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Putting Aid On Budget:
A Case Study of Rwanda

A Study for

the Collaborative Africa Budget Reform Initiative (CABRI)

and

the Strategic Partnership with Africa (SPA)

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THE AID ON BUDGET STUDY

The Collaborative Africa Budget Reform Initiative (CABRI) and the Strategic Partnership with Africa (SPA) commissioned study of "putting aid on budget" has the following outputs:

An ***Inception Report***, which defines the issues and research methodology.

Ten ***country studies from sub-Saharan Africa***. Of the ten country studies, ***Ghana, Mali, Mozambique, Rwanda*** and ***Uganda*** were studied in depth, and separate country reports are available. The experiences of Burkina Faso, Ethiopia, Kenya, South Africa and Tanzania were also reviewed and summary information is included in the Synthesis Report annexes. Findings from all ten countries are included in the Synthesis Report.

A ***Literature Review***, which (a) documents existing good practice guidance that is relevant to the incorporation of aid in recipient country budgets; (b) reviews the policies and guidelines of the major multilateral and bilateral agencies as these affect the incorporation of their aid into government budgets; and (c) documents relevant experiences of efforts to capture aid in government budgets, including desk reviews of some additional countries, including countries from outside Africa.

A ***Synthesis Report*** which draws on all the other study components to develop overall findings and recommendations.

A ***Good Practice Note*** which distils the lessons of the study and is aimed at donors as well as partner governments.

The reports can be downloaded from the CABRI website at http://www.africa-sbo.org/.

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This report was prepared by independent consultants. Responsibility for the contents and presentation of findings and recommendations rests with the study team.

The views and opinions expressed in the report do not necessarily correspond to the views of CABRI or SPA.

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Abbreviations and Acronyms

AfDB	African Development Bank
AU	African Union
BAON	Bureau d'Assistance à l'Ordonnateur National
BCC	Budget Call Circular
BFP	Budget Framework Paper
BNR	National Bank of Rwanda (Banque Nationale du Rwanda)
BSHG	Budget Support Harmonization Group
CDF	Common Development Fund
CEPEX	Central Projects and External Finance Bureau
COFOG	Classification of the Functions of Government
DAC	Development Aid Committee (of the OECD)
DAD	Development Assistance Database
DDP	District Development Plan
DFID	Department for International Development (UK)
DP	Development Partner
DPCG	Development Partners Coordination Group
DPM	Development Partners Meeting
DSAs	Debt Sustainability Analysis
EC	European Commission
EDPRS	Economic Development and Poverty Reduction Strategy
EFA-FTI	Education For All – Fast Track Initiative
EFU	External Finance Unit
EU	European Union
FARAP	Financial Accountability Review and Action Plan
FTI	Fast Track Initiative
FY	Financial Year
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
GFS	Government Finance Statistics
GNI	Gross National Income
GOR	Government of Rwanda
HIDA	Human Resources and Institutional Capacity Development Agency
HIMO	Haute Intensité de Main d'Oeuvre
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immuno-deficiency Virus/Acquired Immune Deficiency Syndrome
ICT	Information Communication Technology
IDA	International Development Agency
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund
JAF	Joint Action Forum
LTSFF	Long Term Strategy and Financial Framework (education)
MAP	Multi-sectoral HIV/AIDS Project financed by the World Bank
MTEF	Medium Term Expenditure Framework
MIFOTRA	Ministry of Public Service and Labour
MIGEPROF	Ministry of Gender and Promotion of Women

MINAFFET	Ministry of Foreign Affairs
MINALOC	Ministry of Local Government, Good Governance, Community Development and Social Affairs
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
OAG	Office of the Auditor General
OBL	Organic Budget Law
ODA	Official Development Assistance
OECD	Organisation for Economic Co-operation and Development
OECD	Organisation for Economic Co-operation and Development
PADEBL	Dairy Cattle Development Support Project (also financed by the World Bank)
PDL-HIMO	Labour Intensive Local Development Programme
PE	Public Enterprise
PEFA	Public Expenditure and Financial Accountability
PEPFAR	President's Emergency Plan For AIDS Relief
PER	Public Expenditure Review
PFM	Public Finance Management
PIP	Public Investment Plan
PIUs	Project Implementing Units
PRSP	Poverty Reduction Strategy Paper
PEFA	Public Expenditure and Financial Accountability
ROSC	Report on the Observance of Standards and Codes
RRA	Rwandan Revenue Authority
RWF	Rwandan Franc
SIP	Strategic Issues Paper
SN	Sub-National
STA	Single Treasury Account
SWAp	Sector-Wide Approach
TA	Technical Assistance
TB	Tuberculosis
TIN	Taxpayer Identification Number
UK	United Kingdom
UN	United Nations
USAID	United States Agency for International Development
USD	United States Dollar
WB	World Bank
WFP	World Food Programme

Currency, Exchange Rate and Fiscal Year

Currency	Rwandan Franc (RWF)
Exchange Rates	1 USD = RWF 547 1 EUR = RWF 771 (Source: Financial Times online, 25 September 2007)
Fiscal Year	Calendar Year

1. Introduction

1.1 Coinciding with the signature of the Paris Declaration on Aid Effectiveness, donor countries and aid recipient governments in the developing world have been working in recent years to bring official development assistance (ODA) to these governments on budget. That is, to channel, to the extent possible, ODA through existing planning, budgeting and public financial management systems, with the aim of aligning aid with country-led programmes, strengthening local government systems and, ultimately, increasing aid effectiveness in these countries.

1.2 In this context, this paper presents a case study of efforts undertaken in Rwanda in recent years to put aid on budget. The purpose of this exercise, as stated in the terms of reference to this study, is to produce lessons that can be useful for other countries in Sub-Saharan Africa, in terms of allowing them to lead country-level processes that ensure that external development assistance is properly reflected in national budget documents, both in ex ante (e.g. in the budget presented to parliament) and ex post (e.g. out-turn accounts) terms. To this end, this case study provides evidence of trends and recent efforts to put aid on budget in Rwanda and tries to identify factors positively driving this process, as well as those hindering it. It also derives some recommendations on how donors and government can continue in their efforts to improve aid capture on budget in Rwanda.

1.3 With these aims in mind, the paper is organised into three main sections. After this introduction, Part 2 presents the general case of Rwanda. To this end, it briefly outlines the main traits of the Rwandan political and government systems. This is followed by an analysis of the current aid context in Rwanda. This section also includes a presentation of the Rwandan institutional framework for planning and budget formulation and the main elements of its public financial management system. Finally, an analysis is made on the main institutional elements for aid management that exist in Rwanda.

1.4 Having presented the general case of Rwanda, Part 3 moves on to provide evidence of initiatives by the Rwandan government and donor agencies operating in Rwanda to put aid on budget in its different dimensions. This exercise follows the methodology described in the inception report to this study, which distinguishes between seven different dimensions of aid capture in national budget documents: aid (i) on plan, (ii) on budget; (iii) on parliament (or 'through budget'); (iv) on treasury; (v) on accounting; (vi) on audit and (vii) on report. Whenever possible, this section examines the quality of aid capture in each of these spheres and discusses plausible factors driving or hindering donor and government efforts in this sphere.

1.5 Part 4 provides a synthesis of the findings of the report, by identifying which incentives are driving GOR and its development partners, which initiatives have worked and which ones are still facing important challenges.

1.6 Finally, Part 5 of the report concludes by identifying a few recommendations to both donors and government.

2. Country context

2.1 The way development assistance is provided to Rwanda, its level, nature and processes, the quality of the interaction between the government and its partners, all depend on each donors' overall development assistance policy, but also very much on the Rwanda-specific context.

2.2 The aim of this section is to provide a brief overview of the context of aid in Rwanda, starting from an outline of Rwanda's political, planning and budgeting processes, moving on to the nature and levels of aid that have been provided to the country over the past year and the aid management structures in place.

2.3 It is against this background that the analysis of how and why aid is integrated in Rwanda's planning, budgeting, reporting and accountability processes will be carried out in Part 3.

Overview of Rwanda's political, planning and fiscal management system

Overview of Rwanda's political system

2.4 Rwanda is a presidential republic, with clear separation of the executive, legislative and judiciary, as defined in its 2003 Constitution. The President is elected for 7 years by the people (last presidential elections were held in 2005). Paul Kagame is the current President of the Republic of Rwanda, and is also the Head of State.

2.5 The Parliament is composed of the Senate (26 members with an 8-year mandate) and the Chamber of Deputies (80 members elected for 5 years). The Supreme Court is the highest judiciary body in the country.

2.6 Rwanda has three main levels of government: central government, 4 Provinces plus Kigali City, and 30 districts (akarere). Below districts are two additional administrative levels: 416 sectors (imirenge) and 2150 cells (imidugudu).

2.7 The decentralisation process was launched in 2000, and entered its second phase in 2005, with an administrative reorganisation aiming at diminishing the number of provinces from 15 to 4 and the number of districts from 106 to 30. Large scale fiscal decentralisation started in 2006 with the scaling up of transfers from central government to districts. Provinces are mainly coordination bodies, while Districts are the main recipients of central government transfers.

2.8 Districts are composed of an elected District Council, which is the legislative body at the district level and adopts the district's budget, and elected district Mayor and vice Mayors. The district's administration is headed by the Executive Secretary.

2.9 The Office of the Auditor General, established by law in 1998[1], has been shifted by the 2003 Constitution from being under the executive and judiciary to reporting primarily to the Parliament. The Auditor General audits the financial accounts presented by Government each year before 31st March following the end of the fiscal year, and submits its report to Parliament.

[1] Law no. 05/1998.

2.10 Article 79 of the Constitution sets out the roles and responsibilities in respect of submission of the draft Finance Law to Parliament, its adoption, and the submission of a yearly financial report to the Auditor General. Article 91 limits the legislature's ability to modify the Finance Act by providing that '*Bills and statutory amendments which have the potential to reduce Government revenue or increase State expenditure must indicate proposals for raising the required revenue or making savings equivalent to the anticipated expenditure'*. The Senate has a consultative role in the adoption of the National Budget Law.

Planning and fiscal management in Rwanda

2.11 National planning and budgeting are the responsibility of the Ministry of Finance and Economic Planning (MINECOFIN), respectively under the Development Planning Unit and the Budget Unit.

2.12 Each line ministry has both a planning unit and an administrative and finance unit, which collaborate in the elaboration and execution of the ministry's budget.

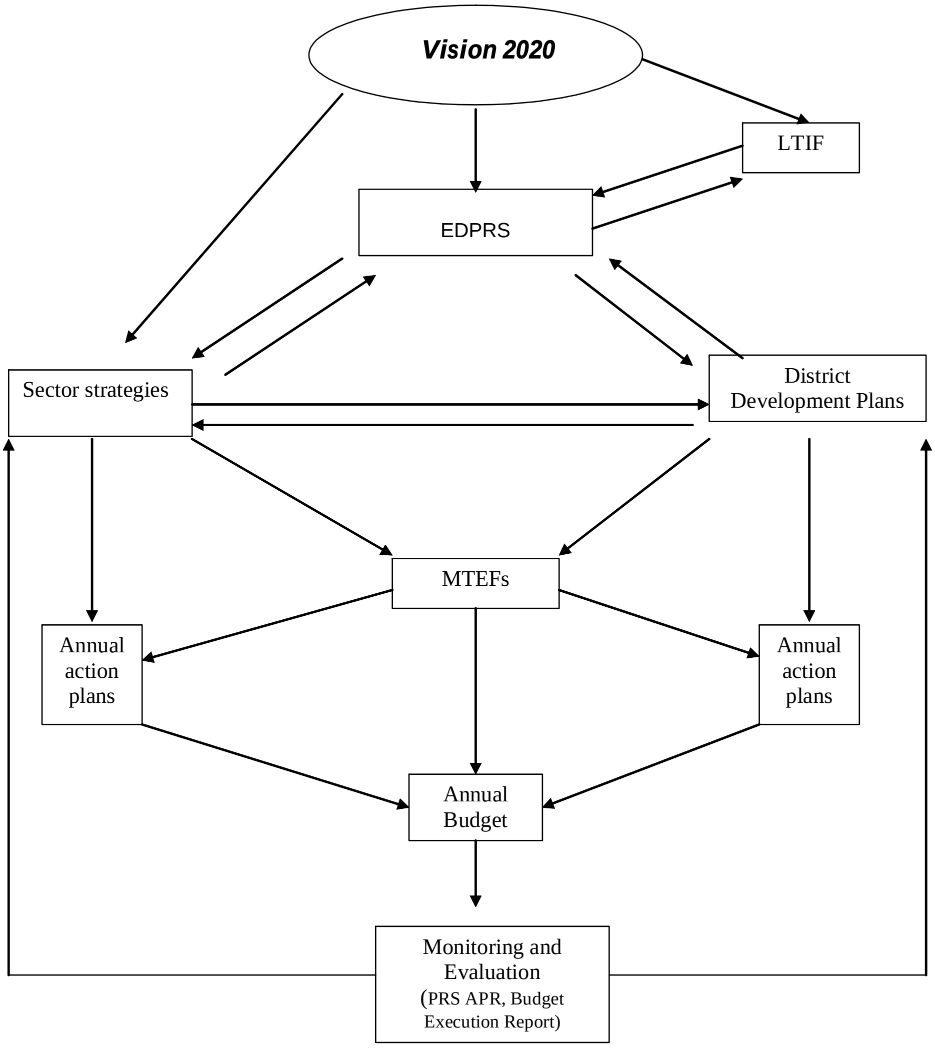
Linking planning and budgeting at National Level

2.13 In principle, the budget is based on the priorities identified in the PRSP, and as of 2008 on the priorities outlined in the Economic Development and Poverty Reduction Strategy. The EDPRS (PRSP II) has been prepared through an extensive participatory process, involving all line ministries, civil society and development partners. It aims at providing the medium-term framework for implementing Rwanda's Vision 2020, while representing the overarching structure encompassing all the sector strategies developed since PRSP I.

2.14 The EDPRS priorities and macro-economic framework have been used as a basis for defining the 2008-2010 budget ceilings and formed the background to the budget consultations held between MINECOFIN and each Ministry when preparing the 2008 budget.

2.15 The key tool making the link between the macro-economic framework, the overarching priorities identified in the EDPRS and the budget is the Medium Term Expenditure Framework (MTEF). Introduced in 2000 with extensive external support, Rwanda's MTEF became an important planning tool, accompanied by the shift to programme-based budgeting and a strong willingness to move towards results-based budgeting. Due to the end of the external support, the MTEF process has lost momentum since 2004, and risks becoming a routine exercise that has lost its purpose. Nevertheless, MINECOFIN has set out clearly as one of its objectives for the coming years to revive and strengthen the MTEF process, making it the corner stone linking the EDPRS and the budget.

Figure 1: National planning and budgeting framework



Source: Planning and Budgeting Guidelines for Local Governments, GOR (2007d).

Linking Planning and Budgeting at sector level

2.16 Two sectors have developed a fully costed sector strategy, which is used as the basis for the preparation of their budget request: health and education. In the case of the education sector, it is the Long Term Strategy and Financing Framework (LTSFF) which provides a financial framework for the education sector (recurrent and development) covering 2006-2015. The Education LTSFF is based on a detailed costing of the key priority and objectives of the Ministry of Education, as well as on an assessment of available resources, both from the Government and from donors. The financial framework is updated every year by MINEDUC when preparing its yearly budget and MTEF.

2.17 Other sector strategies are not always costed and do not for the most part provide a detailed long or medium term financial framework. Key sectors having developed a sector strategy are: health, water, rural development, and decentralisation.

2.18 The programmes and sub-programmes into which line ministries' budgets are organised are in general well in line with the priorities identified in their sector strategies and in the EDPRS, and were updated in 2007 for that purpose.

Linking Planning and Budgeting at district level

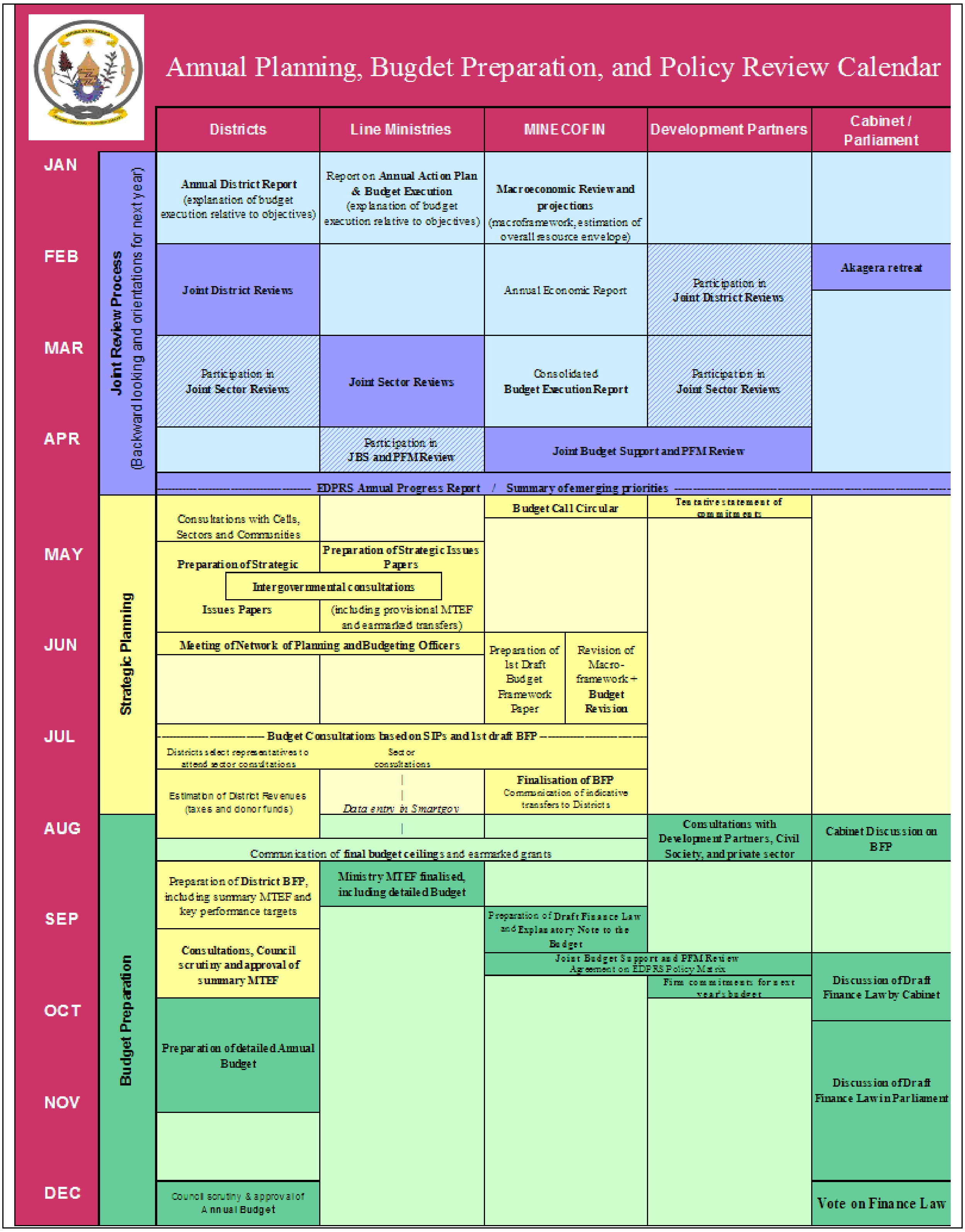
2.19 Regarding Districts, their District Development Plans, updated in 2007 in line with the priorities identified in the EDPRS, define their medium term priorities and objectives. Since 2006, districts produce 'performance contracts' (imihigo), defining objectives for the coming year. These contracts are signed by each district with the President of the Republic, and performance is evaluated quarterly. Alignment between the objectives set in the performance contracts, the DDPs and the districts budgets, both in terms of timing and content, is still imperfect, but should be improved in 2008.

Annual planning, budgeting and policy review calendar

2.20 In principle, as outlined in the planning and budgeting calendar (see below), the planning and budgeting cycle should take place as follows during the average year: between February and April, districts prepare joint district reviews and each sector organises joint sector reviews, which should focus both on analysis of past year performance and on budget execution. These should take place in sufficient time to provide inputs into the EDPRS annual report and the joint budget support review. These two processes, along with the definition of the macro-economic framework, should in turn inform the definition of the fiscal framework, the preparation of the Budget Call Circular and the indicative ceilings for each ministry for the three coming years. The Ministries' budget requests (Strategic Issues Papers) should then be based extensively on the outcomes of their joint sector reviews. Following the budget consultations and agreement on final ceilings, ministries proceed to prepare their detailed budgets and annual action plans. The draft Budget Law and accompanying Explanatory Note to the Budget are to be communicated to Parliament by October 4th every year, as stated in Art. 79 of the Constitution.

2.21 The following page presents the National Budget Calendar as outlined in the Planning and Budgeting Guidelines for Local Governments (GOR, 2007d).

Figure 2: Annual planning and budget preparation calendar



Fiscal Decentralisation in Rwanda

2.22 Fiscal decentralisation started in earnest in Rwanda in 2006, with a massive scaling up of the resources transferred to local administrations, in particular to districts. At first this concentrated on the health, education and governance (prisons) sectors, and earmarked transfers were extended in 2007 to cover agriculture, land and environment issues. The Common Development Fund (CDF) was created to finance investment expenditures in districts. It receives its revenue from both development partners and Government. Government should in theory allocate 10% of its domestic resources to the CDF. Until today, less than 5% of domestic resources were allocated annually to the CDF, but this should be scaled up significantly in 2008.

2.23 In the 2007 budget, districts receive RWF 64bn, which represents 12.6% of the total budget, and 27.8% of domestic revenue. Districts receive a block (non-earmarked) transfer, and a series of earmarked transfers (28 in 2007). Line ministries are in charge, in collaboration with MINECOFIN and with the Ministry of Local Government (MINALOC), to define the objectives, amounts, and modalities of earmarked transfers to districts in their sector.

2.24 Districts' budgets, including their own revenues and donor support, are presented to and adopted by the District Councils. To date, districts have not provided adequate budget execution reports to central government. District budget execution reporting is progressively put in place and should become effective by the end of 2007. In addition to transfers received from central government and CDF, districts collect their own revenues, and receive funds from donor projects.

Aid context

2.25 Two key sources of data on aid to Rwanda are the OECD database, and the Rwanda Development Assistance Database (DAD) managed by MINECOFIN. Data contained in these two databases differ significantly (e.g. total ODA disbursed to Rwanda in 2005 is estimated at USD 628.24 million by the OECD, and USD 497.6 million by the DAD). The main reason for this discrepancy is better coverage by the OECD of aid in-kind, aid to NGOs, and aid where expenditure is undertaken directly by the donor. For the purpose of this section, data used will be drawn from the OECD database, except where mentioned otherwise.

Aid levels and modalities

2.26 Aid to Rwanda peaked in the post-genocide years, with a high proportion of emergency and food aid, until 1996. Today, the volume of aid received by Rwanda is only slightly higher than in the early 1990s (Government of Rwanda, 2006g).

2.27 Following the 2003 presidential elections and vote of the new constitution, as well as increased regional stability, total ODA to Rwanda increased significantly from 2004 onwards: +45.3% in 2004 and +20.6% in 2005. This is mainly linked to an increase in ODA received from the International Development Agency (IDA) and the Global Fund to fight AIDS TB and Malaria (GFATM).

2.28 In the budget, ODA represents slightly less than 50% of total expenditure and net lending (41% in 2005, 45% in 2006).

Table 1: ODA as a proportion of GNI and ODA per capita

	2003	2004	2005
Total ODA (million USD)	358,55	521,12	628,24
ODA as a proportion of GNI			29,9%
ODA per capita	40,74	58,55	69,80

Table 2: ODA, key figures

	ODA Total: Grants + Loans Extended							
	2000	**2001**	**2002**	**2003**	**2004**	**2005**	**Total 2003-05**	**Average 2003-05**
All Donors, Total	**341,78**	**320,51**	**373,78**	**358,55**	**521,12**	**628,24**	**1.507,91**	**502,64**
All Grants, Total	**266,93**	**227,89**	**279,63**	**313,82**	**418,04**	**526,07**	**1.257,93**	**419,31**
(Grants, % of total)	78,10%	71,10%	74,81%	87,52%	80,22%	83,74%		**83,83%**
All Loans, Total	**74,85**	**92,62**	**94,15**	**44,73**	**103,08**	**102,17**	**249,98**	**83,33**
(Loans, % of total)	21,90%	28,90%	25,19%	12,48%	19,78%	16,26%		**16,17%**
Bilateral, Total	**180,83**	**153,95**	**202,36**	**217,19**	**220,96**	**304,92**	**743,07**	**247,69**
(Bilateral, % of total)	52,91%	48,03%	54,14%	60,57%	42,40%	48,54%		**50,50%**
Multilateral, Total	**160,95**	**166,56**	**171,42**	**141,36**	**300,16**	**323,32**	**764,84**	**254,95**
(Multilateral, % of total)	47,09%	51,97%	45,86%	39,43%	57,60%	51,46%		**49,50%**

Source: International Development Statistics, OECD DAC.

2.29 As shown in Table 2, grants represent on average over 2000-2005 83.8% of total ODA received by Rwanda. As a result of its post-HIPC status and its debt sustainability situation, Rwanda's borrowing capacity is currently very limited. Nevertheless, loans contracted previously still represent around 16.3% of total ODA disbursed in Rwanda in 2005.

2.30 In 2005, budget support totalled approximately USD 203 million, accounting for 41% of total ODA disbursed,[2] and approximately 50% of Rwanda's recurrent budget.

2.31 Over the past few years, sector budget support has picked up in the education sector, mainly from the Fast Track Initiative, DFID, AfDB, Belgium, and Netherlands. It is foreseen that sector budget support will start in 2008 in the health sector.

2.32 Pooled support to capacity building has been set up through HIDA (Human Resources and Institutional Capacity Development Agency) and through the integrated support to MINECOFIN.

2.33 Finally, in its Aid Policy, the Government of Rwanda (GOR) clearly indicates its preference for budget support as an aid modality, general budget support, followed by sector budget support (GOR, 2006d: 7).

Donors

2.34 The three most important donors to Rwanda are the World Bank (IDA), the European Commission (EC) and the UK (DFID). In total, the top ten donors covered in 2005 85% of total ODA.

[2] These figures are extracted from Government of Rwanda's Aid Effectiveness Report (GOR, 2006g: 5).

Table 3: Top ten donors in Rwanda

	2000	2001	2002	2003	2004	2005	Total 2003-05	Average 2003-05
Top Ten Donors (2003-05)								
IDA	37,19	65,43	87,03	40,52	157,49	130,05	**328,06**	**109,35**
EC	49,75	45,24	41,72	54,00	65,90	92,25	**212,15**	**70,72**
United Kingdom	52,67	36,76	52,63	42,88	58,18	81,95	**183,01**	**61,00**
United States	22,93	31,08	46,37	52,58	50,32	63,27	**166,17**	**55,39**
Netherlands	20,42	19,16	19,61	23,05	25,50	28,41	**76,96**	**25,65**
AfDF (African Dev.Fund)	4,00	12,03	13,00	9,92	18,50	39,33	**67,75**	**22,58**
Belgium	16,03	11,55	21,61	20,81	18,96	27,40	**67,17**	**22,39**
Global Fund (GFATM)	0,00	0,00	0,00	2,11	21,00	29,98	**53,09**	**17,70**
Germany	13,77	14,59	10,75	13,87	16,60	18,50	**48,97**	**16,32**
Sweden	14,63	8,43	15,58	13,14	8,47	23,40	**45,01**	**15,00**
Total top ten donors	**231,39**	**244,27**	**308,30**	**272,88**	**440,92**	**534,54**	**1.248,34**	**416,11**
Top ten total as % total gross ODA	**67,70%**	**76,21%**	**82,48%**	**76,11%**	**84,61%**	**85,09%**		**81,93%**

Source: International Development Statistics, OECD-DAC.

2.35 Multilateral donors have represented on average 49,5% of total ODA to Rwanda over 2000-2005. The World Bank and the AfDB in particular have significantly scaled up their support to Rwanda over the past few years.

2.36 Vertical funds such as the GFATM, the US President's Emergency Plan For AIDS Relief (PEPFAR) and the Clinton Foundation have become major donors in Rwanda over the recent years.

2.37 Finally compared with neighbouring countries, Rwanda receives aid from a relatively small number of bilateral donors.

Institutions for aid management

Structures in place within Government

2.38 The main actors within Government of Rwanda in managing development assistance are MINECOFIN and MINAFFET (Ministry of Foreign Affairs), in collaboration with concerned line ministries and local governments.

2.39 The Aid Policy (GOR, 2006d) very usefully clarifies the framework for aid coordination in Rwanda and the responsibilities of each Ministry and entity.

2.40 Within MINECOFIN, three units are concerned particularly: the External Finance Unit, the CEPEX unit, and the budget and planning units. The Aid Policy (GOR, 2006d: 5) states explicitly the objective that '*MINECOFIN should have a lead role in coordinating external assistance and ensuring its efficient allocation*'.

2.41 The External Finance Unit (EFU), established in 2005, is the key Government entry point for the oversight and management of external aid. (GOR, 2006g: 9). It is supported in the implementation of its mandate by the Aid Coordination Unit, financed by a basket-fund of 6 donors. EFU is specifically in charge of monitoring progress towards the implementation of the Aid Policy and the Paris Declaration. Finally, EFU has been the promoter of the

Development Assistance Database (DAD), and is in charge of ensuring the quality of the data it contains on donor support to Rwanda.

2.42 CEPEX[3] is a semi-autonomous body in charge of monitoring donor project execution. To date, the CEPEX reports have been the main source of data on the execution of the development budget. CEPEX is composed of desk officers in charge of specific donors. Some donors, such as the EC, have set up a specific unit in charge of facilitating the execution of projects, acting as an intermediary between projects and Government, compiling and monitoring data on projects implementation ("Bureau d'Assistance à l'Ordonnateur National" in the case of the EC, which is composed of 7 persons).

2.43 The Budget and Planning Units are jointly in charge of preparing the Medium Term Expenditure Framework and its capital expenditure component the Public Investment Plan (PIP). Both instruments have a 3-year span, their first year serving to derive the National Budget.

2.44 The preparation of the Development Budget, which used to be under CEPEX's responsibilities, was shifted in 2004 to the Budget Department, a first step to removing administrative impediments to aligning budgets with strategies.

2.45 MINAFFET is *"responsible for maintaining broad policy dialogue through its foreign missions"* (GOR, 2006d: 10). This includes in particular mobilisation of resources and identification of potential new donors.

Donor and aid coordination structures

2.46 The Development Partners Coordination Group (DPCG) is the highest level coordination structure in Rwanda, drawing its membership from Government Representatives and Heads of Cooperation in bilateral and multilateral agencies (GOR, 2006g: 9). Meetings are co-chaired quarterly by the Secretary General of MINECOFIN, and the UN Resident Coordinator. The objective of the DPCG is to serve as a forum for dialogue in the coordination of development aid to Rwanda.

2.47 Once a year, generally in November, GOR organises the Development Partners Meeting (DPM), which is a high level forum bringing together donor representatives from headquarters and representation at ministerial level from the Rwandan Government.

2.48 The Budget Support Harmonisation Group (BSHG) was formed in 2003, through the signature of the Partnership Framework for Harmonisation and Alignment of Budget Support. The BSHG comprises of all budget support donors and potential budget support donors as observers[4]. It meets quarterly, the two main meetings being the Joint Budget Support Reviews that take place in April and September each year.

2.49 Finally, a system of clusters (joint government-donors sector working groups) and joint sector reviews ensure coordination at the sector level (GOR/DP, 2005). There are 9 active clusters: Justice, Rural Development, Private Sector Development, Infrastructure, Health, Education, Decentralisation, HIV-AIDS, Capacity Building and Public Sector Reform. The

[3] The Central Projects and External Finance Bureau (CEPEX) was created in the late 1990s, largely taking on the responsibilities of the Investment Directorate of the merged ministries of finance and of planning.
[4] Current members of the BSHG are the World Bank, DFID, the European Commission, the African Development Bank and Sweden. Germany participates as observer.

only functioning Sector Wide Approach (SWAp) is the education sector, but other sectors are in the process of setting one up such as rural development and health.

2.50 In terms of public finance management, the Government has designed a PFM action plan, which supported by several of Rwanda's development partners (notably the EC, World Bank, DFID and IMF). It is overseen by the PFM Steering Committee and its implementation is reviewed on a bi-annual basis.

Aid management in practice

2.51 In practice, the multiplicity of structures in charge of managing aid within the Ministry of Finance still remains a weakness to be addressed. This should be the case through the drafting of an 'Aid Management Manual', foreseen for end 2007.

2.52 One unit (EFU) is in charge of relations with donors, i.e. negotiating, signing agreements and memorandums of understanding. This unit is also the one managing the aid harmonisation process. Although it has been instrumental in ensuring that an increased level of aid flow reaches Rwanda, and in leading discussions on aid harmonisation and alignment, this unit remains more a public relations instrument, rather than a tool serving other MINECOFIN units or line Ministries that encounter problems with donor alignment.

2.53 As mentioned above, CEPEX is in charge of monitoring project execution. Although it has been instrumental in improving absorption rates and smoothing execution of project disbursements, CEPEX is only starting to provide timely and good quality data on development budget execution to MINECOFIN and line ministries. Nevertheless, this data is still not used in Budget Execution Reports, and is not adequately disseminated to line ministries. CEPEX remains to date the MINECOFIN entity that is most closely in relation with project coordinators. The role of line ministries in monitoring the implementation and financial execution of projects in their sector remains unclear vis-à-vis CEPEX's role.

2.54 Many interviewees, both within government and among development partners, have mentioned the lack of clarity on the respective roles of EFU and CEPEX, as well as the lack of coordination and communication between the two entities, outlining the duplications, potential gaps, and confusion that it creates.

2.55 Each of these two bodies manages a database on aid: EFU manages the DAD, which is supposed to encompass all donor commitments but not disbursements. The DAD covers (in theory) all types of ODA: projects supporting government entities, NGO projects, budget support and technical assistance. Because of lack of capacity, nevertheless, the monitoring of NGO projects should be shifted to MINALOC in the near future. CEPEX maintains its own database on the execution of projects, which includes also projections of future disbursements.

2.56 The development budget itself, prepared by the Budget Department in MINECOFIN, is drawn from the Public Investment Plan (PIP). The PIP is yet another database on aid. It covers in theory both signed and pipeline projects, supporting government entities, grants and loans. The Development budget on the other hand only includes projects that have been signed by the time the budget is being prepared. The PIP covers the EDPRS period (2008-2010) and is updated yearly. It is important to clarify that the data contained in the DAD is not used to prepare the budget, for many reasons: mainly difference in coverage and nature of data collected, but also lack of accuracy, timeliness of data availability.

2.57 The lack of coordination between these various units and databases has led to multiple data requirements on donors and project coordinators, confusion as to which type of data is to be reported to who, when, etc.

2.58 Regarding the DAD, most donors interviewed have underlined that it still is not living up to expectations, and although it does constitute a serious reporting burden especially for some bilateral donors that have little capacity, the added value of this exercise is not yet clear. Because of the low quality of data compiled by donors in the DAD, EFU has had to set up a parallel ad-hoc database to answer to data requests from other MINECOFIN units.

2.59 Of course, this is far from being the only constraint to improved management of aid.

2.60 The difficulty for line ministries in obtaining data from project coordinators (on expected disbursements or on execution) often leads MINECOFIN (Budget Department, CEPEX) to refer directly to the latter (in so doing implicitly by-passing the ministries). This is the result of various issues, such as multiple data requests, complexity of forms to be filled and lack of clear instructions from donor headquarters to project coordinators to provide information requested by ministries/MINECOFIN, in the appropriate format and in a timely way.

2.61 As stated in the Aid Policy: '*It is clear that the GOR may in some areas place unstructured demands on Development Partners for information […][and fail] to share such information effectively'* (GOR, 2006d: 2).

Table 4: Summary analysis of aid monitoring instruments in MINECOFIN

	DAD	PIP	CEPEX	Development Budget (SMARTGOV)
Internally / externally financed	Covers only externally financed support	Covers both internally & externally financed projects	Covers both internally & externally financed projects	Covers both internally & externally financed projects
Coverage of ODA	All ODA (in theory): projects, budget support, TA, and NGOs	Projects to government sector	Projects to government sector	Projects to government sector
Time span	Past disbursements and projections	Past disbursements and projections (2008-2010)	Past disbursements and projections	Budget year + 2 following years (2008-2010)
Project status included in database	All projects (signed, pipeline, commitments)	Only signed and pipeline projects	Only signed and pipeline projects	Only signed projects
Data collected on disbursements	From donors to project accounts or directly to service providers	From projects to service providers	From projects to service providers	From projects to service providers
Filled by	Donors, usually representation in-country	Usually project coordinators[5]	Usually project coordinators[14]	Drawn from PIP
MINECOFIN unit in charge	EFU	Planning, Budget (CEPEX also involved)	CEPEX	Budget
Role of line ministries	None	In theory intermediaries between projects and MINECOFIN	Unclear	DB discussed with each line ministry during budget consultations

[5] USAID prefers to provide directly data to CEPEX, and for the EC, it would be the BAON compiling the data and providing it to CEPEX.

Legal and practical framework for budgeting

Legal requirements

2.62 In accordance with articles 79 and 183 of the Constitution of the Republic of Rwanda, the Law on State Finance and Property adopted in September 2006, provides the legal framework for the preparation, adoption, execution and monitoring of the national budget. The law, complemented by the associated Financial Regulations, defines the key milestones in the budget calendar, format of the National Budget Law and content and timing of the financial reports. It covers both central and local governments.

Key articles of the Law on State Finance and Property regarding aid management

Article 6: "*All revenues, including debts and loans and all expenditures of the State shall be included in the central Government and the local administrative entities budgets. […] The budget shall be presented in a single document by integrating the recurrent and the development budgets into one. […] the budget should cover all state revenue in one unique document.*"

Article 7: "*For effective management of the Budget in the central Government, a consolidated fund shall be established, which constitutes all revenues and other public monies, including earmarked revenues of extra budgetary funds and external loans and grants received in general.*"

Article 35: "*Capital expenditure shall be provided for in the general State Budget in the form of multi year programmes and implemented through annual payments via allocated credits.*"

Article 51: "*The Minister, after approval by Cabinet, shall authorise the Chief Budget Managers to transfer funds from some items to others of the same category in the current Budget of the budget agency appropriations, subject to a twenty (20%) per cent limit of the allocations of such an item. The Minister shall issue authorisation in case of excess upon approval by the Cabinet meeting. All reallocations shall be notified to the Minister in writing. The Minister may withdraw such authorisation at any time if necessary.*"

Article 52: "*No payments shall be made without prior commitment to pay has been established, except for international debt service payments if it is decided that such a commitment shall be regularised after the payment.*"

Article 54&56: "*As for loans from external sources, the approval shall be granted by Parliament.*"

Article 63: "*All raised or received central Government money shall be credited into a single Treasury account in the National Bank of Rwanda.*"

Article 70: "*Budget recipient entities, local administrative entities and other public bodies shall submit annual reports on the financial statements, including the reports of subordinate organs. […] The accounts report shall include all revenues collected or received and all expenditures made during the fiscal year, as well as a statement of all outstanding receipts and payments before the end of the fiscal year.*"

2.63 So far most of these are not or not fully applied to the development budget. It will take some time, and a joint effort by Government and donors, for all provisions in the recently adopted law to be implemented, in particular as far as donor projects are concerned.

PFM and budget reforms

2.64 In recent years, excellent progress has been made in constructing a modern public financial management (PFM) system in Rwanda.[6] After the Genocide in 1994, Rwanda's PFM system collapsed, with no budget, no accounts and no audit. Since that time, the system has gradually been constructed, using a sequenced approach that recognises the severe capacity constraints faced by the Government.

2.65 In particular, the introduction of the MTEF has strengthened the links between policy and budgets and made the budget more transparent; the SMARTGOV[7] and cash budget systems have enabled Government to exercise greater control over expenditure and prevent the build up of excessive arrears; and the introduction of the National Tender Board and the Office of the Auditor General of State Finances have led to a significant improvement of oversight. In addition, there is strong political and technical commitment to further reform, as a result of a widespread appreciation of the importance of PFM issues in the poverty reduction agenda. Despite the inadequacies of certain elements of the PFM system, expenditures have generally been in line with budgets, and financial corruption has not taken root, as a result of strong political commitment and centralised MINECOFIN control.

2.66 However, despite this progress, capacities remain limited and much remains to be done. A number of diagnostic studies have been carried out in the last four years,[8] which have revealed the scope of future work.

2.67 The Law on State Finance and Property adopted in 2006, together with the Financial Instructions (already adopted by Cabinet) that complement it, calls for radical change in the management of public finances and in the internal control system. In particular, it sees a major decentralisation of PFM, both from central Government to local administrations and from MINECOFIN to line Ministries and other budget agencies. Budget execution and the power to execute virements has been decentralised to the Chief Budget Manager in each Budget Agency. Each budget agency (line ministry, province, semi-autonomous institution) will be responsible for its own budget execution and accounting, providing real time information to the Ministry of Finance through the SMARTGOV integrated financial management system. This allows increased ownership by line ministries of their budget and budget execution process, as well as reducing the time needed for payments to be approved.

2.68 Regarding procurement reforms, which are a sensitive issue very closely linked to the progress in putting aid on budget, the PEFA report notes: '*Following the passing of the OBL, a fundamental change was also introduced in public procurement through the enactment of Law N° 12/2007 of 27/03/2007 on Public Procurement, which essentially changes the modus operandi of procurement procedures. The new law is built on the principle of decentralization of procurement responsibilities to budget agencies while the National Tender Board retains the supervisory and regulatory roles and also provides the technical and capacity building requirements. In this regard, a separate law has been envisaged and prepared, the law establishing Rwanda Public Procurement Authority, which will soon be published.*' (p.4)

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[6] The recently completed PEFA exercise (draft final report) qualifies Rwanda's PFM reforms as 'impressive given the circumstances, resources and capacities of the country', and 'remarkable'. (Johnson et al., 2007)

[7] SMARTGOV is a computerised expenditure commitment and payment recording system. All ministries and most provinces are now part of the SMARTGOV network. Districts are in the process of being connected.

[8] Including the FARAP (WB/DFID), ROSC (IMF), CBTI plan (EC), HIPC AAP (WB/IMF), CFAA (WB/EC).

2.69 On the way forward, the PFM action plan developed by Government provides a sequenced approach to implementing the required reforms. The focus is now on ensuring appropriate implementation of the 2006 Law on State Finance and Property, in particular improving public accounting and internal audit so that the transfer of responsibilities to cost centres is accompanied by the necessary capacity. The production of the consolidated 2006 financial report, foreseen for the coming months, will be a significant step in that direction. At the same time, significant effort will go into improving cash management and strengthening capacity of local governments in managing public finances. There is a need to increase the coverage of fiscal data, in particular regarding donor-financed expenditures and extra budgetary revenues. As decentralization proceeds, this problem will also become acute at district level. Finally, GOR will focus on strengthening the SMARTGOV software and moving towards an integrated public financial management system.

2.70 Major reforms have been pushed forward regarding the budget presentation and should start being implemented with the 2008 budget (joint presentation of the domestically and externally financed expenditures under each ministry, instead of a separated development budget covering donors projects); use of the same chart of accounts to classify both domestically financed expenditures and donor projects.

2.71 In addition to the budget reforms, 2007 is a year of major reforms in the PFM area in general:

a) Introduction of new charts of accounts and preparation of the annual financial report for 2006 and 2007, for the first time since 1989

b) Strengthening of the fiscal decentralisation framework (modalities of earmarked and block transfers to districts, reporting, districts budget software)

c) Move towards a zero-balance Single Treasury Account

d) Strengthening the internal audit and procurement reforms (in particular establishment of the Rwanda Public Procurement Regulatory Authority)

2.72 The summary and explanation of scores for the 2007 PEFA assessment are provided in Annex 1.

Budget format and classification

2.73 The Law on State Finance and Property provides that expenditure estimates for each budget agency may include programmatic, economic and functional classifications in line with international classification standards defined in the Government Financial Statistics (GFS) manual developed by the IMF. Since 2002, the GOR budget has been prepared using these classifications based on the 1986 GFS manual. The new Chart of Accounts upgrades these classifications from the GFS 1986 to GFS 2001 framework.

2.74 Until 2007, Rwanda's budget was separated in recurrent budget (*budget ordinaire*) and development budget (*budget de développement*). The recurrent budget covers all domestically financed recurrent expenditure and some capital expenditure (including expenditure financed through general and sector budget support). The development budget covers internally and externally financed investment projects (approximately 25% of the development budget is internally financed), and includes some recurrent expenditure, in particular in externally funded projects.

2.75 This separation between recurrent and development does not allow a clear line to be drawn between proper recurrent vs. capital expenditures. The introduction of the new Chart of Accounts, in line with the development of a full-fledged accounting system, should allow a positive evolution in the separation of recurrent and capital expenditures, if properly implemented. The new chart of accounts started being used in the preparation of the 2008 budget. It is expected that donor projects will use the same chart of accounts as the rest of the budget.

2.76 Until 2007, Rwanda's budget was presented with a high degree of detail:

a) *Organisational*: budget agency, unit

b) *Programmatic*: programme, sub-programme (the two levels below this, outputs and activities, although entered in the budget software and used to prepare each agency's budget, are not represented in the National Budget Law)

c) *Functional*: sector, sub-sector (along the 14 sectors established in line with the COFOG norms)

d) *Economic*: title, chapter, paragraph (a fourth level, article, although entered in the budget software, is not represented in the National Budget Law)

2.77 Regarding the development budget, information presented in the National Budget Law includes: name of the project, donor(s), type of financing (grant, loan), currency, and economic classification. Project expenditures are classified under the same programmes and sub-programmes as recurrent expenditures, but have a specific chapter in the economic classification.

2.78 As a result, Rwanda's 2007 budget is a document of 556 pages.

2.79 This should evolve rapidly since it has been decided to simplify and shorten the format for presenting the 2008 Budget Law, focusing mainly on broad economic categories instead of presenting the full detailed economic classification. Regarding districts, the 2008 National Budget should present as in 2006 and 2007 the transfers they receive from central government. As requested per the Law on State Finance and Property, a summary of districts' budgets (including their own revenues and direct donor support) will be included as an annex to the 2008 National Budget (which was not the case previously).

Budget calendar and budget ceilings

2.80 GOR has a fairly structured budget preparation process with a clear set of rules governing the process. The key dates in the budget preparation calendar are specified in the Financial Regulations.

2.81 The budget preparation process is guided by a Budget Call Circular (BCC) prepared by MINECOFIN. This sets out preliminary expenditure ceilings and allocations for negotiation with spending agencies that are based on a medium-term macroeconomic framework.

2.82 Ceilings are set per ministry (therefore including all its dependant agencies), and per broad economic categories (wages, non wage recurrent, internally-financed capital, externally financed capital). Ceilings for the development budget were not sent out in 2006 (2007 budget preparation). They were sent out in 2007 (2008 budget preparation). The intention set out in the Budget Call Circular was that 'expenditure ceilings are determined independently of the resources which any donors may propose to give to a ministry or a sector, whether through project aid or sector budget support. It will not, therefore, be possible for a ministry or sector to obtain an increase in its expenditure ceiling simply because donors are offering more aid to that sector. To increase its share, a ministry or sector must provide compelling evidence that it requires more budget resources to undertake the priority expenditures identified in the EDPRS; that it can implement increased expenditures efficiently; and that, at the margin, higher expenditures in that sector will contribute more to achieving the EDPRS objectives than expenditures in other sectors of the budget'.

2.83 Attached to the BCC is a set of guidelines on the budgeting process for spending agencies to prepare their Strategic Issues Papers. The deadline for issuing the circular for the budget for the following year is the second week of April.

2.84 Once the budget agencies submit their Strategic Issues Papers, budget consultations are held with MINECOFIN, which lead to the agreement on revised budget ceilings per budget agency.

2.85 When Cabinet has approved the Budget Framework Paper, data entry starts in the national budget software (SMARTGOV).

2.86 The draft budget law, along with the accompanying Explanatory Note to the Budget is to be submitted to Cabinet by September 15th of each year, and to Parliament by October 5th, which provides space for discussions in the Finance Committee and in the plenary session of the Parliament.

2.87 In practice, the budget has been presented in due time to Parliament since the adoption of the new Constitution set the deadline. Nevertheless the calendar for the preparation of the budget is yet to be fully implemented as planned.

3. Evidence and Assessment of Aid Capture. Successes and Weaknesses

3.1 This section is organised around the 7 dimensions of capturing aid "on budget", as defined in the inception report for the study: on plan, on budget, on Parliament, on treasury, on account, on audit, on report.

Aid capture on plan

3.2 The capture of aid at the planning stage is crucial to ensure (i) that government planning is done taking into account fully activities carried out by donors, and overall level of resources available, and (ii) that donors can align their support better to government priorities and plans, over the medium term.

3.3 Overall, it should allow government to allocate better its resources, both within sectors and across sectors, as well as across levels of government, in such a way that overall allocations (Government+donors) are in line with national priorities as identified in the EDPRS.

3.4 Finally, transparency at the planning stage on levels of ODA received by Rwanda also allows the calculation of a financing gap for each sector and overall for the implementation of the EDPRS.

3.5 Good capture of aid on plan requires that donors have data on planned disbursements for their projects and programmes over the next three to five years (both existing and foreseen projects) and provide it to ministries in due time.

3.6 A key issue nevertheless, in discussing the capture of aid on plan, is whether capturing aid on plan is merely a data collection exercise, or if it can become a true planning exercise, involving strategic (re-)orientation of aid flows that may not be in line with priorities or sector MTEFs when they exist.

Capturing aid in the EDPRS and overall macro-economic framework

3.7 The current draft EDPRS (GOR, 2007e: 134) includes a financing scenario, which provides projections of budget support and project support between 2008-2012, and an estimate of the financing needs both in terms of budget support and in terms of projects. These projections were discussed with donors and updated according to their commitments. The document goes further and assesses the impact on debt sustainability of three financing methods.

3.8 Given that most donors do not provide estimates of their support over a five-year period,[9] or that if they do it is not on a rolling basis, the EDPRS financing scenario is partly based on estimates made by MINECOFIN.

3.9 Regarding the estimates of budget support, the EDPRS notes that "*most development partners provide data on commitments for two to three years ahead only. Hence, the amounts*

[9] A notable exception in Rwanda is DFID, which has signed a 10-year memorandum of understanding with the Government. Nevertheless this MoU is not rolling.

shown in the table for 2010-2012 are extrapolated from previous commitments, assuming continued support but no scaling-up". (ibid.)

3.10 Regarding project support, the report first considers the projected disbursements from on-going projects, then estimates "*the resource envelope from project donors and the current portfolio of projects […] which can realistically be mobilised*". (ibid.)

Capturing aid in the Medium Term Expenditure Framework

3.11 Rwanda's Medium Term Expenditure Framework is assembled each year during budget preparation. At the beginning of the budget cycle, when budget ceilings are sent out to line ministries, they are based on an estimate of domestic revenues and external support over the next three years. For each ministry, levels of sector budget support and projected disbursements of on-going projects are taken into account. The MTEF is then refined during the budget preparation process, focusing in particular on the budget allocations per sector/ministry for the budget year.

Table 5: Current external donor commitments 2008-2012 (USDm)

	2008	2009	2010	2011	2012
General Budget Support	**186,3**	**196,4**	**195,4**	**196,4**	**195,4**
AfDB	19,5	25,0	24,0	25,0	24,0
EC	24,3	39,0	39,0	39,0	39,0
World Bank	60,0	50,0	50,0	50,0	50,0
Germany	6,6	6,5	6,5	6,5	6,5
Sweden	11,4	11,4	11,4	11,4	11,4
Netherlands	3,9	4,5	4,5	4,5	4,5
UK-DFID	60,6	60,0	60,0	60,0	60,0
Sector Budget Support	**83,0**	**48,6**	**37,9**	**19,9**	**19,9**
AfDB - Education	7,5	6,0	4,5	5,0	5,0
Belgium - Education	3,5	3,5	3,5	0,0	0,0
Belgium - Health	2,6	2,6	0,0	0,0	0,0
Belgium - Justice	0,0	6,6	0,0	0,0	0,0
Germany - Health	5,4	0,0	0,0	0,0	0,0
Germany - CDF	2,0	6,0	6,0	6,0	6,0
Sweden - Decentralization	0,0	2,0	2,0	2,0	2,0
Netherlands - Education	9,2	15,0	15,0	0,0	0,0
Netherlands - CDF	3,0	3,0	3,0	3,0	3,0
EU - Transport	0,0	0,0	0,0	0,0	0,0
UK-DFID - Education	4,8	3,9	3,9	3,9	3,9
EFA-FTI - Education	45,0	0,0	0,0	0,0	0,0
Others Budget Support	**27,5**	**0,0**	**0,0**	**0,0**	**0,0**
Demobilization	9,2	0,0	0,0	0,0	0,0
AU Peacekeeping	18,3	0,0	0,0	0,0	0,0
TOTAL	**296,8**	**245,0**	**233,3**	**216,3**	**215,3**

Source: GOR, 2007j: 14 (Table 3.2.3.b of the 2008-2012 BFP.)

3.12 The result of this process is then outlined in the Budget Framework Paper. The 2008 Budget Framework Paper therefore provides the estimates of external support on which the 2008-2012 MTEF is based.

3.13 As far as general and sector budget support are concerned, although the figures remain estimates, the picture presented in the BFP is very clear:

> Budget support (general and sector) commitments are captured relatively well, mainly thanks to the strong coordination and dialogue between Government and Donors on budget support, and to the work of the External Finance Unit in monitoring budget support commitments. A specific session in each Joint Budget Support Review is dedicated to donor commitments, and aims at providing GOR with up to date data on planned disbursements. Ideally, the second review in the year (September Review, which takes place before the budget is sent to Parliament) should allow donors to provide firm commitments for the coming year, based on assessment of passed performance and discussion of the draft budget for N+1. Nevertheless, the degree of "firmness" of these commitments varies from donor to donor. In addition, commitments for the outer years of the MTEF (N+1 and N+2 remain indicative for most donors).

3.14 Regarding projections of project support (pipeline projects and expected disbursements of on-going projects), it is the Public Investment Plan (PIP) that is supposed to provide information to prepare the macro-economic framework. In the BFP, only a total figure for externally financed capital expenditure is provided.

3.15 Expected disbursements from projects for the next 3 years are collected in the PIP. The PIP lists all ongoing, new, and pipeline projects for each Budget Agency, and provides information on the donor, the type of funding (grant, loan), the currency, the total amount, past and future disbursement. The PIP is kept up to date yearly, using project documents or "*fiches projets*", completed by the project coordinators and line ministries. Nevertheless, project documents are not always made available to the team in charge of updating the PIP (in budget and planning departments in MINECOFIN), and the "*fiches projets*" are often either not completed or not completed appropriately by project coordinators.

3.16 The transfer of the responsibility for the preparation of the development budget from CEPEX to the Budget and Planning Department in 2005 has not yet led to the expected better integration of the PIP into the MTEF and budget process. There remains confusion within MINECOFIN and outside as to who is in charge of the PIP.

3.17 In addition, the PIP is still more a data collection instrument than a tool for medium term strategic planning of investments. It is not used by line ministries. Few line ministries have costed sector strategies that cover investments (in particular education), but most do not have a clear strategic investment plan over the medium term. An interesting point to note is that many donors are not aware of the existence of the PIP nor of its role in the preparation of the development budget.

3.18 A key question to address therefore remains the need to strengthen the strategic planning of investments, as much as possible within the framework of the MTEF since it covers both investment and recurrent expenditures.

3.19 A related issue is the question of how to ensure newly signed projects fit within the strategic orientations provided by the MTEF and the EDPRS in terms of sector allocations. The Aid Policy has made an important step in that direction by ensuring that all new projects should be signed by the Finance Minister (GOR, 2006d: 11).

Capturing aid in Sector strategies

3.20 Only two sectors have developed costed medium-term strategies: health and education. In the case of education, where donor support is provided now exclusively in the form of general and sector budget support, it is much better covered than in the health sector, where 95% of the development budget is externally financed.

3.21 In theory, the cluster system (sector working groups), by providing for joint donor-government discussion at sector or sub-sector level, could be the channel through which both parties ensure that donor projects are adequately aligned to and accounted for in sector planning and budgeting. Nevertheless, this system has often not entirely fulfilled this objective. The main reasons are the functioning of the cluster itself (some donors not participating actively, discussions focussing exclusively on specific policy issues), and lack of information on the donor side. For example the Ministry of Gender and Promotion of Women (MIGEPROF) outlined the difficulty in including in their annual plan and budget certain UN projects, simply because they are informed of their support only after the beginning of the year itself.

Capturing aid in the Districts' Development Plans

3.22 At district level, many projects are implemented that are negotiated at central government level, or that are carried out by NGOs, and for which districts have difficulty collecting information. As a result of this situation and of the lack of guidance from central government on what to include or not in their budgets, districts have included donor projects in their 2007 budgets in very different ways, most of them including only major donor projects covering various districts. Early 2007, districts have been instructed to include in their District Development Plans and in their 2008 budget both major (national level) donor projects and major NGO projects.

3.23 Guidance has been provided to districts that all projects that have activities within the district must be forced to report to the district administration on its activities and budget for the coming year. Projects that fail to do so should not be authorized to work in the district. In order to improve the collaboration between district authorities and donors, NGOs and other organisations active in the district, a consultative forum for all partners has been put in place, under the leadership of MINALOC: the Joint Action Forum (JAF). The JAF is used two ways by districts, both to inform donors and to collect information on their activities.

3.24 Regarding the preparation of their 5-year District Development Plans (DDPs), districts have been asked to define a list of priority development projects, which they should cost and include in their plans. The objective is then to use the DDPs, and at a national level the Economic Development and Poverty Reduction Strategy (EDPRS), both to mobilise additional donor support and to guide this support towards the needs identified by central and local government. Nevertheless, the risk with this approach is that districts' DDPs may as a result lack prioritisation and remain for the most part unfunded.

Aid on budget

What is 'on budget'

3.25 According to OECD-DAC data, 49% of total ODA provided to Rwanda in 2005 was recorded in the national budget. If one takes into account that budget support represents approximately 41% of total ODA disbursed to Rwanda in 2005 (GOR, 2006d), and that budget support is 100% accounted for in the budget, this would imply that project support is very badly captured in the National Budget.

Table 6: Aid on budget

	Aid disbursed for gov. sector in FY05 Reported by donors	Aid recorded in budget for FY05 Reported by gov.	Ratio	Gap	
	Denominator	Numerator	Num. / Denom.	Denom. — Num.	
	(USD millions)	(USD millions)	(%)	(USD millions)	(%) a
African Dev. Bank	$39.5	$37.3	94%	$2.2	6%
Belgium	$15.3	$12.8	84%	$2.5	16%
Canada	$2.6	$1.8	68%	$0.8	32%
European Commission	$93.9	$67.5	72%	$26.4	28%
France	$3.2	$1.4	45%	$1.8	55%
Germany	$12.7	$2.8	22%	$9.9	78%
Global Fund	$30.0	$13.1	44%	$16.9	56 %
IFAD	$7.3	$5.9	80%	$1.5	20%
IMF	$2.9	$0.0	0%	$2.9	100 %
Japan	$2.0	$0.7	36%	$1.3	64%
Netherlands	$15.0	$3.6	24%	$11.4	76%
Sweden	$21.3	$6.9	32%	$14.4	68%
Switzerland	$2.3	$0.0	0%	$2.3	100 %
United Kingdom	$81.3	$57.0	70%	$24.3	30%
United Nations, Total	$28.5	$4.2	15%	$24.4	85%
United States	$84.4	$1.4	2%	$83.1	98%
World Bank	$111.7	$55.5	50%	$56.2	50%
Total	**$554**	**$272**	**49%**	**$282**	**51%**

Source: OECD-DAC 2006 Report on the implementation of the Paris Declaration – Rwanda report.

3.26 The draft PEFA report (Johnson et al, 2008) scores indicator PI-7 (ii) (Income/expenditure information on donor funded projects which is included in fiscal reports) with a 'B'. It estimates the proportion of donor project disbursement (i.e. excluding budget support) 'off budget' to 66%, by comparing data entered in the DAD and in the National Budget Law for 2005. Nevertheless, out of this 66%, some ODA does not belong to the budget. The PEFA report estimates that "*the amount of ODA which does not appear on the government budget and which does not constitute the direct funding of independent NGO activity would be less than 50% of total donor disbursements on government projects*".

3.27 A key issue raised here – which explains partly the discrepancy in appreciation between the PEFA and the OECD reports, and is currently in discussion within MINECOFIN – is the clear definition of what should and what should not be on budget.

3.28 The OECD definition implies that all 'disbursements for the government sector' should be included in the National Budget Law (OECD, 2006: 3). This is defined as '*Disbursement of ODA in the context of an agreement with the government sector, including works, goods or services delegated or subcontracted by government to other entities (e.g. NGOs, private companies)*'. Government sector is defined as '*Administrations (ministries, departments, agencies or municipalities) authorised to receive revenue or undertake expenditures on behalf of central government*'. Disbursements are defined as '*placement of resources at the disposal of a recipient country or agency*'.

3.29 The definition used by the PEFA report is similar but more precise: '*Whether the funding of NGOs constitutes project spending on behalf of government depends on whether the NGO provides a service under contractual agreement with the government and therefore whether the government has significant control over the nature and scope of the service. If this is the case, then all funds paid to the NGO […] ought to be counted as government expenditure and be shown in the government budget*'.

3.30 The case of USAID illustrates clearly the difference. While USAID reports as 'Aid to Government Sector' USD 84.4 million in 2005 (OECD table above), and considers that this aid is 'under the control of government' because covered by the Strategic Objective Grant Agreement (USAID, 2004) which is signed by the Minister of Finance, the PEFA report considers that '*it is likely that a substantial proportion of [USAID support in 2005] would have been used to directly fund NGOs without them necessarily having a contractual arrangement with the government*'. Government so far has taken the stance not to include these amounts in the budget. In other words, while it seems from the OECD table above that only 2% of USAID aid to government sector is on the budget, the (draft) PEFA report implies that actually this figure should be much higher, since most of USAID's ODA does not belong in the budget.

3.31 Government so far has taken the stance that all aid that is not "under significant control of government" should not appear in the National Budget. Therefore USAID aid has not been reflected in the Budget so far. GOR considers it should not be held responsible for the management and implementation of ODA that does not fulfil these conditions. The exact signification of "significant control" nevertheless remains to be clarified.

3.32 In any case, it would be very useful both for donors and for government to get a clear and precise definition of what is required for aid to be put on budget. This would help government define more precisely what needs to be done to improve the coverage of the development budget, and it would help donors report on their ODA and when possible take the necessary steps to make sure their aid is actually reflected on the budget.

3.33 Another illustration of the confusion reigning around these figures is the following: until 2008, Rwanda's National Budget Law only showed the budget of the central government. For Districts as well as autonomous and semi-autonomous agencies and institutions (Auditor General, universities, Rwanda Information Technologies Agency, Rwanda Agricultural Development Agency, etc), the National Budget Law only showed the transfers they received from central government and some major cross-cutting donor projects. It did not show these agencies and institutions' own revenues nor direct support from donors. This weakness should be addressed in the 2008 budget, since the new Law on State Finance and Property requires the budget to include as an annex "*summaries of expected revenues and expenditures which are not reflected in the budget as well as funds provided in the public enterprises; consolidated summaries of revenues and expenditures of local administrative entities […]*" (GOR, 2006: Article 41).

3.34 It is mainly for the above reason that donor projects going to autonomous and semi-autonomous agencies and institutions did not appear in the National Budget Law until 2008. Even from 2008 onwards, they will appear in annexes, therefore will probably not be counted as "on budget" in the OECD data.

3.35 Overall, it was interesting to note that most donors do not actually check if their projects are actually on the National Budget Law (and if not, why), and if they are, if the estimated disbursements are realistic to them.

Additional Information per sector

3.36 The Agriculture PER estimates approximately one third of the externally funded support to agriculture is off budget: the estimated amount of the off budget support to the agriculture sector is RWF 4.1bn in 2006 and RWF 5.1bn in 2007 against a total development budget for the agriculture sector of RWF 8.6bn in 2006 and 13.5 in 2007 (respectively RWF 7.8 and 10.0bn externally funded). (Fowler et al, 2007.)

3.37 The Social Protection PER estimates that approximately 65% of the support to Social Protection is extra budgetary donor expenditure in 2006 (RWF 38.8bn out of 59.3bn). This would represent an increase from the estimate of 55.3% in 2005, in parallel with the increase in donor support to social protection (+11.8bn in 2006 compared with 2005). (Foster, 2006.)

3.38 It further estimates that some 97% of donor support is outside the budget in 2006, half of it in the form of food aid, mainly from WFP and USAID. The study outlines that '*There is a strong donor preference for parallel approaches. Donors have supported their own cash for work and food for work projects in preference to channelling money into PDL-HIMO, the national scheme that is one element in the Government common development fund*.' (ibid: 7.)

Budget support: putting aid in the budget

3.39 Rwanda has been receiving an increasing share of budget support over the past years. In the 2008 budget, it represents 54% of total external funding. The main source of increase over the past few years has been (i) the arrival of new general budget support donors; (ii) the start of sector budget support.

3.40 Some non-budget support donors (Germany, Netherlands) have chosen to start providing general budget support, due to both international and national context (Paris Declaration, work within the European Union, NEPAD, change of government in donor country etc) and to the Rwandan context (political stability, good progress in PFM reforms, quality of joint budget support reviews and reporting on budget execution, Aid Policy, progress in linking planning and budgeting).

3.41 Some donors, both those that already provided general budget support (DFID, EC, AfDB, Sweden), and those that did not (Belgium, Germany, FTI), have chosen to provide sector budget support to Rwanda. The education sector was a pioneer in that respect, and now receives sector budget support from five different donors. The health sector should start receiving sector budget support in 2008.

3.42 Overall, sector budget support appears easier to sell to reluctant donor country stakeholders than general budget support, and therefore provides a good opportunity to put aid on budget while keeping a specific sector focus. Nevertheless, most donors interviewed mentioned the difficulty to set up a SWAp, especially when it is a pre-condition to be able to provide sector budget support. In the health sector, the difficulty comes partly from the biased financing structure, when most of the financing for the sector actually comes from non-budget support donors – and from off-budget funds.

3.43 Existing budget support donors, such as the EC, WB, Sweden and DFID, are looking further than the social sectors, to transport, decentralisation, infrastructures, as a way to increase the share of their ODA provided as budget support. Nevertheless, they all mention serious constraints and difficulties linked to the particular nature of these sectors, in particular:

a) The need for these sectors, which often cover various ministries, to develop comprehensive, costed and realistic sector strategies.

b) The need for procurement to be significantly improved.

c) The need for medium term budget allocations to be reliable enough to give enough confidence to donors to shift from project support to general or sector budget support.

d) The need for credible multi-annual investment plans, and a quality investment portfolio.

3.44 In terms of timeliness of the provision of information during the budget preparation, budget support donors in Rwanda all have multi-year programmes and commitments (although not always rolling therefore not always providing a multi-year perspective). This allows budget support to be very well captured in the budget, and information to be generally available in time for inclusion in the macro-economic framework and budget preparation.

Putting projects ‘on budget’

3.45 Putting aid on budget does not imply solely shifting from project to budget support. Major steps can be taken by ‘project donors’ and government to improve the way projects are reflected in the budget. Nevertheless this shouldn’t be reduced to merely making sure projects appear in the National Budget Law. Although this clearly has benefits in terms of transparency and in order to ensure ministries have a good overview of their sectors, a clear definition should be agreed between donors and GOR as to what aid should be reflected in the budget, what aid should be reflected in the annexes to the budget, and what aid does not belong in the National Budget Law. The pressure on donors to put their aid on budget, coming from the Paris Declaration and other initiatives, should not result in pressure to by-pass the above definition.

3.46 If donors consider the aid they provide should appear in the budget but currently does not, discussions should be held to see whether there was an information gap, or if it is voluntarily that Government keeps this aid outside the budget because it judges it does not have significant control over it.

3.47 For some donors like the USAID, who provide a very significant amount of aid to a particular sector, putting this aid on budget would also have side-effects both on the overall resource envelope in the fiscal framework, and on the overall sector allocation of the budget.

3.48 Overall, the PEFA report gives a score of 'D' to indicator D-2 on financial information provided by donors for budgeting and reporting on project and programme aid.

3.49 Finally, it is interesting to note that two donors that have among the highest percentage of aid on budget according to OECD data are the ones that have set up a specific mechanism to ensure data on projects disbursement are well communicated to CEPEX: the EC has the BAON, and Belgium has set up a link between its internal project monitoring software and the SMARTGOV. Nevertheless, it should also be noted that the EC's BAON, although instrumental in ensuring good quality data is provided to Government on EC project disbursements, comprises of seven people, which is much more than CEPEX can afford to put on one donor.

Timeliness

3.50 Donors often do not provide **timely information on planned disbursements** for inclusion in the budget (i.e before July of N-1 for inclusion in the year N budget). Either because they themselves do not have it, in particular in the case of annual projects or projects that are decided upon after the start of the budget year, or because of lack of communication between project coordinators, line ministries and MINECOFIN.

3.51 Only signed projects should be put on budget. For some donors, whose fiscal year does not match Rwanda's fiscal year, this may be an issue. For example, the US congress approves formally the annual amount to be provided to Rwanda only a few months after the beginning of Rwanda's budget year. Most donors overcome this by signing multi-year projects.

3.52 The Social Protection PER provides an illustration of how timely provision of data on donor support may impact on inclusion of aid in the budget, and therefore on apparent sector allocation of the budget: *'The budgeted figures are misleading, particularly with respect to the development budget, where the decline may simply reflect reluctance to include projects in the budget until donor financing intentions are clear. For example, the EU financing for Ubudehe appears in the development budget for 2005, but the planned EU expenditure for 2006 and 2007 is not. If it had been included in the development budget, budgeted spending in 2006 would have been RWF27bn, and budgeted spending on social protection would have grown by more than a third in real terms.'* (Foster, 2006: 5)

3.53 The PEFA report provides further evidence in noting that '*It is the view of CEPEX that comfortably less than half of donors provide budget estimates for disbursements at least three months prior to the start of the coming fiscal year'*. (Johnson et al., 2007)

Comprehensiveness

3.54 Some donors provide very **little information** on project support to the budget department. The '*fiches projet*' sent out to all project coordinators for updating the PIP and preparing the Development Budget, between April and May each year, include among other things:

a) Information on the objectives of the project, the sector and programme to which it contributes

b) Information on the status of the project (have feasibility studies already been carried out)

c) Information on expected project disbursements, by year and by economic category (following the national Chart of Accounts)

3.55 As a result of the absence or the bad quality of these '*fiches*', many projects are left out of the Development Budget during budget preparation. In general, for multilateral donors, the problem is less accurate since most projects prepare a Plan and Budget Document, which provides sufficient information to update the PIP.

3.56 An issue that came out during discussions with donors is the very wide range of arrangements between embassies/development cooperation agencies and their projects. Some donors prefer a centralised system where the agency (USAID) or a specific unit (EC with the BAON) would provide this information. Other donors leave project coordinators entire responsibility for providing data to MINECOFIN. Others finally, given that their projects are managed by ministries, consider ministries should provide the relevant information to MINECOFIN.

3.57 Another issue raised by several donors is the fact that sometimes up to 60 government agencies from the donor government provide support to Rwanda. The embassy or development cooperation agency has very varying degrees of control or even information on the amounts and actual disbursements of these different channels of ODA, therefore have difficulties providing reports to MINECOFIN on planned and actual disbursements.

Reliability of projections

3.58 Because some projects have a poor record of project execution and in the past the Development Budget tended to be often 'under-executed', expected project disbursements are discounted (at variable rates) in the budget preparation process by the Budget Department. Amounts included in the Development Budget are therefore often lower than the disbursement estimates provided by project coordinators (who, for opposite reasons, have shown in the past a tendency to over-estimate expected disbursements).

3.59 Over the recent years nevertheless, the externally financed Development Budget has rather tended to be over-executed, although with a very high variance between projects. The data on execution of projects comes from CEPEX and not from SMARTGOV. Projects, it should be noted, do not abide by the recently adopted Law on State Finance and Property (GOR, 2006: Art. 51, 52) when it defines rules for expenditure of the National Budget, and reallocations between categories. Part of the reason for this is because execution of externally-financed projects is not integrated into the national budget process (i.e. does not go through SMARTGOV, does not involve visa by Chief Budget Managers in Ministries responsible, does not involve the issuance of '*ordre de paiement*' etc).

Quality of classification

3.60 Until the 2007 budget, all development projects were classified in the "development budget", using a specific economic classification which did not allow the separation of recurrent and capital expenditure.[10] The 2008 budget will start using the new chart of accounts which no longer provides anymore for a separate 'development budget', but clearly separates

[10] In 2007, approximately 75% of the development budget was externally financed.

recurrent and capital expenditures. As a result, projects expenditure will need to be classified according to the same chart of accounts as the rest of the budget, i.e. separating recurrent and capital expenditure. The precise modalities for this transition and appropriate information of project coordinators and donor agencies are being finalised by MINECOFIN, but should be ready in time for the preparation of the 2008 budget.

3.61 As a result of this step taken towards budget integration, although donor-financed projects will remain projects, and will remain specifically identified in the National Budget, it will be possible to present a global overview of the recurrent and capital expenditure, integrating both internally and externally financed ones. This should provide GOR with a much better overview of the composition of its budget.

3.62 Regarding the functional and programmatic classification, projects have been following them since they were introduced in 2000. Nevertheless, the main issue there is that projects are not divided in sub-components. Therefore cross-programme, cross-sector or cross-ministry projects are not divided to be presented under the specific programme, sector or ministry to which they contribute. Donor-financed projects appear in the budget as one entity under the programme, sector and Ministry where they contribute most. This does not allow an accurate overview of which sectors and programmes the development budget contributes to.

Budget preparation process

3.63 Budget ceilings sent out by MINECOFIN in the Budget Call Circular cover both development and recurrent expenditures.

3.64 Regarding preparation of their Strategic Issues Papers and budget requests, ministries and districts focus mainly on the recurrent budget, and on internally financed capital (in particular in education, where it represents most of the capital budget). Preparation of the development budget is done by asking project coordinators to fill in forms about their planed disbursements and objectives for the coming years. Although sector ministries should be (and are in theory) instrumental in preparing their development budget, this exercise often results in MINECOFIN being in direct contact with project coordinators to obtain and discuss their disbursement estimates.

3.65 Budget consultations between MINECOFIN and the line ministries, which aim at reaching a final agreement and arbitrage on budget allocations to each ministry, cover both recurrent and development budget requests.

3.66 Nevertheless, from that point onwards and although it would be technically feasible, the preparation of the Development Budget does not follow the same procedures as that of the recurrent budget, by which once the final ceilings are agreed, line ministries, with the support of MINECOFIN, enter their detailed budgets within the SMARTGOV. Up until now, the development project forms have been compiled and assembled separately, in Excel format, and entered at once in the SMARTGOV by the Budget Department.

3.67 Overall, it is clear that data collection on project support is much more time consuming for the MINECOFIN departments and line ministries. Moreover, the exercise of preparing the externally financed part of the Development Budget is merely a data collection exercise, which aims at providing information necessary to the update of the macro-economic framework. Nevertheless, this does not provide any flexibility during the budget preparation process on sector allocation of ODA. Projects included in the Development Budget have already been signed; therefore the choice of sector allocation has already been made in another context.

Putting aid on Districts' budgets

3.68 As mentioned earlier, districts receive direct support from donors, either in the form of budget support or in the form of projects that are (in theory) shown in districts' budgets but do not yet appear in the National Budget Law. It is nevertheless foreseen that a summary of districts' budgets should be annexed in the 2008 National Budget Law.

3.69 Initially, the CDF was set up with – among other things – the objective to coordinate and consolidate support to investment in districts, whether it comes from Government transfers or from donors. This has so far not been fully the case, since the vast majority of donor support to districts still by-passes the CDF and goes directly to districts. The Aid Policy puts it clearly: "*When the primary beneficiary of Development Assistance are decentralised entities, the GOR prefers that such assistance be channelled through its Common Development Fund.*" (GOR, 2006d: 8.)

On parliament

3.70 Parliament approves the Budget Law as a whole, comprising budget support and the donor-financed projects presented in the Development Budget.

3.71 The discussion in Parliament nevertheless focuses on recurrent budget and on internally-financed development budget. The only aid modality on which Parliament has a real say is therefore budget support. In practice, although the externally-financed part of the budget goes to Parliament, it only includes projects that have been signed already, therefore projects that Parliament cannot modify.

3.72 Regarding loans, as stated in Article 54 of the Law on State Finance and Property, each of them should be approved by Parliament. Therefore, while the Minister of Finance is requested to approve all externally financed support, Parliament approves only loans.

On treasury

Single Treasury Account

3.73 The Law on State Finance and Property states in its article 7 that '*For effective management of the Budget in the central Government, a consolidated fund shall be established, which constitutes all revenues and other public monies, including earmarked revenues of extra budgetary funds and external loans and grants received in general*' and that '*The Minister [of Finance] […] shall be the chief manager of the revenues and expenditures in the Central Government consolidated fund*'; and in its article 63 that '*All raised or received central Government money shall be credited into a single Treasury account in the National Bank of Rwanda.*' (The same is required from local governments in articles 8 and 64.)

3.74 Nevertheless, so far only budget support actually flows through the Government's Single Treasury Account. Budget support expenditures are managed through the normal budget management procedures. Most donor-funded projects are managed by Project Implementing Units (PIUs) that report to line ministries under whose responsibility the activities being financed fall (mainly UN and World Bank projects). The financial management procedures adopted for these projects are usually subject to an agreement between the government and the financing institution or entity. Most Government projects operate separate bank accounts which receive funds both from the Treasury and directly from donors, but little or no accounting or bank reconciliation information is provided back to MINECOFIN. The 2002 Report on the Public Sector Bank Accounts lists 1,468 bank accounts opened in the name of various government institutions (GN & Partners, 2002).

3.75 The introduction of the Single Treasury Account (STA) in the OBL and government's efforts to effect these provisions represent a significant step in the normalization of the treasury management system. It is envisaged that the STA will enable centralized payments to be made, thus enhancing the cash management system. It will also enable the provision of information that will facilitate the reconciliation of fiscal and monetary records. Nevertheless, the bulk of development expenditure is externally financed and does not pass through the Treasury account.

3.76 The IMF's point of view is that given the major improvements that have taken place in Rwanda in the provision of banking services, there seems to be little justification for maintaining separate commercial bank accounts for projects.

Budget financial management system

3.77 At present the bulk of development budget expenditures, financed from external sources, are not reflected in the Government's budget management system. In many cases they are not even known to the financial officer of the concerned line ministry, as the information is often not provided by the project manager. Most project-related transactions are made directly from the individual project bank accounts which are outside the control of the Treasury Department. Project managers, therefore, do not need or use the SMARTGOV system to process their payment requests, let alone their commitments.

3.78 With the improvements that have been made in SMARTGOV, particularly the system's installation in most line ministries and provinces, the Budget Unit is examining ways in which to extend its functionality to enable the recording of all project transactions. One of the options examined is to require project managers to submit monthly accounts to their line ministry financial management unit, who would then record them in SMARTGOV. Project managers could be progressively required to submit commitment and payment order requests to their line ministry financial management units, to be processed through the SMARTGOV system in the same way as recurrent expenditures. This option would allow payments to continue to be made out of individual project accounts where necessary in accordance with particular project financing agreements.

Predictability

	Aid scheduled for disburs. in FY05	Aid actually disbursed in FY05		Ratio	Gap	
		Reported by gov.	Reported by donors			
	Denominator	Numerator	*For ref.*	Num. / Denom.	Denom. — Num.	
	(USD millions)	(USD millions)	(USD millions)	(%)	(USD millions)	(%) a
African Dev. Bank	--	$37.8	$39.5	--	--	--
Belgium	$20.1	$15.8	$15.3	79%	$4.3	21%
Canada	$2.6	$1.0	$2.6	39%	$1.6	61%
European Commission	$118.8	$85.5	$93.9	72%	$33.2	28%
France	$0.0	$0.0	$3.2	--	$0.0	--
Germany	$4.4	$0.2	$12.7	5%	$4.2	95%
Global Fund	$25.8	$0.0	$30.0	0%	$25.8	100%
IFAD	$10.0	$8.4	$7.3	84%	$1.6	16%
IMF	$2.2	$0.0	$2.9	0%	$2.2	100%
Japan	$2.0	$0.0	$2.0	0%	$2.0	100%
Netherlands	$5.0	$1.5	$15.0	29%	$3.5	71%
Sweden	$18.7	$16.1	$21.3	87%	$2.5	13%
Switzerland	$2.3	$0.0	$2.3	0%	$2.3	100%
United Kingdom	$81.4	$67.7	$81.3	83%	$13.7	17%
United Nations, Total	$28.2	$6.0	$28.5	21%	$22.2	79%
United States	$84.4	$0.0	$84.4	0%	$84.4	100%
World Bank	$112.8	$100.3	$111.7	89%	$12.5	11%
Total	**$519**	**$340**	**$554**	**66%**	**$216**	**42%**

Source: OECD-DAC 2006 Report on the implementation of the Paris Declaration – Rwanda report

3.79 The above table shows two aspects of predictability: whether disbursements actually take place as planned, and how well they are captured in the budget.

3.80 On that issue, it is important to note once again the discrepancy between budget support and project aid.

3.81 Since early 2001, MINECOFIN has prepared a cash budget for all ministries after the budget has been approved for use by ministries, provinces and agencies. The GOR system is meant to align budget execution needs with the timing and availability of cash resources and is mainly geared towards preventing the accumulation of arrears and availing funds for budget execution. However, the limited capacities in the ministries have impeded the effectiveness of this process. In addition, uncertainties relating to the release of external financing in particular budget support, which accounts for a substantial proportion of budget resources, have impacted negatively on the accuracy of the cash management plans. These may result from the intrinsic nature of the approval processes for a portion of the donor funds, or from delays in implementing actions that are necessary triggers for such financing. There is thus insufficient information availed to line ministries to enable the early scheduling of commitments.

3.82 Following the signature of the Partnership Framework on Budget Support (GOR/DP, 2003), budget support donors have attempted frontloading their disbursements in the first quarter of the year, in order to ease GOR's cashflow management during the year.

On account

3.83 The first comprehensive Government accounts and financial report will be published in the coming months, covering 2006.

3.84 The new Chart of Accounts provides for recording expenditures on all projects currently included in the development budget, and classifying expenditures per type and source of funding (Loan, Grant, externally financed).

3.85 The Law on State Finance and Property in its article 70, and the Manual of Policies and Procedures for Financial Management and Accounting, Volume 4 (GOR, 2006c) provide for the necessity of the financial reports to include a bank reconciliation statement. This provides an incentive for Budget Agency to report on revenue that were not budgeted for, in particular donor projects that provide funds to Government accounts but were not included in the budget. Over the medium term, this dynamic should provide for a progressively improved coverage of the externally financed projects in the development budget.

On audit

3.86 The Office of the Auditor General of State Finances (OAG) was created by Law no. 04/98 of June 4, 1998. This law conferred upon the OAG the authority to conduct, in its capacity as the country's supreme audit institution, an audit of all state finances and to report to Parliament on the stewardship of Government and the management of public funds.

3.87 An attempt was made by MINECOFIN in 2003 to prepare and submit a draft set of consolidated financial statements for 2002 for annual audit. However, a number of inconsistencies prevented these from being subjected to an audit. The OAG noted that among the shortcomings was the absence of an opening balance and accounting reports from budget institutions, the absence of a bank reconciliation statement on the main treasury account, and the absence of information on balances on GOR bank accounts outside the control of the Treasury. The OAG prepared a review of these accounts and made a number of written recommendations for improvement. The OAG then prepared separate audit reports for FY 2002 for selected line ministries and associated agencies, which were then bound together in a report that was submitted to Parliament in December 2003.

3.88 The OAG audits Government projects and programmes, both internally and externally financed. The report of the OAG on year 2005 (OAG, 2006) indicates that 19 projects and programmes were audited, among which for example MAP (Multisectoral HIV/AIDS Project financed by the World Bank) and PADEBL (Dairy Cattle Development Support Project also financed by the World Bank).

3.89 Finally, in addition to OAG audits, projects' annual financial statements are audited by private auditing firms. The reports, together with letters documenting the auditors' findings, are submitted to government, and copies are provided to the relevant donor.

On report

3.90 The Law on State Finance and Property (art. 67) requires the Ministry of Finance to prepare monthly, quarterly and six-monthly reports on revenue and expenditure. Quarterly reports are submitted to Cabinet, and six-monthly reports are submitted to the Chambers of Deputies (art. 68).

3.91 Concretely, since 2006, CEPEX prepares quarterly development budget execution reports. In January 2007, CEPEX produced its first annual development budget execution report. These reports analyse project disbursements per project and per donor:

> *"Basic information including*
> *i) Project amounts, dates of effectiveness and dates of closure;*
> *ii) Project objectives;*
> *iii) Project components;*
> *iv) Annual Work Plan (2006) Implementation progress by component and result indicators*
> *v) Implementation progress of the procurement plan;*
> *vi) Problems and issues that require attention;*
> *vii) Financial implementation progress;*
> *viii) Graphic presentations of time spent executing the project and the disbursements made so far."* (GOR, 2007f: Volume I: p. i.)

3.92 Over the past years, financial reports on execution of donor projects (CEPEX reports) are produced with a delay and are rarely comprehensive. In the absence of reliable reports, the budget department, when preparing budget execution reports, uses information from the tracking of project bank accounts as a proxy for expenditure data. As part of the process of preparation of the monthly 'flash reports' (fiscal reports), MINECOFIN collects information from bank accounts at the BNR to supplement/reconcile gaps in revenue and expenditure information.

3.93 One of the reasons given by the PEFA report to give a 'B' to indicator PI-7(ii) (income/expenditure information on donor-funded projects which is included in fiscal reports) is that '*flash reports are generated and disseminated on a monthly basis, without a reporting of development spending funded by donors*'. (Johnson et al., 2007)

3.94 Some of the donors interviewed have mentioned commendable efforts by CEPEX to develop and disseminate a standard reporting format for donors, to be filled every quarter. Although these efforts may overlap with DAD reporting requirements and efforts to strengthen the coverage of Development Budget execution in SMARTGOV, they have improved significantly the timeliness and quality of the CEPEX reports over the past year.

3.95 Nevertheless, donors also mention the need to re-think the format of reports on Development Budget execution, with the need for more synthetic summary tables, outlining also a need for a cross check between CEPEX and DAD data to separate clearly what has been put on the budget, and what has been kept out of the budget. This would be necessary in order to assess, for the projects that are not on the budget, if it is because of lack of information, lack of linkage between DAD and the Development budget, or if it is a voluntary choice by GOR.

3.96 Nevertheless, the PEFA report notes – indicator D-2 – that '*it is the view of CEPEX that quarterly reports are not produced by donors for at least 50% of externally financed projects in the budget within two months of end of quarter*'. (idid.)

3.97 Regarding non-financial reporting, it is not clear whether ministries include or not donor-funded projects' achievements in their annual reports (report on implementation of annual action plan, report on performance contracts for districts). There is clearly no systematic or specific reporting by either ministries or districts on the performance of donor-funded projects.

4. Findings: What works and what does not

Incentives/disincentives

4.1 It is clear from the interviews carried out with donors that international initiatives and peer pressure, at the OECD, NEPAD, G8 and EC level, have provided impetus for renewed discussions at country level and at headquarter level on how to improve alignment and harmonisation. 'Putting aid on budget', in each of its 7 dimensions, is a major milestone in alignment of ODA with national priorities and processes.

4.2 At national level, the Aid Policy has clearly provided further momentum, in particular to the move towards budget support, by setting out clearly government preferences in terms of aid modalities.

4.3 The constraints to moving further towards budget support remain mainly of a political nature, political decision in donor countries and political stability in Rwanda. Nevertheless, some key steps can be taken by Government in order to facilitate donors' shift to budget support:

(i) setting up SWAps through costed and prioritized sector strategies, and functional coordination, monitoring and reporting mechanisms;

(ii) deepening PFM reforms, with a particular focus on procurement and audit; (iii) working at sector and MINECOFIN level to develop a quality, prioritized and realistic investment portfolio, in line with EDPRS priorities;

(iii) ensuring budget allocations remain in line with EDPRS priorities;

(iv) continuing to work on improving the content of joint sector reviews and budget support reviews.

4.4 The shift to budget support clearly is and remains the most efficient and comprehensive way of 'putting aid on budget'. Nevertheless, a lot can be done to improve the way projects are integrated into the national planning, budgeting, accountability, accounting and auditing processes. Somehow the international pressure that has led some donors to shift to budget support has so far led to less concrete results in terms of shifting projects on budget. This may be partly linked to the complexity of the issue. In that respect, making sure aid is reflected on the budget is only a first step in the process. At the same time it is an essential step, since transparency will allow better planning, allocation, and accountability.

4.5 Nevertheless it is essential for local donors and Government to push the reflection further than mere data collection, in particular towards to how to ensure project planning and pipeline is aligned to government priorities, how projects can be integrated into the single treasury account, and how project execution can pass through SMARTGOV and abide by the Law on State Finance and Property.

What has worked and what has not?

4.6 Some of the most successful initiatives taken by the Rwandan Government are the following:

a) Drafting of the Aid Policy

b) Setting up of EFU in MINECOFIN to monitor budget support data and organise joint budget support review

c) Wide-ranging PFM reforms

d) Drafting of the EDPRS and efforts to link it to the budget process and MTEF

e) Joint action forums at district level

f) Maintaining political stability in Rwanda and in the region

4.7 These efforts all have allowed to both build confidence in the relation with donors, and to clarify government priorities and requirements. Both elements are essential to allow donors' alignment to national processes and priorities.

4.8 The coordination initiatives set up jointly by GOR and its DPs have also had a great impact in terms of confidence-building and information sharing. In particular, inviting some of the keen non-budget support donors to be 'observers' in the BSHG has been a very useful initiative.

4.9 Some other initiatives have had a significantly positive impact but are still confronted to major challenges and obstacles:

a) DAD, PIP, CEPEX database, SMARTGOV: Government clearly needs various types of instrument to monitor aid flows, but it remains to be clarified how the four existing databases can fulfil GOR's needs as outlined below:

i) defining strategic orientations, at sector level, and ensuring medium term and recurrent implications of investments are appropriately catered for;

ii) assessing the quality of the investment portfolio, i.e. discussing with line ministries on efficiency and allocation of investments (both internally and externally financed), assessing project design and procurement plans. This implies collecting accurate and timely data on existing and pipeline projects, in order for these discussions to be imbedded in the national budget process;

iii) monitoring project execution on a regular basis, following the format, classification and modalities of the national budget;

iv) monitoring overall ODA flows, whether or not to government sectors.

b) The CDF was originally created among other things to coordinate investment support to Districts. In practice, it has now become one among other channels to finance districts' investment.

c) The move to create the Single Treasury Account will bring even greater benefits when project accounts are included in the process.

d) The efforts to integrate the development budget and the recurrent budget have taken a great step forward with the new chart of account and the new budget presentation in the 2008 National Budget Law. Nevertheless, in terms of integration of projects into the National Budget, a few essential steps remain to be taken in the coming years: training of project coordinators and line ministries to ensure that the new budget classification is applied appropriately to projects, and sub-dividing big, multi-sectoral projects in project components in order to ensure they are accounted for where they belong (sector, ministry, programme) instead of being lumped in one place.

e) The steps taken by ICT and Budget Units in MINECOFIN to integrate projects not only in the Budget but also in the budget execution process have so far had very little results. These efforts would undoubtedly provide very useful and timely information to GOR if they came into force. Further consultation with CEPEX, EFU and donors should allow this initiative to move forward and actually be implemented in the coming years.

5. Conclusion and recommendations

➔ *For donors…*

5.1 From the analysis in Parts 2 and 3 of this report, it seems some 'quick win' steps could be taken by donors to improve the way aid is integrated into the budget:

a) Check the data included in the National Budget Law.

It would be useful if Government would provide to each donor a summary of what is included in the coming budget law regarding both budget and project support, before the budget law is presented to Parliament. It would be easier then for donors to check whether some key projects are missing, or whether they agree with disbursement estimates.

b) Clarify who is in charge of reporting which information. This would avoid CEPEX going to project coordinators when it will be the donor agency to provide the information, for example. It would be even better if donor agencies would spare the time and human resources to collect and aggregate the data needed by CEPEX. This implies collecting data from various projects, and from various agencies providing support to Rwanda even if they do not depend upon the Development Cooperation Agency.

Iit would be useful if Government would streamline its information requests on government (CEPEX, EFU, Budget, PIP), define standard reporting formats and mechanisms (timing, responsibilities, quality check mechanism)

c) The IMF could usefully provide to Government and donors, in collaboration with OECD and may be the PEFA Secretariat, a clear and precise definition of what should and what should not appear in the National Budget (support to NGOs, support to autonomous agencies, signed/pipeline projects).

➔ *For Government…*

5.2 From the Government side, some key steps could allow improving the quality of data on donor support, while at the same time alleviating the reporting burden on both government and donors.

a) As it appears throughout the report, a key issue to address is internal coordination within MINECOFIN, between EFU, CEPEX, Budget Department and Planning Department. There is clearly scope for streamlining, clarifying roles and responsibilities, but also improving information sharing and collaboration with other Ministries. In parallel, there is a strong need for rationalising the different initiatives and instruments that exist within MINECOFIN to monitor ODA (PIP, DAD, SMARTGOV PIP module, CEPEX database).

b) One issue that is not currently covered in any of these databases, but that could prove useful in ensuring better integration of aid in the macro-economic framework, is improved monitoring of foreign exchanges inflows linked with development projects.

c) The role of line ministries in the mobilising, managing and monitoring of ODA should be clarified. It is essential that line ministries be involved in the monitoring of project disbursements, and analysis of project performance.

d) A suggestion mentioned by some donors is the possibility to include as an annex to the BFP summary tables on total ODA received by Rwanda, per sector and per donor.

e) Finally, as far as the decentralisation process is concerned, it would be very useful for Government to clarify further how it expects donors to process at district level, which kind of reporting is requested to district authorities and to the national level, and what is the role and institutional framework of the CDF.

5.3 Most of these issues could be usefully addressed through the brainstorming and discussions surrounding the preparation of the up-coming '*Manual of Procedures for the Implementation of Rwanda's Aid Policy*'. It could very usefully clarify definitions, procedures, responsibilities and instruments.

5.4 Finally, regarding the architecture of the GOR-DP coordination, in order to facilitate the move of some donors towards general and sector budget support, it could be very useful for GOR to re-think the structure and articulation of various joint donor-government reviews. In particular, the link between more in-depth sector reviews, which focus on a more extensive review of budget, priorities, activities and results, and the joint budget support reviews, which focus on cross-sector issues, PFM, and the main outcomes/conclusions of joint sector reviews, could be further explored. This would avoid potential duplication, ensure that non-budget support donors be better involved in the review process, and allow that all sector-relevant stakeholders are involved in all sector-specific discussions.

Persons met/interviewed

Elias Baingana, Director of budget, MINECOFIN

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Marianne Kronberg, Economist, Development Cooperation Section, Embassy of Sweden, Swedish International Development Cooperation Agency

Victoria Kwakwa, Country Manager, World Bank

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Duncan Overfield, Economic Advisor, DFID

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Arne Strom, Head of Development Cooperation Section, Embassy of Sweden, Swedish International Development Cooperation Agency

Christophe Tocco, Director, Programme Office, USAID

Harriet Wanjohi, Governance Advisor, DFID

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<u>Relevant Resources on Internet</u>

- Ministry of Finance: www.minecofin.gov.rw
- Rwanda Development Partners website: www.devpartners.gov.rw
- Ministry of Local Administration, Community Development and Social Affairs: www.minaloc.gov.rw
- Primature (official journal): www.primature.gov.rw
- Office of the Auditor General: www.oag.gov.rw
- Development Assistance Database: http://dad.synisys.com/dadrwanda

Annex 1: Summary and Explanation of PEFA Indicator Scores[11]

Indicator	Score	Explanation
PI-1 Aggregate expenditure out-turn compared to original approved budget	B	Actual expenditure deviated from budgeted expenditure by an amount greater than 5% in two out of the last three years, but by less than 10% in all of the last three years.
PI-2. Composition of expenditure out-turn compared to original approved budget	D	Variance in expenditure composition exceeded overall deviation in primary expenditure by 10 percentage points in at least two out of the last three years.
PI-3. Aggregate revenue out-turn compared to original approved budget.	A	Actual domestic revenue exceeded the budgeted amount by 10% in 2004 and by 6% in 2005 and 2006.
PI-4. Stock and monitoring of expenditure payment arrears.	No score	
PI-5. Classification of the budget	A	Budget formulation and execution is based on functional, administrative, economic, and programme (plus sub-programme) classifications. Although some inconsistencies do exist in the existing classification detail, the current classification system is broadly consistent with GFS/COFOG standards.
PI-6. Comprehensiveness of information included in budget documentation.	D	The provisions in the OBL would be sufficient for a score of 'A'. Based on 2005, the score for this indicator would be 'C'. For 2006, however, partly as a result of the absence of a BFP, none of the 9 benchmarks was fulfilled and a score of 'D', therefore, applies. It should be noted, however, that this is an indicator for which the score could quite easily and quite quickly improve given the existing MTEF infrastructure and the practice until 2006 of preparing a detailed BFP.
PI-7. Extent of unreported government operations	B	MINECOFIN data show extra-budgetary revenue to be around 4% of total expenditure. More than 50% of grant-funded projects are included in fiscal reports and information on loan-funded projects is captured through CEPEX systems.
PI-8. Transparency of Inter-Governmental Fiscal Relations	B	The horizontal allocation of almost all transfers (at least 90% by value) from central government is determined by transparent and rules based systems. Based on discussions with district government representatives in May and ceilings from MINECOFIN, line ministries communicate information on likely grant allocations to district governments around during July / August. Information on the likely resources from the CDF is passed on to the districts around August. SN government financial reporting to central for 2006 was not consistent with central government sectoral reporting (although 2007 appears to be).

[11] Johnson M., Wynne A., Karamaga C., Nkera J., Sebudandi A. (2007). Taken from Final Draft report as of 13 September 2007.

Indicator	Score	Explanation
PI-9. Oversight of aggregate fiscal risk from other public sector entities	D+	All major AGAs and PEs submit financial reports to Government annually. Government representatives on the governing boards of the major AGAs and PEs 'oversee the interests of the Government'. Accounts for most PEs are audited by external auditors and accounts for AGAs are audited by the OAG. Brief reports are prepared by a unit in the Treasury focusing mainly on dividend payments. Otherwise, information relating to fiscal risk associated with AGAs/PEs is not consolidated into reports. Although local governments are now required to provide financial reports in standard format to the central government, as yet there are no formal arrangements for this information to be monitored or consolidated into reports.
PI-10. Public Access to key fiscal information	C	Public access to key fiscal information is poor. The report of the OAG is made public (although only through presentation to Parliament and on request from the OAG), but none of the other 6 types of information are currently accessible to the public. With regard to in-year budget execution reports and end-year financial statements, lack of public access is a function of the fact that these documents have not been prepared in the first place.
PI-11. Orderliness and participation in the annual budget process	B+	A clear budget calendar exists and has been generally adhered to in the years immediately prior to 2006, although there was some slippage in 2006 (plus the absence of a BFP in that year) and slippage in completion of final proposals in previous years. The budget circular is comprehensive and clear and includes ceilings for the recurrent budget. Cabinet-approved ceilings are issued before finalisation of submissions by MDAs. The last 3 Budget Laws were all approved by the legislature and gazetted before the end of the previous year.
PI-12. Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	Whilst forecasts of fiscal aggregates for the forthcoming MTEF period were carried out, a BFP describing the link was not prepared and the MTEF collapsed into an annual budget process. DSAs have been undertaken in each of the last two years. Costed sector strategies exist for sectors representing approximately 28% of primary expenditure. Recurrent cost implications of investment decisions are only included in forward budget estimates for health and education.
PI-13 Transparency of Taxpayer Obligations and Liabilities	A	Taxpayers' obligations are clearly spelt out in five key pieces of legislation and are further articulated through Ministerial Orders and Commissioner General Rules. The RRA has a dedicated Taxpayer Services Division which ensures all relevant information on tax obligations, liabilities, etc. is made readily available in an accessible format to the general public. An appeals mechanism exists, although some issues relating to fairness need to be addressed.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	B+	A unique TIN is assigned to each taxpayer for identification and compliance purposes but is not linked with other registration/licensing functions. Penalties are sufficiently high for deterrence and are consistently administered. Tax audits and fraud investigations are managed and reported on according to a comprehensive and documented audit plan.

Indicator	Score	Explanation
PI-15 Effectiveness in collection of tax payments	D+	Formally, debt collection efforts are extremely poor and total arrears are high because legislation requires 'non-collectible' taxes to remain on the books of the RRA. This will change once draft legislation which allows 'non-collectable' arrears to be removed from the books is enacted. Tax payments are made either through commercial banks or directly to RRA headquarters. Transfer to the Treasury is efficient and reconciliation is regular and timely.
PI-16. Predictability in the availability of funds for commitment of expenditures	B+	An annual cash plan is prepared and updated quarterly. MDAs are provided reliable information on commitment ceilings at least quarterly in advance. Significant in-year adjustments to the budget are normally restricted to one budget revision which requires Parliamentary approval.
PI-17 Recording and management of cash balances, debt and guarantees.	C+	Although domestic and foreign debt records appear to be complete, comprehensive reconciliations are not undertaken and annual reports do not include information on debt stocks. Operation of the STA results in daily calculation and consolidation of all cash balances. The Minister of Finance exercises sole authority to borrow, but clear limits consistent with provisions in the OBL still have to be established.
PI-18. Effectiveness of payroll controls	D+	The payroll is regularly updated with changes in personnel information, with some delays in a minority of cases. Retroactive adjustments are frequent with MIFOTRA-operated payrolls, but are rare for Defence and Police payrolls. Authority to change the MIFOTRA-operated payrolls is both restricted and clear, although the audit trail is weak. No payroll audits have taken place in the last three years.
PI-19 Competition, value for money and controls in procurement.	B	NTB data show that 73% of contracts were let on the basis of open competition in 2006. Procurement rules require open competition and state when less competitive methods of procurement can be used. NTB records on do not consistently and clearly justify cases of single source tendering. A process exists for submitting and addressing procurement complaints, including reference to an external Public Procurement Review Panel which was established in July 2007. Rules provide for timely resolution of *some* complaints.
PI-20. Effectiveness of internal controls for non-salary expenditure	D+	Commitment and payment records are maintained on Smartgov and Internal Audit and OAG staff review expenditure for budgetary compliance. The OBL, FRs and a manual describe the main internal financial controls, although lack of availability of documentation and training suggests these have yet to be properly implemented in practice. Non-compliance with established internal financial controls, however, is reported to be widespread in reports from both internal auditors and the Auditor General.

Indicator	Score	Explanation
PI-21. Effectiveness of Internal Audit	C+	The internal audit function is operational for at least the most important central Government entities. Much of the work is taken up with transaction testing, although some specific audit assignments focus on systemic issues. Internal audit reports are well structured providing observations, risks and recommendations for each of the audit findings. Quarterly reports are produced for the main line ministries and a quarterly summary report is produced by the Chief Internal Auditor. Line ministry officials are positive about the role of internal audit, although the extent to which internal audit recommendations are implemented is not clear.
PI-22 Timeliness and regularity of accounts reconciliation	B+	Bank reconciliation for all Treasury managed bank accounts take place monthly, usually within 4 weeks from the end of the month. No suspense accounts or advances are utilised.
PI-23. Availability of information on resources received by service delivery units	D	Systems for transfer of central government resources direct to the accounts of primary schools and basic health units provide information on a substantial component of resources received by service providers. There is no systematic collection, however, of information on all resources (financial and otherwise) received by service providers and no special surveys have been carried out in the last three years.
PI-24. Quality and Timeliness of in-year budget execution reports	C+	The OBL requires the preparation of monthly and quarterly budget reports. Regular in-year budget reports (other than Flash Reports) have not been consistently produced over the last several years and have not included information on all aspects of budget execution when they have. The last reasonably comprehensive report was prepared for the period January to March 2006.
PI-25. Quality and timeliness of annual financial statements.	A	The accounting function in Rwanda is weak and there has been little tradition of account keeping in the GOR. To meet the new accounting requirements in the OBL, MINECOFIN has hired an international firm of accountants to assist the Government in preparing public accounts for 2006 which were presented to the Auditor General in June 2007.
PI-26. Scope, nature and follow-up of external audit.	D+	To date, it has not been possible for the OAG to audit consolidated financial statements or to provide an opinion on the financial statements of individual institutions because of their absence. 17 out of 32 institutions, accounting for less than 50% of total expenditures, were covered in the latest audit report. Audit reports have been presented to Parliament within the statutory required timeframe, but more than 8 months after the end of the period covered. Actions are taken to implement the Auditor General's recommendations.

Indicator	Score	Explanation
PI-27. Legislative scrutiny of the annual budget law.	C+	The legislature’s review would normally cover fiscal policies, medium term fiscal framework, medium term priorities, and details of expenditure and revenue, although the absence of a Background to the Budget in 2006 meant that the medium term fiscal framework and medium term priorities may not have been covered well in that year. Simple procedures exist for the legislature’s budget review and are respected. The legislature has over two months to review budget proposals. Clear rules exist for in-year budget amendments by the executive, but information has not been provided to the Team on the extent to which, in practice, these are respected and administrative reallocations occur.
PI-28. Legislative scrutiny of external audit report	D+	Scrutiny of audit reports is completed within 12 months of their receipt. Although hearings on key findings take place with responsible officers from the audited entities as a routine, the Committee does not yet carry out hearings of an in-depth nature. Actions are recommended to the executive, some of which are implemented.
D-1 Predictability of Direct Budget Support	B+	In no more than one out of the last three years has direct budget support outturn fallen short of the forecast by more than 10%. There were no in-year disbursement delays for GBS in 2005 and a cumulative (weighted) delay of only 17.8% in 2006.
D-2 Financial information provided by donors for budgeting and reporting on project and programme aid	D	Less than half of donors provide budget estimates for disbursement at least three months prior to the start of the coming fiscal year. Quarterly reports are not produced by donors for at least 50% of externally-financed projects in the budget within two months of end of quarter
D-3 Proportion of aid that is managed by use of national procedures	D	Less than 50% of aid funds to central government are managed through national procedures

Annex 2: Matrix - Evidence and Assessment of Aid Capture

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B1	**on plan**	The current draft **EDPRS** includes one financing scenario, which includes projections of budget support and project support between 2008-2012. Regarding **sector strategies**, only two sectors have developed costed medium term strategies: health and education.	**Budget support** commitments are captured relatively well in the macro-economic framework, which itself defines the resource envelope on which the budget ceilings are based for the three following years, and sets the framework for the 2008-2012 EDPRS. Regarding projections of **project support**, it is the Public Investment Plan (PIP) that is supposed to provide information to prepare the macro-economic framework. Expected disbursements from projects for the next 5 years are collected in the PIP. In theory, the PIP should be the investment leg of the MTEF, but in practice, the two processes still lack coordination. At **district level**, many projects are implemented that are negotiated at central government level, or that are carried out by NGOs, and for which districts have difficulty collecting information. Guidance has been provided to districts that all projects that have activities within the district must be forced to report to the district administration on its activities and budget for the coming year. Projects that fail to do so should not be authorized to work in the district. In order to improve the collaboration between district authorities and donors, NGOs and other organisations active in the district, a consultative forum for all partners has been put in place, under the leadership of MINALOC: the Joint Action Forum (JAF).	Most donors are unable to give indicative commitments over a five year period, therefore the financing framework of the EDPRS and estimated financing gap is based on estimates made by the Macro Department in MINECOFIN. Mainly thanks to the coordination process set up around **budget support**, and to the nature of the instrument, data on expected budget support disbursement are of better quality than data on expected project aid. Regarding **project support**, project documents are not always made available in due time to the team in charge of updating the PIP (in budget and planning departments in MINECOFIN), and "PIP fiches projet" are often either not completed or not completed appropriately by project coordinators. In theory, the **cluster system** (sector working groups), by providing for joint donor-government discussion at sector or sub-sector level, could be the channel through which both parties ensure that donor projects are adequately taken into account in sectoral planning and budgeting. Nevertheless, this system has often not entirely fulfilled this objective. The main reasons are the functioning of the cluster itself (some donors not participating actively, discussions focusing exclusively on specific policy issues), and lack of information on the donor side. For example the Ministry of Gender and Promotion of Women (MIGEPROF) outlined the difficulty in including in their annual plan and budget certain UN projects, simply because they are informed of their support only after the beginning of the year itself.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B2	**on budget**	According to **OECD-DAC** data, 49% of total ODA provided to Rwanda in 2005 was recorded in the National budget. If one takes into account that budget support represents approximately 41% of total ODA disbursed to Rwanda in 2005, and that budget support is 100% accounted for in the budget, this would imply that project support is very badly captured in the National Budget. The draft **PEFA Report** (Sept 2007) scores indicator PI-7 (ii) (Income/expenditure information on donor funded projects which is included in fiscal reports) with a 'B'. It estimates the proportion of donor project disbursement 'off budget' to 66%, by comparing data entered in the DAD and in the National Budget Law for 2005. It estimates that out of these 66%, a substantial amount is support to NGOs, which should not be included in the national budget because of the absence of a 'significant control' of government on how these funds are used.	**Budget ceilings** sent out by MINECOFIN in the Budget Call Circular cover both Development and Recurrent expenditures. Overall, it is clear that data collection on project support is in general much more time consuming for the MINECOFIN departments and line ministries. Moreover, the exercise of preparing the externally financed part of the Development Budget is merely a data collection exercise, which aims at providing information necessary to the update of the macro-economic framework. Nevertheless, this does not provide any flexibility during the budget preparation process on sector allocation of ODA. Projects included in the Development Budget have already been signed, therefore the choice of sector allocation has already been made in another context. Until the 2007 budget, all development projects were classified in the "development budget", using a specific **economic classification** which did not allow the separation of recurrent and capital expenditure. The 2008 budget will start using the new chart of accounts which no longer provides anymore for a separate 'development budget', but clearly separates recurrent and capital expenditures. As a result, projects expenditure will need to be classified according to the same chart of accounts as the rest of the budget, i.e. separating recurrent and capital expenditure. ***Districts' budgets*** As mentioned earlier, districts receive direct support from donors, either in the form of budget support or in the form of projects, which are (in theory) shown in districts' budgets but do not yet appear in the National Budget Law. It is nevertheless foreseen that a summary of districts' budgets should be annexed in the 2008 National Budget Law.	The PEFA report gives a score of 'D' to indicator D-2 on financial information provided by donors for budgeting and reporting on project and programme aid. ***Timeliness*** Donors often do not provide timely information on planned disbursements for inclusion in the budget (i.e. before July of N-1 for inclusion in the year N budget). The PEFA report provides further evidence in noting that 'It is the view of CEPEX that comfortably less than half of donors provide budget estimates for disbursements at least three months prior to the start of the coming fiscal year' (p.70) ***Comprehensiveness*** Some donors provide very little information on project support to the budget department. In general, for multilateral donors, the problem is less accurate since most projects prepare a Plan and Budget Document, which provides sufficient information to update the PIP. ***Reliability of projections*** Because some projects have a poor record of project execution and in the past the Development Budget tended to be often 'under-executed', expected project disbursements are discounted (at variable rates) in the budget preparation process by the Budget Department. ***Quality of classification*** Regarding the functional and programmatic classification, projects have been following them since they were introduced in 2000. Nevertheless, the main issue there is that projects are not divided in sub-components. Therefore cross-programme, cross-sector or cross-ministry projects are not divided to be presented under the specific programme, sector or ministry to which they contribute. Donor-financed projects appear in the budget as one entity under the programme, sector and Ministry where they contribute most. This does not allow an accurate overview of which sectors and programmes the development budget contributes to. ***Districts' budgets*** Initially, the CDF was set up with – among other things – the objective to coordinate and consolidate support to investment in districts, whether it comes from Government transfers or from donors. This has so far not been fully the case, since the vast majority of donor support to districts still by-passes the CDF and goes directly to districts. The Aid Policy puts it clearly: "*When the primary beneficiary of Development Assistance are decentralised entities, the GOR prefers that such assistance be channelled through its Common Development Fund*"

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B3	**on Parliament**	Parliament approves the Budget Law as a whole, comprising budget support and the donor-financed projects presented in the Development Budget. Regarding loans, as stated in Article 54 of the Law on State Finance and Property, each of them should be approved by Parliament. Therefore, while the Minister of Finance is requested to approve all externally financed support, Parliament approves only loans.	The discussion in Parliament focuses on recurrent budget and on internally-financed development budget. The only aid modality on which Parliament has a real say is therefore budget support.	In practice, although the externally-financed part of the budget goes to Parliament, it only includes projects that have been signed already, therefore projects that Parliament cannot modify.

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B4	**on treasury**	***Single Treasury Account*** The Law on State Finance and Property states in its article 7 that '*For effective management of the Budget in the central Government, a consolidated fund shall be established, which constitutes all revenues and other public monies, including earmarked revenues of extra budgetary funds and external loans and grants received in general*' and that '*The Minister [of Finance] […] shall be the chief manager of the revenues and expenditures in the Central Government consolidated fund*'; and in its article 63 that '*All raised or received central Government money shall be credited into a single Treasury account in the National Bank of Rwanda.*' (the same is required from local governments in articles 8 and 64).	So far only budget support actually flows through the Government's Single Treasury Account. Most donor-funded projects are managed by Project Implementing Units (PIUs) and operate separate bank accounts which receive funds both from the Treasury and directly from donors, but little or no accounting or bank reconciliation information is provided back to MINECOFIN. The 2002 Report on the Public Sector Bank Accounts lists 1,468 bank accounts opened in the name of various government institutions.	The introduction of the Single Treasury Account (STA) in the OBL and government's efforts to effect these provisions represent a significant step in the normalization of the treasury management system. Nevertheless, the bulk of development expenditure is externally financed and does not pass through the Treasury account. The IMF's point of view is that given the major improvements that have taken place in Rwanda in the provision of banking services, there seems to be little justification for maintaining separate commercial bank accounts for projects.
		Budget financial management system At present the bulk of development budget expenditures, financed from external sources, are not reflected in the Government's budget management system. In many cases they are not even known to the financial officer of the concerned line ministry, as the information is often not provided by the project manager. Most project-related transactions are made directly from the individual project bank accounts which are outside the control of the Treasury Department. Project managers, therefore, do not need or use the SMARTGOV system to process their payment requests, let alone their commitments.	Since early 2001, MINECOFIN has prepared a cash budget for all ministries after the budget has been approved for use by ministries, provinces and agencies. However, uncertainties relating to the release of external financing in particular budget support, which accounts for a substantial proportion of budget resources, have impacted negatively on the accuracy of the cash management plans. Following the signature of the Partnership Framework on Budget Support[1], budget support donors have attempted frontloading their disbursements in the first quarter of the year, in order to ease GOR's cash flow management during the year.	With the improvements that have been made in SMARTGOV, particularly the system's installation in most line ministries and provinces, the Budget Unit is examining ways in which to extend its functionality to enable the recording of all project transactions. One of the options examined is to require project managers to submit monthly accounts to their line ministry financial management unit, who would then record them in SMARTGOV. Project managers could be progressively required to submit commitment and payment order requests to their line ministry financial management units, to be processed through the SMARTGOV system in the same way as recurrent expenditures. This option would allow payments to continue to be made out of individual project accounts where necessary in accordance with particular project financing agreements.

[1] GOR/DP (2003)

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B5	**on account**	The first comprehensive Government Accounts and financial report will be produced in the coming months, covering 2006.	The new Chart of Accounts provides for recording expenditures on all projects currently included in the development budget, and classifying expenditures per type and source of funding (Loan, Grant, externally financed).	The Law on State Finance and Property in its article 70, and the Manual of Policies and Procedures for Financial Management and Accounting, Volume 4[2] provide for the necessity of the financial reports to include a bank reconciliation statement. This provides an incentive for Budget Agency to report on revenue that were not budgeted for, in particular donor projects that provide funds to Government accounts but were not included in the budget. Over the medium term, this dynamic should provide for a progressively improved coverage of the externally financed projects in the development budget.

[2] GOR (2006c)

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B6	**on audit**	The OAG audits Government projects and programmes, both internally and externally financed. The report of the OAG on year 2005[3] indicates that 19 projects and programmes were audited, among which for example MAP (Multisectoral HIV/AIDS Project financed by the World Bank) and PADEBL (Dairy Cattle Development Support Project also financed by the World Bank).	The Office of the Auditor General of State Finances (OAG) was created by Law no. 04/98 of June 4, 1998. This law conferred upon the OAG the authority to conduct, in its capacity as the country's supreme audit institution, an audit of all state finances and to report to Parliament on the stewardship of Government and the management of public funds. An attempt was made by MINECOFIN in 2003 to prepare and submit a draft set of consolidated financial statements for 2002 for annual audit. However, a number of inconsistencies prevented these from being subjected to an audit. The OAG noted that among the shortcomings was the absence of an opening balance and accounting reports from budget institutions, the absence of a bank reconciliation statement on the main treasury account, and the absence of information on balances on GOR bank accounts outside the control of the Treasury. The OAG prepared a review of these accounts and made a number of written recommendations for improvement. The OAG then prepared separate audit reports for FY 2002 for selected line ministries and associated agencies, which were then bound together in a report that was submitted to Parliament in December 2003. In addition to OAG audits, projects' annual financial statements are audited by private auditing firms. The reports, together with letters documenting the auditors' findings, are submitted to government, and copies are provided to the relevant donor.	As indicated in the PEFA report (indicator PI-26)[4], '*the OAG only has 65 audit staff, […]and only the auditor General and the Deputy Auditor General are professionally qualified*' (p. 59)

[3] OAG (2006)
[4] PEFA (2007)

	Dimension	Evidence of Capture (what is captured?)	Quality of Capture (how well? how useful?)	Explanations (why/why not?)
B7	**on report**	The Law on State Finance and Property (art. 67) requires the Ministry of Finance to prepare monthly, quarterly and six-monthly reports on revenue and expenditure. Quarterly reports are submitted to Cabinet, and six-monthly reports are submitted to the Chambers of Deputies (art. 68). Concretely, since 2006, CEPEX prepares quarterly development budget execution reports. In January 2007, CEPEX produced its first annual development budget execution report. These reports analyse project disbursements per project and per donor: *"Basic information including* *i) Project amounts, dates of effectiveness and dates of closure;* *ii) Project objectives;* *iii) Project components;* *iv) Annual Work Plan (2006) Implementation progress by component and result indicators* *v) Implementation progress of the procurement plan;* *vi) Problems and issues that require attention;* *vii) Financial implementation progress;* *viii) Graphic presentations of time spent executing the project and the disbursements made so far."*[5]	Over the past years, financial reports on execution of donor projects (CEPEX reports) have been produced with a delay and are rarely comprehensive. In the absence of reliable reports, the Budget department, when preparing budget execution reports, uses information from the tracking of project bank accounts as a proxy for expenditure data. As part of the process of preparation of the monthly 'flash reports' (fiscal reports), MINECOFIN collects information from bank accounts at the BNR to supplement/reconcile gaps in revenue and expenditure information. One of the reasons given by the PEFA report to give a 'C' score to indicator PI-7 (ii) (income/expenditure information on donor-funded projects which is included in fiscal reports) is that 'flash reports are generated and disseminated on a monthly basis, without a reporting of development spending funded by donors' Regarding non-financial reporting, it is not clear whether ministries include or not donor-funded projects' achievements in their annual reports (report on implementation of annual action plan, report on performance contracts for districts). There is clearly no systematic or specific reporting by ministries nor by districts on performance of donor-funded projects.	Reporting on and analysis of project implementation, achievements, and performance is under the responsibility of the CEPEX unit in MINECOFIN. Ministries often do not receive the relevant information from project coordinators. The PEFA report[6] notes – indicator D-2 - that 'it is the view of CEPEX that quarterly reports are not produced by donors for at least 50% of externally financed projects in the budget within two months of end of quarter' (p.70) Some of the donors interviewed have mentioned commendable efforts by CEPEX to develop and disseminate a standard reporting format for donors, to be filled every quarter. Although these efforts may overlap with DAD reporting requirements and efforts to strengthen the coverage of Development Budget execution in SMARTGOV, they have allowed to improve significantly the timeliness and quality of the CEPEX reports over the past year. Nevertheless, donors also mention the need to re-think the format of reports on Development Budget execution, with the need for more synthetic summary tables, outlining also a need for a cross check between CEPEX and DAD data to separate clearly what has been put on the budget, and what has been kept out of the budget. This would be necessary in order to assess, for the projects that are not on the budget, if it is because of lack of information, lack of linkage between DAD and the Development budget, or if it is a voluntary choice by GOR.

[5] GOR (2007f). Volume I: p. i
[6] PEFA (2007)