterfactual. These are set out in the table below. Option 4 is the counterfactual which represents no additional spend but includes maintaining existing programmes of Sector Budget Support (SBS) in education, agriculture and health and continuing with current and planned project activities. Options 1-3 represent additional spend, delivered through a range of mechanisms.

Table 1: Summary of Options

Option	Short-hand	Full title	Scale of additional support	Size of total DFID Rwanda Programme (2011-2014/15)	Description
1	General Budget Support (GBS)	General Budget Support (GBS) in addition to planned SBS and other specific programmes	£111m	£330m	Continue providing GBS at similar levels to the current GBS programme, due to end in July. Other DFID Rwanda programmes (SBS and project activities) continue as planned.
2	Sector Budget Support (SBS)	Expansion of existing Sector Budget Support (SBS), in addition to planned programmes	£111m	£330m	End GBS and instead channel the resources to existing SBS programmes. Other DFID Rwanda programmes continue as planned.
3	SBS + projects	Mix of additional SBS and project-based support, in addition to planned programmes	£111m	£330m	End GBS and instead channel the resources to a combination of existing SBS programmes and/or new bilateral programmes. Other DFID Rwanda programmes continue as planned.
4	Counter-factual	No GBS and no additional SBS or projects	none	£219m	End GBS and return the resources to DFID HQ: reducing DFID Rwanda programme funding by £111m over the period 2012/13-2014/15. Existing programmes of SBS and planned project activities would continue.

63. There are potentially other feasible options using combinations of general, sector and project support so to best achieve the impact and outcomes outlined in the Strategic Case. For instance, we could consider providing slightly (or significantly) less GBS whilst increasing our spend in SBS sectors by a proportionate amount. However, whilst many such feasible options exist, it is near impossible to robustly quantify the benefits of marginal changes to GBS and SBS support, on the basis of available evidence. To do so would require assumptions about the additional influence obtained through an additional pound spent through GBS as opposed to SBS. Our judgement is that significantly reducing DFID GBS to Rwanda (even if matched by a compensatory increase in SBS) would shift our relationship with the GoR and significantly reduce our influence within the BSHG. As such, we would liken this option to option 2 in the table but with lower levels of spend through SBS (since some money would still be provided as GBS). As such, it is likely to offer lower value for money than both options 1 and 2.

64. We have therefore focused the appraisal on options 1 – 4 in order to allow us to evaluate the key arguments for and against each aid modality.

65. Table 2 summarises the quality of evidence for each feasible option. More details are provided against each option in the discussion below.

Table 2: Strength of the evidence

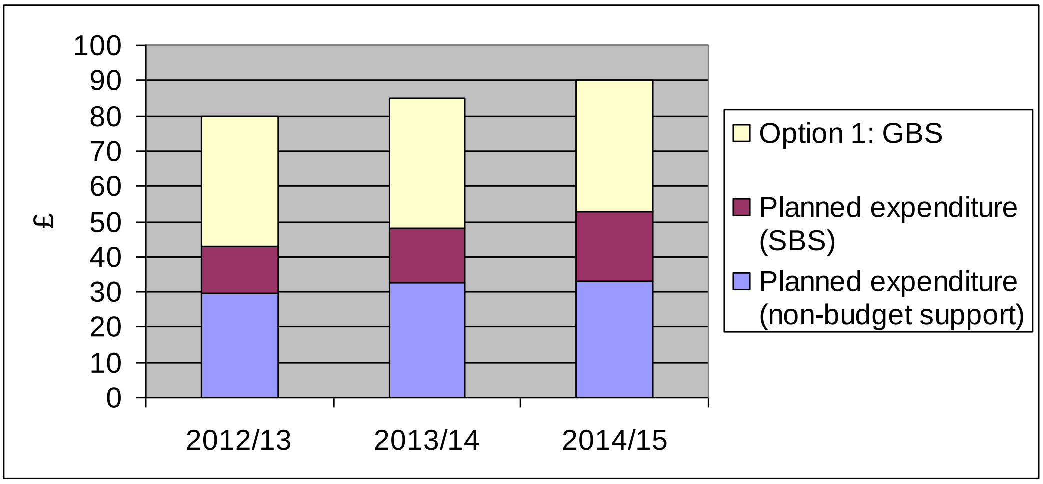
Option	Evidence rating
1	Medium
2	Medium
3	Limited

***Option 1*: General Budget Support (GBS), in addition to planned DFID programmes**

Table 3: Spend profile for Option 1

	2012/13	**2013/14**	**2014/15**	**Total**
GBS (£m)	37	37	37	111

Figure 6: Composition of the total DFID programme under option 1



What it will consist of

66. This option entails disbursements of £37m in GBS in each financial year 2012/13 to 2014/15, on top of planned SBS and project expenditure. This would represent a continuation of DFID Rwanda's current (2009/10 to 2011/12) GBS programme, with levels of funding remaining constant in nominal terms. We will maintain a £5 million per annum performance tranche (approx 13% of the total) to enable reductions to be made for poor performance against the Common Performance Assessment Framework (CPAF) – the government performance monitoring tool used by development partners in Rwanda. More detail on the performance tranche is provided in Section C of the appraisal case.

67. This 'mixed' approach (i.e. GBS combined with existing SBS and other aid programmes) was agreed in DFID Rwanda's Operational Plan.

How it will work

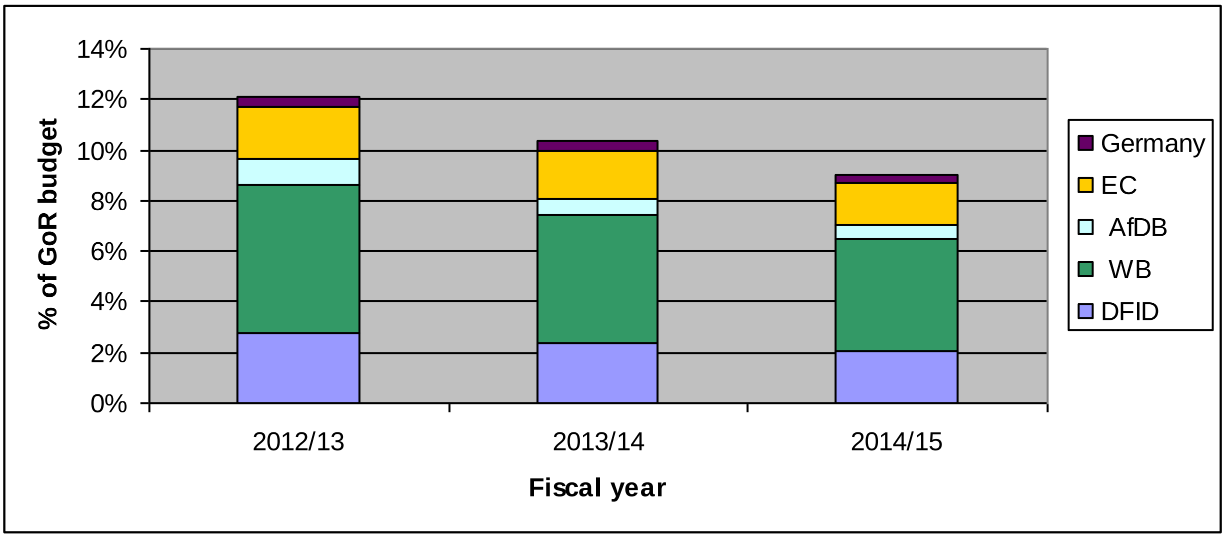
68. GBS is an instrument which channels support directly to Rwanda's budget, utilising Rwanda's national procedures of budgeting, accounting, reporting and audit systems. It is not earmarked

to any specific project or expenditure item, and as such, it represents the most flexible form of support.

69. The GoR's Aid Policy[56] describes un-earmarked budget support as its preferred aid modality on the grounds it helps reduce transaction costs and fragmentation of efforts by harmonising and aligning aid to GoR priorities. Whilst earmarked (i.e. sector) budget support is preferred to standalone projects, the GoR expresses concern that earmarking of funds distorts the allocation of government spending across sectors which, in turn, undermines the government's role in determining priorities, and means that resources cannot be channelled to meeting the government's objectives as effectively as it would like.

70. Under this option, the UK will continue to engage in policy dialogue with the GoR through the Budget Support Harmonisation Group (BSHG), together with other budget support donors. Our position within this group, and scale of support (see figure 7 below), would allow the UK to influence policy and budget decisions across the whole of government expenditure, and in any sectors in which we choose to engage. In this way GBS enables UK influence over cross-cutting reforms beyond the reach of discrete bilateral projects and sector-focused support. It also allows the UK to engage in policy and budget discussions in areas where we are not providing direct support.

Figure 7: Proposed GBS contributions as a proportion of the GoR budget



71. The range of issues that the UK could raise through the BSHG is broad. Previous topics have included those directly related to delivery of services and growth and poverty reduction goals e.g. policy-related issues around inequality, private sector investment, delivering results for girls and women, social inclusion, and the performance of specific sectors; as well as issues around strengthening systems e.g. monitoring and evaluation, improving accountability and public financial management.

72. A comprehensive evaluation of GBS will be undertaken. We plan to conduct this jointly with the GoR and other GBS Development Partners: an approach strongly encouraged by the GoR. More detail on the joint monitoring and evaluation processes for GBS is provided in Annex 4. Issues related to the number of tranches, and linking disbursement to performance are discussed in the evaluation section and in section C of the appraisal case (page 52).

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[56] Rwanda's Aid Policy is available at:
http://www.devpartners.gov.rw/index.php?option=com_content&task=view&id=56&Itemid=49

Strength of the evidence

73. The GoR has delivered strong performance against its CPAF indicators, with performance generally improving over time. Overall, 95% of all CPAF targets and corresponding policy actions[57] were either fully achieved or partially achieved over the life of the 2008-12 GBS programme. Project scores for previous DFID Rwanda GBS programmes have averaged 2 (likely to meet most objectives) since 2004.

74. However, the strength of evidence on the influence of GoR policies on development outcomes and the specific role of GBS varies. Preliminary indications are that GBS in Rwanda is seen to have had a number of positive effects. It has:

- Enabled **improved service delivery**: medium evidence. Key results achieved by the GoR between 2008 and 2011, and to which GBS has contributed, include an increase in electricity generation capacity from 74 MW to 97 MW (against a target of 90 MW); growth in agriculture output of 13%, including a 67% increase in production of key food security crops; an increase in the overall rate of use of modern contraceptives from 27% to 45%;and strong performance in education including an increase in the primary school completion rate from 53% to 79%.

- Encouraged an **increase in pro-poor spending**: medium evidence. Budget support provides an opportunity to influence partner governments on a wide range of issues. Evidence suggests that this dialogue can help leverage government resources to pro-poor sectors. Countries that received budget support over the last decade have been able to deliver more pro-poor services[58]. Certainly, the last few years have seen substantial increases in priority spending on health, education and social protection in Rwanda, in line with EDPRS priorities (see figure 5). Whilst difficult to quantify, it is likely that GBS played a positive role in the impressive progress on poverty reduction[59]; both through an increase in poverty-reducing expenditure and changes in key social sector policies as a result of BSHG dialogue.[60]

- **Strengthened government systems**: medium evidence. The dialogue and technical assistance that accompanies general budget support has offered an opportunity to strengthen public financial management (PFM) systems.[61] Total aid provided in the form of GBS is positively and significantly associated with better PFM quality.[62]

- Contributed to greater **predictability of aid flows**: medium evidence. The 2011 OECD report on progress in implementing the Paris Declaration on aid effectiveness suggests that

[57] Each CPAF indicator corresponds to one or more GoR policy actions. For example, CPAF indicator 19 (% of population with access to clean drinking water) lists the following policy actions for 2012/13: “Construct 280km of new water network and 300km of water network rehabilitated” and “performance assessment for private operators”.

[58] National Audit Office, “Department for International Development, Providing budget support to developing countries”, Report by the Comptroller and Auditor general, 8 February 2008; ODI (2010)

[59] EICV 1, 2 & 3

[60] For example, the health sector in Rwanda benefits from different independent funding sources, but this has made it difficult to coordinate interventions and resources in the sector. DFID has encouraged the development of a “health resources tracking tool" which will be a significant step towards more effective sector coordination. Another example relates to social protection where a lack of coordination across the range of ministries dealing with social protection policy and programmes was highlighted by donors as leading to inefficiencies. High level dialogue through the BSHG has led the GoR to adopt a more strategic approach to social protection.

[61] Analysis of assessments using the Public Expenditure and Financial Accountability performance measurement framework shows that five countries who receive budget support from the UK have been assessed more than once and all have demonstrated an overall improvement in public financial management.

[62] Evaluation of Donor Support to Public Financial, Management (PFM) Reform in Developing Countries, de Renzio, Andrews and Millis (2010), Overseas Development Institute.

progress has been made on improving the predictability of aid in Rwanda. The percentage of planned disbursements received on schedule was recorded as 74% in 2010, up from 66% in 2005. However, the report does not differentiate between different types of financial aid so it is not possible to determine the particular impact of GBS on predictability.

- In comparison to project-based aid, **GBS has reduced transactions costs**: strong evidence. Delivery of aid through government systems is expected to reduce transaction costs for DFID and the GoR (e.g. through avoiding duplication of monitoring frameworks).[63] Evidence suggests that whilst transaction costs can increase in countries where budget support is being newly introduced, in the medium term, transaction costs reduce as budget support operations evolve.[64] Over ten years' experience of GBS in Rwanda has meant that monitoring and coordination systems are established and effective suggesting that the country is at a stage where transaction costs for GBS are low. However these costs are difficult to quantify and better data is required.

- Reinforced **macro-economic stability and good economic management**: medium evidence. It is difficult to quantify the contribution that GBS has made to the sustained period of macroeconomic stability that Rwanda has experienced over the past decade. However, increased government resources through GBS and dialogue around sector allocations have helped contribute to stability by allowing the government to maintain a lower fiscal deficit and by providing foreign exchange to allow the government to effectively manage its balance of payments.[65] The additional finance that GBS has made available for key sectors (e.g. agriculture) is also likely to have contributed to strong growth rates over the past decade.

75. There are also a number of potential downsides to GBS relative to other aid modalities. Development partners have less control over how funds are spent than in bilateral or sector specific programmes. Given that budget support, by its nature, uses national public financial management systems, fiduciary risk is a concern (for both GBS and SBS). However, evidence suggests that GBS is no more prone to fraud than other aid modalities.[66] In fact, the Rwandan government uses development finance well, both in terms of the results achieved and accountability for its use. The 2011 DFID Fiduciary Risk Assessment (FRA) suggests that the risk of grand corruption is low, and petty corruption is less of an issue than in many other countries. The overall corruption risk to budget support is rated as moderate, largely because of weaknesses in other checks on corruption such as a vibrant media. The FRA notes that fiduciary risk is decreasing and that the GoR is working hard to improve its public financial management, including remaining committed to fighting corruption.[67]

76. Overall we judge the evidence for Option 1 to be **medium**. An evaluation will be undertaken to improve the evidence base, particularly our understanding of how GBS to the GoR contributes to the achievement of outcomes and impacts and the extent to which it represents good value for money for DFID. Evidence will be considered broadly under three categories - *induced* outputs, outcomes and impacts.

Induced <u>outputs</u> include:

- improved aggregate fiscal discipline and macroeconomic management;

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[63] Benefits from lower transaction costs formed a key part of the economic appraisal for the current General Budget Support programme 2009/10-2011/12 The appraisal considered the additional fixed and variable costs of a scenario where donors implement their own programmes and where administrative units and systems (monitoring and evaluation etc.) are duplicated. The overall estimated incremental effect of additional fixed and variable costs was estimated as being between £2.55m and £2.75m per year.

[64] ODI Background Note (2011) Insights from recent evidence on some critical issues for budget support design

[65] IMF (January 2012)

[66] IDD (2006) cited in ODI (2011)

[67] DFID Rwanda, Donor Fiduciary Risk Assessment of General Budget Support in Rwanda, February 2012

- strengthened PFM and procurement systems;
- improved quality of policy processes and policy implementation;
- increased funding for discretionary public spending with effects on the quantity and quality of goods and services provided by the public sector;
- enhanced governance and democratic accountability;
- improved rule of law in the country

The medium to long term, expected outcomes relate to:

- increased use and appreciation by the beneficiaries of the goods and services provided by the public sector;
- the response by the general economy to the improvements in government initiatives targeted by budget support arrangements;
- Increased investment deriving from the improved business environment;
- Improved general confidence of the population and enhanced democratic accountability, including in relation to the budget process.

The desired impact of GBS and SBS, when combined with appropriate public policy and spending actions is:

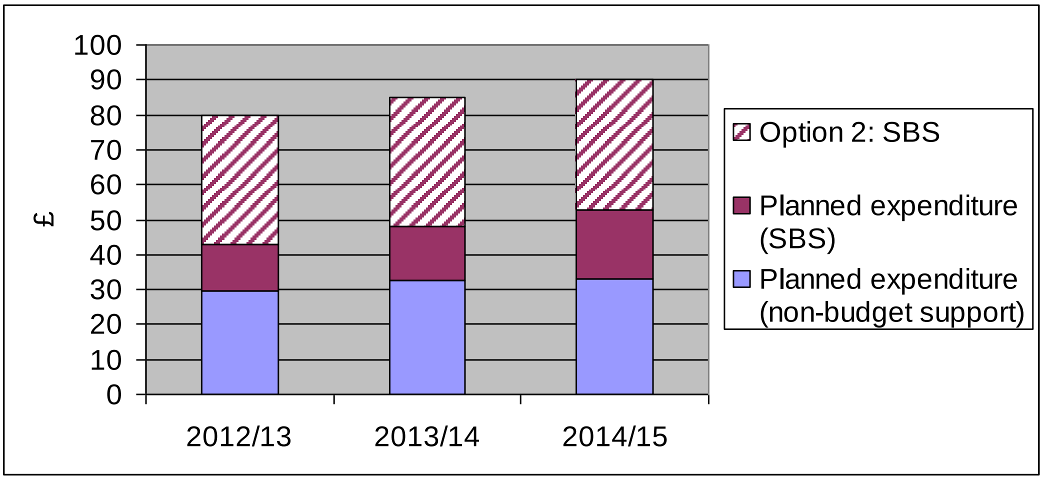
- enhanced and sustainable economic growth;
- reductions in income and non-income poverty;
- empowerment and social inclusion of poor people and disadvantaged groups (including women);
- trends and stability in domestic revenue mobilization.

Option 2: Expansion of existing Sector Budget Support (SBS) programmes, in addition to planned spend

Table 4: Spend profile for Option 2

	2012/13	2013/14	2014/15	Total
Agriculture	13.7	13.7	13.7	**41**
Education	16.7	16.7	16.7	**50**
Health	6.7	6.7	6.7	**20**
Total additional SBS(£m)	**37**	**37**	**37**	**111**

Figure 8: Composition of the total DFID programme under option 2

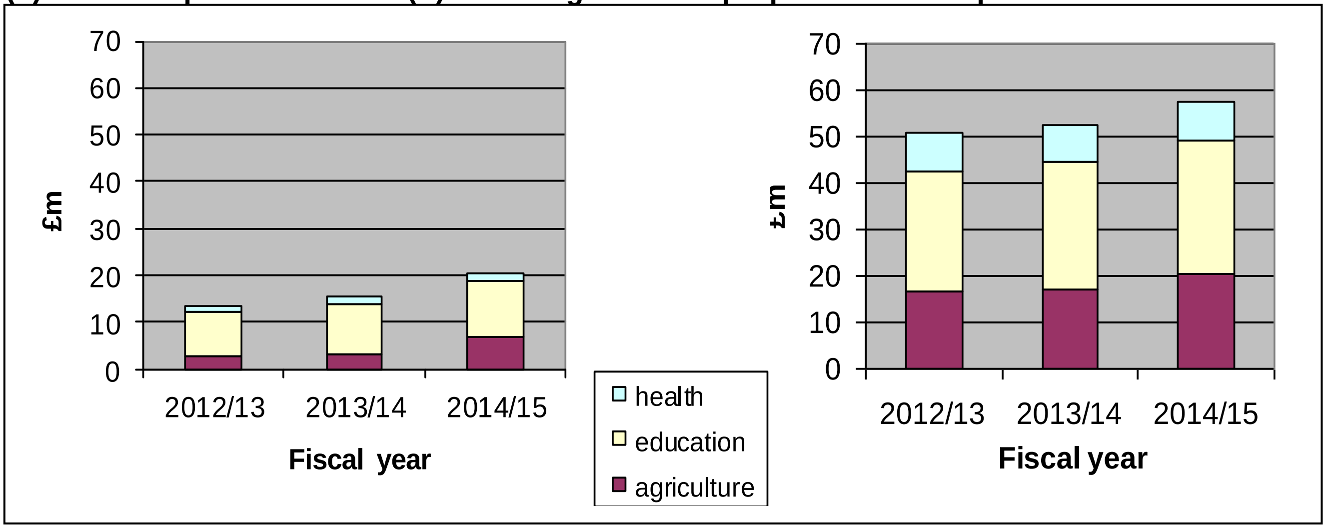


What it will consist of

77. This option involves ending GBS and scaling-up DFID Rwanda's existing SBS programmes in agriculture, health and education.[68] It would be relatively straight-forward to increase the funding provided through these existing instruments. The figures in the table above reflect sector advisers' assessments of what is feasible given the size of the funding gap, absorptive capacity and ability to deliver results in each sector. However, different combinations of spend are also feasible. The distribution of spend describe above would equate to an increase of 205% for agriculture, 444% for health and 91% for education, relative to DFID's planned SBS programmes over the period.

Figure 9: DFID SBS contributions

(a) In DFID Operational Plan (b) Including amounts proposed under Option 2



78. This option would involve moving away from the 'mixed' approach (of GBS and SBS) agreed in DFID Rwanda's Operational Plan, but would go some way towards delivering the desired impact and outcome, albeit focused on service delivery and systems improvements in a few key sectors.

How it will work

79. SBS is an instrument which channels budget support directly to a specific sector of Rwanda's budget, utilising Rwanda's national procedures of budgeting, accounting, reporting and audit systems. In practice, this means supporting specific ministries (agriculture, education, and health). Within the sector, overall budget allocation decisions to the sector are still made by the Ministry of Finance.

80. Evidence suggests that SBS can be an effective way of tackling service delivery problems when these are confined to issues at a sector level.[69] It enables development partners to decide in which sector aid is spent and allows influence over the sector performance assessment framework. Because funding is concentrated in key sectors, we would expect service delivery benefits in these particular sectors to be higher than under option 1. However, because of the

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[68] The social protection sector is moving towards a Sector Wide Approach (SWAp) and so in the longer term social protection could also be considered as a sector suitable for SBS. However, because it is not a sector where we currently provide SBS, and because designing and preparing for such a programme would take time, SBS in the social protection sector has not been considered within Option 2.

[69] ODI (2010) Making Sector Budget Support work for service delivery: an overview

sector-specific focus, this option would not deliver the same breadth of impacts across the government budget as option 1. A significant reduction in broad cross-government impacts supported by GBS (such as increased pro-poor budgeting, improved government systems, lower transaction costs, and greater macroeconomic stability) could also adversely affect the value-for-money and impacts of sector-specific SBS. In addition, the UK's exit from GBS would reduce other donors' confidence in the aid modality and might prompt them to withdraw or reduce their support which would exacerbate this effect.

81. Under option 2, the withdrawal from GBS would need to be communicated to the Rwandan authorities and existing SBS programmes would need to be renegotiated and amended to accommodate the increase in resources. However, this option presents significant risks in terms of **fungibility**: where additional resources channelled to a chosen sector simply free up funds for the government to spend elsewhere. Despite expectations of funding gaps in each of the SBS sectors, it is highly likely that an injection of significant (unplanned-for) SBS would lead the government to re-allocate its own resources to other sectors which would otherwise lose out from a reduction in GBS. **If this is the case, then there is little to distinguish SBS from GBS, except that we would expect the former to lead to a reduction in the level of UK influence across the government budget.**

82. The risk of fungibility is difficult to quantify. However, the 2010/11 budget execution analysis indicated significant overspend for some sectors[70] suggesting that there is appetite for substantial budget reallocation in case of significant unplanned additional resources.

83. The UK would continue to engage in policy dialogue with the GoR through monthly Sector Working Group (SWG) meetings. The GoR has instigated a 'Division of Labour' (DoL) amongst development partners which sees each donor taking lead responsibility for donor coordination (and co-chairing SWG meetings alongside the GoR) in up to three sectors. Donors are encouraged to align their non-budget support programmes with the DoL, increasing spend in sectors where they lead, and reducing their presence in other sectors.

84. Under the DoL, DFID is currently assigned to the Education, Social Protection and Agriculture sectors. SBS is excluded from the DoL i.e. DFID could increase SBS in the health sector and still comply with the DoL. However, as a non-GBS provider, DFID would have to channel its policy discussion in the health sector through Belgium, the lead donor. As such, UK influence is likely to be more limited.

Strength of the evidence

85. **Existing SBS programmes in education and health sectors have been effective in achieving results at specific sector levels**.[71] Key results achieved by the GoR over the period 2009/10 to 2010/11, and to which GBS has contributed, include: an increase in the overall rate of use of modern contraceptives from 32% to 45%; an increase in the utilisation rate of primary health care services from 80% to 95%; an increase in the primary school completion rate from 76% to 79%; and a significant increase in the primary completion rate for girls from 75% to 82%.[72]

86. A recent research project by the Overseas Development Institute (ODI)[73] suggests that SBS has made an important contribution to opening up access to basic services and improving the efficiency of public expenditure through facilitating improvements in planning, budgeting and financial management and accountability in supported sectors. However, it is also clear that

[70] E.g. fuel and energy (148%); water and sanitation (130%)
[71] Agriculture SBS is a newly approved DFID programme and no results have yet been delivered
[72] CPAF 2011 update
[73] ODI (2011) Sector Budget Support in Practice

SBS has not effectively addressed the *quality* of service delivery in all cases and progress on improving systems has been slower than expected.[74] Systems benefits are strongest where there are less derogation from government systems (e.g. the use of parallel cash-management, reporting and audit arrangements) and less use of traceability requirements (i.e. where SBS funds are separately identifiable in the expenditure classification of a country's budget). In some cases, SBS is earmarked for spending against specific budget lines such as textbooks or classroom construction. However, the more specific the earmarking employed, the more likely that dialogue with government is biased towards the area of funding to which SBS is earmarked, and away from overall sector policies and systems.[75] Under option 2, no derogations from country systems or earmarking within sectors would be sought.

87. Consideration needs to be given to the capacity for sectors to absorb the increase in funding without compromising value for money. The funding gaps that currently exist in each of these sectors suggests that there is scope for absorption of some additional funds. For example, the agricultural sector investment plan identified an indicative funding gap of between £32-80m for the period 2009-2012 (around 15%-39% of the total budget). The sector's track-record of spending suggests that additional allocations could be absorbed. The health sector financing gap has historically been a similar proportion, albeit of a larger overall budget.[76] The education sector strategic plan provides a forward-look financing gap. Over the three-year period to 2015 the financing gap is estimated at around £250m. Whilst some of the gap may be met by external donors, a significant shortfall is likely to remain.

88. All three sectors are likely to have the capacity to absorb some additional finance. However, substantial increases in funding are likely to exhibit diminishing returns, in terms of the additional results achieved. For example, there is a risk that significant (unplanned for) increases in education SBS could translate into increased capital expenditure (school building programmes etc.) rather than improving the *quality* of education (e.g. through better trained staff).

89. Overall we judge the evidence for Option 2 to be **medium**.

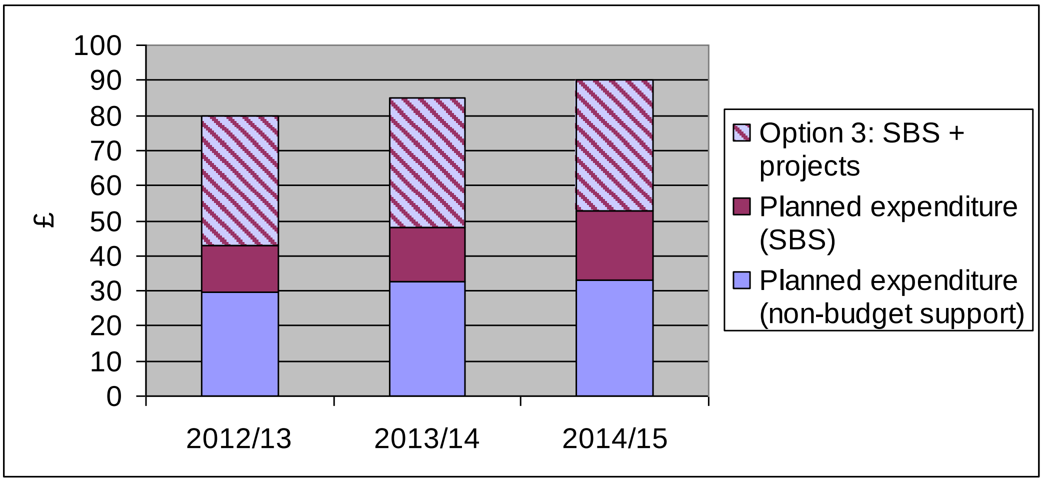
***Option 3:* Mix of increased SBS and project activities, in addition to planned spend**

Table 5: Spending profile for option 3

	2012/13	2013/14	2014/15	Total
Project (£)	**15**	**15**	**15**	**45**
SBS (£)	**22**	**22**	**22**	**66**
Total	**37**	**37**	**37**	**111**

[74] ODI (2010) Sector Budget Support in Practice: Good Practice Note, pg. 3
[75] ODI (2010) Making Sector Budget Support work for service delivery: an overview, project briefing no. 36
[76] The health sector investment plan provided a number of financing gap scenarios for the period 2009-2012, ranging from £136m-300m (16-35% of the total budget).

Figure 10: Composition of the total DFID programme under option 3



What it will consist of

90. This option involves ending GBS and channelling support through existing SBS and other programmes/projects - potentially new bilateral programmes. It would be preferable to expand existing and planned projects rather than initiating new projects, which could incur significant administrative overheads.

How it will work

91. In addition to the SBS sectors identified under option 2, there are a few existing projects where additional funding may offer opportunities for scaling up, and where there is scope and absorptive capacity to do so. The list of existing projects in this category is short, but might include:

- **Vision 2020 Umurenge Programme (VUP) Social Protection**. DFID is contributing £20m between 2009/10 and 2012/13. VUP is a flagship programme of the current EDPRS and aims to reduce extreme poverty through social protection measures for the poorest including cash transfers, public works and financial services. The most recent monitoring reports from VUP show that 26% of beneficiaries graduated from the poorest categories within one year[77].

- **Trade-Mark East Africa programme (TMEA-Rwanda)**. Rwanda's small market size, land-locked status and low purchasing power suggest that deepening regional integration, removing regional trade barriers and lowering transport costs are central to sustaining recent growth and poverty reduction in Rwanda. The TMEA-Rwanda window is a £27m programme, with a £8m DFID contribution. The programme is currently helping Rwanda remove regional trade barriers with the aim of reducing transport costs by 15% by 2015.

- **The Land Tenure Regularisation (LTR) programme**. This is a £50m basket fund to which DFID contributes £26m. The LTR programme aims at issuing legally registered land titles to every Rwandan land-holder. The LTR programme is expected to contribute to Rwanda's socio-economic development by easing investment through securing land assets, by increasing employment opportunities, access to finance, and creating equal rights to access to land by men and women, and contributing to peace and stability.

92. There is limited scope for spending significant additional funds through DFID's other programmes. For instance, the governance programmes tend to be limited by political factors

[77] DFID Annual Review of Vision 2020 Umurenge Programme 2010-2011

rather than lack of finance. There may be scope for introducing unplanned new projects, for instance on climate change, but these would take time (and resource) to develop and would not be ready for disbursement in the same timeframe as existing projects and programmes.

Strength of the evidence

93. Evidence of impact from increasing SBS spend is the same as described under option 2 above. Evidence of past project-specific impact can be obtained from recent reports and annual reviews from existing DFID projects. However, it is not clear whether an increase in budget will lead to a proportionate increase in impact. For instance, TMEA has contributed to improvements in reducing non-tariff barriers within the East African Community (EAC). However, key constraints to future success relate to a lack of buy-in from other partner countries to common projects such as One Stop Border Posts (OSBP) and transport corridors. Additional funding may help deliver some additional results but key breakthroughs are likely to require political, rather than financial, support.

94. Overall we judge the evidence for Option 3 to be **Limited**.

95. A move towards more project and programme activities would make it easier to identify and attribute results (relative to Options 1 and 2). However, there are a number of reasons why option 3 is likely to be less attractive than options 1 or 2:

- A recent ODI 'good practice note'[78] advises that GBS and SBS should be the preferred aid modalities <u>in support of public service delivery</u> given that, due to the use of government systems and institutions, budget support has the potential to be more effective than project funding in achieving service delivery objectives.

- The capacity for existing projects to usefully absorb additional funds is likely to be a major constraint on the feasibility and success of this option. A £5m per annum increase per programme would equate to an increase of around 75% (for VUP), 313% (for TMEA) and 58% (for LTR) in the respective programme budgets. In the case of the LTR programme, an increase in funds may undermine one of the key objectives: to facilitate government ownership, and sustainability of the programme.

- Creating new bilateral programmes would significantly increase DFID overhead costs, and would likely require additional staff to fulfil the necessary project management requirements and hence offer less value for money. On the basis of existing projects, additional administrative and transaction costs under option 3 are estimated to be in the region of £0.7m per year.[79] These include fixed costs, related to additional administrative units needed to manage an enlarged project, and variable (transaction) costs associated with introducing new projects.

- Importantly, a move to more project-based support would compromise UK aid relationships with the GoR. The government's Aid Policy discourages project-based interventions, requesting that aid modalities are closely aligned to national development plans (Vision 2020 and EDPRS) and use national systems. Moving away from GBS towards more project-based interventions would be a move away from the government's preferred approach and could significantly reduce our influence with the GoR.

- Option 3 would not facilitate such wide-reaching dialogue across government which is central to the theory of change for achieving the outcome and impact outlined in the strategic case

[78] ODI (2010) Sector Budget Support in practice: Good Practice Note, page 3

[79] This figure is taken from estimates of the administrative cost of setting up the Access to Finance Rwanda programme

96. **In light of this assessment, option 3 is not considered further in the Appraisal Case.**

Option 4: No budget support and no additional projects (the counterfactual)

97. This option would involve ending GBS and returning funding to central DFID – the "do nothing additional" option. In other words, the DFID Rwanda programme would reduce its funding by £111m over the last three years of the Operational Plan period.

98. Under this option, DFID would not achieve the impact and outcome outlined in the strategic case. Furthermore, sudden withdrawal of DFID support would be highly likely to have serious consequences. DFID GBS represents nearly 4% of the total Rwandan budget, and removal of this support would harm progress in key pro-poor sectors, themes and allocation of resources. It would also alter the UK relationship with the GoR and possibly curtail the effectiveness of aid provided through other means and by other development partners.

99. Our evaluation is that the 'displacement effect', whereby the GoR and/or other development partners would step up and fund the activities that would no longer be funded by DFID GBS is likely to be small. There is some scope for the GoR to increase taxation, and increase domestic borrowing, although this latter option is constrained by limits set by the IMF Policy Support Instrument. Given resource constraints in development partners' domestic budgets, we judge it highly unlikely that funding would scale up to fill the gap.

100. More likely is that, as a leading and influential GBS donor, DFID withdrawal would prompt others to follow suit, leading to a significant reduction in overall aid volumes. This would lead to lower development results and present serious risks to macroeconomic stability.

B. What are the costs and benefits of each feasible option?

Economic Appraisal

101. The section below summarises the costs and benefits expected under Options 1 and 2, relative to the counterfactual (Option 4). The detailed economic appraisal can be found in Annex 2.

Quantifying and Monetising Benefits and Costs

Option 1: General Budget Support (GBS) over three years

102. ***The benefits:*** The benefits of GBS can be separated into two main streams: (1) service delivery benefits; and (2) wider institutional or 'systems' improvements. The former could include, for example, improved healthcare and education provision, increasing access to safe drinking water, or connecting households to mains-supplied electricity. The latter refers to the development of good PFM but also, through donor dialogue with government, expected increases in financial resources that are channelled into "pro-poor" areas. These latter benefits can arguably only be realised at scale through GBS because of the policy dialogue with government that such support permits.

103. The quantified and monetised benefits underpinning this appraisal are:

   1) **Service delivery benefits**. There would be no earmarking of funds so outputs financed by the GoR would be attributable to the UK in proportion to its share of total public expenditure (currently around 3.8%). The list of such outputs is extensive across the breadth of government spending but given available evidence, only those benefits realised through the education, agriculture, energy, water and health sectors were considered. **This therefore represents a significant underestimation of service delivery benefits under option 1.**

- **Agriculture**. Reported Economic Rate of Returns (ERR)[80] for past investments range between 11-29%[81]. We would expect future investments to be of a similar nature and so have assumed annual benefits equivalent to 20% of capital expenditure over a 20-year horizon.[82] These parameters are arguably on the conservative side for at least three reasons. Firstly, the costs of many investments are likely to be recouped over a shorter time period. Secondly, it is expected that a significant proportion of the capital expenditure would finance infrastructure such as irrigation systems which typically have a much longer lifetime than 20 years. And finally, there are likely to be other external benefits which aren't always captured within economic rates of return e.g. additional income coming from livestock production, avoided yield losses due to soil fertility degradation and erosion, increased employment opportunities, and improved health outcomes due to good nutrition and access to water. With a 10% discount rate total discounted benefits equate to approximately **£6m**.

- **Education.** The specific benefit considered is the return from achieving educational qualifications at primary, secondary, and tertiary levels. In estimating these benefits, we assume that in the absence of support the beneficiary would have to stop schooling at the lower level of educational attainment and therefore their earning potential will be lower (e.g. for an upper secondary school graduate the counterfactual is that s/he would have earned a wage equivalent to that associated with a lower secondary school graduate). These are private rates of return hence don't capture secondary benefits/externalities e.g. the impact of better educated mothers on the well-being and future prospects of their children, or the possible reduction in crime. Total discounted benefits over a 20-year horizon, using a 10% discount rate, equate to **£41m.**

- **Health.** Health accounts for close to 10% of public expenditure, yet the quantifiable benefits that can be monetised were particularly difficult to identify. As a result, this appraisal only captures the expected returns associated with the number of children under 5 sleeping under long-lasting insecticide treated nets (LLINTs), number of births delivered per year by skilled health personnel, and the number of children fully immunised against measles. Using corresponding Disability Adjusted Life Years (DALYs)[83] as reported by the World Health Organisation (WHO) valued at GDP per capital levels, total benefits over a three year appraisal period discounted at 10% equate to around **£1m**. This increases to around £3m if a DALY is valued at three times the level of GDP per capita.[84] Given that the appraisal has only considered a fraction of the benefits expected from health interventions, this figure is likely to represent a significant underestimate of the true benefits.

- **Water.** Taking the number of additional people that will benefit from access to new or rehabilitated water infrastructure as laid out in the National Policy and Strategy for Water Supply and Sanitation Services, it was assumed that the time spent collecting water would fall from 30 minutes per day to 15 minutes. The opportunity cost of time spent collecting water was valued at GDP per capita levels. Over a 20 year time horizon at a 10% discount rate, the discounted value of time saved equates to around **£3m**. Due to lack of data, we have not been able to include the substantial health benefits that may result from access

[80] ERR is similar to the Internal Rates of Return but differ through the use of economic rather than financial prices.
[81] See DFID Rwanda's Agriculture Sector Budget Support Business Case for a reference of relevant studies.
[82] Only capital expenditure was taken because it was assumed that this one-off investment would produce a continuous stream of benefits.
[83] The disability-adjusted life year (DALY) is a measure of overall disease burden, expressed as the number of years lost due to ill-health, disability or early death.
[84] This is to capture the fact that market income, as measured by GDP per capita estimates, does not include the loss of psychological well-being or the value attached to leisure.

to safe drinking water and improved hygiene practices. As such, true benefits are likely to be significantly higher.

- **Energy.** The GoR has ambitious plans to connect 50% of the population to the national grid by 2017. This would bring a range of benefits including increased time available for study (and associated education benefits), improvements in domestic air quality (and associated health benefits), reduced risk of burns and house fires from reduced use of kerosene lamps, and increased private income from increased opportunity to engage in new income-generating activities. Given that current and planned grid generation comes largely from renewable sources (hydropower, geothermal, and solar) there is also scope for CO_2 savings, through grid electricity displacing kerosene as the primary source of household lighting. This appraisal assumes that the number of electricity subscriptions increases by 29% per year over the next three years, in line with the 2012/13 target. This is conservative, since connection rates would need to be significantly higher if the 2017 target is to be met in full. Given available data, the appraisal quantifies a subset of benefits only: expected CO_2 savings and increased private income generation. The latter benefits were quantified using evidence from a 2010 impact assessment of rural electrification in Rwanda.[85] Over a 20 year time horizon at a 10% discount rate, total discounted benefits equate to **£10m**.

2) **Wider institutional benefits**

- **Technical efficiency benefits.** These benefits relate to the effective use of resources for their intended purposes and rely on good Public Financial Management (PFM) systems if they are to be realised. PFM refers to the systems used to raise and spend tax revenue and covers a wide spectrum of activities including the identification of productive investments, timely disbursement of public revenue for intended purposes, adequate planning to minimise public borrowing and avoid liquidity problems, and transparency in the use of public monies.

  The degree of improved PFM that could be realised through GBS is difficult to measure. As a result, a commonly adopted approach is to assume that GBS, through increased scrutiny of government systems and dialogue with government, improves the technical efficiency of total government expenditure by a given percentage. In other GBS appraisals, this percentage is usually assumed to be between 1% and 1.5%. However, in Rwanda, the size of UK GBS in relation to government expenditure is significantly higher than in other countries. It is reasonable to assume that the UK might expect a higher level of influence over government systems. The appraisal assumes an improvement in technical efficiency equivalent to 2% of total recurrent government expenditure, relative to a counterfactual of no GBS. This is only realised for the three years that GBS would be provided. Using a 10% discount rate, discounted benefits over three years equate to around **£40m**.

- **Allocative efficiency.** This refers to the “crowding-in” of financial resources to “pro-poor” areas. This benefit relies on two main assumptions: (1) that available funds would otherwise have been used for other purposes; and (2) that the increase in utility or economic return realised by potential beneficiaries is greater than the would-be recipients under the counterfactual so a net gain is realised. Although impossible to determine with certainty what would have otherwise occurred, evidence suggests that GBS has

[85] Bensch, G., Kluve, J., Peters, J., (2010) Rural Electrification in Rwanda – An Impact Assessment Using Matching Techniques, Ruhr Economic Papers #231

performed well in terms of facilitating increases in priority, pro-poor spending.[86] However, there is a lack of empirical evidence to suggest just how much crowding-in might occur (i.e. the share of increased pro-poor spending that can be attributed to donors). A common assumption is that this is equivalent to 1-1.5% of total public expenditure. Again, given the large share of GBS relative to total government expenditure, there are strong arguments as to why it is reasonable to expect a large amount of crowding-in when applied to the Rwandan context**.** Because of this, an improvement in allocative efficiency amounting to 2% of total government expenditure is assumed and applied over three years which reflects the period over which GBS is provided. Using a 10% discount rate, discounted benefits over three years equate to around **£68m**.

- **Macroeconomic impacts:** we have not attempted to monetise macroeconomic impacts since the evidence is weak. However the potential positive and negative impacts are worth mentioning. GBS allows the government to maintain a lower fiscal deficit than would otherwise be the case; whilst greater predictability of aid flows is likely to reduce the need for the GoR to take out short-term domestic loans to smooth cash management during the financial year. However, at the same time, significant inflows of foreign exchange may lead to an appreciation in the exchange rate. Whilst this is unlikely to occur, if it does, it could reduce the competitiveness of Rwandan exports, although given that prices for imported goods would fall, the net effect on society is uncertain.

104. **The costs**: The resource costs to DFID total **£111m** over a three year period (£37m per year). The opportunity cost of DFID funds is not known. Administrative costs to DFID and the GoR are likely to be small, and are therefore excluded. There are also likely to be participatory costs incurred by beneficiaries (e.g. opportunity cost of time spent going to a clinic, or the cost of school uniforms borne by parents etc). However, a lack of data means that these are largely excluded from the analysis. The exception is the energy sector where we have included one-off costs associated with connecting to the grid and higher expected energy expenditure, once connected.

Option 2: Expansion of existing Sector Budget Support (SBS) programmes

105. **The benefits:** Similar types of benefits as those discussed under Option 1 are captured here. However, quantified service delivery benefits are now much larger simply because the entire equivalent value of support that would have otherwise been provided to GBS (£111) is now directed to only three sectors rather than being diluted across many budget lines. The financing need in these sectors is real, and there is a high level of confidence that additional finance can be absorbed and spent well. However, it is likely that such significant increases in finance would be subject to diminishing returns although it has not been possible to address this in the appraisal. Over a 20 year appraisal period with a 10% discount rate, service delivery benefits are around £87m for education, £61m for agriculture, and £1m for health (the reason for very low health benefits is explained under Option 1).

106. Although DFID is already active in these sectors, disbursement under Option 2 will not be as quick as for Option 1. This is because an increase in UK support to these sectors relative to what has already been agreed is not expected either by other donors or the GoR. It will therefore take some time to decide where the additional funding can best be spent.

107. Compared to Option 1, DFID's scope to influence the sector allocation of GoR resources will be greatly reduced under Option 2. As such, no gains in allocative efficiency are assumed. At the same time, DFID's reduced influence on GoR spending decisions means that efforts to improve PFM are limited to the sectors in which we are active. For these sectors we assume technical

[86] IDD/OECD (2006), Lawson et al (2007), World Bank (2010), all cited in ODI (2011) Background note: Insights from recent evidence on some critical issues for budget support design

efficiency improvements of 1% of recurrent expenditure[87], which are additional to any efficiency improvements we would already expect to gain from our existing SBS programmes in the counterfactual. Using a 10% discount rate over an appraisal period of 3 years, technical efficiency benefits total around £14m.

108. The fiscal and monetary effects are not expected to differ between Options 1 and 2, provided the total amount of funding remains the same. This is because, like GBS, SBS requires that finance is channelled through government systems.

109. **The costs:** As with Option 1, only the monetary value of DFID's financial transfer to the GoR is captured. This does not represent the opportunity costs of DFID funds, or the possible participatory costs incurred by beneficiaries and other stakeholders.

110. The effectiveness of DFID support under Option 2 assumes that the UK's current level of influence with the GoR continues. This is unlikely to be the case. Ending DFID Rwanda's GBS programme would not only adversely impact the new round of development plans that the GoR is currently formulating (EDPRS II) but it will also send a negative signal about the confidence that the UK has in the efficiency and effectiveness of the GoR. As a leading and influential GBS donor, DFID withdrawal could prompt others to follow suit, leading to a significant reduction in overall aid volumes. In addition, it will significantly alter the makeup of DFID's existing portfolio, increasing the risks that expected results are not realised. These costs are real but impossible to quantify.

Balance of Costs and Benefits

111. The results of the Cost Benefit Analysis (summarised in table 6) indicate that both options are likely to result in benefits that exceed the costs, suggesting that either approach would offer good value for money relative to the 'do nothing' option. However, Option 1 (GBS) appears the preferred option. Under this option, taking account of monetised costs and benefits, the NPV is positive (£91m) and the benefit cost ratio is 1.7 under the 'central' scenario. This means that every £1 incurred in costs is expected to result in £1.70 worth of benefits. Furthermore, the unquantified benefits are also likely to be higher under option 1, compared to option 2, since it has not been possible to quantify the much wider range of service delivery benefits that we would expect to see under option 1.

112. These unquantified benefits, and the conservative approach used to monetise benefits that have been quantified, suggest that the 'true' NPV is likely to be significantly higher than the figure estimated in this appraisal, further strengthening the economic case.

113. Nevertheless, any attempts to quantify and monetise benefits and costs that will be incurred through different aid instruments are subject to potentially significant margins of error. This economic appraisal has focused quantification efforts where the evidence is strongest, and set out the assumptions as clearly as possible. We have also conducted **sensitivity analysis** to explore the sensitivity of the results to changes in some of the key assumptions. This shows that the preferred option still appears to offer value for money even when assumed efficiency increases are halved or if expected returns to education investment fall by 50%.

Table 6: Cost-Benefit Analysis Results

	Base Case	Sensitivity Analysis		
		Scenario 1[1]	Scenario 2[2]	Scenario 3[3]
OPTION 1				
Present Value of Benefits	£169m	£115m	£154m	£61m

[87] For the health sector, only data on total expenditure is available

Present Value of Costs	£99m	£99m	£99m	£99m
Net Present Value	£70m	£39m	£56m	-£38m
Benefit Cost Ratio	1.7	1.2	1.6	0.6
OPTION 2				
Present Value of Benefits	£133m	£120m	£112m	
Present Value of Costs	£99m	£99m	£99m	
Net Present Value	£31m	£21m	£10m	
Benefit Cost Ratio	1.3	1.2	1.1	

[1] Under Scenario 1, a 1% increase in allocative and technical efficiency is assumed for Option 1; no additional increase in technical efficiency is assumed for relevant sectors under Option 2.
[2] Under Scenario 2, the wage premium associated with different levels of educational attainment are halved.
[3] Under Scenario 3, there are no allocative or technical efficiency benefits for Option 1. Reducing technical efficiency benefits down to 0% for Option 2 is already captured under Scenario 1.

Climate and Environment Assessment

Context

114. **Rwanda's economy is heavily dependent on its natural resources** and sustainable management of Rwanda's environment remains a huge development challenge. Agriculture, industry, commerce and rural energy requirements place significant demands on natural resources, while the livelihoods of rural (and increasingly urban) communities are shaped by their access and use of them. Accelerating growth in economic sectors will put additional pressure on renewable and non-renewable natural resources.

115. **Rwanda is highly vulnerable to climate change** as it is strongly reliant on rain-fed agriculture both for rural livelihoods and exports of tea and coffee. It also depends on hydropower for half of its electricity generation, a driver of economic growth. Existing climate variability (in the form of floods and droughts) is already affecting economic growth.[88] The country has experienced a temperature increase of 1.4°C since 1970, higher than the global average, and can expect an increase in temperature of up to 2.5°C by the 2050s. Average annual rainfall may increase by up to 20% by the 2050s relative to 1970 levels, increasing the risk of landslides, crop losses and damage to infrastructure. Poor people, especially girls and women may be particularly vulnerable to these impacts since they tend to be especially reliant on the agriculture sector for their livelihoods.[89]

116. Temperature rises may increase the spread of vector-borne diseases (e.g. malaria), impacting on animal and human health. Higher temperatures will require tea and coffee to be grown at higher altitudes, impacting export earnings and potentially resulting in land use conflict. The increasing share of the construction sector in the national economy (contributing around 7% of GDP in 2009) is also a concern, because of the potential vulnerability of this asset base to extreme events.

117. Rwanda also imports all of its oil-based products so any increase in oil price has a significant negative effect on GDP and economic growth.[90] Rwanda is fortunate in that **it has large,**

[88] Stockholm Environment Institute (2009) references a CGIS-NUR study which estimates that direct measurable economic costs of a 2007 flood event were $4 to $22 million (around 0.1 – 0.6% of GDP) for two districts alone.
[89] 84% of women in Rwanda participate in agriculture as independent farmers, wage farmers and unpaid family labour and are less likely than men to move into non-agricultural jobs where the opportunities to raise their incomes are higher and livelihoods less vulnerable
[90] Econometric modelling conducted as part of the National Strategy on Climate Change and Low Carbon Development for Rwanda: Baseline Report, (Unpublished) suggests that a 10% increase in the price of oil will lead to a reduction in GDP by 1.5%

untapped clean energy resources, in the form of geothermal, hydro and solar, which have the potential to meet Rwanda's electricity needs and replace oil-fuelled power plants. This could offer domestic energy security and support socio-economic development whilst significantly reducing greenhouse gas (GHG) emissions that contribute to global climate change.

118. Over the last few years there has been a rapid **increase in awareness of the threats and opportunities of climate change and the environment** within the Government of Rwanda. Environment is one of four cross-cutting issues in the current EDPRS and is likely to remain a priority for EDPRS II. However, the Rwanda Environment Management Authority (REMA), is responsible for management of the bio-physical environment and mainstreaming of climate and environment is young (established in 2003), under-resourced and overstretched.

119. DFID have been working with the Government in support of its climate and environment objectives since 2009, including supporting the development of a **National Strategy for Green Growth and Climate Resilient Development** which was approved by the Rwandan Cabinet in October 2011.[91] The challenge Rwanda now faces is in implementation of this Strategy, in particular ensuring that:

- climate and environment are mainstreamed into line ministry programmes. The ministry of finance in its recent review of lessons learnt from the EDPRS[92] identified "room for improvement in regard to mainstreaming cross cutting issues such as…disaster management and risk reduction…and climate change"
- major opportunities and risks from climate change and environmental degradation are taken into account in Vision 2020 and EDPRS updates
- Rwanda makes the most of opportunities for attracting international climate finance, through setting clear priorities and providing good governance
- Capacity is built to realise the opportunities from climate finance and align these with national priorities
- Evidence related to low carbon and climate resilient growth in Rwanda is strengthened, particularly on macro-economic impacts, potential distributional effects, including gender impacts and adaptation–low carbon linkages
- Regional linkages are made and opportunities exploited

120. DFID Rwanda has agreed to support the initial operation of a **National Fund for Climate and the Environment** which is an important enabling pillar for implementation of the Strategy. The fund should help streamline climate finance and align different funding streams with national priorities across different sectors. The Fund will need support from donors and within government if it is to be effective in this goal.

Analysis

121. The feasibility of the different options has been assessed on the basis of their ability to contribute to the priority actions listed above and the climate and environment risks and opportunities they present. The assessment draws heavily on the 2011 climate change strategic evaluation of the DFID Rwanda programme which provides a detailed screening of DFID Rwanda programmes, including general budget support, sector budget support and individual projects.[93] The table below provides a summary.

[91] Republic of Rwanda: Green Growth and Climate Resilience, *National Strategy for Climate Change and Low Carbon Development*, October 2011
[92] Republic of Rwanda, Ministry of Finance and Economic Planning, *EDPRS: Lessons Learned 2008-2011*
[93] Climate change screening of DFID Rwanda's portfolio, Harewelle International Ltd and the Global Climate Adaptation Partnership, 2010

Table 7: Summary of climate change and environment risks and opportunities

Option	Climate change and environment **risks and impacts**	Climate change and environment **opportunities**
1	**Category B**: medium risk stemming from the possibility of government budget spent on activities which are either damaging in themselves (such as infrastructure projects); or which undermine policies and actions directly aimed at improving the environment and climate change management. These risks are mitigated by the opportunities that GBS will bring for dialogue on mainstreaming climate and environment across the government programme	**Category A**: potential for strong positive impact at the national level, provided active attention is paid to analysis and dialogue on the relevance of climate change shocks and opportunities for achievement of national development goals
2	**Category B**: risks are as described above. There is lower scope for mitigating these risks than under option 1, as our influence will be limited to the particular sectors where we provide sector budget support.	**Category B**: opportunities to build capacity and encourage climate and environment mainstreaming, but only in the specific sectors where we offer budget support
3	**Category B**: risks are as described above with risk mitigation opportunities limited to DFID-funded projects and sectors receiving budget support	**Category B**: opportunities to build capacity and encourage climate and environment mainstreaming, but only in the specific sectors and projects where we support
4	**Category B:** in the absence of DFID influence, there is a higher (albeit still medium) risk that climate considerations would not be prioritised in budget decisions and the sustainability of the EDPRS may suffer.	**Category C:** this option offers no opportunities for influencing policy dialogue and encouraging climate & environment mainstreaming.

Key: A = high potential risk / opportunity; B = medium / manageable potential risk / opportunity; C = low or no potential risk / opportunity

122. On the basis of the climate and environment appraisal summarised above, option 1 (General Budget Support) is the preferred option as it offers a similar level of risk and greater opportunities for mainstreaming climate and environment than the other options. Risks and opportunities are highlighted in the Management Case and reflected in the logframe. DFID will ensure that climate change and environment issues form a key part of the dialogue with government around GBS. In particular, DFID will play an active role in the following areas:

- Substantial policy dialogue around promoting mainstreaming of climate change into the EDPRS II
- Engaging in climate and environment monitoring processes for the EDPRS II: requesting sector monitoring frameworks (particularly in key sectors such as agriculture, social protection and energy) include climate and environment related indicators
- Supporting consideration of climate change and environmental sustainability issues in sectors of DFID focus, particularly agriculture, health, social protection (particularly the public works component) and education;
- Active participation in the Environment and Natural Resources (ENR) Sector Working Groups and leadership of the Climate and Environment Sub-Sector Working Group: promoting donor engagement and coordination particularly in connection with the National Fund for Climate and the Environment;
- Supporting the Government of Rwanda to access additional international resources in the ENR and climate change sectors and capitalise the newly created National Fund for Climate and the Environment.

Social Appraisal

123. Whilst there have been significant gains in translating economic growth into poverty reduction in recent years, poverty levels are still high[94] and the depth of poverty extreme[95]. EICV3 and the 2010 DHS evidence strong progress on poverty reduction, including in extreme poverty, in recent years, in contrast with limited poverty reduction over the 5 year period 2000/1 and 2005/6 (in part because of increasing inequality). Between 2006/6 and 2010/11, high levels of economic growth have been pro-poor – poorer households became better off and at a faster rate than non-poor households - reflecting quite a significant reduction in inequality. This pattern of significant poverty reduction is supported by other indicators which confirm improvements in welfare over the period[96]. Yet the depth of poverty remains high – many poor Rwandans live at levels very far below the poverty line.

124. Poverty continues to be concentrated amongst the rural population: 49% of the rural population are poor compared to 22.1% of urban with the vast majority of the population (85.2%) living in rural areas[97]. The vast majority of households who rely on farm wage labour are poor; as are around half of those households who are self-employed in agriculture. According to ECIV3 poor households are larger and contain more dependents, are more likely to contain children and are less likely to contain elderly members. Being in a female headed household is increasingly likely to make little difference to poverty status.

125. Recent EICV data shows marked geographic variations in the distribution of poverty. Poverty and extreme poverty continue to be highest in Southern province. The greatest decline has been observed in Northern Province, which also experienced an increase in inequality, in contrast to other provinces.[98] But there is large variation in poverty levels among districts in the same province, highlighting the importance of larger towns, border locations and remoteness as factors influencing the concentration of poverty[99].

126. Poverty and on-going inequality remain a constraint to development in Rwanda. According to EICV data, overall inequality has improved, with the Gini co-efficient improving from 0.522 to 0.490 between 2005/6 and 2010/11. However, this is still high compared to other countries in the region. Behind the impressive gains in the under 5 mortality rate, there are large differences between urban and rural rates of child mortality, by province, by mother's education and wealth status – in particular when the poorest and the richest quintiles are compared. Stunting rates amongst children under 5 remain "unacceptably high" [100] with substantial disparity between urban and rural children. Access to secondary school among children in the lowest quintile has increased threefold (from 2% in EICV2 to 9% in EICV3) in recent years. Nonetheless access among children in the highest quintile is four times higher, and for every two boys attending secondary school, there is only one girl[101].

127. The population has increased from 9.5 million in 2005/06 to an estimated 10.8 million in 2010/11 with the biggest increases in Kigali City, the Northern and Eastern provinces. 54% of the

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[94] Rwanda is still one of the poorest countries in the world at 166th out of 187 countries in the Human Development Index (HDI) 2011

[95] According to EICV data, poverty depth (the distance households are from the poverty line) remains high at 0.262 in 2010/11 compared with 0.329 in 2005/6.

[96] EICV covers a range of indicators of household wellbeing, revealing aggregate improvements at national level, in urban and rural areas, in all provinces and in all quintile groups. DHS 2010 results also show improvements in infant mortality and a sharp fall in the fertility rate from an average 6.1 children per woman in 2005 to 4.6 in 2010.

[97] National Institute of Statistics Rwanda (2012) Profile of Living Conditions in Rwanda 2010-11

[98] National Institute of Statistics of Rwanda (2012)

[99] See poverty map by districts p 17, The Evolution of Poverty in Rwanda from 2000 to 2011: Results from the Household Surveys (EICV) 2012

[100] DHS 2010 p 143

[101] The Third Integrated Household Living Conditions Survey (EICV 3) Main Indicators Report

population are aged 19 years or younger and 3% are aged 65 years and above. Almost 19% of the population has migrated within Rwanda in the last 5 years with the majority of migration to Kigali City and other urban areas. Migration patterns focus on the search for employment, with 40% of migrants aged 15-24. With a young population, it will be necessary to ensure that key growth centres and emerging skills training and employment opportunities are accessible to all.

128. Despite the GoR's strong commitment to gender equality, inequality persists. Political representation by women at decentralised levels does not match national levels with, for example, only 10% of Mayors being women[102]. Sexual and gender based violence remains a significant problem[103] and abortion continues to be illegal in Rwanda. 10% of unintended pregnancies end in an induced abortion and an estimated one third of women with abortion-related complications do not receive care, posing a significant challenge to achieving MDG 5.[104]

129. 5% of the population are living with disabilities (50.5% female and 49.5 male)[105] though disability NGOs suggest that the actual figure may be higher.[106] Households with disabled heads tend to be poorer; the proportion of disabled headed households increased over the last 5 years from 8% to 10%.[107]

130. These social and demographic characteristics and trends generate several risks to economic growth and poverty reduction which is sustainable and equitable. If high levels of poverty and inequality are not effectively tackled, this could undermine social cohesion and present risks to delivery, as well as to the sustainability of outcomes. Explicit consideration of equity in delivering policy will be key to addressing underlying inequalities and to continuing Rwanda's positive record of progress in reducing poverty and inequality.

131. To build on these positive trends, and given the evidence on poverty and inequality as constraints to growth, more disaggregated analysis of poverty, inequality and access to services and markets is required. Regional and intra-regional differences require analysis at district level and, if possible, at sector level as these have implications for targeting of poverty reduction programmes[108]. Gender and age disaggregated poverty analysis (including the distribution of resources within households) is also required. The DFID Rwanda Budget Support Evidence Facility could support investment in such analysis.

132. **Potential implications of different options:** Both options could help mitigate the risks identified above, although Option 1 is likely to provide greater opportunities for beginning to address some of the underlying causes of these risks. **Option 1** would provide the greatest opportunity for DFID Rwanda to continue to support the GoR to address non-sector specific issues such as inequality, gender, pro-poor PFM, equity in service delivery, reconciliation and social cohesion and to influence the allocation of sector budgets and monitor service delivery outputs which target the poorest and which address poverty and inequality. This would complement existing dialogue through sector-specific programmes. DFID Rwanda dialogue with the GoR, through the Joint Sector Review process and the BSHG, has already led, for example, to the inclusion of gender disaggregated, pro-poor indicators in the current EDPRS and CPAF.

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[102] Rwanda Statistical Yearbook 2011
[103] 1 in 3 women report that their husbands have used force to engage in sex (UNIFEM Baseline Survey on Sexual and Gender Based Violence in Rwanda 2008) and 56% of women believe that wife beating is justified for at least one of the specified reasons (DHS 2010).
[104] DFID minute from MoH meeting to disseminate findings of a study on abortion incidence in Rwanda by Guttmacher Institute, in collaboration with the Rwandan School of Public Health
[105] MINALOC (2010) *Census of People Living with Disabilities in Rwanda*
[106] DFID Scoping Study (2010), *Disability Issues in Rwanda*
[107] NISR, The Third Integrated Household Living Conditions Survey (EICV3), 2011
[108] For example from July 2012 the GoR's flagship social protection programme, VUP, will target those districts and sectors within them where there is the greatest concentration of poverty, using new data available from the EICV. It should therefore, be more effective in reaching the poorest.

Recent evidence on trends in poverty reduction, highlighted above, demonstrates that Rwanda is able to deliver equitable growth and has increased access to a range of basic services across income quintiles. To test whether this trend (and underlying assumption) continues, we will support on-going evidence building, as set out in para 131, to inform policy dialogue on the CPAF and the EDPRS2. The logframe, agreed with GoR, has indicators on inequality, absolute poverty, extreme poverty which will enable us to track performance and to explicitly consider equity outcomes in policy delivery. **Option 2** would not provide the same level of influence and leverage across the full range of GoR policy. It could, however, provide opportunities for enhanced sectoral dialogue on cross-cutting social issues.

<u>Political Appraisal</u>

133. **Context:** Rwanda's 2003 Constitution and political system prioritise national unity and consensus-building over competitive, pluralistic politics.[109] Under this model, the Rwandan Patriotic Front (RPF) is the preeminent party and the political space is closely managed. Paul Kagame became President in 2000 following nomination by a transitional parliament and was elected in 2003, having won 95% of the vote (with voter turnout over 96%). President Kagame was re-elected in 2010 with official figures awarding him 93.8% of the vote (with voter turnout at 98%). Independent observers concluded that the vote count was largely accurate but the government was criticised for a perceived clampdown on any viable opposition. Parties that were not aligned with the RPF were not able to register and field candidates. Under the 2003 Constitution, President Kagame's second term as President is due to end in 2017. The political parties that are registered work collaboratively and their policy agendas are aligned around the national development vision driven by the President and the Rwandan Patriotic Front. In this context, parliament is yet to fully establish a strong and independent 'watchdog' role over the executive, and MPs and Senators are expected to demonstrate strong and consistent commitment to government positions and policy.

134. Further relevant political factors:

- Significant progress has been made in terms of decentralisation but recent independent public opinion survey data suggests that further efforts are needed in order to move beyond a centralist political culture.[110]
- Media freedoms are curtailed although a raft of new media legislation and reforms are currently under development. Depending on their implementation, these changes could represent a significant shift in the government's approach to the role of the media.
- There is limited space for civil society organisations to adopt advocacy positions that are critical of the Government of Rwanda. Progress on poverty reduction and service delivery reflect strong commitment to various economic and social rights but commitment to civil and political rights remains a concern.[111]

135. Rwanda's political context presents a number of risks. The overriding risk relates to how far Rwanda's political system is able to adapt and open up in order to sustain and further build popular legitimacy and to effectively integrate citizens' aspirations for political voice and engagement.

136. **Potential political implications of different options**: Given the political context set out above, it is important that the UK remains a 'candid friend' to Rwanda, able to engage frankly on sensitive political and security issues at the highest levels. The UK's approach to budget

[109] This is partly due to fears that political competition may slow efforts to drive through a transformational development agenda. There are also concerns that political competition could encourage renewed divisions in Rwandan society and potentially undermine Rwanda's political settlement and reconciliation process.
[110] IRDP, p.41, 70, 72.
[111] Human Rights Watch, World Report: Rwanda 2012.

support will need to maximise the potential for such dialogue. **Option 1** – GBS – clearly affords the UK a greater role in dialogue on cross-cutting matters and political governance issues. UK alignment with GoR's preference for GBS as an aid modality may also help to sustain the UK's close partnership and dialogue with GoR. In contrast, **Option 2** – moving to SBS – would result in dialogue becoming more closely framed around sector-specific issues, thereby missing opportunities for engage with GoR on wider agendas. Pursuing option 2 would represent a significant shift for the UK and would likely dominate – and perhaps disrupt – the 'candid friend' relationship. Selecting option 2 would also potentially impact negatively on the degree of UK influence within the donor and diplomatic community and with partners more widely.

Institutional Appraisal[112]

137. Since the 1994 genocide, Rwanda has established and developed the state bodies and **institutional arrangements necessary to fulfil core state functions** related to security, rule of law and financial and macroeconomic management.[113] The establishment of the Rwanda Revenue Authority, for example, has led to a credible and stable tax system. Rwanda's civil service is recognised to be lean, reasonably paid and well-equipped by regional standards and an extensive decentralisation programme has built strong and institutionalised structures for driving development results at the local level. Building on these institutional foundations, the Government is also reinforcing **institutional provisions for public financial accountability and transparency** – for example through the Office of the Auditor General and the Rwandan Parliament's Public Accounts Committee which was established in 2011. DFID is strengthening the Parliamentary Accounts Committee (PAC) and the Office of the Auditor General (OAG) in complementary projects, to additionally strengthen oversight of the Executive by these bodies and to enhance openness and transparency.

138. Going forward, alongside the need to further strengthen institutional capacity in a range of areas, there are particular challenges and risks in terms of **institutionalising accountability provisions**. The 2011 World Development Report suggests that legitimate and capable institutions are critical for supporting durable state-society relations; for ending cycles of conflict and fragility; and for delivering sustainable development progress.[114] As the report underlines, 'institutions continue to function irrespective of the presence of particular leaders, and thus provide greater guarantees of sustained resilience [and development progress]'.[115] For Rwanda, there is a need to reinforce institutional provisions for accountability amongst and across the different branches of government (including between the Executive, the Legislature and the Judiciary) as well as between citizens and the state and citizens and their political leaders. This need applies at both central and local levels. For example, existing decentralisation arrangements are yet to fully enable or institutionalise citizen participation and engagement with local government and service providers.

139. **Potential implications of different options:** The above institutional challenges are manifest in individual sectors but they apply across government systems and arrangements. The entry point for achieving improvements is unlikely to be at sector level but rather through dialogue and support on a cross-cutting basis. **Option 1** would give the UK greater scope to engage with GoR on of the full range of challenges related to building capable and accountable institutions.

Fragility and conflict appraisal

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112 Institutions are often defined as the formal and informal 'rules of the game'. This encompasses formal rules, laws and organisations as well as informal norms of behaviours and shared beliefs. This appraisal focuses on the formal institutions rather than institutions in the fuller sense.
113 Building Peaceful States and Societies, A DFID Practice Paper, 2010, p.27-32.
114 *World Development Report: Conflict, Security and Development*, World Bank (2011).
115 WDR, xvii.

140. Rwanda has a history of violent conflict and is still contending with the legacy of the 1994 genocide. It is situated in a volatile and conflict-affected region and, since 1994 in particular, has been involved in and/or affected by on-going regional conflict especially in relation to the Democratic Republic of Congo.

141. Against this backdrop, Rwanda has made huge progress in terms of bringing national peace and security. But whilst Rwanda is widely seen to be stable, it remains fragile. For example, Rwanda is on the Fund for Peace's highest 'alert' category in terms of levels of institutional and social fragility.[116] It also remains challenging to discuss ethnicity and any potential inequalities in the context of reconciliation and social cohesion. In a country where the genocide took place along ethnic fault-lines the depth of reconciliation and the achievements of the community-based genocide courts (gacaca) are difficult to assess and are highly contested, as is the extent to which underlying tensions persist.

142. Evidence from the World Bank's 2011 World Development Report suggests that building legitimate institutions and public confidence in political systems is fundamental to breaking cycles of conflict and violence.[117] In Rwanda, this process is on-going and – as noted in the above appraisal sections - challenges and risks remain.[118] Going forward, the more citizens from all groups perceive the political system and institutions as fair and representative; as enabling them to exercise their voice and meet their aspirations; and as contributing to their own prosperity, welfare and security, the less likely grievances are to develop and the more likely people will be to support these institutions and to contribute positively to national development and peace.[119]

143. **Potential implications of different options**: To sustain development progress, it is essential that DFID's approach and interventions help Rwanda to further overcome the legacy of conflict and fragility and to prevent new conflict risks from developing. This includes ensuring that DFID supports reconciliation and helps to alleviate rather than aggravate any areas of tension or grievance. Regarding Option 2: reconciliation and fragility issues are manifest in health, education and agriculture sectors and dialogue and programming at the sector level can provide an important entry-point. However, the combination of GBS with existing DFID programmes (Option 1) is likely to provide the UK with greater opportunities to engage GoR on reconciliation and fragility-related issues beyond sector-specific challenges.

Fiduciary Risk Assessment

144. DFIDs 2011 Fiduciary Risk Assessment (FRA)[120] suggested the fiduciary risk relating to Public Financial Management (PFM) was moderate, with a positive trajectory of change. This reflects the progress between the 2007 and 2010 Public Expenditure and Financial Accountability (PEFA) assessments with 12 of the 28 indicators improving. DFID's programme of support to the GoR's PFM Reform Strategy, support to the Office of the Auditor General and support to Parliament (particularly the Public Accounts Committee and the Budget Committee) will help to address several remaining weaknesses in relation to accounting, recording and reporting, and legislative scrutiny. Further details are provided in section D of the Financial Case.

[116] It should be noted that Rwanda's trajectory against this indicator is improving and a minor further improvement would put the country in a lower category of vulnerability.
[117] World Development Report 2011, Conflict Security and Development, Overview, The World Bank, Washington D.C.
[118] IRDP, Citizen Participation for Democracy in Rwanda, September 2010, pp. 59-61.
[119] Given Rwanda's young and fast-growing population, creating sufficient jobs for young people is likely to be a particular challenge – both in terms of sustaining growth but also in terms of avoiding the development of new frustrations and grievances.
[120] DFID Rwanda, Donor Fiduciary Risk Assessment of General Budget Support in Rwanda, February 2012

145. **Potential implications of different options:** Sectoral Fiduciary Risk Assessments rated the fiduciary risk in Health and Education sectors as moderate, and risks in the Agriculture sector as substantial. Based on this analysis, the slightly higher fiduciary risk in the Agriculture sector, would suggest that Option 1 may carry lower fiduciary risk than Option 2, but the difference, if any, is likely to be marginal (as the risk rating for Health and Education sectors is the same as that for the GBS FRA – moderate).

Private sector engagement impacts

146. **Context:** Economic growth and reduced aid dependency are currently constrained by low levels of international investment and a weak private sector in Rwanda. Despite government efforts to encourage private sector development, concerns have been raised by the donor community and the IMF that investment, and especially Foreign Direct Investment (FDI) has not been responsive to recent reforms. More analysis is needed to understand the reasons behind the lack of private sector-led growth, but some sources[121] suggest that there is a degree of crowding out by political-party linked investments. This is a sensitive issue for the GoR, and the added frankness characterised by the GBS-enabled 'candid friend' relationship has been helpful in allowing the UK to discuss this issue at the highest level.

147. Discussions with foreign companies with an existing presence in Rwanda highlight other challenges to FDI including lack of clarity over tax arrangements and legal requirements, a lack of capacity within the Rwanda Development Board (RDB) – the government authority tasked with encouraging private sector investment - and poorly developed infrastructure. The GoR and donors are currently planning a joint assessment of the possible determinants of low FDI with the aim of developing a comprehensive PSD strategy and putting in place the institutional arrangements necessary if Rwanda is to achieve its vision of becoming a "private-sector led" economy by 2020.

148. **Potential implications of different options:** Required reforms and actions for PSD and investment cut cross sectors. Maintaining a good relationship with the GoR to enable discussion of PSD-related issues at high level is therefore important. Although option 2 would potentially allow more in-depth discussion of PSD issues within specific sectors, it is unlikely to facilitate the breadth of discussion that GBS enables. Withdrawing from GBS would reduce the opportunity for UK/GoR dialogue and influence on this very sensitive issue, which is critical to the achievement of the GoR's sustainable economic growth and development objectives. Therefore, whilst a continued weak private sector and lack of FDI remains a risk to the intervention under all options, the risk would appear marginally lower under Option 1.

C. Theory of Change and design considerations for the preferred option

Theory of Change

149. The following theory of change relates to the preferred option (Option 1: General Budget Support, in addition to existing DFID programmes).

150. The intended **impact** is sustainable and equitable economic growth and poverty reduction in Rwanda. The mechanism for achieving this impact will be through effective implementation of EDPRS II.

151. The expected **outcome** is improved effectiveness and accountability of the Government of Rwanda.

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[121] Rwanda Private Sector Federation Assessment report on Disinvestment and investment aftercare in Rwanda-July 2001

152. The **outputs** will flow through two parallel channels. The first will provide outputs through an increase in budget for service delivery; the second will improve government systems. The outputs that will be measured through the logframe are set out below:

1) **Service delivery outputs** e.g. improved maternal health; more boys and girls completing primary school; more people with access to safe water etc.

2) Systems outputs relate to:

   i. **Improved budget management**: improved capacity of public institutions to manage resources effectively, and target pro-poor activities;

   ii. **Improved accountability**: greater value for money and accountability for public spending;

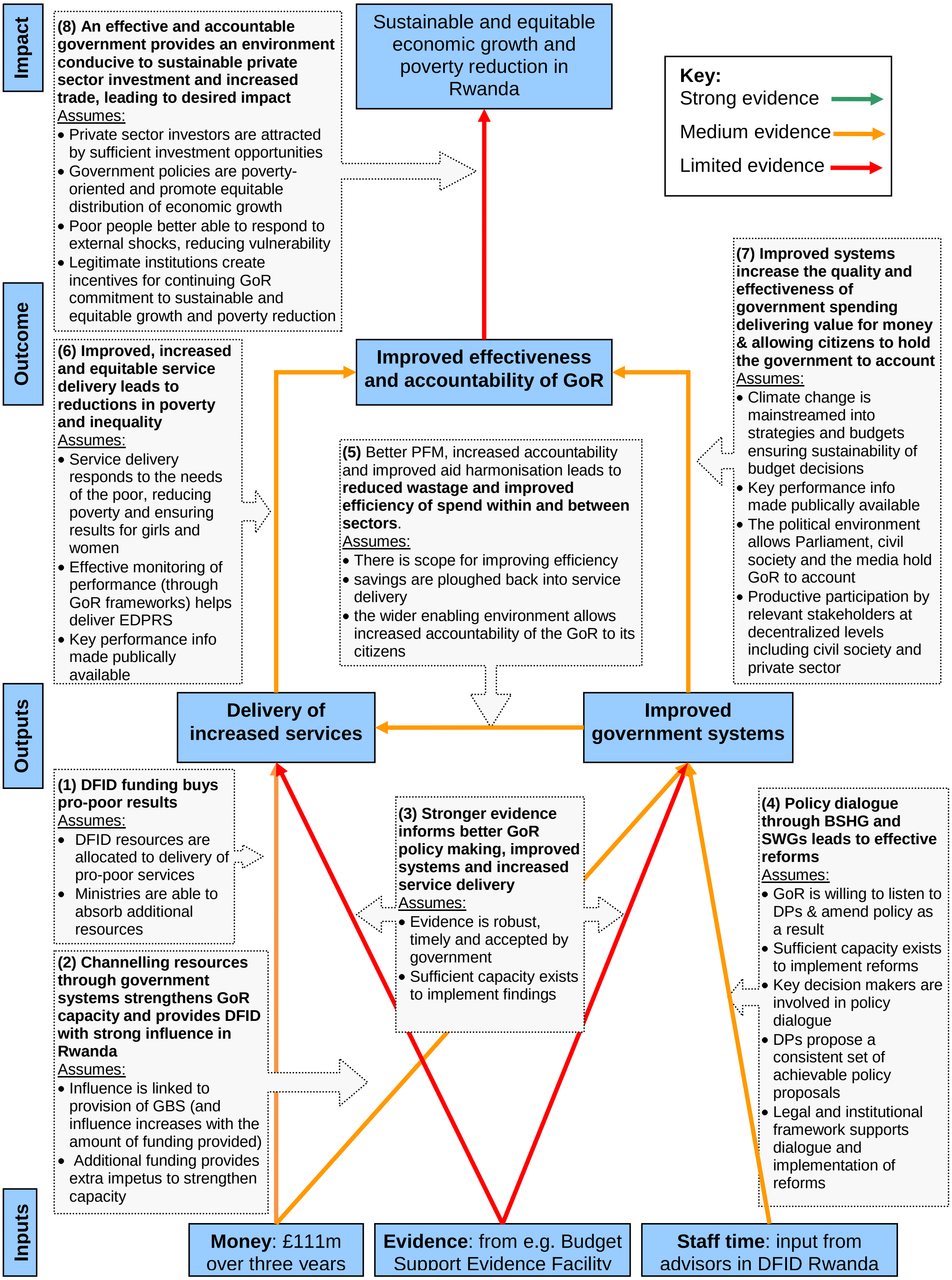
   iii. **Aid effectiveness:** predictable and harmonised support, intensive monitoring and high quality policy and political dialogue

153. The **inputs** are (i) DFID funds (£111m over three years for general budget support); and (ii) staff resources. Staff resources equate to 33% of an A1 economic adviser, supported by 33% of a B1 assistant economist, to participate in the Budget Support Harmonisation Group (BSHG) and other GBS-related dialogue and activities. Other DFID Rwanda advisers will provide technical input when needed.

154. The BSHG is the main channel for joint dialogue with Government of Rwanda, although there are additional opportunities for dialogue, including through Sector Working Groups and bilaterally.

155. The following diagram sets out the theory of change for general budget support in Rwanda, which is reflected in more detail in the attached logical framework. The solid arrows show the results chain. The grey boxes explain the processes and assumptions in moving from one stage to another.

Figure 11: Theory of Change: Growth and Poverty Reduction Grant, Rwanda



156. The results chain for a UK Growth and Poverty Reduction Grant (GPRG) to Rwanda is described below in terms of the transmission mechanisms and assumptions that underpin them. The box numbers refer to the diagram above.

Inputs to Outputs (evidence: strong)

Box 1: DFID money → delivery of services (evidence: medium)

157. DFID financial support will lead to direct service delivery outputs mainly by increasing on-budget resources available for pro-poor service delivery. By its nature, budget support is a flexible source of finance which can be channelled where it is most needed, in accordance with government priorities. GBS also provides enhanced leverage to sectoral policy dialogue around quality and equity of service delivery. This assumes that the GoR continues to pursue pro-poor objectives through the next phase of the EDPRS (initial high level indicators confirm this), that sufficient attention is placed on complementary activities to support the quality of services, that DFID resources are allocated in line with these objectives and that ministries have the required capacity to effectively absorb additional resources and spend them well. Rwanda's track record provides strong evidence that budget support helps deliver pro-poor results.[122]

Box 2: DFID money → improved GoR systems (evidence: medium)

158. Channelling resources through GoR systems helps to strengthen GoR capacity by providing additional on budget resources needed to fund required institutional capacity programmes and reforms. This assumes that the GoR continue to place emphasis on strengthening institutional capacity, as has been the case in the past.[123] The proposed performance tranche is intended provide an additional incentive to deliver services and improve government systems, although there is limited evidence on the impact this incentive has above and beyond what the GoR is already delivering. The provision of GBS is expected to give the UK important **influence** over key budgetary and policy issues, under the reasonable assumption that providing substantial aid, using the government's preferred aid modality, gives us a high degree of influence with the GoR. Evidence suggests that we have used this influence well in the past (see examples below).

Box 3: Evidence → improved service delivery and government systems (evidence: limited-medium)

159. Improved evidence, from various sources, can help the GoR make more informed policy choices and better target their reforms. DFID Rwanda has played a key role in building the evidence base for GoR policy makers and has recently established the Budget Support Evidence Facility (BSEF), an innovative and flexible facility that will further strengthen Rwanda-specific data and analysis. The impact of evidence on service delivery and government systems relies on evidence being of high quality, timely and addressing priority needs. It also assumes that the GoR accepts the analysis and that sufficient capacity exists to implement findings. Given the new and innovative nature of this programme, the evidence of its effectiveness in Rwanda is limited. However, the commitment of the GoR to monitoring and evaluation of its current programme suggests a strong appetite for analysis and evidence and the strong relationship between DFID and the GoR provides a powerful platform for dialogue.

Box 4: DFID staff → improved GoR systems (evidence: medium)

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[122] For instance, key results achieved by the GoR between 2008 and 2011, include an increase in electricity generation capacity from 74 MW to 97 MW; growth in agriculture output of 13%, including a 67% increase in production of key food security crops; an increase in the overall rate of use of modern contraceptives from 27% to 45%; and an increase in the primary school completion rate from 53% to 79%.

[123] In 2010, The GoR launched its Strategic Capacity Building Initiative (SCBI) which aims to identify the capacity constraints preventing the achievement of key objectives, Long-term capacity building assistance (from the World Bank, African Development Bank and the African Governance Initiative) is targeted at addressing these gaps. An indicator has been added to CPAF to track performance of this programme.

160. One of the key merits of GBS is that it helps build the capacity of public institutions to effectively implement national development plans. Through policy dialogue and influence, recipient government accesses high-quality, cheap expertise and advice from development partners in different areas, including policy and institutional development, systems building, strategic planning, implementation, monitoring and evaluation.

161. At the same time, DFID staff are able to use their technical capacity, in combination with the influence that substantial GBS provides, to press for changes to government systems that can contribute to improved effectiveness and efficiency of policies and programmes. By carefully identifying CPAF indicators, (where necessary using our influence with government to agree specific indicators and targets), DFID can encourage government to focus on specific actions to strengthen government systems. This could, for example, include strengthening the focus on transparency, or creating entry points for citizens and civil society to engage on policy or budget issues. A recent example is the inclusion in CPAF targets for 2012/13 of a commitment to publish the Executive Budget Proposal (previously identified as a major gap by the Open Budget Index). The BSHG can provide focused dialogue on key CPAF indicators as well as an opportunity to raise more strategic issues that cut across CPAF. For instance, following discussions through the BSHG, the GoR also recently committed to moving towards "*full public disclosure"* of the Annual Audit[124], prepared by the Office of the Auditor General.

162. GBS enables the UK to maximise its influence with the GoR. However, there are some sensitive political issues over which the UK would have less influence, for example, issues that the GoR considers to be important from a national security perspective (including the level of media freedom or political pluralism). DFID closely coordinate with the FCO in engaging on these sensitive issues (media reform, opening up of political space, and creating an environment conducive to a strong and constructive civil society) in order to ensure a strong and consistent position. In addition to raising such issues bilaterally with the GoR, the UK engages through fora such as the Joint Governance Assessment (see Management case for details), High Level Dialogue and the EU Article 8 meetings.[125] These and other opportunities are used to raise concerns jointly with other partners, thereby maximising Development Partner influence on these sensitive issues. This relies on high levels of technical capacity within the DFID Rwanda office, a GoR legal and institutional framework that supports dialogue and implementation of reforms at national as well as local levels; and sufficient GoR capacity and willingness to amend policies and implement reforms effectively.

163. The GoR has demonstrated commitment to creating a strong investment climate, indicated by Rwanda's recent rapid rise through the ranks of the World Bank's Doing Business Index. However some key challenges remain to convert this progress into increased investment and trade, including inefficient Public-Private dialogue in the implementation of business reforms. Influence through GBS-related policy dialogue will provide opportunities for frank and open discussions with the government on business and investment related matters and help encourage further reforms to improve the enabling environment.

164. DFID Rwanda has a wide range of technical expertise and experience on which to draw.[126] The institutional set up in Rwanda is well-developed and effective, allowing various opportunities for high-level dialogue. There are numerous examples of how the UK and other budget support donors have successfully pushed for, and realised, improvements in national and sector

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[124] Joint Budget Support Review report May 2012.

[125] 'Article 8' provides for regular meetings between senior EU officials and foreign ministries, enabling high-level political and policy dialogue

[126] Staff input is expected to comprise 20% of the senior (A1) economic advisor, 33% of the B1 economist and 10% of the B2 programme officer. The governance, results, social development, climate change and private sector development advisers will provide technical input when needed. The office is also able to draw on the expertise of other advisers using the professional cadre networks.

systems for policy making, Public Financial Management (PFM) and accountability. For example, dialogue through the BSHG has delivered outcomes including: the strengthening of the CPAF; a commitment from the GoR to joint analysis looking at the reasons for low levels of FDI in Rwanda; and more regular collection of gender disaggregated poverty data to enable better targeting of GoR poverty reduction policies.

Output to Output (evidence: limited-medium)

Box 5: improved government systems → delivery of services (evidence: limited-medium)

165. Improved efficiency is expected as a result of reduced wastage (freeing up staff and financial resources to deliver public services) and better PFM and reduced fiduciary risks. Improved central government systems can also support decentralised structures for driving development results at the local level. More predictable and harmonised aid will also lead to improved efficiency as a result of better coordination, reduced fragmentation of efforts, and avoided duplication of delivery and monitoring systems and closer alignment to government priorities. This assumes that there is scope for improving efficiency and that savings resulting from reduced wastage, avoided duplication and improved efficiency are invested back into service delivery. Rwanda has seen continuous improvement in PFM indicators in both the CPAF and DFID's Fiduciary Risk Assessments over the past decade, alongside improvements in service delivery.[127] Progress has been made on the GoR's extensive decentralisation programme[128] and predictability of aid has also increased over this period. However, evidence on the link between improved government systems and delivery of services, especially at grassroot level, is limited.[129]

Outputs to Outcome (evidence: medium)

Box 6: delivery of services → improved effectiveness and accountability of the GoR (evidence: limited-medium)

166. Delivery of services is a key component of the GoR's Economic Development and Poverty Reduction Strategy (EDPRS). Improved delivery of services contributes to the objectives set out in the strategy. Rwanda's track record of service delivery has been strong as suggested by past performance against the CPAF, many of whose indicators relate to service delivery outputs (e.g. % of assisted births in an accredited health facility, % of road network in good condition, number of land titles issued etc.).[130] Many of these services are linked to MDG targets, and as such, their links to poverty reduction and reduced inequality are well documented.

167. However, the EDPRS self-assessment report highlights *quality* of service delivery as an area where there is room for improvement, particularly at District level. This may explain the fact that there appears to be little correlation between Districts' performance in terms of progress against their imihigo (service delivery) contracts and poverty reduction at District level, as reported in the recent household survey. This highlights the limited evidence of causal links between the quality of policies, institutions and implementation processes and actual service delivery to citizens at decentralised levels. Other challenges (particularly at District level) include weak monitoring and evaluation systems, resulting in a lack of data on effective service delivery and insufficient disaggregated data and analysis to ensure effective targeting, particularly for girls and women; and insufficient involvement of the private sector and NGOs/CSOs. However, there does appear to be some improvement in the level and quality of participation by citizens at

[127] CPAF 2011; DFID Rwanda FRA (2012)
[128] Institute of Research and Dialogue for Peace (IRDP)
[129] OECD (2011)
[130] Over the period 2009/10-2010/11, 86% of all CPAF targets were fully achieved and 5% partially met, leaving only 9% unmet.

decentralised levels through the ‘citizens score card’: a means of holding the government to account on service delivery.

Box 7: improved government systems → improved effectiveness and accountability of the GoR (evidence: medium)

168. Improved budget management will improve the effectiveness of the GoR in delivering its objectives. Smaller variations between the approved budget and outturns at the end of the financial year imply strong fiscal discipline (reducing the need for unexpected borrowing) and more predictable and effective use of public money. The 2010/11 budget execution analysis showed a +1% variance between national approved budget and outturns. However, significant overspending and under spending rates were noticed within some sectors.[131] This reflects continuing challenges in the budgeting processes, planning, forecasting and implementation at sector level. Better procurement practices increase value for money and reduce financial leakages, increasing resources available for service delivery, and making public institutions stronger. Evidence suggests that procurement practices in Rwanda are strong and improving: Rwanda scored “A” for “Competition, Value for Money and Controls in procurement” in the 2010 PEFA assessment and, according to the 2011 PFM Joint Sector review, 81% of all contracts were awarded using a competitive process.

169. However, improved budget management relies on strong capacity of public institutions to manage resources effectively. One of the key findings from the EDPRS review process is that the implementation of Vision 2020 and the EDPRS is constrained by a lack of capacity across sectors. This point to a critical need to increase capacity to deliver, and improve the evidence base in terms of data and information analysis for effective monitoring and evaluation. Poor staff retention is one of the major issues contributing to continuing capacity constraints. Skilled staff particularly those with specialist skills, often leave government to work in better paid jobs in the private sector, or international organisations. The GoR is attempting to minimise leakage of trained and skilled staff through the recently completed comprehensive pay and retention policy.

170. Public Resource management will need to ensure future climate change and environment risks are included in strategic plans, and actions to mitigate risks funded and implemented, in order to ensure sustainability of socio-economic development plans. The recent publication of the GoR climate change strategy and planned launch of a National Fund for Climate Change and the Environment suggests that the GoR is taking this issue seriously.

171. Increased accountability creates incentives for government to deliver the goods and services demanded by citizens, and use public funds more efficiently and effectively. A variety of institutions contribute to increased accountability including the media, civil society, elections and parliament. A strong parliament, with effective Parliamentary Committees will demand better value for money in public spending (informed by the Auditor General whose audits highlight system weaknesses and poor performance). A vibrant media acts as a further check on government actions and spending, and can expose and challenge corruption and wasteful expenditure. By encouraging greater transparency and openness, (including through CPAF targets) DFID will enable increased public scrutiny and engagement on key issues from policy formulation to budget preparation to monitoring and evaluation. This increased scrutiny will create stronger incentives for GoR to respond to concerns raised by citizens and civil society. Accountability improvements are dependent on further opening up of political space, including taking forward planned media reforms to allow a more free and independent media. Through policy dialogue with the GoR, DFID will emphasise the importance of strengthening key accountability institutions. Through this policy dialogue DFID can engage strategically on key constraints identified through the complementary support programmes with the OAG and

[131] Overspending sectors included agriculture (128%), water and sanitation (130%); and fuel and energy (148%). Underspending sectors, included housing and community amenities (77%), transport and communication (86%); environmental protection (89%) and education (89%).

Parliament (for example engaging at a high level on issues such as the planned Audit Bill, and the independence of the OAG).

172. More predictable and harmonised aid will enable closer alignment to government priorities, leading to more effective implementation of GoR policies and programmes. A recent survey by the OECD[132] identified medium-term predictability of aid as a key bottleneck to the more effective use of aid in Rwanda. The report points to statements by the GoR that the provision of forward spending information from donors: supports strategic planning, policy making and service delivery; strengthens national ownership and alignment and improves the comprehensiveness and credibility of the medium term expenditure framework and annual budget.[133]

Outcome to Impact (evidence: limited)

Box 8. Improved effectiveness and accountability of the GoR → sustainable and equitable economic growth and poverty reduction in Rwanda (evidence: limited)

173. Improved effectiveness and accountability of the GoR will have a direct impact on sustainable and equitable economic growth and poverty reduction in Rwanda. The EDPRS has sustainable economic growth and poverty reduction as its underlining principles. Improved effectiveness of the GoR will increase the likelihood of success in delivering these objectives and increased accountability will ensure that the GoR is responsive to the needs of its citizens. An effective government is also more able to respond to external shocks, minimising the impact on economic performance. For example, the GoR have been able to tighten monetary policy to contain inflationary pressure driven by high fuel and food prices.[134]

174. An effective and accountable government also provides an environment conducive to sustainable private sector development (including increased private investment and trade); leading to economic growth and poverty reduction. This assumes that private investors are attracted by sufficient investment opportunities, and that government policies promote equitable distribution of the proceeds from economic growth. Although it is difficult to quantify the relationship between effective and transparent budget implementation and growth and poverty outcomes, it would appear that strong macroeconomic performance is being translated into good progress in terms of poverty reduction as indicated by the recent household survey: roughly one million fewer people are now in poverty compared to 2005/06.[135]

175. Evidence on improved government effectiveness encouraging private sector investment is also limited in Rwanda. Despite government efforts to encourage private sector development[136], Foreign Direct Investment (FDI) remains low. More analysis is needed to understand the reasons behind the lack of private sector-led growth.

176. The 2011 World Development Report suggests that legitimate institutions are key to building long term stability. Strengthening key institutions (including parliament, the media and the judiciary) will also help to create incentives for continued and long term government commitment to equitable growth and poverty reduction.

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[132] OECD (2011) Report on aid predictability: survey on donors' forward spending plans 2011-2013
[133] Ibid (page 18)
[134] IMF (Jan 2012)
[135] Economic growth has averaged 8% over the past decade (IMF 2012); the last household survey found that poverty had reduced by 12 percentage points to 45% (compared to 57% in 2005/6 and 59% in 2000/1) (EICV 2012).
[136] Rwanda has been ranked among the top reformers in the World Bank Doing Business Index for the last three years.

Optimal Design of the Intervention

Number of tranches per annum

177. In deciding on the number of tranches, there is a trade-off between, on the one hand, keeping costs low and maintaining predictability for the GoR budget; and on the other, allowing DFID more control over how its money is spent. A higher number of tranches provides greater scope for DFID to withhold payment if partnership principles are breached. However, this needs to be balanced against increased costs for the recipient government (principally through higher domestic borrowing costs), and increased transaction costs both for the GoR and DFID. Predictability is also very important for beneficiary governments. A recent ODI study showed that where budget support is unpredictable, Governments are unlikely to use funds for expanding recurrent expenditures i.e. service delivery, a key goal of budget support.[137]

178. The GoR have stated that they strongly support a single annual payment in the first quarter of the fiscal year, since early receipt of funds allows for better planning and predictability. However in line with DFID's strengthened approach to budget support, it is recommended that we retain our current system, agreed last year by the Secretary of State, of giving general budget support disbursements in two tranches per year: in July and December (the first and sixth months of the Rwandan fiscal year). The GoR has requested that this agreed schedule of disbursements is adhered to so as to assist the predictability of their budget.

Performance tranche

179. In recent years, more development partners (including DFID) have introduced performance or variable tranches in order to provide stronger signals to partner governments on results and to increase control over how funds are being spent. In Rwanda, the existence, size and share of performance tranches differ across development partners. Out of five GBS donors in Rwanda, only two (DFID and the EU) use clear performance tranches.[138]

180. Since 2008 the UK has included a performance tranche in its provision of GBS to Rwanda. In the current GBS programme (£106m from 2009/10 to 2011/12) the performance tranche represents around 13% of the total programme. Payments have been based on overall performance against the 45 indicators in Rwanda's Common Performance Assessment Framework (CPAF) which are mostly related to service delivery and Public Financial Management (PFM). The strong track record of the GoR in these areas has meant that over 90% of the performance tranche has been disbursed over the past three years.

181. The 2009 programme review[139] suggested that the performance tranche sends a clear signal to government that UK attention is focused on results, although there is little evidence of the impact the performance tranche has had on incentivising better results than would otherwise have been achieved. However, the approach taken to-date is consistent with the UK's emphasis on making budget support more effective by focusing on results and value for money. In the absence of further evidence on the optimal size of the performance tranche, and given the GoR are content with the degree of predictability that the current arrangements provide, **DFID Rwanda believe that a similar sized performance tranche (i.e. approximately 13% or £5m per year) remains appropriate for the proposed programme**.

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[137] ODI (March 2011) Insights from recent evidence on some critical issues for Budget Support design, page 5.
[138] Of the five GBS donors in Rwanda, only DFID and the EU use performance tranches. Around 30% of the EU GBS programme is linked to GoR performance: 10% can be varied on an annual basis and is linked to CPAF PFM and domestic accountability-related indicators; 20% is variable over the medium term and is linked to overall CPAF indicators and policy actions. The World Bank does not have a performance tranche but annual disbursements are contingent on CPAF performance in the previous year. AfDB and GIZ do not have performance tranches.
[139] Final Review of DFID's Poverty Reduction Budget Support to Rwanda 2006-2008 (Feb 2009)

182. However, since the last round of budget support to Rwanda was approved, the UK has strengthened its approach to budget support, placing much stronger emphasis on domestic accountability and human rights.[140] **Ministers have agreed (03/05/12) that a future programme of GBS to Rwanda should link performance tranche disbursements more directly and explicitly to performance against all four partnership principles.**[141]

183. In light of this, DFID Rwanda plans to supplement CPAF with an interim assessment of commitment to Partnership Principles (PPs). CPAF would continue to be the primary basis for determining the performance tranche but should any <u>significant new concerns</u> emerge from the assessment of commitment to PPs, a decision could be taken to cut the performance tranche. A specific concern about any one of the PPs could be the basis for cutting the entire performance tranche.

184. The interim assessment would be informed by progress against a set of indicators, (agreed in the revised 2006 MoU) supplemented by a review of any other significant developments during the period. This assessment will take place in October/November each year, making use of the performance data that is made available as part of Rwanda's backward-looking review in October each year, alongside other indicators/data. If this assessment identifies a major breach of any of the PPs, DFID Rwanda would recommend to Ministers that the process for response outlined in the MoU be initiated. If there is no major breach of the PPs but a specific new concern is identified, DFID Rwanda could recommend cutting the performance tranche. If no specific new concern is identified, disbursement of the performance tranche will be based on the proportion of CPAF indicators achieved (see box 1). In all cases, a submission will be put to Ministers (by mid-November) and a decision requested in time for planned disbursement in December of each year.

185. This approach would allow for a calibrated response and a means of sending a strong signal to the GoR in the event of specific new concerns about commitment to PPs. If no such concerns are identified, it would be expected that CPAF will be the basis for determining the performance tranche.

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[140] DFID Technical Note (July 2011) "*Implementing DFID's strengthened approach to budget support*"

[141] The four partnership principles are: 1. poverty reduction, and the Millennium Development Goals; 2. respecting human rights and other international obligations; 3. improving public financial management, promoting good governance and transparency and fighting corruption; and, 4. domestic accountability.

Box 1: Calculating payments based on CPAF performance

Since 2008, DFID Rwanda has agreed that in any given year 0%, 25%, 75% or 100% of the performance tranche (PT) will be disbursed, based on GoR performance as measured by CPAF. Under the 2008-2012 GBS programme, the following weighted average formula has been applied:

Weighted average score = 100% x % of fully met CPAF indicators
+ 50% x % of partially met CPAF indicators
+ 0% x % of CPAF indicators not met

In any given year, the weighted average of CPAF performance needed to be at least 86% in order to disburse the full PT, at least 66% to disburse 75% of the tranche and at least 51% to disburse 50% of the tranche. No PT would be disbursed for a weighted performance score below 50%. For example in the Jan-June 2009 mini-budget[1], 62.6% of policy actions were fully met, 29.7% partially met and 6.6% not met. The weighted performance score was therefore 77.45% = (1x 0.626) + (0.5 x 0.297) + (0 x 0.066). As such, 75% of the PT, or £3.75m, was disbursed.

Provided no specific new concern is identified following the broad assessment of commitment to Partnership Principles, we propose following a similar methodology to determine what proportion of the PT to disburse. However, this previous methodology requires amending since, in October 2011, donors and the GoR agreed to remove the 'partially met' category. **We propose aligning with the current EU methodology which disburses 100% of the performance tranche if a minimum of 80% of CPAF indicators are met, 75% for 60-80% and 0% if less than 60% of indicators are met.**

D. What measures can be used to assess Value for Money for the intervention?

186. Within the appraisal, Value for Money (VfM) indicators have been identified to help assess the economy, efficiency and effectiveness of the programme. These are summarised in table 8 and are largely based on targets in the Common Performance Assessment Framework (CPAF). These measures will be tracked through Annual Reviews and Project Completion Reports in order to help indicate whether the intervention continues to represent good VfM.

Table 8: Value for Money measures

VfM measure	Service delivery	Systems reform
Economy	Cost per pupil per year	Government wage bill as a % of GDP
	Cost per km of road maintained	% audit coverage of (a) government expenditure (b) government business enterprises
		Proportion of the value of procurement tendered competitively
Effectiveness	Number of (a) children and (b) girls completed primary school	Open Budget Index Score
	Number of maternal deaths per 100,000 live births	Inclusion of a climate change indicator in CPAF
	Number of recipients of social cash transfers	Percentage of citizens who feel they participate actively in local decision making and that local government is
	Number of people with	

	access to clean drinking water	listening to and addressing their priority concerns
	Production of key food security crops	
Efficiency	Percentage of road in good working condition	Index on quality and timeliness of annual financial statements
	Utilisation of primary health care services	

187. As part of the monitoring, we will continually assess whether or not the dialogue with Government is effective in ensuring that these issues are given adequate attention.

E. Summary Value for Money Statement for the preferred option

188. The appraisal case suggests that there is a strong rationale for providing General Budget Support to Rwanda (Option 1). In the event of circumstances where providing GBS became unfeasible, Option 2 would be preferable to Option 3. All three options would be preferable to the counterfactual which would entail a significant reduction in UK support to continued poverty reduction and development in Rwanda.

189. The economic appraisal suggests that both options 1 and 2 are likely to result in benefits that exceed the costs, suggesting that either approach would offer good value for money relative to the 'do nothing additional' option. However, Option 1 (general budget support) appears the preferred option. Under this option, taking account of monetised costs and benefits, the NPV is positive (£70m) and the benefit cost ratio is 1.7 under the 'central' scenario. This means that every £1 incurred in costs is expected to result in £1.70 worth of benefits. Furthermore, the unquantified benefits are also likely to be higher under option 1, than option 2.

190. The social appraisal also supports the case for Option 1 over the alternatives. The dialogue space opened would allow the UK to push the GoR to remain focussed on delivering the EDPRS and increase their focus on poverty reduction and reducing inequality and ensuring results for girls and women. Given the continuing high levels of poverty, poverty depth and inequality in Rwanda, there is a clear need for continued effort in this area.

191. The political, institutional and fragility appraisals also support the case for Option 1 over the alternatives. Politically, Option 1 will help to preserve and further develop the UK's ability to raise and discuss sensitive matters with GoR at the highest levels. Option 1 also puts DFID in a stronger position to engage with GoR to address cross-cutting challenges related to institutional development and peace-building, over and above what could be achieved through sector-orientated entry-points.

192. Whilst climate and environment risks are similar under both options 1 and 2, option 1 offers greater opportunity for mainstreaming climate and environment considerations across the entire GoR programme, and is therefore preferred to option 2.

III. Commercial Case

A. Why is the proposed funding mechanism/form of arrangement the right one for this intervention, with this development partner?

193. ***The proposed arrangement***: Following ministerial approval, financial aid to the Government of Rwanda (GoR) would be channelled directly to the National Bank of Rwanda, from where it is moved to the Treasury Single Account. From here it is used to finance implementation of the national budget, utilising national systems for budgeting, procurement, accounting, reporting and auditing. Auditor General's reports and DFID's annual Fiduciary Risk Assessment (FRA) are used to gauge whether GoR's internal controls are robust enough to ensure that funds are used for the intended purpose.

194. ***Why it is the right approach for Rwanda:*** Channelling aid through the GoR budget and systems ensures that responsibility for poverty reduction programmes rests with the GoR, and reflects government accountability to its citizens for its use of resources. Recent Public Expenditure and Financial Accountability (PEFA) assessments suggest an improvement in Public Financial Management (PFM) over time, with 12 of the 28 indicators improving between 2007 and 2010. DFID's programme of support to the government's PFM Reform Strategy, (including support to the Office of the Auditor General, Parliament and the Public Accounts Committee, and civil society) will help to address areas where weaknesses remain, particularly around accounting, recording and reporting, accountability and legislative scrutiny.

195. ***Safeguards:*** A Memorandum of Understanding will be signed with the GoR according to DFID procedures. This will clearly state the Partnership Principles that apply to the provision of UK general budget support, and procedures that will follow any significant breach of these principles. The results-based Common Performance Assessment Framework (CPAF) is used for assessing performance across a range of output and outcome targets. The variable tranche allows disbursements to be adjusted according to whether targets are met or not.

B. Value for money through procurement

196. Funds will be spent through government systems, using the GoR's procurement processes.

197. The GoR has achieved significant improvements in its public financial management and procurement systems through a well-coordinated reform programme, aimed at improving procurement processes to international standards. This included establishing the Rwanda Public Procurement Authority (RPPA) in 2008 as an oversight and regulatory body.

198. These reforms have delivered results: Rwanda was given an 'A' for 'Competition, value for money and controls in procurement' in the 2010 PEFA assessment[142], up from a 'B' in the 2007 PEFA. The 2011 PFM Joint Sector review reported that 81% of all contracts were awarded using a competitive process. The 2010 PEFA found that: (i) all contracts using less competitive procurement methods by spending agencies were approved at the appropriate level of authority; (ii) a complaints mechanism operates and all complaints and their resolution are published on the RPPA website; (iii) For all sole sourced contracts approved by the RPPA Board the use of uncompetitive methods was justified in accordance with clear regulatory requirements.

199. DFID continues to contribute to strengthening national public procurement systems through its (£4.5 million) support to the GoR medium term PFM Reform Programme.

[142] The 2010 PEFA Assessment was conducted using the old PI 19 scoring methodology. However, the 2011 Fiduciary Risk Assessment re-evaluated using the updated version of the indicator, and concluded that an 'A' score for PI 19 remained correct.

IV. Financial Case

A. What are the costs, how are they profiled and how will you ensure accurate forecasting?

200. The total project budget for general budget support over the period 2012/13 to 2014/15 is £111m. The breakdown over the three years is as follows:

Table 9: Budget breakdown

£ millions	2012/13	2013/14	2014/15	Total
Core tranche	**32**	**32**	**32**	**96**
Variable (performance) tranche	**5**	**5**	**5**	**15**
Total	**37**	**37**	**37**	**111**

201. These funds are available within the approved DFID Rwanda operational plan (2011/12 - 2014/15). There is potential to underspend on the variable tranche as disbursements will be linked to performance.

202. Staff input is expected to comprise 20 percent of the senior (A1) economic advisor, 33 percent of the B1 economist and 10 percent of the B2 programme officer. The governance, results, social development and climate change advisers will provide technical input when needed.

203. The programme officer and senior economic adviser will be jointly responsible for ensuring that forecasts are accurate and correctly recorded on ARIES. The proposed two disbursements per year (in July and December) should ensure that funds are accurately forecast.

B. How will it be funded: capital/programme/admin?

204. Programme funds will be allocated from DFID Rwanda programme resources. There are no contingent liabilities associated with the programme. Staff in DFID Rwanda responsible for managing the programme will be funded from DFID Rwanda's administrative (staff) budget and Front Line Delivery (FLD) budget.

C. How will funds be paid out?

Core and performance tranches

205. The GPRG will have a core and a variable performance tranche, with the variable tranche set at £5 million per year. Payment of both tranches is subject to the conditions set out in the Memorandum of Understanding, and in particular, adherence to the Partnership Principles that govern the provision of UK general budget support.

206. The proportion of the performance tranche that is paid will be linked to the assessment of progress against the Partnership Principles. Performance will be assessed on an annual basis following the 'backward looking' Joint Sector Review in October each year. See section C of the Appraisal Case (paragraphs 179-185) for more details.

Disbursements

207. Two disbursements will be made annually: in July and December (the first and sixth months of the Rwandan fiscal year), as set out in table 10 below. The rationale for this schedule of disbursements is set out in section C of the Appraisal Case.

Table 10: Disbursement schedule

£ millions	2012/13		2013/14		2014/15		Total
	July	Dec	July	Dec	July	Dec	
Core tranche	16	16	16	16	16	16	**96**
Variable (performance) tranche	-	5	-	5	-	5	**15**
Total	**16**	**21**	**16**	**21**	**16**	**21**	**111**

Payment of funds

208. Funds will be transferred, by DFID's Accounts Payable (AP) section directly into a designated GoR bank account for onward transfer to the spending departments. The Ministry of Finance will provide to DFID Rwanda evidence of the amount, rate of exchange and value date of the funding received under the grant.

D. What is the assessment of financial risk and fraud?

209. Fiduciary risk refers to the risk of budget support funds not being used in accordance with the purpose intended. Given that general budget support is un-earmarked funding channelled through Government budgets the levels of fiduciary risk relate to the effectiveness of Government systems, with a particular focus on financial management and accountability. DFID's 2011 Fiduciary Risk Assessment (FRA) suggested the fiduciary risk relating to Public Financial Management (PFM) was **moderate**, with a positive trajectory of change. The corruption risk was also assessed as moderate, with a flat trajectory of change.

210. For PFM, the positive trajectory of change reflects the progress between the 2007 and 2010 Public Expenditure and Financial Accountability (PEFA) assessments with 12 of the 28 indicators improving. Despite this progress the FRA identified a number of significant weaknesses including in relation to accounting, recording and reporting, and legislative scrutiny.

211. DFID's programme of support to the government's PFM Reform Strategy will help to address the accounting weaknesses both through capacity building and systems strengthening. DFID also recently commenced support to the Office of the Auditor General to strengthen its oversight of the use of public funds in Rwanda. This support is supplemented by a programme of support to Parliament, with a particular emphasis on the Public Accounts Committee and the Budget Committee. Together these programmes help to address several of the key risks identified in the FRA. DFID has also prepared an Action Plan outlining our planned response to the recommendations in the FRA (relating to safeguards and residual risks). The FRA Action Plan will support the office with monitoring progress against the residual risks.

212. In relation to corruption, the FRA notes the improvements in perceptions of corruption and the government's determination to fight corruption. It goes on however to identify the relatively weak media as a potential risk, given the role a strong and vibrant media can play in exposing and challenging corruption. Transparency International's Corruption Perceptions Index shows Rwanda on an improving trend, with its rating rising each year from 2007 to 2011, from 2.8/10 to 5.0/10. Few, if any, countries have shown similar rises. In 2011 Rwanda ranked 49 out of 182 countries worldwide, and the 4th least corrupt nation in Africa.[143]

213. The East African Bribery Index suggests that Rwanda (a) is by some distance less corrupt than the other four members of the East African Community, (b) has improved its score substantially in recent years, and (c) is the only one of the five countries to have shown significant improvement.[144] The report found that: 'the bribery prevalence level was ranked highest in

[143] Source: Transparency Rwanda asb.

[144] East African Bribery Index 2011. TI Kenya, TI Uganda, Concern for Development Initiatives In Africa (ForDia) in Tanzania, Transparency Rwanda, Association Burundaise des Consommateurs., 2011.

Burundi at 37.9% and lowest in Rwanda at 5.1%'.[145] After Rwanda, the second-lowest prevalence level was in Kenya (28.8%).[146] In terms of 'public perception on the government's commitment to tackle graft', Rwanda was rated highest with 93% of the respondents saying that their government is sufficiently committed to the cause.'[147]

E. How will expenditure be monitored, reported, and accounted for?

214. Funds will be accounted for through normal GoR accounting and audit systems. GoR systems are considered to be robust with an orderly and participatory budget process, steady improvements in transparent and comprehensive budget documentation, strengthened cash management, internal controls, external audit and legislative scrutiny functions. Continuing capacity constraints in financial accounting and reporting are being addressed through an ambitious professional and institutional capacity development programme.

215. Annual audited statements prepared by the Office of the Auditor General, in accordance with Rwandan law, will be made available to DFID and other development partners no later than nine months after the end of the Rwandan fiscal year.

216. If the annual audit of the Auditor General is delayed, the budget support group may commission, through the Office of the Auditor General, a financial or performance audit by an independent auditor of selected components or samples from the National Budget to allow an overall assessment of compliance with financial management regulations and value for money.

217. The administrative burden of DFID support is relatively light, particularly as a proportion of funds disbursed. Monitoring costs will be paid for from DFID advisory time as inputs into Sector Working Groups (SWGs), where we are already active, and the over-arching Budget Support Harmonisation Group (BSHG). DFID Rwanda will be co-chair of the BSHG twice during the lifetime of the GPRG, most immediately from June to December 2012. During these periods advisory time inputs will be higher, at approximately double the times when DFID is not the co-chair.

218. Evaluation costs will be covered by DFID Rwanda's £2.4m Budget Support Evidence Facility (BSEF). The Management Case provides in greater detail on how the programme will be monitored and evaluated, including the role of the BSEF. The section A of the Management Case sets out the process for reducing or removing support, were the underlying Partnership Principles governing DFID use of budget support to be breached.

[145] Ibid., p.x.
[146] Ibid. P.1.
[147] Ibid. P.x.

V. Management Case

A. What are the Management Arrangements for implementing the intervention?

219. Budget Support is implemented under a bilateral 2006 Memorandum of Understanding (MoU) and the Joint 2008 MoU which defines roles and responsibilities of each partner, including arrangements for disbursement of funds as outlined in the financial case. The bilateral MoU is being revised to reflect DFID's strengthened approach to budget support including a renewed focus on domestic accountability. DFID will also agree a set of indicators which will help to inform assessments of commitment to partnership principles.

220. The bilateral MoU proposes external reviews every two to three years to assess whether governance commitments are being met. Before any reviews took place, these review provisions were effectively superseded by the review process outlined in the 2008 Joint MoU. The Joint MoU identifies a **Joint Governance Assessment (JGA)** as the tool for evidence-based monitoring of the Government of Rwanda (GoR)'s progress against governance commitments. A credible and jointly-agreed JGA report was produced in 2008. It was intended that there would be further assessments on an annual basis. However, since 2008 it has not been possible to agree a joint balanced and credible assessment grounded in robust data. DFID Rwanda has therefore commissioned a separate, independent assessment of the GoR commitment to the partnership principles which has been used to inform the development of this Business Case. Since a comprehensive assessment has now been completed covering the period from 2008 until early 2012, 'light touch' interim assessments should be sufficient over the next two or three years. These light touch assessment will draw on new information, including international indicators, as it becomes available and will be reflected in disbursement submissions.

221. DFID Rwanda continues to work to institutionalise the JGA, emphasising in particular the importance of developing a robust monitoring and evaluation framework that will fully meet the specifications of both the bilateral and Joint Budget Support MoUs. The UK will also continue to raise concerns with the government through on-going bilateral and multilateral channels - notably through the 'Article 8' mechanism of the European Union.

222. Rwandan citizens are the principal stakeholders of this project, represented through the GoR. The overarching governance framework is therefore the Rwandan Constitution, which defines the GoR's role in delivering services to its people. The Organic Law on State Finances and Property (2006) provides the legal framework for budgetary planning and implementation. The Rwandan Parliament will play an oversight role in holding the Rwandan authorities to account, in particular through the Budget and Public Accounts Committees. Civil society groups will provide additional demand side accountability through scrutiny of the budget and grass-roots monitoring, although their voice in Rwanda is currently weak. The Office of the Auditor General will provide the necessary financial inspection function.

223. DFID will be represented on the Budget Support Harmonisation Group (BSHG), whose role includes monitoring of GoR performance against the Common Performance Assessment Framework (CPAF) and engaging in dialogue with the GoR on reform issues. The BSHG is the forum under the Joint MoU for discussing broad issues relevant to the efficient and effective functioning of GBS programmes, building on the work done at sector level. The purpose of the BSHG is to promote the coordination, harmonisation and alignment of different Development Partners working on budget support. Discussions within the BSHG are facilitated by the Chair (usually the Permanent Secretary at the Rwandan Ministry of Finance), and the Co-Chair, a role rotated among general budget support donors every six months.

224. The role of the Co-Chair is to facilitate the dialogue on issues related to budget support, including: harmonising development partners` requests to government; coordination of budget analysis to support and inform annual review processes; follow-up of agreed and planned actions; planning, coordination and monitoring of the development partners' roles in the Joint Budget Support Reviews (JBSRs) which consolidate the extensive consultation processes carried out at sector level through the Joint Sector Reviews (JSRs); and dialogue with the GoR to ensure effective information sharing and discussion on issues of common interest. **DFID will co-chair the BSHG from July to December 2012**, thereby providing direct influence over strategy. The core project team will include DFID Rwanda's senior economic adviser as lead adviser, supported by the B1 economist. Other DFID advisers, including the Statistics Adviser, will provide technical inputs when needed.

225. In addition development partners engage with the GoR through 13 Sector Working Groups (SWGs) in which sector budgets are reviewed and performance is assessed. Each SWG has a donor co-chair who is expected to lead on dialogue between development partners and the Government. DFID is currently the co-chair of the Education, Finance, and Social Protection SWGs.

B. What are the risks and how these will be managed?

226. The overall risk of providing budget support to Rwanda is considered 'medium'. This assessment is based on the view that strong development performance that would otherwise give a 'low' risk rating is to some extent offset by concerns around, among other things, domestic accountability, political rights and freedom of expression.

227. Whilst the government's tight controls over the media and political debate must be viewed in Rwanda's post-genocide context, there is little evidence that these controls are diminishing over time. There is mounting concern that power is overly centralised, with unpredictable consequences for long term political stability, economic development and human rights. President Kagame has insisted he will stand down at the conclusion of his constitutional mandate in 2017, and is determined that his will be the first peaceful exit from power since independence. Whether or not these aspirations are met, the transition process could make or break Rwanda's ability to sustain its progress.

228. Continued real and perceived levels of inequality and poverty depth, which are constraints to sustainable and equitable growth, are also risks to social cohesion and poverty reduction. Recent reductions in inequality have begun to reverse the previous trend of increasing inequality. However, dialogue with the GoR will need to continue to focus on ensuring that pro-poor objectives are central to EDPRS II.

229. Risks to the overall DFID programme in Rwanda, including to the provision of both sector and general budget support, are found in the 2011/12-2014/15 Operational Plan. Risks specific to general budget support are summarised below.

230. The table below identifies the key risks that may threaten the successful delivery of the intervention, along with their triggers and mitigation actions. Risks will be monitored and updated regularly: at a minimum, in advance of each twice-yearly disbursement.

231. Risks are categorised as being primarily:

- Relating to <u>adherence with the Partnership Principles:</u> risks which could result in a breach of these principles and, ultimately, withdrawal of GBS to Rwanda

- Relating to delivery: where risks may affect the achievement of outputs, outcome and impact, as set out in the Business Case. Delivery risks are divided into 'external': those where the drivers are largely outside the control of the GoR; and 'internal', where the GoR has more control.

- Relating to sustainability: having longer term potential impacts that could compromise the sustainability of progress and hence necessitate immediate mitigation actions

232. All risks are owned by the head of the DFID Rwanda office. Currently, all risks are within DFID Rwanda's risk appetite.

Risk	Triggers	Mitigating actions	Residual probability	Residual impact
Adherence to Partnership Principles				
Poor performance against Partnership Principles threatens withdrawal of DFID support	• Further restrictions on political rights, economic space and freedom of expression • Credible evidence of human rights abuse • Dialogue between the GoR and DFID breaks down	• Continue high-level dialogue in role as 'Candid Friend' • DFID (along with other donors) continue to engage on JGA process including High Level Dialogue • Programming of an amount equivalent to at least 5% of General Budget Support to accountability institutions, and progressive opening up of political space (media, civil society) • If a specific new concern is identified, recommend withholding part or all of the performance tranche • In the event of a breach of Partnership Principles, follow the process set out in section C of the Management Case	Med	High
Delivery – internal				
Reduction in the GoR's commitment to poverty reduction, resulting in a reduction in resources to key pro-poor sectors	• Inadequate pro-poor expenditure in GoR budget	• Through high-level and sector-level dialogue, offer advice and technical assistance on GoR policy development (in particular on EDPRS2 and related sector strategies) • Provide evidence to inform policy making, including through the Budget Support Evidence Facility (BSEF) • If a specific new concern is identified, recommend withholding part or all of the performance tranche • In the event of a breach of Partnership Principles, follow the process set out in section C of the Management Case	Low	Med
An increase in fiduciary risk results in less efficient and effective use of resources	• Evidence of fraud/ corruption • Inability to provide assurances on probity	• Continued donor Government dialogue around fiduciary risk management • Continue DFID support to Public Financial Management reforms and audit and accountability institutions including support to the Office of the Auditor General (OAG) and support to Parliament, particularly the Public Accounts and Budget Committees	Med	Med
Delivery – external				
External drivers of growth perform worse than	• Global economic climate worsens • Weak private	• Use high-level dialogue to discuss recommendations of forthcoming joint assessment on private sector	Med	High

expected, making delivery of poverty reduction objectives more challenging	sector and low FDI • Poor harvests • Regional instability undermines trade	investment • Offer advice and technical assistance on PSD strategy • Continue with agriculture service delivery grant to improve food security		
Significant humanitarian emergency diverts resources, reduces growth and/or increases poverty	• Resources diverted to meet short term needs • Poor people unable to respond to external shocks	• DFID Social Sector Programme reduces disaster-related risks by facilitating links with early warning systems and developing risk mitigation measures • Support Government to make productive investments in climate resilient activities through the National Fund for Climate and the Environment	Low	High
Development Partners withdraw support or deliver finance in a less predictable and harmonized way resulting in higher transaction costs to GoR	• Less favourable political and economic circumstances of donors • Increase in standalone projects • Duplication of monitoring and evaluation frameworks	• Continue working closely with other donors through BSHG and SWGs to encourage adherence with aid effectiveness principles	Low	Med
Deterioration in local security undermines DFID's ability to deliver programmes	• Worsening security situation	• Scenario planning for changing situations/ Continuity Plans Security guidance regularly updated and followed	Low	High
Sustainability				
Current and future climate variability negatively impacts on economic growth and poverty reduction	• Higher temperatures reduce expert earnings from tea and coffee • More variable rainfall patterns increase the risk of landslides, crop losses and damage to infrastructure	• Encourage better monitoring of climate change through inclusion of an indicator in CPAF • DFID Social Sector Programme reduces disaster-related risks by facilitating links with early warning systems and developing risk mitigation measures • Support the operation of the National Fund for Climate and the Environment to help streamline climate finance and align with national priorities • Continue with agriculture service delivery grant to improve food security	Med	Med
An increase in inequality (and/or the perception of inequality) constrains growth, leads to instability and limits poverty reduction	• Evidence of worsening inequality • Economic growth insufficient to create jobs for youth	• Through high-level dialogue, offer advice and technical assistance on GoR policy development (in particular on EDPRS2 and related sector strategies) • Provide evidence to inform policy making, including through BSEF	Med	Med

C. What conditions apply (<u>for financial aid only</u>)?

233. The project is subject to GoR's commitment to the following four partnership principles[148]:

1. Poverty reduction and the Millennium Development Goals;
2. Respecting human rights and other international obligations;
3. Improving public financial management, promoting good governance and transparency and fighting corruption; and
4. strengthening domestic accountability

234. An assessment of Rwanda's past performance against these partnership commitments is provided in Box 2. DFID Rwanda would like to see the GoR's performance against these partnership principles monitored using the Joint Governance Assessment (JGA). However, until the JGA proves effective in producing a balanced and credible assessment of the Rwandan governance environment, DFID Rwanda will conduct its own governance assessments which will be used as a basis for monitoring the underlying principles of budget support.

235. Section 6 of the 2006 bilateral Memorandum of Understanding details circumstances under which development assistance would be interrupted or reduced. This Memorandum of Understanding is currently being updated to reflect the four partnership principles. Should a situation arise where there is a breach of these principles or where the programme ceases to represent good value for money, or fails to deliver expected results, DFID Rwanda's response will follow the following hierarchy of options:

- Assessment with other development partners as to whether the partnership principles are being met across government
- If partnership principles appear at risk, raise with the GoR during the review process
- Set out a road map with the GoR to address concerns
- If the GoR does not respond, delay all or part of budget support
- Change the way DFID delivers aid to the GoR
- Switch some or all of the UK's aid away from government to other channels
- Reduce/stop aid to Rwanda

236. The appropriate response will depend on:

- The seriousness of the specific situation and the circumstances that led to the breach of the partnership commitments. In particular DFID will consider the scale, severity and trend of the change;
- The impact that any decision will have on poor people and longer term poverty reduction efforts.

Box 2: Summary assessment of the Government of Rwanda's commitment to the UK's Partnership Principles

This box summarises the UK's assessment of the Government of Rwanda's commitment to the partnership principles.[149] The assessment reviewed the period 2008-April 2012.[150]

[148] These principles are set out in a July 2011 Technical Note on "*Implementing DFID's strengthened approach to budget support*"

Findings take into account issues surrounding the rigour, credibility and contested nature of governance data and analysis on Rwanda.

Poverty reduction and the Millennium Development Goals
There is clear evidence of a positive trend and strong commitment to the first partnership principle.

Respecting human rights and international obligations
There is no clear evidence of a consistent trend (either upwards or downwards) in respect of the second partnership principle.

Improving public financial management, promoting good governance and transparency and fighting corruption
There is clear evidence of a positive trend and strong commitment to the third partnership principle.

Strengthening domestic accountability
There is no clear evidence of a consistent trend (either upwards or downwards) in respect to the fourth partnership principle.

Conclusion
The current Rwandan government has an impressive record in many areas covered by the partnership principles. It ended the genocide, brought political and macroeconomic stability, minimised corruption and has re-built the core functions of a collapsed state. It has also demonstrated strong commitment and delivered impressive results in terms of poverty reduction, growth and service delivery. However, more progress needs to be seen concerning human rights and domestic accountability. Dialogue to address these concerns will continue at a government to government including Ministerial level on the basis of the issues raised including in the more extensive review commissioned by DFID and the human rights reporting provided by the Foreign and Commonwealth Office. Commitment by the Government of Rwanda to the Partnership Principles could be further demonstrated through, for example, increased emphasis on strengthening accountability to citizens, and by improving on availability of and protection of rights and freedoms. This could reinforce the legitimacy of Rwanda's political system and help to consolidate peace and sustain development results. The UK Government will continue to work with the Rwandan Government; with non-governmental organisations and the private sector; and with international partners to support this process.[151]

D. How will progress and results be monitored, measured and evaluated?

237. Performance of the DFID GPRG to Rwanda will be monitored using the attached logframe. Annual Reports and Project Completion Reports will be produced in line with DFID procedures.

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[149] This summary assessment draws on the findings of a more extensive DFID-commissioned review conducted by external consultants. Further information can be found in DFID's Operational Plan for the UK's Development Programme in Rwanda 2011-2015. It should also be read with regard to the regular reporting on human rights which is carried out by the UK Foreign and Commonwealth Office.

[150] 2008 is the publication date of the most recent Joint Governance Assessment that was endorsed by the Government of Rwanda and development partners (Joint Governance Assessment, Government of Rwanda, September 2008)

[h151] For example, approximately 5% of the value of UK budget support will be channelled to strengthening domestic accountability in Rwanda

[151] For example, approximately 5% of the value of UK budget support will be channelled to strengthening domestic accountability in Rwanda

The government of Rwanda's commitment to the partnership principles underlying budget support will be assessed through annual governance assessments, as outlined above.

238. Logframe indicators have been aligned with the Common Performance Assessment Framework (CPAF). The CPAF is the tool used jointly by the government and development partners to monitor progress against Economic Development and Poverty Reduction Strategy (EDPRS) objectives and currently contains 45 objectively monitorable performance targets and corresponding policy commitments against which Budget Support partners and the Government of Rwanda judge performance.

239. The process of monitoring performance is well-organised and effective. Performance against the CPAF is assessed jointly (between government and development partners) in an open and transparent manner, involving civil society and private sector representatives. An annual 'backward-looking' joint performance review is held every autumn after the end of the Rwandan fiscal year. A 'forward-looking' joint planning review is held every spring. The forward-looking review provides an opportunity for Budget Support Development Partners to influence budgetary decisions and agree CPAF performance targets with the Rwandan authorities for the coming fiscal year.

240. Donor performance is also monitored through the Donor Performance Assessment Framework (DPAF), which contains a set of monitorable performance targets aligned to aid effectiveness commitments. It is through DPAF that the GoR judges donors' performance in adhering to Paris and Accra Declarations on Aid Effectiveness.

241. Due to the overarching nature of GBS, DFID will continue to support country level systems for data collection, analysis and evaluation. This is already being done through support to the Rwanda National Institute of Statistics (NISR) who recently published results from two key surveys: the third Integrated Household Living Conditions Survey (EICV) and the fifth Demographic and Health Survey (DHS)). Other surveys are scheduled over the period of this GBS including an interim DHS and EICV as well as the first population census and a national household survey on financial services (FinScope).

242. Beyond supporting these studies, DFID will commission GBS-specific analysis and evaluation. This will be done jointly with GoR and other development partners, wherever possible, in accordance with GoR preferences. However, we also intend to examine some of the specific effects of DFID's bilateral engagement in the GBS process through the evaluation.

243. The programme is a strong candidate for evaluation. In particular, the project is of strategic importance to DFID Rwanda, HMG and the GoR, is of high financial value and there are gaps in the evidence, particularly on the role of GBS as an influencing tool. The evaluation findings will contribute to the knowledge base on GBS operations in Rwanda (and elsewhere) and inform future programme development and implementation.

244. Evaluation is planned to commence with the establishment of a baseline in January 2013, a mid-term evaluation in 2014 and a final evaluation conducted in 2016, after completion of the project. This timeframe will coincide with key national surveys[152] which will form the basis for outcome evaluation. The interim and final evaluation reports will be shared widely within Rwanda and will be published on the DFID website. Options for publishing on other public websites will also be explored. The evaluation will be financed from DFID Rwanda's Budget Support Evidence Facility (BSEF) - a £2.4 million programme aimed at strengthening Rwanda-specific data, analysis and evidence. Use of existing surveys will minimise the costs of primary data collection. DFID's existing support to NISR will help us ensure that we have relevant data for the evaluation and it is provided on time and is of the right quality. As a VfM measure and in

[152] including interim and final EICVs, DHS, census and MDG reporting

line with DFID Rwanda's commitment to increase local capacity, local and regional evaluation experts are expected to play an important role in the evaluation.

Evaluation methodology

245. Evaluation of budget support operations at country level takes into account the fact that budget support is a contribution to the implementation of the policy and public spending actions of a partner government. Detailed evaluation methodology will be outlined by the independent evaluators. However, it is expected that the evaluation will use mixed methods for an outcome and process evaluation to address the evidence gaps as outlined in the Theory of Change (ToC). Standardised European Commission (EC) methodology guidance on budget support will be used as the primary guide for the evaluation methodology. This will help to ensure that Rwanda contributes to the national and global evidence base on GBS.

246. The evaluation will largely rely on pre-existing data although some supplementary surveys may be conducted where evidence is limited. Expected data sources include but not limited to EDPRS, EICV, Demographic and Health Survey, Census, Finscope, Public Expenditure and Financial Accountability (PEFA) Index, Objective Budget Index (OBI), Public Expenditure Reviews (PER), Public Expenditure Tracking Survey (PETS[153]) and Fiduciary Risk Assessments (FRA), Sector Strategic Plans (SSP)[154] and District Development Plans (DDP). The surveys and strategic documents will be triangulated with detailed qualitative evaluation of processes and institutional frameworks used to deliver services and transform outputs to outcomes, testing assumptions stated in the ToC.

Scope of work

247. The evaluation will focus on areas where evidence was found to be limited as outlined in the Appraisal Case, taking into account issues of feasibility within budgetary and time constraints of the programme period. Given these constraints, we have chosen to focus the evaluation at outcome level, specifically on the relationship between GBS and improved efficiency, equity and accountability of government spending and the respective roles and contributions of SBS and GBS. Whilst the focus of our evaluation efforts will be at outcome level, we will also look for opportunities to participate in wider impact evaluations, including coordinating with other Development Partners (DPs), and other DFID offices with budget support programmes.

248. The overall focus of the evaluation will be to assess the processes that lead to improved effectiveness and accountability of the GoR: an area where evidence is limited both for Rwanda's BC and for BS modalities in general. This will be achieved through assessing:

- The influence of budget support through policy dialogue and other mechanisms on government's systems at central level and;
- The process through which policy recommendations are transformed to service delivery and the extent to which this delivers outcomes to citizens.

249. We also intend to use the BSEF to undertake work that will help us establish thresholds for Rwanda's future graduation from aid which is also a GoR objective in the medium term. This would be an in-depth and detailed analysis that would require analysis of trends beyond the current programme period. Such analysis would also benefit from comparisons with other countries and close engagement with other stakeholders including Government and DPs.

Evaluation questions:

[153] PETS and PERS are not available for all sectors and are done on an ad hoc basis but we will use these findings along with other more regular or global studies.
[154] A few priority sectors will be identified.

250. Below are possible evaluation questions and the judgement criteria that will be used to ensure that the evaluation questions are answered. The questions are categorised into two broad areas. The first set of questions is on the effect of budget support on improved government systems and consequently on improved effectiveness and accountability of GoR; while the second is on the effect of budget support on the delivery of services by the GoR and to what extent this translates to improved effectiveness and accountability of the GoR.

1. **To what extent can improvements in government systems be related to budget support (BS) mechanisms in general and GBS specifically?**
   i. What is the evidence and strength of qualitative and quantitative causal links between BS mechanisms and improved public expenditure outcomes[155]?
   ii. What is the evidence and strength of qualitative and quantitative causal links between BS mechanisms and strengthened PFM and procurement systems?
   iii. What is the evidence and strength of qualitative and quantitative causal links between BS mechanisms and improved quality of policies and implementation of programmes at sector and national levels?

2. **To what extent can changes in pro-poor government policies, policy processes and service delivery mechanisms be related to BS mechanisms in general and GBS specifically?**
   i. What is the evidence and strength of qualitative and quantitative causal links between BS mechanisms and increased funding for discretionary public spending?
   ii. What is the evidence and strength of qualitative and quantitative causal links between BS mechanisms and enhanced governance and democratic accountability?
   iii. What is the evidence and strength of qualitative and quantitative causal links between BS mechanisms and improved equitable outcomes for citizens?
   iv. What is the evidence and strength of qualitative and quantitative causal links between improved outcomes in key cross-cutting themes and BS mechanism at sector (GBS & SBS) and national (GBS) levels?

251. The evaluation will use OECD/DAC evaluation criteria but with more emphasis on effectiveness, impact and sustainability - areas where current evidence is weak. Relevance and efficiency will also be explored but as part of the background and context.

252. DFID will continue to engage with the GoR to ensure greater focus and priority is given to increasing the monitoring and evaluation (M&E) capacity of sectors and institutions including at decentralised levels. M&E has already been highlighted as a priority for the next EDPRS but it will be important to make sure that necessary steps are put in place for effective implementation. We will also continue to strengthen dialogue in the sectors and institutions where we are present, with a focus on strengthening evidence through robust data collection and M&E..

[155] Aggregate fiscal discipline, allocative efficiency and technical/operational efficiency

Annex 1: Logical Framework

Quest number of logframe: 3476495

The logframe has been discussed and agreed with the GoR on the basis that these are interim targets that will be updated once the revised Economic Development and Poverty Reduction Strategy (EDPRS II), covering the period 2013-2018, has been finalised later this year.

PROJECT TITLE	**Growth and Poverty Reduction Grant (GPRG 2012/13-2014/15)**					
IMPACT	**Impact Indicator 1**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
Sustainable and equitable economic growth and poverty reduction in Rwanda, as set out in the GoR's Vision 2020, the Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2012 and its successor 2013-2017	GDP per capita	$550	$609	$659	$716	
		Source				
		IMF/MINECOFIN (Ministry of Finance and Economic Planning), EDPRS, annual reports				
	Impact Indicator 2	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	% share of population in poverty	45%			33%	
		Source				
		EICV (2014/15), interim EICV (2013/14), CPAF indicator (indicator 26), MDG reports				
	Impact Indicator 3	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Income inequality, as measured by GINI coefficient	0.49			0.44	
		Source				
		NISR reports, EICVs and Interim surveys				

OUTCOME	**Outcome Indicator 1**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	**Assumptions**
Improved effectiveness and accountability of the	Proportion of CPAF targets and policy actions achieved	87%	88%	89%	90%	• Rwanda continues to show commitment to the Partnership
		Source				
		CPAF and JBSRs reports				

Government of Rwanda	**Outcome Indicator 2**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	Principles • Macroeconomic stability continues • EDPRS II is poverty-oriented and promotes equitable distribution of economic growth • Private sector grows in strength and more foreign direct investment is attracted
	Strength of the Government of Rwanda's commitment to open and transparent governance (as measured by Open Government Partnership Score)	7			12	
		Source				
		Open Government Partnership Score – aggregated score for fiscal transparency, access to information, asset disclosure and citizen engagement				
	Outcome Indicator 3	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Improved index of business environment	60%	67%	70%	75%	
		Source				
		CPAF (indicator 1)				
	Outcome indicator 4	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Income poverty depth	0.262			0.24	
		Source				
		EICV (2015/16) and interim EICV(2013/14)				
INPUTS (£)	**DFID (£)**	**Govt (£)**	**Other (£)**	**Total (£)**	**DFID share (%)**	
	£111m over 3 years					
INPUTS (HR)	**DFID (FTEs)**					

OUTPUT 1: IMPROVED SERVICE DELIVERY	**Output Indicator 1.1**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	**Assumptions**
Improved access and quality of service delivered to all Rwandans	Primary school completion rate (a) overall; (b) girls	79% 82%	80% 83%	82% 83%	83% 84%	• DFID resources are allocated to delivery of pro-poor services • Service delivery responds to the needs of poorest
		Source				
		CPAF (Indicators 21, 22)				
	Output Indicator 1.2	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2015/16)**	
	Number of maternal deaths per	476	n/a	n/a	287	

	100,000 live births	**Source**				
		DHS (available every five years – no interim measure is available)				
	Output Indicator 1.3	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Number of people benefiting from direct support cash transfers disaggregated by sex	20,900	101,697	139,258	196,647	
		Source				
		VUP monitoring data				
	Output Indicator 1.4	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Number of electricity subscriptions (disaggregated by rural/urban)[1]	215,000	350,000	376,000	390,000	
		Source				
		CPAF (indicator 4)				
	Output Indicator 1.5	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Percentage of population with access to clean drinking water (within 500 metres in rural areas and 200 metres in urban areas)	74%	80%	85%	88%	
		Source				
		CPAF (indicator 19)				
	Output indicator 1.6	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Production of key food security crops (000s MT cereal equivalents)	3,000	3,225	3,287	3,325	
		Source				
		CPAF (indicator 10), MINAGRI reports				
IMPACT WEIGHTING	**Output indicator 1.7**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Number of new non-farm jobs created (disaggregated by sex)	N/A	200,000	250,000	260,000	
		Source				**RISK RATING**
		CPAF (indicator 30), EICVs				
INPUTS (£)	**DFID (£)**	**Govt (£)**	**Other (£)**	**Total (£)**	**DFID share (%)**	
INPUTS (HR)	**DFID (FTEs)**					

OUTPUT 2: IMPROVED BUDGET MANAGEMENT	Output Indicator 2.1	Baseline (2010/11)	Milestone 1 (2012/13)	Milestone 2 (2013/14)	Target (2014/15)	Assumptions
Improved capacity of institutions to manage resources effectively	Percentage of planned outputs achieved in the four selected strategic capacity building initiative (SCBI) priority areas	0%	70%	75%	78%	• Policy dialogue is effectively maintained • Capacity exists to implement reforms • Quality and effectiveness of dialogue is linked to provision of GBS
		Source				
		CPAF Indicator 33				
	Output Indicator 2.2	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	PEFA scores	9 A's, 9 B's, 4 C's, 6 D's (2010 PEFA)		At least 3 indicators (net) improved.	At least 4 indicators (net) improved, relative to the baseline.	
		Source				
		PEFA reports. The next PEFA is expected in 2013/14				
	Output indicator 2.3	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Proportion of the value of government procurement tendered competitively	81%	82%	84%	85%	
		Source				
		CPAF (indicator 45), OAG reports				
IMPACT WEIGHTING	**Output indicator 2.4**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Inclusion of a climate change indicator in CPAF for EDPRS II[2]	No indicator	Indicator included	Indicator included	Indicator included	
		Source				**RISK RATING**
		CPAF				
INPUTS (£)	**DFID (£)**	**Govt (£)**	**Other (£)**	**Total (£)**	**DFID share (%)**	
INPUTS (HR)	**DFID (FTEs)**					

OUTPUT 3:	Output Indicator 3.1	Baseline	Milestone 1	Milestone 2	Target	Assumptions

ACCOUNTABILITY		**(2010/11)**	**(2012/13)**	**(2013/14)**	**(2014/15)**	
Greater value for money and accountability for public spending	Extent to which the government acts on recommendations issued by parliament	B	B	B+	A	• PFM reforms continue to be a priority for the GoR • Capacity exists to effectively act on OAG recommendations • The wider enabling environment allows citizens to hold the GoR to account
		Source				
		PEFA PI28 iii				
	Output Indicator 3.2	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	% audit coverage of government expenditure	70% (2010)	72%	75% (2013)	80%	
		Source				
		CPAF Indicator 43; Report of the Auditor General of State Finances; PEFA				
IMPACT WEIGHTING	**Output indicator 3.3**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Level of transparency of government budget (Open Budget index Score)	11 (2010 Survey)	28		55	
		Source				**RISK RATING**
		Open Budget Survey (conducted in 2012 and 2014)				
INPUTS (£)	**DFID (£)**	**Govt (£)**	**Other (£)**	**Total (£)**	**DFID share (%)**	
INPUTS (HR)	**DFID (FTEs)**					

OUTPUT 4: AID EFFECTIVENESS	**Output Indicator 4.1**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	**Assumptions**
Predictable and harmonised GBS	Percentage of DPAF indicators met	83%	100%	100%	100%	Aid harmonisation remains a joint priority for both GoR and development partners
		Source				
		DPAF				
IMPACT WEIGHTING	**Output indicator 4.2**	**Baseline (2010/11)**	**Milestone 1 (2012/13)**	**Milestone 2 (2013/14)**	**Target (2014/15)**	
	Percentage of DPAF indicators met by DFID	100%	100%	100%	100%	
		Source				**RISK RATING**
		ARIES				

INPUTS (£)	**DFID (£)**	**Govt (£)**	**Other (£)**	**Total (£)**	**DFID share (%)**
INPUTS (HR)	**DFID (FTEs)**				

<u>Notes:</u>

[1] We expect targets for later years to be revised upwards, given that energy access is expected to be a priority for EDPRS II and in light of ambitious GoR energy targets for 2017.

[2] Public resource management will need to consider climate change effects of funded programmes as otherwise the costs of climate change to society would compromise budget effectiveness in achieving growth and poverty reduction objectives. Climate and Environment indicators are currently being developed through the EDPRS II process. Once these are agreed we will consider updating the logframe to incorporate one or more of these indicators.

Annex 2: Detailed Economic Appraisal

I. Summary and recommendations

1. This is an Economic Appraisal of the proposed Growth and Poverty Reduction Grant (GPRG) to Rwanda (also known as General Budget Support, GBS) totalling £111 million over three years from 2012/13 to 2014/15. This intervention has twin objectives of directly helping the poor through the provision of basic services; and developing the institutional capacity of the Government of Rwanda (GoR) to deliver sustainable and equitable economic growth and poverty reduction.

2. This appraisal uses available evidence and conservative assumptions to estimate the expected costs and benefits of the proposed programme. Two options are considered relative to the counterfactual (no additional support, beyond existing programmes). These are General Budget Support (option 1) and Sector Budget Support to the education, agriculture and health sectors (option 2).

3. The Cost Benefit Analysis results indicate that both options are likely to result in benefits that exceed the costs, suggesting that either approach would offer good value for money relative to the 'do nothing' option. However, Option 1 (general budget support) appears the preferred option. Under this option, taking account of monetised costs and benefits, the NPV is positive (£70m) and the benefit cost ratio is 1.7 under the 'central' scenario. This means that every £1 incurred in costs is expected to result in £1.70 worth of benefits. Furthermore, the unquantified benefits are also likely to be higher under option 1, than option 2.

4. The quantified benefits are:
   - **Improved service delivery in education** (as measured by the increase in earnings expected from students reaching a higher level of attainment), **agriculture** (measured by expected rates of return to investment in the sector), **energy** (measured by additional income generated from electricity-enabling economic activity and CO_2 emissions avoided), access to **water** (measured by reduced time spent fetching clean water) **and health** (measured by applying Disability Adjusted Life Years (DALYs) to estimates of increases in the number of children sleeping under bednets, increases in the number of children immunised against measles and increases in the number of births delivered by skilled health personnel);
   - **Improved allocative efficiency** i.e. more public financial resources flowing into 'pro-poor' areas; and
   - **Improved technical efficiency** i.e. effective use of resources for intended purposes (e.g. reductions in unaccounted expenditure and corruption, better planning and disbursement of funding arising from better public financial management etc.)

5. There are also likely to be further benefits that we have not been able to quantify such as:
   - **Improved service delivery across other sectors** of the government's budget (e.g. social protection, improved sanitation, improved public infrastructure such as roads etc.)
   - **More predictable resource flows** reducing the need to take out short term domestic loans to smooth cash management during the fiscal year.

6. These unquantified benefits, and the conservative approach taken to estimate the monetised benefits, suggest that the 'true' NPV is likely to be significantly higher than the figure estimated in this appraisal, further strengthening the economic case.

7. Nevertheless, any attempts to quantify and monetise benefits and costs that will be incurred through different aid instruments are subject to potentially significant margins of error. This economic appraisal has focused quantification efforts where the evidence is strongest, and set out the assumptions as clearly as possible. We have also conducted sensitivity analysis to

explore the sensitivity of the results to changes in some of the key assumptions. This shows that the preferred option still appears to offer value for money, when expected efficiency assumptions are halved or if expected returns to education investment are reduced by 50%.

II. Justification for Intervening

8. Poverty is multidimensional, with specific challenges influenced by local conditions. And so whilst the recipe for growth is well understood, a one-size fits all approach won't work. The main business case sets out the justification for DFID support based on Rwanda's need and the specific challenges it faces.

9. The ultimate objective of DFID intervention is to lift the extreme poor out of poverty, allowing them to live content productive lives. At the minimum this means provision of, and **equitable** access to, basic services such as education, healthcare, clean water and hygienic sanitation facilities. But where **market failures**[1] exist, support can also go beyond the "basics" to include the provision of capital and services such as access to financial services to allow consumption smoothing, insurance to protect the gains already realised, and to provide seed capital for productive investments. This has to be supplemented by adequate infrastructure such as functioning roads if welfare enhancing commerce is to be realised. But government failure is also a real possibility, and so the cost of intervening has to be weighed against the benefits expected to be achieved if such intervention is to be justified.

10. **To ensure interventions are sustainable, transparent, well-functioning institutions are necessary**. The role of institutions are often referred to as setting "rules of the game" but the degree of engagement (i.e. the public/private division of labour) will vary depending on the degree of market failure discussed above, which can reasonably be expected to be correlated with the degree of economic development. In a low-income country such as Rwanda, the government has a vital role to play.

III. Options Considered

11. A fuller discussion of different options can be found in the main body of the business case and so for brevity only a quick outline is provided here. A range of aid modalities are employed in Rwanda. These range from un-earmarked financial transfers to the GoR (general budget support) through financial transfers to the GoR earmarked for particular sectors (sector budget support) to project-based aid. These three broad options are discussed below:

    - ***General Budget Support (GBS):*** Providing finance through GoR systems facilitates better coordination, avoiding duplication, reducing transaction costs and allowing economies of scale to be realised. However, a financial transfer to a government becomes less attractive the less confidence there is that public bodies are able to spend financial resources on intended purposes in a transparent way. The GoR has a strong record of using public resources effectively, as indicated by their performance against the Common Performance Assessment Framework (CPAF). Nevertheless, donor engagement is important: to ensure that donor taxpayers get value for money (and are therefore more likely to provide support in subsequent periods, if required) and to transfer skills and knowledge. Donor attribution to public sector delivery is taken as the share of public expenditure accounted for by GBS, subject to ODA eligibility. This instrument of support allows engagement at the highest level, providing donors the opportunity to influence sectoral spending decisions.

[1] Asymmetric and missing information, public goods, shallow financial markets and externalities are all examples of market failures which hinder economic development in Rwanda.

- ***Sector Budget Support (SBS):*** this is where donor finance is channelled through government systems but is earmarked for specific sectors. This implies greater engagement and influence at the sector level (although in Rwanda, budget support donors are free to attend any sector-level meetings), but is probably less effective at influencing the overall GoR budget and public sector wide capacity building. One criticism of SBS is that earmarking provides a misleading level of confidence in both the results that can be attributed to donor support and whether such support is indeed "additional", i.e. not simply displacing GoR spending that would have otherwise occurred. Such concerns are mitigated by the development of sector budget plans. In addition, it is unrealistic to expect the GoR to exhaust all public revenue on "pro-poor" areas given it has to provide goods and services that reflect the needs of its entire constituency. Also, some investments may not have an immediate impact on the very poor but nevertheless are needed if sustainable medium to long-term growth is to be realised. As a result, it is often the case that financing needs identified in such plans outweigh the financial resources that the GoR can commit. In such instances it is reasonable to assume that donor assistance is indeed additional.

- ***Project/programme-based support:*** another aid modality is support to individual projects or programmes. This could include support to public or quasi-public institutions (e.g. DFID support to the Office of the Auditor General (OAG) whose remit is to audit GoR spending) as well as support to non-government institutions e.g. the private sector and/or civil society organisations. This financing modality is likely to be restricted by the scale of results that can be achieved, the administrative burden of managing many individual projects, as well as the speed which they can be implemented.

12. Considering the relative merits of the different levels of intervention coupled with initiatives that DFID Rwanda is already supporting[2], two options were shortlisted and subjected to a Cost Benefit Analysis. These are: **Option 1**: General Budget Support (GBS) totalling £111m over three years; and **Option 2**: Additional Sector Budget Support (SBS) to the agriculture, education and health sectors totalling £111m over the next three years. Both options would be taken forward <u>in addition to existing programmes</u>. These options will be compared to a counterfactual of 'do nothing' i.e. no additional spend in DFID Rwanda, beyond that already planned.

13. The profile of spend for each option is shown in Tables A2.1 and A2.2 below.

Table A2.1: Proposed Annual General Budget Support, £millions (Option 1)

	2012/13	2013/14	2014/15	Total
GBS	37	37	37	111

Figure A2.1: Composition of the total DFID programme under option 1

[2] Including SBS programmes in the agriculture, education and health sectors; support to the Vision 2020 Umurenge (Social Protection) programme; and various projects including Access to Finance Rwanda, TradeMark East Africa, the Land Tenure Regularisation Programme, Support to the Office of the Auditor General, and support to Parliament. See the DFID Operational Plan for more details of these and other DFID Rwanda programmes.

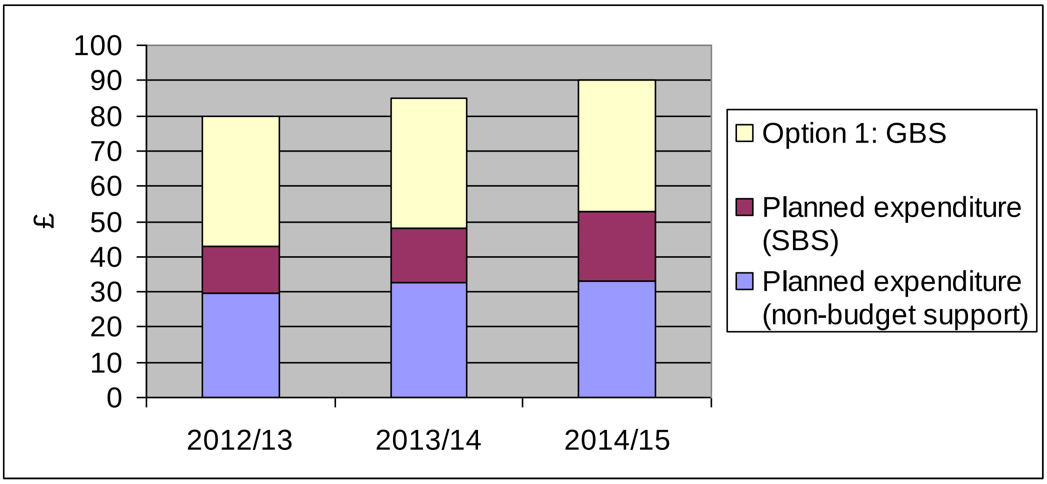
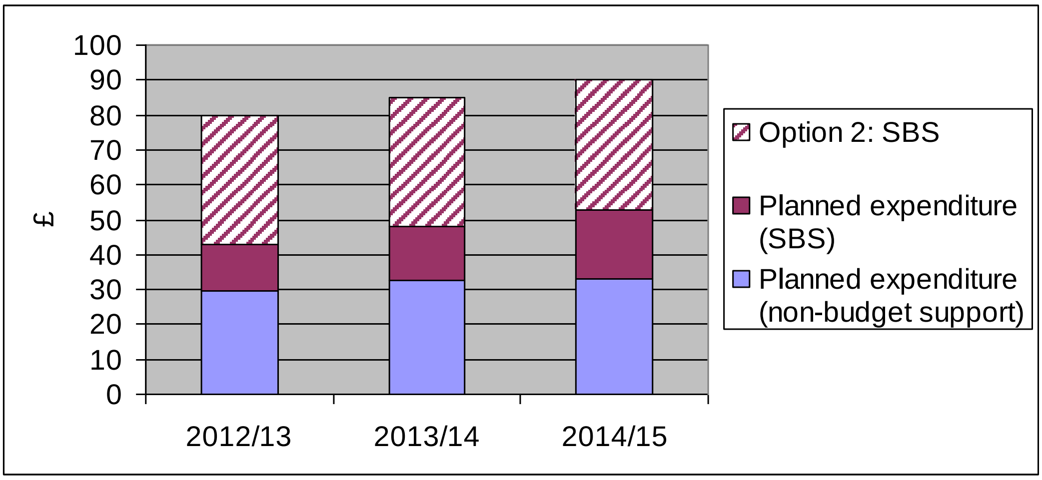


Table A2.2: Proposed Sector Budget Support, £million (Option 2)

SBS to:	2012/13	2013/14	2014/15	Total
Agriculture	13.7	13.7	13.7	**41**
Education	16.7	16.7	16.7	**50**
Health	6.7	6.7	6.7	**20**

Figure A2.2: Composition of the total DFID programme under option 2



14. Options 1 & 2 represent real, distinct alternatives from which to choose. An expansion of SBS to the education, agriculture and health sectors was considered as an alternative to GBS for several reasons. First, they are existing sectors that DFID Rwanda already supports through SBS. Business Cases for continued SBS to the education and agriculture sectors (covering the period 2011/12 and 2014/15) have recently approved. The Business Case for continued SBS in health is currently being drafted. Second, the need in these sectors is real, and significant financing gaps are expected in all three sectors. Thirdly, these are sectors that have a good track record of delivering results and which can absorb additional funds more quickly than would be the case if a new project level intervention was to be designed.

IV. Expected Benefits and Costs

15. This section will discuss the expected benefits and costs expected under each of the two options, relative to the counterfactual of no additional support. Four types of benefits will be discussed (not all will be relevant for both options):

  i. **Service Delivery**: Provision of basic services for the poor.

ii. **Technical efficiency**: More effective use of resources for intended purposes. This includes, for instance, better public financial management such as good financial planning, timely disbursement, reductions in unaccountable spending and corruption, and more effective spending within sectors.

iii. **Allocative Efficiency**: More public financial resources flowing into "pro-poor" areas.

iv. **Macroeconomic Impacts**: Effect on macroeconomic indicators such as the exchange rate, inflation, and fiscal balances

16. On the cost side, we have distinguished between **direct costs** that accrue as a result of the intervention (e.g. DFID funding, participation and transactions costs) and **indirect costs** arising from secondary impacts that may have a detrimental effect (e.g. an appreciation of the exchange rate which reduces Rwanda's international competitiveness). The latter we classify as 'negative benefits'.[3]

Incremental Benefits

17. Quantified benefits under options 1 & 2 are presented in tables 8 and 9.

i. Service Delivery Benefits

18. The term 'service delivery benefits' is used to describe tangible outputs directly delivered to the poor. This includes, for example, the drilling of a borehole allowing access to safe drinking water, the building of roads, or connecting households to mains-supplied electricity.

19. For GBS the list of such outputs is extensive. This is because there will be no earmarking of funds so outputs financed by the GoR are attributable to DFID in proportion to its share of total public expenditure (subject to ODA eligibility). This currently stands at around 3.8% but has been significantly higher in the past and can fluctuate from year to year.

20. However, reported outputs in Budget Support business cases typically only capture a very small fraction of services delivered. There are three main reasons for this: firstly, it would not be proportionate (or possible) to capture every line of government expenditure in a single business case; secondly, donor's explicit objectives are typically focused on reducing extreme poverty (i.e. only a sub-sample of those that benefit from government expenditure is of primary interest[4]); and thirdly, although poverty is multi-dimensional, for the sake of clarity and to avoid spurious claims of attribution, deliverables are typically focused on measureable outputs which are believed to be instrumental, but not solely responsible, for achieving the desired outcome of poverty reduction. For these reasons, the "list" of government deliverables is greatly reduced.

21. Support through SBS makes the identification of outputs somewhat easier. Outputs appear more coherent and relevant because they are typically focused around the Millennium Development Goals (MDGs). The "bang-for-your-buck" can also seem greater under SBS because there is a clearer line of sight between inputs and outputs, and benefits are not diluted across numerous budget lines. These issues are further amplified when attempts are made to monetise quantified benefits through a Cost-Benefit Analysis. For the purpose of monetisation, two approaches are typically adopted in the literature.

[3] This might seem like a moot point, but the way in which such costs are captured affects Cost Benefit results.
[4] Although in Rwanda this sub-sample is very high: the share of the population living on less than $1.5 per day is 45%

22. The first approach uses reported rates of return for different sectors. There are two main shortcomings of this approach. The first is the lack of clarity around exactly what this return is capturing and how it was realised (e.g. if increased finance to the education sector results in increased school enrolment, was this due to more schools being built or improvements in quality through better qualified teachers?) and whether it is a one-off benefit (e.g. recurrent spending) or is expected to deliver steady future stream of positive returns (e.g. capital investment). The second is around external validity, primarily whether reported returns are context specific, and if so, how well the local context mirrors the situation in Rwanda.

23. Alternatively, country specific evidence can be employed. This typically means a smaller pool of evidence, potentially resulting in even fewer benefits that can be assigned monetary values. Service delivery benefits that often survive this far are typically focused on water and sanitation, health, and education outcomes. This is because the outputs can be quantified with a sufficient degree of confidence, with Disability Adjusted Life Years (DALYs)[5] being employed to quantify the impact of intervening in the first two sectors. For benefits attributed to improved and/or increased education, the wage premium realised for different levels of educational attainment is often used. This relies on two main assumptions: (1) that potential earnings are affected largely by observable characteristics such as educational achievement, downplaying the importance of un-observable characteristics such innate ability; and (2) that increase in graduates at different levels of educational attainment do not affect corresponding wage premiums (i.e. no general equilibrium effects).

24. Rwanda is no exception to these issues. For the purpose of appraising the proposed GBS, only a sub-set of expected benefits from education, agriculture, health, water and energy sectors are included. Although education is the single largest area of public expenditure at 19.8% of the total, there are many other spending areas such as social protection, sanitation and infrastructure that would deliver significant benefits for the poor, as well as additional benefits within the sectors we have considered that we have not been able to capture. The benefits estimated in this appraisal therefore represent a significant underestimate of expected service delivery benefits.

Table A2.3: Proposed shares of public expenditure for selected sectors

Sector	Proposed Share of public expenditure
Education	19.8%
Health and Population	9.2%
Social Protection	3.1%
Water and Sanitation	4.2%
Agriculture	7.0%
Energy	6.1%

Source: Economic Development and Poverty Reduction Strategy 2008-2012, pg. 123.

Education

25. Since the ultimate objective of education is to equip individuals with the knowledge and skills needed to live productive lives, educational benefits were assessed by considering the outcomes in terms of the different educational attainment levels realised by beneficiaries under the two options. These attributable outputs were taken from the GoR’s Education Sector Strategy Plan 2010-15 (ESSP) in proportion to the share of inputs accounted for by GBS and SBS. Expected outcomes are reported in Table A2.4 below.

Table A2.4: Expected Educational Outcomes Attributed to DFID/UK Support by Instrument

[5] The disability-adjusted life year (DALY) is a measure of overall disease burden, expressed as the number of years lost due to ill-health, disability or early death. DALYs are estimated in different contexts using scientific medical research which is transferable across settings. A DALY can be converted to a monetary value using average Gross Domestic Product (GDP) per capita.

Option 1: GBS	Option 2: SBS
▪ 27,242 students complete primary education ▪ 14,025 students complete lower secondary ▪ 1,996 students complete upper secondary ▪ 1,107 students complete tertiary education	▪ 38,353 students complete primary education ▪ 19,745 students complete lower secondary ▪ 2,810 students complete upper secondary ▪ 1,559 students complete tertiary education

26. These outcomes were valued at the corresponding wages that each level of educational qualification can command, based on local evidence reported in Table A2.5 below.

Table A2.5: Earning Levels by Educational Attainment in Rwanda

Educational Attainment	Premium Over No Education (as a multiple)	2010 Annual Earnings
No Education	0.00	$285
Primary	1.70	$485
Lower Secondary	2.40	$706
Upper Secondary	4.40	$1,270
Tertiary	16.00	$4,560

Source: 2006 World Bank Report cited in the Education Sector Strategic Plan (2011-15) p. 3; authors calculations

27. The wage premiums associated with different levels of educational attainment were taken from a 2006 World Bank Report on returns to education in Rwanda. For the purpose of this exercise the same wage premiums were assumed to still hold. Annual earnings for individuals with no education qualifications was the benchmark, but since a recent reliable estimate was not available, it was assumed that it was approximately 50% of average earnings as measured by GDP per capita in 2010. This was in-line with the 2006 World Bank study which found that average annual earnings for those with no educational qualifications was RwF 80,585 (US$153) which was 45% of average GDP per capita in 2006 of $338 (source: IMF WEO April 2012). To measure future benefits, annual earnings were assumed to increase by 5% in real terms annually. It is possible that the returns to education change over time, and that they are likely to vary by sector which will have a bearing on the results reported here – they can go up as well as down. The robustness of the assumptions adopted here are tested and discussed in the sensitivity analysis that is undertaken in Section VI.

28. The assumption adopted was that in the absence of support, the beneficiary would have to stop schooling at the lower level of educational attainment (i.e. the counterfactual is that an upper secondary school graduate would have earned a wage equivalent to that associated with a lower secondary school graduate). These are private rates of return and so don't capture secondary benefits/externalities e.g. the impact of better educated mothers on the well-being and future prospects of their children, or the possible reduction in crime. Benefits discounted annually at 10% over a 20 year appraisal period equate to £62m for Option 1 and £87m for Option 2.

Agriculture

29. The agriculture sector in Rwanda accounts for over 80% of employment yet only contributes 30% to economic output (GDP) which indicates the low productivity in this sector. It is a major earner of foreign exchange with exports dominated by agriculture products. Combined with the fact that poverty in Rwanda is concentrated in rural areas, the need for increasing agricultural productivity is clear. The GoR's approach to this sector is driven by Strategic Plan for the Transformation of Agriculture in Rwanda (PSTA). It is around this plan that donor SBS is channelled.

30. Reported Economic Rate of Returns (ERR)[6] for investments that are similar to those that will be undertaken in this sector going forward range between 11-29%[7] - see Table A2.6.

Table A2.6: Benefits and estimated economic rates of return for different activities

Project	Activities	Benefits	Estimated ERR
Rural Sector Support Programme (RSSP): Marshland	Marshland development (3,300 ha)	Staples food production , Income, Food Security Improvement	18.4%
RSSP: Hillside	Hillside reclamation and development (2,475 ha) & Soil fertility management	Staples food production, Erosion control, Improved nutrition & Food security	25.4%
Land Husbandry, Water Harvesting and Hillside Irrigation (LWH)	Soil and water conservation, Irrigation Infrastructure, Staples & cash crop production	Erosion control, Increased Food production and Environmental protection	29%
Bugesera Agricultural Development Project (PADAB)	Marshland development, Soil & Water conservation on Hills (650 ha), Staples food production	Increase Rice & Horticulture production, Food security and nutrition improvement	15.2%
Rwanda Dairy Cattle Development Project (PADEBL)	Livestock development	Increase Milk production, Nutrition & Food Security Improvement, Poverty reduction	25%
Support Project for the Agricultural Transformation Strategic Plan (PAPSTA)	Soil & Water Conservation, Marshland development, Staples food production	Erosion control, Food Security & nutrition Improvement	15%
Radical Terracing	Soil & Water Conservation, Staples food production	Erosion control, Food Security Improvement	11-22%

31. To assess the impact of DFID support to this sector, annual benefits equivalent to 20% of capital expenditure[8] that can be attributed to DFID was assumed over a 20-year horizon. This means that in cash terms the cost of capital is recouped within 5 years. These parameters are arguably on the conservative side for a number of reasons. Some capital investment, such as livestock, will be recouped in shorter time. Furthermore, it is expected that a significant proportion of the capital expenditure will finance infrastructure such as irrigation systems which typically have a much longer lifetime than 20 years.

32. There are also external benefits which aren't always captured when economic rates of return are calculated. These include avoided yield losses due to soil fertility degradation and erosion,

[6] An ERR is the discount rate at which the Net Present Value of benefits valued at economic prices equates to zero. It can be influenced by the appraisal period and is not the ratio of total discounted benefits over costs. The ERR is similar to the Internal Rate of Return but differs through the use of economic, rather than financial, prices.
[7] See DfIDR's Agriculture Sector Budget Support Business Case for a reference of relevant studies.
[8] Only capital expenditure was taken because it was assumed that this one-off investment would produce a continuous stream of benefits.

reduced soil/water contamination, increased employment opportunities, improved health outcomes due to good nutrition and improved access to water.

33. **For Option 1:** the value of capital expenditure in this sector which can be attributed to UK support was calculated as £1.4million in 2012/13, £1.5m in 2013/14 and £1.6m in 2014/15. These figures were derived by extrapolating reported agriculture sector spending by the GoR in 2011/12 (£40.5m) to future years by assuming that such expenditure increases in line with economic growth. Out of total public expenditure in the agriculture sector, 85% is assumed to be capital expenditure. This is consistent with the recurrent/capital split in the most recent agriculture sector strategic plan.[9] With a discount rate of 10%, discounted benefits over a 20 year appraisal period amount to £6.7 million.

34. Under **Option 2**, the proposed levels of SBS (see Table 2) are expected to realise the same rate of return of 20% over an identical time horizon. With a discount rate of 10%, discounted benefits over a 20 year appraisal period amount to £61 million.

Health

35. Health expenditure accounts for approximately 10% of public expenditure in Rwanda, and funds numerous health interventions. For the purpose of this economic appraisal, the benefits of only three such interventions are considered: (1) Number of children under 5 sleeping under a long lasting insecticide treated net; (2) Number of births delivered with skilled health personnel each year; and (3) Number of Children Fully Immunised Against Measles. This focus is due to data limitations including the availability of estimated Disability Adjusted Life Years (DALYs) for different health interventions that permits the quantification of expected outcomes. The benefits quantified in this appraisal are therefore likely to represent a huge underestimate of expected benefits.

36. Even once outcomes have been quantified assigning monetary values to them is difficult. Premature deaths and disabilities caused by poor health result in financial costs through the loss of potential output and incurred medical cost. But as the *Commission on Macroeconomics and Health* noted in their 2001 report for the World Health Organisation (WHO), in addition to the reduction in market income there is also the reduction in psychological wellbeing through incurred suffering and the loss of leisure time which are not captured by the value of consumption. It goes on to say that when trying to convert these disease-induced loses into dollar terms, the consistent conclusion across the economic literature is that an extra year of healthy income is considerably more than the extra market income that would be earned in a given year. The report therefore adopts the common approach used in the literature to value an additional year of healthy life up to three times its annual earning potential (measured as annual national income per capita).

37. Using estimated DALYs as reported by the World Health Organisation (WHO) for the three health interventions reported above, the following results can be attributed to UK-DFID over a three year period under options 1 and 2:

Table A2.7: Health benefits under different options

Option 1: GBS	Option 2: SBS
• 16,445 additional children under the age of 5 sleeping under a long lasting insecticide treated bed net (281 DALYs) • 40,422 additional births delivered by skilled healthcare personnel (272 DALYs)	• 22,618 additional children under the age of 5 sleeping under a long lasting insecticide treated bed net (387 DALYs) • 55,594 additional births delivered by skilled healthcare personnel (374 DALYs)

[9] Strategic Plan for the Transformation of Agriculture in Rwanda (2011) – PSTA II

• 14,001 children immunised against measles (36 DALYs)	• 19, 256 children immunised against measles (49 DALYs)

38. These expected results were calculated using baseline data from the 2010 Demographic Health Survey and 2015 targets from the Ministry of Health Sector Strategy Plan III. A simple linear trend was assumed to derive inter-year outputs. Attribution to UK-DFID support for GBS was at the 3.8% discussed earlier in this note. For SBS under Option 2, the attribution rate was assumed to be 5.2% which reflects the proportion of total Health Care expenditure accounted for by additional SBS to the Heath Sector under this option of £20 million over the next three years.

39. If each DALY is valued at GDP per capita levels, estimated benefits are £227,021 under Option 1, and £312,231 under Option 2. This increases to £681,062 and £936,693 under Options 1 and 2 respectively when DALYs are valued at three times GDP per capita levels.
40. Although DFID is already active in the education, agriculture and health sectors, disbursement will not be as quick under Option 2, as under Option 1. This is because an increase in UK support to these sectors relative to what has already been agreed is not expected either by other donors or the GoR. It will therefore take some time to decide where the additional funding can best be spent. In the meantime this would mean less support getting to those that need it the most.

Water and Sanitation

41. The 2010 Demographic Health Survey (DHS) which was published in December 2011 reports that 73.6% of the population have access to improved sources of drinking water, but that only 5% have piped water into their dwelling or plot. It is also reported that 57.6% of the rural population, and 28.1% of the urban population, spend 30 minutes or longer per round trip collecting water. At 6-8 litres per person, Rwandans consume significantly less water per day than the WHO ‘basic access’ level of 20 litres per capita per day.[10]

42. To increase access to safe drinking water, the National Policy and Strategy for Water Supply and Sanitation Services identified plans to increase the share of the rural population within 500 metres of an improved water source from 85% in 2011/12 to 90% in 2014/15.[11] This equates roughly to 300,000 additional rural people being supplied with new or rehabilitated water infrastructure in 2012/13, 310,000 in 2013/14, and 220,000 in 2014/15. Assuming that 100% of this infrastructure is funded through the public purse, approximately 3.8% of this outcome can be attributed to DFID through GBS.

43. Being closer to an improved source of drinking water means less time spent collecting water, which in itself has an opportunity cost since the time could be used for more productive purposes. GDP per capita figures could be used as a proxy for the opportunity cost but first this would require deriving the hourly equivalent. For simplicity, assuming a 12 hour working day this equates to approximately 80Rwf (£0.08) per hour – reducing the number of working hours per day will increase the hourly opportunity cost. Whilst the most recent DHS does not report the average time spent collecting water, it is reasonable to assume that the average is around 30 minutes given that in rural areas the majority of the population are reported to spend 30 minutes or more collecting water per round trip. Assuming that the targets reported above are met, then targeted beneficiaries will spend approximately 14 minutes per round trip (based on a walking speed of 4.5km/hour, 500 metres is covered in about 7 minutes) which represents half the assumed current average. This potential time saving is a conservative estimate for two reasons: (1) It is assumed that collecting water only happens once a day; and (2) That reported

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[10] World Health Organization (WHO) (2003). Domestic Water Quantity, Service, Level and Health http://www.who.int/water_sanitation_health/diseases/en/WSH0302.pdf

[11] Ministry of Infrastructure, National Policy and Strategy for Water Supply and Sanitation Services (2010), pg 47

beneficiaries are at least 500 metres away from an improved source of water supply – it is entirely plausible that many will actually be closer.

44. Large potential health benefits associated with increased access to improved water supplies and improved sanitation are not captured. According to the Water and Sanitation Programme (WSP), poor sanitation costs Rwanda an estimated 32 billion Rwandan Francs (USD 54million) annually through time spent in search for a location to defecate, premature deaths, loss of productivity losses due to illness, and healthcare related costs.

45. The cost associated with premature deaths accounts for over 90% of reported costs. In 2011, the leading cause of death among children under 5 in Rwanda was diarrhoeal related diseases. The burden of poor sanitation falls more heavily on the poor, but can be remedied through cost effective measures such as hygienic on-site improved latrines.

46. A holistic approach is being taken by the GoR to improve sanitation. This includes the construction of "hard" assets such as latrines as well as "soft" assets such community hygiene clubs aimed at increasing awareness of good hygiene practices. The GoR has set a target of increasing the share of rural households with hygienic (improved) on-site latrines from 55% in 2010/11 to 75% in 2014/15 (Ministry of Infrastructure, 2010, pg.70). However, given the lack of data available, it has not been possible to quantify these potentially significant benefits.

47. Over a twenty period appraisal period with a 10% discount rate, discounted time saving benefits under Option 1 total £2.6 million. There are no corresponding benefits under Option 2.

Energy

48. The GoR has ambitious targets to connect 50% of the population to the electricity grid and deliver 1000MW of power by 2017, largely through renewable sources. This compares to current access levels of around 11% and current generation capacity of around 100MW. For the purposes of the appraisal, we have used a more conservative assumption that connections to the grid will continue in line with past trends (around a 29% increase in subscriptions per year, over the next three years). This translates into 350,000 additional electricity subscriptions in 2012/13, 451,731 in 2013/14, and 583,032 in 2014/15. We have assumed around 3.8% of these results are attributable to DFID, in line with the share of DFID GBS in the total government budget.

49. Connection to the national grid would bring a range of benefits including education benefits from increased study time, improvements in domestic air quality (and associated health benefits), reduced risk of burns and house fires from reduced use of kerosene lamps, and increased private income from increased opportunity to engage in new income-generating activities. Given that current and planned grid generation comes largely from renewable sources (hydropower, geothermal, and solar) there is also scope for carbon dioxide (CO_2) savings, through grid electricity displacing kerosene as the primary source of household lighting.

50. Given available data, this appraisal quantifies a subset of benefits only: expected CO_2 savings and increased private income generation. Expected CO_2 savings were calculated as the value of CO_2 emissions avoided relative to a counterfactual of continued kerosene use. CO_2 savings were estimated using data on average monthly kerosene costs from the Rwanda National Climate Change Strategy[12], kerosene price data from the Rwanda Finance Ministry and internationally agreed emission factors. Estimated CO_2 savings were converted into monetary values using carbon price scenarios provided by the UK Department of Energy and Climate Change (DECC).

[12] Rwanda National Strategy for Climate Change and Low Carbon Development (2011), Energy Sector Working Paper, pg.28

51. Benefits of increased income were quantified using evidence from a 2010 impact assessment of rural electrification in Rwanda.[13] This study used econometric techniques to 'match' connected households with unconnected households that otherwise exhibit similar characteristics. The study found that connection to the grid had a strongly significant positive impact on the number of lighting hours and household income and a significant (though statistically weaker) impact on hours of child study time and increased energy expenditure. The impact on income was estimated as being between 170-200k RwF per year (~£200 per year). However, the authors suggest caution when interpreting the results since there may be a risk of simultaneity (i.e. does a household have a higher income because it is connected to the grid, or is it connected to the grid because it has a higher income?), even though they have attempted to control for this in the model. On the other hand, there is some evidence of connected households engaging in new activities potentially in need of electricity (e.g. commerce, milling, welding or sewing) and it may be the case that connected households perform better on labour markets thanks to improved lighting and information services. Nevertheless, we have exercised caution and assumed that only half of the estimated increase in income per household (~£100 per year) is realised. Costs to households of connection and increased energy expenditure are also included in the appraisal.

52. At a 10% discount rate, total benefits over a 20 year period equate to around £10m under Option 1. This is probably a conservative estimate given the wider benefits that it has not been possible to quantify. There are no corresponding benefits under option 2.

ii. Technical efficiency

53. Technical efficiency refers to the effective use of resources for intended purposes and resulting benefits rely heavily on good Public Financial Management (PFM) if they are to be realised. PFM refers to the system used to raise and spend tax revenue and covers a wide spectrum of activities. These include the identification of productive investments, timely disbursement of public revenue for intended purposes, adequate planning to minimise public borrowing and avoid liquidity problems, and transparency in the use of public monies. Measuring PFM is not an exact science but proxies for good PFM include: (1) the level of reported financial leakages (e.g. unaccounted expenditure and fraud); (2) the difference between planned expenditure and actual disbursements; and (3) the level of public borrowing.

54. The degree of improved PFM that could be realised through different intervention options is difficult to measure. Where a country performs poorly on indicators that are assumed to be correlated with PFM, it is less likely to have a central politically independent authority such as a National Audit Office (NAO) which would be tasked with holding respective Ministries to account for their spending. Even if an NAO exists, it is less likely to have real influence.

55. A commonly adopted approach for measuring benefits of improved PFM is to assume that, in the absence of donor support, some financial "leakage" occurs. This could include unaccounted levels of expenditure, corruption, or money not being used for intended purposes. It is then assumed that, through donor support and the increased level of scrutiny that accompanies it, such "leakage" is reduced. It is reasonable to assume that the influence of donors depends both on the instrument used to provide financial assistance as well as the monetary value of such assistance.

56. GBS arguably provides the greatest level of scope to reduce financial leakages because it provides the conduit through which to engage directly with the GoR on all spending decisions. This is illustrated by the broad coverage of indicators in the Common Performance Assessment Framework (CPAF) - the mechanism used by donors and the GoR to jointly monitor progress

[13] Bensch, G., Kluve, J., Peters, J., (2010) Rural Electrification in Rwanda – An Impact Assessment Using Matching Techniques, Ruhr Economic Papers #231

against government targets. SBS also provides scope to reduce leakages but arguably only within the specific sectors where SBS is given.

57. DFID Rwanda is already providing some complementary project-based support to help improve PFM, through support to Rwanda's supreme audit agency - the Office of the Auditor General (OAG) - and support to the Budget Committee and Public Accounts Committee of the Rwandan Parliament. The OAG's Annual Report identifies instances which can broadly be defined as leakages averaging £16m per annum in real terms in the three years leading up to and including 2011. However, whilst great strides have been made to improve the capacity and effectiveness of the OAG, there is still much to be done. Current audits cover around 70% of government expenditure,[14] and the capacity and skill set of the office means that the number of Value for Money audits is still relatively low.

58. It is reasonable to assume that donor engagement fills, to a certain degree, this "missing gap" in capacity that the OAG currently faces. The additional budget scrutiny that Budget Support permits acts as a deterrent to potential financial leakages that might otherwise occur. The hope is that in the longer term the OAG would displace this role that donors currently play.[15]

59. A reduction in leakage rates in the region of 1-1.5% of total government expenditure (or just applied to recurrent expenditure which is arguably more susceptible to such leakages) is often assumed. However this approach makes no assumption about the absolute level of leakages that occurs. If such leakages amount to just 2% of total expenditure, the reduction rate referred to above represents a 50-70% reduction in total leakages. Alternatively, if leakages amounted to 10% of total government expenditure the claimed benefits amount to a 10-15% reduction in the value of leakages – at face value a more plausible estimate. Nor does it typically take into account the degree of donor influence with the government. For example, we might expect donors who provide a high share of Budget Support relative to total government expenditure to have greater influence. Given the relative importance of DFID support in Rwanda and the substantial scope for engagement and dialogue, it is reasonable to assume that expected levels of influence should be towards the higher end of estimates. This is discussed further below (see Table 3).

60. For **Option 1** we have assumed a reduction in financial leakages equivalent to 2% of total recurrent government spending per year, over the three year period that GBS is provided, relative to a counterfactual of no support. This is a conservative assumption, since we may expect the benefits of better PFM to continue beyond the period of DFID support. With a 10% discount rate, discounted benefits equate to £40.5 million.

61. For **Option 2** SBS is not expected to influence PFM across the entire spectrum of GoR spending, but is likely to have a positive effect on spend in the <u>three sectors where DFID SBS is provided</u>. However, since DFID is already providing SBS to these sectors in the counterfactual, we would expect that the scope for <u>additional</u> technical efficiency savings is limited to a 1% additional improvement. With a 10% discount rate, discounted benefits equate to £13.6 million.

iii. Allocative Efficiency

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[14] CPAF (2011)

[15] For the OAG Business Case it was argued that benefits may transpire in the form of either: a reduction in what can be described as leakages based on OAG reporting; an improvement in allocative efficiency; or a reduction in the fiscal deficit. These benefits were not added together. Rather they represent different ways of quantifying and monetising the potential benefits. For each approach, benefits were assumed to ramp up over time i.e. efficiency improvements were assumed to be equivalent to 0% of total public expenditure in year 1 (2011), 0.1% year 2, 0.2% in year 3 etc. with the same incremental improvement over a 10 year period reaching 1% in year 10. As such there is minimal risk of double counting with the benefits estimated here, which are only assumed to accrue for the three years of the intervention (2012/13-2014/15).

62. Allocative efficiency refers to the “crowding-in” of financial resources into “pro-poor” areas. This benefit relies on two main assumptions: (1) that available funds would otherwise have been used for other purposes; and (2) if a net gain is to be realised, the increased in utility or economic return realised by potential beneficiaries is greater than the corresponding fall realised by would-be recipients under the counterfactual – they aren’t a transfer which cancels out when subjected to a Cost-Benefit Analysis. Such crowding-in is plausible given the engagement that donors have with recipient governments and agreed monitoring frameworks (e.g. the CPAF) which include a focus on reducing poverty and the provision of basic services for the poor.

63. There is strong evidence to suggest that budget support has facilitated increases in priority, pro-poor spending.[16] In Rwanda, there is qualitative evidence to suggest that increased spending in basic public services has resulted from provision of GBS.[17] In their 2010 paper, Benyon and Dusu (2010) compare the development progress of high recipient GBS countries (where GBS comprises more than 10% of GDP) relative to low recipient GBS countries, as measured by performance against the Millennium Development Goals (MDGs). They find that on average, high GBS countries have outperformed low GBS countries.[18] These results are robust even when attempts are made to address causality by controlling for possible influencing factors such as good policy environments through the use of Country Policy and Institutional Assessment (CPIA) scores as a proxy. When the sample is restricted to Low-Income Countries (LICs) the number of indicators that report a statistically significant change between high and low GBS countries falls under both types of correlation coefficients. The authors emphasise that their study was an analysis of correlation, not causality, but nevertheless conclude that their findings support the view that high GBS countries performed better that low GBS countries.

64. This benefit refers to how money is allocated across the government budget and, as such, can only be applied to Option 1. Whilst option 2 also increases spending in pro-poor sectors, this is because donor funding is earmarked in this way, as opposed to the decision being government-led (i.e. there is no leveraging of government financial resources into the sector). In fact, SBS can lead to diversion of government money away from pro-poor areas, if governments use donor support to displace funding that they would otherwise have provided. Although this ‘fungibility’ risk also exists under Option 1, it is likely to be higher under option 2, since an injection of significant (unplanned-for) SBS is likely to lead the government to re-allocate its own resources to other sectors which would otherwise lose out from a reduction in (expected) GBS.

65. Although we can be confident that there has been an increase in allocative efficiency in Rwanda, there is no strong empirical evidence when it comes to assessing how much has occurred. A common approach is to assume a gain which is typically in the region of 1%-1.5% of total government expenditure.[19] The gain in utility is often taken as the monetary value of public expenditure which is diverted into pro-poor areas.

66. These relatively small improvements are plausible, and support a break-even analysis approach to determine the degree of allocative efficiency needed in order to justify the proposed level of investment. A shortcoming of this approach however is that such assumed rates don’t always reflect the size of GBS relative to public expenditure. This is important if one assumes that greater levels of financial support result in greater levels of influence. By controlling for the financial value of support, the assumed level of efficiency savings reflects something more akin to a rate of return.

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[16] IDD/OECD (2006), Lawson et al (2007), World Bank (2010) cited in ODI Background Note (2011) Insights from recent evidence on some critical issues for budget support design

[17] Joint Evaluation of General Budget Support 1994-2004: A Synthesis Report (OECD DAC).

[18] The exceptions being MDG indicators 4.1 (Under-5 mortality rate) and 7.8 (Access to improved drinking water) which are dependent on the type of correlation measure used (i.e. Spearmen vs. Pearson).

[19] See GBS Business Cases for DFID Uganda (2011), DFID Ghana (2011), DFID Zambia (2011)

67. This is best illustrated by considering the assumed allocative efficiency rates used to appraise other DFID GBS programmes (Table A2.8). Column 2 shows the size of DFID GBS programmes in different countries, with the yearly average reported in column 3. Column 4 reports the share of annual GBS as a share of annual government expenditure in the respective countries. This ranges from 0.26% in Ghana to 3.4% in Rwanda. Column 5 shows the scale of DFID GBS in Rwanda compared to other countries. For example, DFID GBS to Rwanda as a share of total government expenditure is almost 13 times larger than it is in Ghana, over 6 times larger than it is in Uganda, five times larger than it is in Zambia, and three times larger than in Tanzania.

68. Assuming that pound-for-pound budget support in the Rwandan context is just as effective at leveraging increased spending in pro-poor sectors as is the case elsewhere, then the corresponding improvement in allocative efficiency should arguably be much higher. As a result, two values for expected increases in allocative efficiency will be used. The base case scenario will use a value of 2%, whilst a lower case will use 1%. With a 10% discount rate, discounted benefits under the base case equate to £67.7 million.

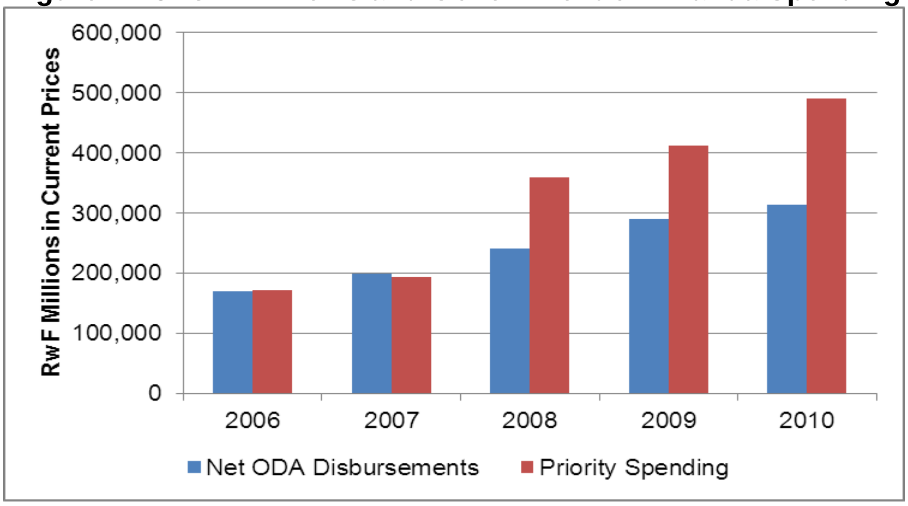
Table A2.8: Proposed Rwanda GBS Programme Relative to Others

DFID GBS Programme	Total, £m	Annual Average, £m	As % of total gov. exp.	Rwanda relative to others	Assumed Allocative Efficiency Gain		
					low	medium	high
Uganda	50	12.5	0.52%	6.6	0.20%	0.75%	1.00%
Ghana	60	15	0.26%	12.9	1.00%	1.00%	1.00%
Zambia	58	19.3	0.69%	5	0.50%		1.00%
Tanzania	150	50	1.12%	3	10% of value of increased spending on priority areas		
Rwanda	111	37	3.42%[20]	1	1.00%	2.00%	

Source: International Monetary Fund (IMF) World Economic Outlook Database; DFID GBS Business Cases

69. In recent years there has been an increase in both GoR spending directed towards priority areas and aid inflows. However, the increase in priority spending has been greater - see Figure A2.3. This suggests that increasing amounts of domestic fiscal revenue have been directed into priority areas in addition to the support provided by donor governments.

Figure A2.3: ODA inflows and Government of Rwanda Spending in Priority Areas



Source: IMF (2012); OECD Stat.

[20] This is slightly lower than the 3.8% referred to elsewhere in this note which is obtain from GoR figures. The reason for this discrepancy is not known, but for country comparisons best practice is to use a single database which is what has been done here.

Note: Priority spending areas are assumed to be health, education and social protection. Priority spending data is for Rwanda Financial Years that run from June to July. ODA data is for calendar years.

iv. Macroeconomic Impacts

Exchange Rate and Balance of Payments

70. A common concern is that, through higher inflows of aid, donor support leads to an appreciation of the exchange rate that has an adverse impact on exports – commonly referred to as the “Dutch Disease”. The causal chain is complex and difficult to unpick, not least because Rwanda has a managed exchange rate with restrictions on the capital account, but the probability of this happening is low for reasons discussed below.

71. Rwanda currently runs a substantial current account deficit. Imports are currently dominated by intermediate goods (42%) followed by consumer goods (34%). Capital goods currently account for 4% of total imports. This trade imbalance in goods and services is expected to continue for the next few years at least,[21] and is made possible through surpluses in current transfers (e.g. ODA and remittances) and the capital and financial accounts. The proposed GBS of £37m per annum broadly represents a continuation in the level of GBS currently provided by the UK. By itself, this is unlikely to result in an appreciation of the domestic currency. More likely is continuation of the status quo.

72. However, under the counterfactual, UK supplied aid will be approximately £37m per year lower relative to that planned for by the GoR. Rwanda is a heavily aid dependent country, and according to the IMF, aid accounts for approximate half of all foreign exchange. A reduction in DFID aid flows to Rwanda, all other things being equal, would place additional pressure on an already over-valued exchange rate to depreciate[22]. To regain equilibrium, imports would be expected to fall.

73. The net impact of a currency depreciation is hard to determine. On the one hand it would improve the competitiveness of Rwanda’s exports by making them cheaper. However, unless there is sufficient spare domestic capacity to expand production, any increase in exports will come at the expense of domestic consumption and higher domestic prices. This may be good for producers but not consumers. Rwanda’s exports are currently dominated by traditional export products such as coffee, tea, and minerals which together account for approximately 74.8% of total export earnings.[23] The scope, and demand, for additional production is unknown.

74. Expected exchange rate effects do not change between Options 1 and 2 because the total value of support is the same between the two options. There is no evidence to suggest that the different instruments will have different inflationary effects that will affect the real exchange rate.

Inflation

75. Inflation in Rwanda has increased significantly over the past year, from 0.2% in 2010 to 8.3% in 2011, although still remains the lowest in the region. The substantial increase was due in large part to high energy and food prices, although accommodative monetary policy is also likely to have played a role. Medium term prospects are for a decline in inflation: the IMF forecasts inflation of 7.5% in 2012, 6.5% in 2013, before dropping to 5% for the period 2014-16.

[21] IMF PSI discussions (2012)
[22] Existing foreign exchange reserves are currently above the benchmark of four months of imports so in theory this could be used to prevent an immediate depreciation.
[23] National Bank of Rwanda, Statistics Department, 2012

76. It is difficult to determine the inflationary effects of the proposed UK intervention. If UK support leads to an increase in demand without any changes in supply then it is likely to be inflationary. Such pressures are however likely to be mitigated through increased imports and capital investments that expand the supply base. It hasn't been possible to say with any degree of certainty how GoR expenditure will affect the constituent parts of the Consumer Price Index (CPI) and hence the overall index. Nor is there evidence to suggest that the inflationary effects will differ between the two options discussed above.

Fiscal Impacts

77. The GoR is heavily reliant on grants to fund public expenditure. The fiscal deficit excluding grants was estimated to be -13.3% in 2010 compared to -0.1% including grants.[24] If the GoR were to maintain existing levels of expenditure in the absence of aid flows, it would need to increase domestic borrowing, resulting in higher interest payments. However, we have not attempted to quantify this benefit in the cost-benefit analysis as to do so would risk double-counting with service delivery benefits.[25]

78. The other channel through which budget support may reduce domestic borrowing is through providing increased **predictability of funding**. More predictable resource flows reduce the need to take out short term domestic loans to smooth cash management during the fiscal year. Two questions need to be answered to support this claim: (1) are budget support resources predictable, and (2) does the GoR face difficulties covering expenditure commitments?

79. Budget support flows have been reasonably predictable, both in terms of in-year timeliness and overall actual disbursements against plans.[26] It is therefore reasonable to assume that budget support resources would reduce the need for short-term domestic borrowing.

80. Other economic appraisals of General Budget support have estimated benefits from reduced domestic borrowing.[27] The typical methodology is to assume a proportion of GBS that is used to smooth cash flow and avoid short term borrowing costs, and multiply it by the short term Treasury Bill interest rate. It has not been possible to identify the monthly/quarterly differences between revenue and expenditure and how this overlaps with ODA transfers. Despite not having quantified the impact on short-term domestic borrowing in this economic appraisal, we would expect this to provide an additional benefit, relative to the counterfactual, under both options 1 and 2.

81. The GoR's reliance on grants to fund domestic expenditure raises issues around aid dependency and sustainability.[28] GBS could potentially have an adverse effect on aid dependency if it reduces efforts by the GoR to widen the tax base and increase tax revenue. Whilst this is difficult to prove/disprove empirically, a review of the trend in tax revenue as a percentage of GDP vs. total GBS support would suggest that, despite significant year-on-year volatility, the share of government revenue as a percentage of GDP has increased in line with increases in the value of ODA to Rwanda – see figure A2.4. This suggests that ODA has not displaced efforts to increase domestic revenue mobilisation.

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[24] IMF(January 2012), pg 23.

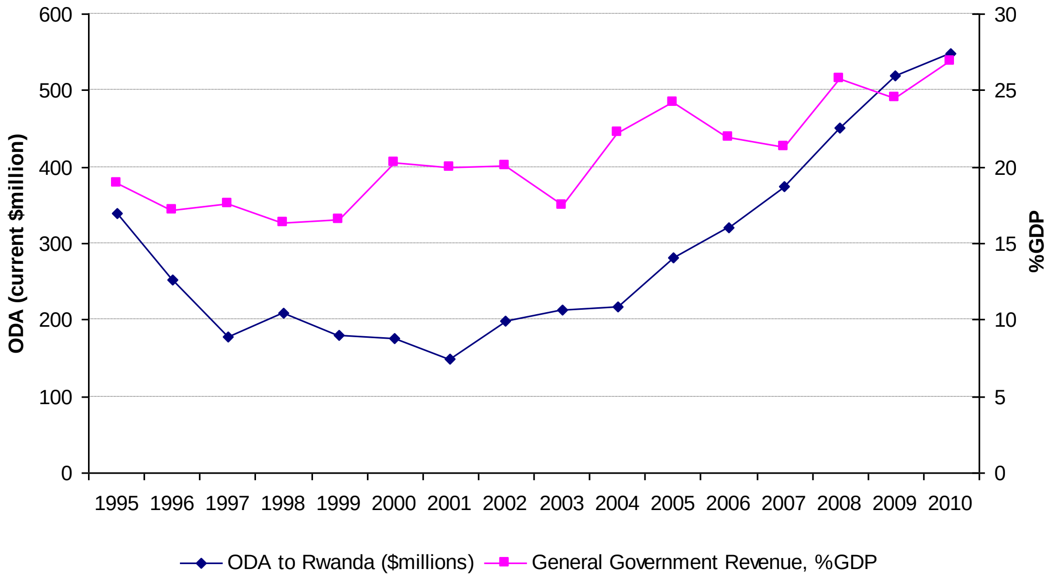
[25] i.e. if we argue that in the absence of budget support, the government would be borrowing an equivalent amount to finance service delivery, we cannot also claim that budget support will result in an increase in service delivery.

[26] The 2011 OECD report on progress in implementing the Paris Declaration suggests that progress has been made on improving predictability of aid, The percentage of planned disbursements received on schedule is recorded as 74%in 2010, up from 66% in 2005.

[27] See, for example, Highton et al (2009), 'DFID Malawi General budget support 2009/10: Options Appraisal Report', ODI, and DFID Ghana Economic Appraisal of General Budget Support (2011)

[28] This would be less of a concern if most of this spending went on capital expenditure which, once built, would have a long lifetime and relatively low maintenance costs. However, recurrent expenditure accounts for approximately 60% of total public expenditure.

Figure A2.4: ODA Flows and Government Revenues as % of GDP



Source: ODA data from OECD DAC; Government Revenues as a % of GDP from IMF WEO Database

82. The risk of negative fiscal impacts in Rwanda is further mitigated by the scrutiny and support provided by the International Monetary Fund (IMF), through their Policy Support Instrument (PSI) This particular instrument is designed for low income countries that may not need IMF financial assistance but who seek close cooperation with the IMF in preparation and endorsement of their policy frameworks. The PSI seeks to reduce aid dependency through increased domestic revenue mobilisation, limited and affordable non-concessional borrowing to ensure debt sustainability, and improved exports. Key features of the programme include continued public financial management reform, greater exchange rate flexibility and effective use of monetary policy to maintain low inflation and enhanced financial sector supervision capacity. Following its recent mission in Rwanda in March 2012, the IMF confirmed that PSI performance is on track and Rwanda is likely to receive a fourth clean PSI review with most of quantitative targets and benchmarks being met.

<u>Incremental Costs</u>

83. Both Options 1 and 2 represent a direct cost to DFID comprising the value of the financial transfer to the GoR and DFID advisory staff costs. This does not represent the opportunity costs of DFID funds which are not known.

84. The GoR will also incur some administrative costs. Whilst it is difficult to quantify these costs, we would expect them to be marginal under both options, relative to other costs and benefits. For Option 1 a new commitment of GBS will represent a continuation of existing support, and much of the associated work (e.g. dialogue with development partners and monitoring of agreed performance frameworks) would continue in the counterfactual, given the presence of other GBS donors. Option 2 represents the scaling-up of existing SBS programmes, and so may be expected to impose some additional costs (in terms of budgetary planning etc.). However, much of the associated work would be no different from the counterfactual, since DFID (and other development partners) are already providing SBS in these sectors.

85. There will also be participatory costs that intended beneficiaries will incur. For example, the private cost of attending school is unlikely to be zero. Private costs are likely to include opportunity costs (e.g. income foregone) but also other costs incurred such as the cost of travel to

school, learning materials and school uniforms. The opportunity cost of attending school was taken as the existing market wage for someone with an educational attainment one level below (i.e. the opportunity cost of someone attending tertiary education is equivalent to the wage earned by an individual with an upper secondary education), but only for those at lower secondary school age and above. No opportunity costs were assumed for children of primary school age, since paid work is illegal in Rwanda for primary-age children. We do not have reliable estimates for other costs.

86. Similarly, capital investment in the agriculture sector represents only one factor of production. Other factors such as human inputs and variable costs such as maintenance should be included. Unfortunately such information is missing, and so costs are likely to be underestimated. However, in Rwanda there is a scarcity of capital which is reflected in the difference between the returns to labour (i.e. wage) and the returns to capital, and so it's reasonable to assume that if other costs are included, there would still be positive returns from investing.

87. The effectiveness of DFID support assumes that the UK's current level of influence with the GoR continues. This is unlikely to be the case under Option 2. Ending DFID Rwanda's GBS programme would not only adversely impact the new round of development plans that the GoR is currently formulating (EDPRS II) but it will also send a negative signal about the confidence that the UK has in the efficiency and effectiveness of the GoR. As a leading and influential GBS donor, DFID withdrawal could prompt others to follow suit, leading to a significant reduction in overall aid volumes. In addition, it will significantly alter the makeup of DFID's existing portfolio, increasing the risks that expected results are not realised. These costs are real but impossible to quantify.

V. Balance of Costs and Benefits

88. The benefits and costs discussed above have been subjected to a Cost-Benefit Analysis (CBA). The results are reported in table A2.9 (Option 1); table A2.10 (Option 2); and table A2.11 (comparison of summary information for both options). .A 10% discount rate was used. Benefits attributed to allocative and technical efficiency, and reduce leakages are expected to be realised each year that financial support is provided (i.e. three years). Service delivery benefits are expected to be realised over 20 years.

Table A2.9: Monetised Costs and Benefits under Option 1 (relative to Option 4: the counterfactual)

Year		Discount Factor	Financial Costs incurred by DFID	Benefits						
				Allocative Efficiency	Technical Efficiency	Service Delivery				
						Education	Agriculture	Health	Water Time Savings	Energy
1	2012	1	£37,000,000	£24,605,548	£13,800,448	-£5,801,231	£0	£213,417	£86,622	-£7,296
2	2013	1.1	£32,815,965	£22,181,470	£13,673,583	-£5,537,539	£254,387	£227,093	£167,805	£214,222
3	2014	1.2	£29,105,068	£20,940,319	£12,985,823	-£5,285,833	£479,867	£240,552	£217,531	£412,098
4	2015	1.3				£1,745,554	£678,068		£206,853	£1,007,443
5	2016	1.5				£3,659,314	£616,426		£196,134	£918,499
6	2017	1.6				£3,492,982	£560,387		£181,870	£837,113
7	2018	1.8				£4,615,972	£509,443		£168,643	£763,234
8	2019	1.9				£4,406,155	£463,130		£156,378	£696,577
9	2020	2.1				£4,205,875	£421,027		£145,005	£636,418
10	2021	2.4				£4,014,699	£382,752		£134,459	£583,142
11	2022	2.6				£3,832,213	£347,956		£124,680	£534,365
12	2023	2.9				£3,658,021	£316,324		£115,613	£489,704
13	2024	3.1				£3,491,748	£287,567		£107,204	£448,806
14	2025	3.5				£3,333,032	£261,425		£99,408	£411,352
15	2026	3.8				£3,181,531	£237,659		£92,178	£377,047
16	2027	4.2				£3,036,915	£216,053		£85,474	£345,626
17	2028	4.6				£2,898,874	£196,412		£79,258	£316,842
18	2029	5.1				£2,767,107	£178,557		£73,494	£290,473
19	2030	5.6				£2,641,329	£162,324		£68,149	£266,313
20	2031	6.1				£2,521,269	£147,567		£63,192	£245,103
Total			**£98,921,033**	**£67,727,337**	**£40,459,854**	**£40,877,989**	**£6,717,330**	**£681,062**	**£2,569,947**	**£9,787,082**

PVB	£168,820,602
PVC	£98,921,033
NPV	£69,899,569
BCR	1.7

Table A2.10: Monetised Costs and Benefits under Option 2 (relative to Option 4: the counterfactual)

Year		Discount Factor	Financial Costs incurred by DFID	Benefits					
				Service Delivery			Technical Efficiency		
				Education	Agriculture	Health	Education	Agriculture	Health
1	**2012**	**1**	£37,000,000	-£8,167,217	£0	£293,522	£2,898,399	£797,303	£1,364,400
2	**2013**	**1.1**	£32,815,965	-£7,795,980	£2,484,848	£312,330	£2,869,050	£778,310	£1,052,431
3	**2014**	**1.2**	£29,105,068	-£7,441,618	£4,517,906	£330,841	£2,869,365		£1,018,945
4	**2015**	**1.3**		£2,457,465	£6,160,781				
5	**2016**	**1.5**		£5,124,859	£5,600,710				
6	**2017**	**1.6**		£4,891,911	£5,091,555				
7	**2018**	**1.8**		£6,474,070	£4,628,686				
8	**2019**	**1.9**		£6,179,794	£4,207,897				
9	**2020**	**2.1**		£5,898,894	£3,825,361				
10	**2021**	**2.4**		£5,630,763	£3,477,600				
11	**2022**	**2.6**		£5,374,819	£3,161,455				
12	**2023**	**2.9**		£5,130,509	£2,874,050				
13	**2024**	**3.1**		£4,897,304	£2,612,773				
14	**2025**	**3.5**		£4,674,699	£2,375,248				
15	**2026**	**3.8**		£4,462,213	£2,159,316				
16	**2027**	**4.2**		£4,259,385	£1,963,015				
17	**2028**	**4.6**		£4,065,777	£1,784,559				
18	**2029**	**5.1**		£3,880,969	£1,622,326				
19	**2030**	**5.6**		£3,704,561	£1,474,842				
20	**2031**	**6.1**		£3,536,172	£1,340,766				
Total			**£98,921,033**	**£57,239,346**	**£61,363,695**	**£936,693**	**£8,636,814**	**£1,575,613**	**£3,435,776**

Total	
PVB	£133,187,937
PVC	£98,921,033
NPV	£30,831,128
BCR	1.3

Table A2.11: Comparison of options

	Option 1 GBS	Option 2 SBS
Present Value of Benefits (PVB)	£169m	£133m
Present Value of Costs (PVC)	£99m	£99m
Net Present Value (NPV)	£70m	£31m
Benefit-Cost Ratio (BCR)	1.7	1.3

89. The CBA results indicate that both options offer a positive rate of return. For Option 1, every £1 incurred in costs is expected to result in £1.70 worth of benefits. Similarly for Option 2, every £1 incurred in costs is expected to result in £1.30 worth of benefits.

90. The figures in tables A2.9-11 should be treated as illustrative. The data and assumptions used in the appraisal of both options are subject to a high degree of uncertainty. However, the analysis takes a cautious approach, and as such, the quantified benefits are likely to significantly underestimate the 'real' benefits from this intervention. Whilst there may also be some under-estimation of costs (e.g. costs associated with participating in school, other agricultural inputs etc.), the underestimation of benefits is likely to be more of an issue. Underestimation of service delivery benefits is a particular problem for Option 1. Given the evidence available, the appraisal has only managed to capture a sub-set of service delivery benefits from education, agriculture, health, water and energy sectors. However, GBS is expected to deliver services across the portfolio of government expenditure (including social protection, sanitation, infrastructure sectors). By failing to capture many of these wider service delivery benefits, the appraisal is skewed more towards option 2.

91. Despite this inherent, and unavoidable, bias in the appraisal, Option 1 is preferred on the basis of quantified costs and benefits (having a marginally higher Net Present Value (NPV) and Benefit Cost Ratio (BCR) than Option 2. Including unquantified costs and benefits is likely to further tip the balance in favour of Option 1.

VI. Risks and Uncertainty

92. Quantifying and monetising benefits and costs is a challenge, and potentially subjected to large margins of error.

93. Every effort has been made to ensure that the results claimed through additional financing, either to GBS or SBS, are indeed additional. The largest risk relates to over attribution of the benefits associated with allocative efficiency, technical efficiency, and financial leakages to DFID's intervention. Each of these benefits assumes a degree of improvement from the status quo. Section IV sets out the case for assuming a higher % improvement in allocative efficiency in the context of Rwanda (relative to other countries receiving GBS) based on the large share of total government expenditure that is accounted for by GBS. Nevertheless, although the UK is the second largest GBS donor it only accounts for approximately 23% of all GBS to the GoR. For simplicity one might argue that donor influence on spending allocations is directly proportional to the share of GBS. The reality is likely to be somewhat different. Nevertheless if a share of 23% drives an improvement in allocative efficiency of 2%, then pro-rata, the total influence of GBS is approximately an 8% in allocative efficiency. Evidence in this area is lacking, but such an increase is not implausible.

94. In fact, the approach taken may under-estimate allocative efficiency benefits. We have assumed an allocative efficiency improvement equivalent to the financial value of 2% of GoR expenditure over the three years which GBS is provided. In reality, an increase in "pro-poor" spending in areas such as education, health, water and sanitation etc. are likely to result in future benefit streams that occur over a much longer time horizon.

95. To test the robustness of these results, sensitivity analysis was undertaken. The focus was on those parameters which have the weakest supporting evidence. The different scenarios are described below:

96. For **Option 1**:

- Scenario 1: Improvements in technical and allocative efficiency assumed to be 1% (compared to 2% in the base case);
- Scenario 2: A reduction in the expected educational premium by 50% of the baseline
- Scenario 3: A return to agriculture investment of 30% (compared to 20% in the base case)

The results are reported below:

Table A2.12: Sensitivity Analysis for Option 1

	Scenario 1	Scenario 2	Scenario 3
PVB	£115m	£154m	£172m
PVC	£99m	£99m	£99m
NPV	£16m	£55m	£73
BCR	1.2	1.6	1.7

97. The results of the sensitivity analysis show that even if the assumed impact on allocative and technical efficiency is halved, expected benefits still exceed costs. The effect of increasing the rate of return on agriculture investment is minimal because of its relatively small share of service deliverables. The results are also still robust to halving the wage premium associated with different levels of education attainment.

98. For **Option 2**:

- Scenario 1: No technical efficiency improvements
- Scenario 2: A reduction in the expected educational premium by 50% of the baseline
- Scenario 3: A return to agriculture investment of 30% (compared to 20% in the base case)

The results are reported below:

Table A2.13: Sensitivity Analysis for Option 2

	Scenario 1	Scenario 2	Scenario 3
PVB	£120m	£112m	£164m
PVC	£99m	£99m	£99m
NPV	£21m	£10	£62m
BCR	1.2	1.1	1.6

99. Under option 2, agricultural spend forms a much larger share of the total (37%), such that an increase in the cash return from 20% to 30% of the cost of capital expenditure, results in a substantial increase in benefits. If the wage premium accorded to different levels of education attainment is reduced by half, overall benefits are still positive, but the BCR for the education sector is just below 1. The results remain largely unchanged when the rate of technical efficiency is reduced to zero indicating that by itself it has an insignificant affect.

VII. Conclusion

100. This economic appraisal has discussed the expected economic impact of providing £111m of financial support to the GoR either through GBS or SBS. It hasn't been possible to capture all costs and benefits but best estimates suggest that benefits under both options will exceed costs and therefore both represent Value for Money interventions in their own right.

101. GBS is however is expected to result in larger benefits, and although reported benefits and costs are subject to large margins of error under both options, it is likely to be the case that there is a greater underestimation of benefits compared to costs particular for GBS. Option 1 (GBS) is therefore the preferred option.

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Annex 3: Climate and Environment Assurance Note

Intervention Details		
Title	Department	Budget
Growth and Poverty Reduction Grant to the Government of Rwanda (2012/13-2014/15)	DFID Rwanda	£111m

Responsible Officers		
Title	Name	Department
Project Owner		DFID Rwanda
Climate Change and Low Carbon Development Adviser		DFID-Rwanda

Appraisal	
Success Criteria	Sensitivity Analysis
Options assessed against their ability to contribute towards implementation of the Rwanda Green Growth and Low Carbon Development Strategy	Yes – sensitivity analysis draws on results of 2011 climate change screening of DFID Rwanda programmes.
Climate & environment category of preferred option	
Risks & impacts **Category B**: medium risk of government budget spent on activities which are damaging in themselves or which undermine policies and actions directly aimed at improving the environment and climate change management. Mitigated by the focus that GBS will give to mainstreaming climate and environment across the government programme	***Opportunities*** **Category A**: potential for strong positive impact at the national level, provided active attention is paid to analysis and dialogue on the relevance of climate change shocks and opportunities for achievement of national development goals

Management		
Risks and opportunities defined	Climate & Environment Measures agreed	Climate & Environment Measures in log-frame
Yes – risks and opportunities highlighted in management case	Yes – climate and environment to form part of dialogue with government	Yes

Evidence
Relevant documents
Business case and project intervention summary Climate change screening of DFID Rwanda's portfolio, Harewelle International Ltd and the Global Climate Adaptation Partnership, 2010

SIGNED OFF BY: Environment screening note Adviser - DFID Rwanda

DATE: 12th March 2012

Annex 4: Approach to monitoring and evaluation in Rwanda

1. Joint monitoring and evaluation of progress against the EDPRS targets of increased economic growth and reduced poverty are key features of the joint Budget Support process and are the primary basis for UK assessment of GoR performance and their assessment of our performance. The Budget Support MoU specifies the use of three complementary frameworks for assessing performance:

    - **Country Performance Assessment Framework (CPAF)** which summarizes GoR performance in the implementation of the EDPRS. The CPAF currently contains 45 clearly monitorable performance targets and corresponding policy commitments against which Budget Support partners and the Government of Rwanda judge performance.

    - **Donor Performance Assessment Framework (DPAF)** which summarises donor performance in adhering to the various commitments related to the aid effectiveness agenda.

    - **Joint Governance Assessment (JGA)** which summarizes GoR performance in the implementation of governance reforms specified in the MoU. This should be updated annually.

2. **The Budget Support process is comprised of a joint performance review, and a joint planning review consolidating in-depth discussions at the Sector level.** Performance against the above frameworks is assessed jointly in an open and transparent manner during the annual 'backward looking' review held in the autumn after the end of the Rwandan fiscal year (June 30). In addition, a 'forward looking review' is held in the spring which allows Budget Support Development Partners to influence budgetary decisions and agree the performance framework targets. Management of the overall Budget Support process on the donor side is through by a rotating co-chair[1] of the Budget Support Harmonisation Group (BSHG) through which donors agree on common statements and positions and reduce the transaction costs for the GoR.

3. In addition Development Partners engage with the GoR through 13 Sector Working Groups (SWG) in which sector budgets are reviewed and performance is assessed. Each SWG has a donor co-chair who is expected to lead on dialogue between Development Partners and the Government. DFID is currently the co-chair of the Finance, Education, and Social Protection SWGs.

[1] DFID Rwanda will be co-chair of the BSHG twice during the lifetime of the Growth and Poverty Reduction Grant, most immediately from June to December 2012.