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INTERNATIONAL DEVELOPMENT ASSOCIATION

INTERIM STRATEGY NOTE

FOR

THE REPUBLIC OF RWANDA
FY07 – FY08

August 16, 2006

Country Management Unit 9
Africa Region

The Republic of Rwanda

CURRENCY EQUIVALENTS
SDR 1.00 = US$1.48
US$1.00 = Rwf 552.13 (as of Jun. 6, 2006)
FISCAL YEAR: January 1 - December 31

Currency Unit	=	RF (Rwanda Franc)
1990: US$1.00	=	RF 83
2000: US$1.00	=	RF 428
2005: US$1.00	=	RF 570 (as of Mar. 15, 2005)

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
APR	Annual Progress Reports
ARV	Anti-Retroviral Treatment
BADEA	Arab Bank for Economic Development in Africa
BCR	Banque Commerciale du Rwanda
BK	Banque du Kigali
BNR	Banque Nationale du Rwanda
BPP	Budget Priority Program
CAS	Country Assistance Strategy
CDF	Common Development Fund
CEDP	Competitiveness and Enterprise Development Project
CEPEX	Central Projects Bureau
CFAA	Country Financial Accountability Assessment
CIRR	Commercial Reference Interest Rate
CPIP	Country Procurement Issues Paper
CPPR	Country Portfolio Performance Review
CRDP	Community Reintegration and Development Project
DCDP	Decentralization and Community Development Project
DDR	Disarmament Demobilization and Reintegration Program
DMFAS	Debt Management and Financial Analysis System
DPT3	Diphtheria, Pertusis, Tetanus
DPCG	Development Partners Coordination Group
DTIS	Diagnostic Trade Integration Study
DRC	Democratic Republic of Congo
DSA	Debt Sustainability Analysis
EDPRS	Econ. Development & Poverty Reduction Strategy
EICV	Household Living Conditions Survey
ESAF	Enhanced Structural Adjustment
MAP	Multi-Country HIV/Aids Program
MIGA	Multilateral Investment Guarantee Agency
MDRI	Multi-lateral Debt Relief Initiative
MOH	Ministry of Health
MINEDUC	Ministry of Education
MINECOFIN	Ministry of Finance and Economic Planning
MINIJUST	Ministry of Justice
MINALOC	Ministry of Local Government
MoU	Memorandum of Understanding
MSCBP	Multi Sector Capacity Building Program
MTEF	Medium Term Expenditure Framework
NBR	National Bank of Rwanda
NEPAD	New Partnerships for Africa's Development
NGO	Non-Governmental Organization
NPL	Non-Performing Loan
NICI	National Information and Communication Infrastructure
NORAD	Nordic Development Fund
NTB	National Tender Board
OAG	Office of the Auditor General
OBL	Organic Budget Law
OCIR-Cafe	Office des Cultures Industrielles Rwandais-Café (coffee parastatal)
OCIR-The	Office des Cultures Industrielles Rwandais-The (tea parastatal)
OPEC	Organization of Petroleum Exporting Countries
PEMR	Public Expenditure Management Review
PRTF	Procurement Task Force
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PFM	Public Financial Management
PEFA	Public Expenditure and Financial

	Facility		Accountability
ESW	Economic and Sector Work	PEPFAR	President's Emergency Plan for Aids Relief
EU	European Union	PRSC/G	Poverty Reduction Support Credit/Grant
FARAP	Financial Accountability Review and Action Plan	PSCBP	Public Sector Capacity Building Project
FSAP	Fin. Sector Assessment Program	PRSP	Poverty Reduction Strategy Paper
EAC	East African Community	RIEPA	Rwanda Investment and Export Promotion Agency
ex-FAR	ex soldiers of Forces Armees du Rwanda (pre-genocide army)	RITA	Rwanda Information and Technology Authority
GDP	Gross Domestic Product	RURA	Multi-sectoral Regulatory Agency
GoR	Government of Rwanda	RPF	Rwanda Patriotic front
GTZ	German Technical Assistance Agency	STI	Science, Technology and Innovation
HIV/AIDS	Human Immunodeficiency Virus/ Acquired Immunodeficiency Syndrome	SER	Sector Expenditure Review
HIDA	Human Resource and Institutional Capacity Development Agency	SIDA	Swedish Development Agency
HIPA	Human Resource and Institutional Development Agency	SWGs	Sector Working Groups
HIPC	Heavily Indebted Poor Countries	SOE	State Owned Enterprise
IDA	International Development Association	SME	Small and Medium Term Enterprises
IFAD	International Fund for Agricultural Development	SWAp	Sector-Wide Approach
IFC	International Finance Corporation	SIDA	Swedish Int'l Development Agency
IMF	International Monetary Fund	UK-DFID	United Kingdom-Department for International Development
ICT	Information and Communications Technologies	UER	Urgent Electricity Rehabilitation
IPRSP	Interim Poverty Reduction Strategy Paper	UNCDF	United Nations Capital Development Fund
IRC	Institutional Reform Credit	UNDP	United Nations Development Program
ISN	Interim Strategy Note	UNCTAD	United Nations Conference for Trade and Development
ISARL	Intraspeed SA Rwanda Ltd	UNICEF	United Nations International Children's Emergency Fund
JSAN	Joint Staff Advisory Note	UNIDO	United Nations Industrial Development Organization
LDP	Letter of Development Policy	URC	National Unity and Reconciliation Commission
LIC	Low Income Countries	VAT	Value Added Tax
LAN	Local Area Networks	WHO	World Health Organization

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The last Country Assistance Strategy for the Republic of Rwanda was discussed at the Board on Tuesday, December 3, 2002, Report No. **24501-RW**.

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RWANDA
INTERIM STRATEGY NOTE

TABLE OF CONTENTS

List of Tables

List of Boxes

List of Figures

List of Annexes

RWANDA
INTERIM STRATEGY NOTE

EXECUTIVE SUMMARY

1. **This Interim Strategy Note (ISN) extends the current Country Assistance Strategy (CAS) to ensure that the upcoming joint (Bank/DFID) CAS is aligned with Rwanda's second Poverty Reduction Strategy Paper (PRSP).** The current CAS, covers the period 2002-2006, and supported the Government's first PRSP. Preparations for the second PRSP, now called the Economic Development and Poverty Reduction Strategy (EDPRS), has been launched, and will culminate in the publication of a strategy paper in the fall of 2007. An ISN, to cover the period FY07 and FY08, will therefore ensure that the next CAS, to cover the period 2008-2012, is aligned with the EDPRS.

2. At the beginning of the CAS period, Rwanda was still in the transition period from conflict to development. Consequently, the 2002 CAS was focused on laying the foundations for growth and sustainable human development mainly through policy lending and by establishing a sound analytical basis for development strategies and programs. This ISN aims to consolidate gains in the social sectors as well as the institutional policy framework *and* support growth through a mixture of investment lending, policy lending and analytical and advisory work.

Background

3. **Since 1994, Rwanda has been able to maintain overall macro stability and implement extensive reforms which have contributed to the strong growth performance observed over the past decade**. Economic growth was driven by the recovery in subsistence agriculture and a construction boom during the reconstruction phase. For the period 2002-05, Rwanda's growth rate averaged close to 5 percent with low and stable inflation. The Government's overall good macro-economic management is evidenced by the successful completion of the sixth review of the Poverty Reduction and Growth Facility (PRGF), which was discussed at the Fund Board on June 5, 2006.

4. **In addition to good macro-economic performance, non-income indicators of poverty have improved significantly**. In particular, primary school net enrollment is now at 93 percent, and the vaccine coverage rate for all antigens is between 80 and 95 percent in most provinces. In the case of income poverty, the 2001 Household Living Conditions Survey (EICV) found that 60 percent of the population fell below the poverty line. This measure of poverty will be updated once the second EICV, which is currently in the field, is completed. It is expected that the results from the analysis will be available early in calendar year 2007.

5. **On the social and political front, the country is at peace and secure**. Nevertheless, Rwandans continue to struggle with the legacy of genocide. Rwandan genocidal leaders are on trial at the International Criminal Tribunal for Rwanda, in the Rwandan National Court system, and most recently, through the informal *Gacaca village justice program*. The Government is also making progress in national reconciliation

through reintegration of ex-combatants, putting in place the legal framework to implement the anti-discrimination provisions enshrined in the constitution enacted in June 2003, and implementing reconciliation initiatives through civil society groups and communities.

Implementation of 2002-06 CAS

6. **An interim assessment of the CAS concludes that overall, the Bank's assistance program was relevant to the medium- and long-term strategic development goals of the country**. It supported the Rwandese Government in undertaking key reforms to promote an improved economic environment for growth and continued progress in meeting the social sector targets. In addition, the CAS supported the Government's effort to reach the HIPC Completion Point and to establish key institutions related to good governance. The Annual Progress Reports (APRs) of the PRSP also acknowledged the critical support provided by the Bank and other donors toward the economic and political stabilization of the country. During the CAS period, the Bank, donors and Government worked in partnership on the development of sector strategies and Medium-Term Expenditure Frameworks (MTEFs), which serve as a basis for Sector Wide Approaches (SWAps) with harmonized features, and provided further impetus to the harmonization process.

The Planned Bank Interim Assistance Strategy

7. This ISN takes into account key issues arising from initial consultations on the EDPRS. During the CAS period, Rwanda has made considerable progress in the reform of the economy and the implementation of the PRSP, supported by a series of poverty reduction credits/grants by the Bank, with increased partnership within the donor community. However, growth has continued to average about 5 percent per annum, and is below the pace required to meet the poverty reduction goals of the PRSP and meet the MDG target of 25 percent poverty incidence by 2015. Poor infrastructure, particularly energy, water and transport has constrained private investment and productivity. Also, capacity has remained a major constraint to the implementation of development and governance related programs, particularly at decentralized levels.

8. **The strategic elements of the ISN include**: (i) consolidating the results of the current CAS by sustaining the gains made in the social sectors and improving public financial management; (ii) increasing the focus on economic growth and on capacity building to strengthen preparation and implementation of development and governance programs; and (iii) further improving coordination and harmonization of development assistance across donors to improve aid effectiveness and reduce transaction costs for Government. The strategic thrust of the ISN is in line with the key areas of the Africa Action Plan. The following are the proposed instruments:

- **Support to social service delivery**: The Poverty Reduction Support Grant (PRSG) (US$50 million each year) will continue to be the main instrument to support policy implementation in education, health, energy and water. The focus will be on strengthening the performance-based approach to service delivery. The

PRSG will also scale up support to service delivery in the agriculture and infrastructure sectors, with emphasis on support to policy development and implementation, to promote growth. Particular attention will be given to technical assistance to support the decentralization process. In addition to the PRSG, the MAP supplemental (US$10 million) will continue to focus on prevention of HIV/AIDs while providing care and support to those infected with the disease. The PRSG will also support reforms in financial management to facilitate improved accountability and transparency. A Public Expenditure Review, Poverty Assessment, and Country Status Reports in the education and health sectors will form the analytical basis for the policy lending.

- **Support to capacity building**: This element of the strategy will support technical assistance to facilitate the preparation and implementation of the EDPRS. This will be supported by the planned analytical work including a Country Economic Memorandum, an Agriculture Policy Note, and an Investment Climate Assessment. There will also be increased focus on strengthening the capacity of public financial management, with emphasis on fiduciary aspects, the monitoring and evaluation (M&E) system, improved procurement practices, and development of an outcome focused medium-term expenditure framework (MTEF). The PRSG will again form the main vehicle of support under this area. In addition, the E-Rwanda project (US$10 million) will support the strengthening of the government's financial management system, while increasing the accessibility of citizens to information on government programs.
- **Support to generating growth**: The focus will be on support to ease the main infrastructure constraints to growth in the energy, water, and transport sectors. In the energy sector, the Lake Kivu-to-Power Guarantee (US$3.75 million) will facilitate development of public-private partnerships for the Lake Kivu Gas-Methane Project, financed by IFC and other private investors. The Transport Sector Development (US$10 million) project will support the maintenance of Rwanda's road network. These projects will complement ongoing trade and infrastructure projects in the portfolio (see Annex 4). Moreover, IFC and the Bank will provide business development support to SME's. A Science and Technology Needs Assessment will inform this aspect of the ISN.

Overall, the ISN will continue to support the broader harmonization agenda in the country in close collaboration with other development partners. These will include support to development of SWAps, joint analytical work, and the joint development of a country assistance strategy.

9. **A preliminary estimate of IDA funds available for this ISN amounts to US$134 million.** The FY06-08 IDA envelope for Rwanda is US$209 million. Two new projects, totaling US$75 million have been presented to the Board in FY06: PRSG2 and the Urban Infrastructure and City Management. The allocation for FY07 is US$84 million and the *indicative* amount for FY08 is US$50 million.

INTRODUCTION

10. **This Interim Strategy Note (ISN) extends the current Country Assistance Strategy (CAS) to ensure that the next CAS is aligned with Rwanda's second PRSP.** The Government of Rwanda is currently in the process of preparing its second PRSP, the Economic Development and Poverty Reduction Strategy (EDPRS), expected to be finalized in October 2007. The current CAS, discussed by the Board on November 21, 2002, covers FY 2002-06. The next CAS, to be prepared jointly with DFID, will be based on the EDPRS, and will be presented to the Board in fiscal year 2008. This ISN will cover the period FY07-08, and will bridge the gap between the two full CASs, to enable alignment of Bank assistance with the EDPRS.

11. **In the last decade, Rwanda has emerged as a strong reformer**. The Government has embarked on a comprehensive liberalization of its economy, initiated legislative reform, promoted trade, and pursued regional integration. Reforms undertaken to improve contract enforcement, access to credit, and cross-border trading earned the country a position among the top 12 reformers in the 2006 Doing Business Report. The 2006 Doing Business Report also mentions Rwanda as a good example of a reformer of business regulation in Africa. To enhance public sector productivity, the Government strengthened its reform program in the areas of revenue administration, public expenditure, and financial management.

12. **The current assistance strategy supported the Rwandese Government in undertaking key reforms to promote progress in meeting targets in the social sectors and an improved economic environment for growth**. During the CAS period, Government focused more on rebuilding institutions and improving social indicators than directly increasing economic growth and productivity. This resulted in significant improvement in education and health outcomes. However, in order to achieve its long term development objectives, the government acknowledges that it must accelerate the growth rate, which has averaged about 5 percent over the last three years. This interim assistance strategy extends the current program with an aim to build on the significant achievements gained so far, to promote increased growth and productivity.

13. **The ISN is organized as follows:** Part I presents an overview of the country context and recent developments. Part II reviews the implementation of the 2002-06 CAS and discusses progress made to date, highlights some of the key lessons learned, and outlines areas which will need greater attention in the EDPRS. Part III describes the Bank's interim strategy for support to Rwanda, and Part IV discusses constraints and management of risks to the program.

I. COUNTRY CONTEXT

A. Background

14. **Rwanda has made a remarkable transition from reconstruction to development over the past eleven years**. The 1994 genocide decimated Rwanda's fragile economic base, destroyed a large share of the country's human capital, totally undermined domestic as well as foreign investor confidence, and severely impoverished the population, particularly women. Although poverty levels remain high, at 60 percent of the population according to the latest estimates, substantial progress has been made in stabilizing and rehabilitating Rwanda's economy. As a result of the extensive economic reform and governance measures taken between 1995 and 2005, GDP growth rates averaged 7.4 percent per annum. Inflation has been contained under 10 percent since 1997, with the exception of 2004 when it reached 12 percent. By 1998, GDP had recovered its pre-1994 level. Recently, however, the rate of GDP growth declined to an average of 5 percent (between 2002 and 2005). In order to achieve the Government's long term development goals, the EDPRS is expected to have a strong focus on growth, with particular attention to program implementation.

15. **On the social and political front, the country is at peace and secure.** Nevertheless, Rwandans continue to struggle with the legacy of genocide. Given the level of destruction of the social fabric that took place during the genocide, national reconciliation is a long-term endeavor that has had the full commitment of the Government. As noted in a recent independent evaluation of the PRSP[1], the Government's strategy reflects its commitment to overcome the causes and consequences of the genocide and to transform the society. To promote peace and reconciliation, the Government:

- adopted a model of democratization focused on a decentralized administration to empower local communities and improve social service delivery. In line with this vision, a decentralization policy was issued in 2000 and implementation of the policy is ongoing;

- continues to work towards bringing to justice those that perpetrated the atrocities of 1994, while striving to promote national unity and reconciliation. Rwandan genocidal leaders are on trial at the "International Criminal Tribunal for Rwanda", in the Rwandan National Court system and most recently, through the traditional *Gacaca* village justice program; and

- continues to make progress in national reconciliation through demobilization and reintegration of ex-combatants, putting in place the legal framework to combat discrimination, and implementing reconciliation initiatives through civil society groups and communities.

[1] The independent evaluation of Rwanda's PRSP was conducted by consultants from Institute of Development Studies (IDS) and Overseas Development Institute (ODI).

16. **Rwanda has made substantial progress on the MDG targets related to gender parity in primary education, immunization of infants against measles, and containment of the spread of HIV/AIDS.** The most challenging goal is related to reducing maternal mortality rates, which will require substantial upgrading of the health care system. Despite significant improvement in the last five years, indicators for child mortality also continue to be poor. Annex 3 summarizes the progress made and the likelihood of Rwanda meeting its MDGs. Progress has also been made on reducing income poverty. An estimate of poverty before the genocide, which used a poverty line based on the 1985 household budget survey, revealed that 50 percent of the rural population was poor in 1990. Poverty dramatically increased following the genocide, reaching 78 percent of the population in 1994 (82 percent in rural areas and 28 percent in urban areas). By the year 2000, the proportion of the poor had declined to 60 percent. As the economy has continued to perform well since 2000, while inflation has been contained, it is likely that the ongoing household expenditure survey (EICV), expected to be available early in calendar year 2007, will show improvement in the poverty incidence.

17. **At the regional level, Rwanda has been engaged in a number of initiatives to promote peace and stability.** A tripartite agreement between Rwanda, DRC, and Uganda was signed in October 2004 to address regional border issues. The Governments of Rwanda and DRC, in cooperation with the UN Mission in the DRC (MONUC) have been increasing pressure on the FDLR (Forces Démocratiques pour la Libération du Rwanda), based in Eastern DRC, to honor their commitment to end all military activities and return to Rwanda. The framework for resettlement and reintegration of refugees, including ex-combatants, remains in place to deal with returnees. The Rwanda Demobilization and Reintegration Program is anchored within a regional partnership for the demobilization and reintegration activities in the Great Lakes. Rwanda's commitment to promote stability and peace in the region is also demonstrated by its participation in the African Union's peace-building force in Darfur.

18. **Macro-economic management has been satisfactory, as evidenced by the successful completion of six reviews under the IMF's Poverty Reduction Growth Facility (PRGF).** Following the completion of the sixth review, a three year PRGF arrangement was approved by the IMF Board, on June 5, 2006. Strong implementation of macroeconomic policies has enabled Rwanda to reach the HIPC completion point and qualify for the Multilateral Debt Relief Initiative (MDRI). However, challenges remain in managing the macroeconomic impact of higher aid flows. The high inflow of aid in 2005 gave rise to a dilemma on the part of Government on how to manage the macro-economic effects of a potentially large injection of liquidity into the economy[2].

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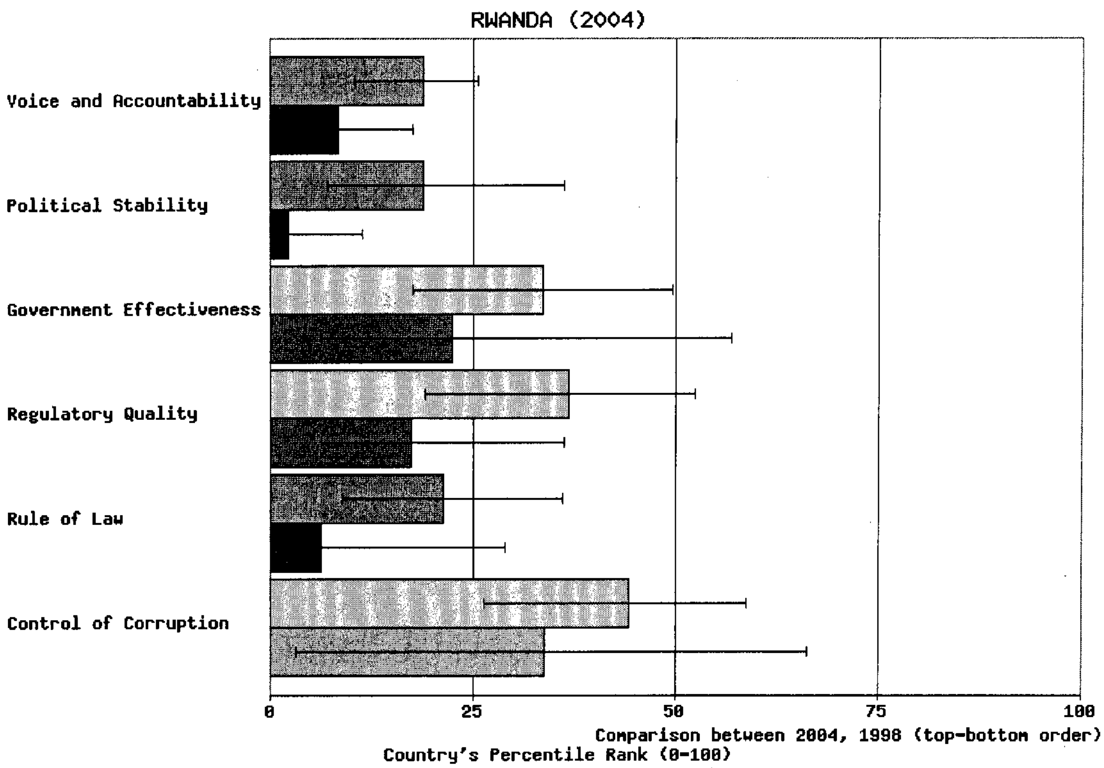
[2] The dilemma arose from a reluctance on the part of Government to either: (i) allow a nominal exchange rate appreciation, as they were concerned with its potential adverse impact on external competitiveness and on exporters' capacity to repay their bank loans; or (ii) sterilize excess liquidity through issuing government treasury bills due to the cost associated with the process and the risk of crowding out the private sector. Government's concern over the unpredictability of aid also has led to an increase in external reserves to buffer potential short-term falls, instead of spending or investing the resources in productive activities. More recently, however, the Government has decided to significantly increase imports

19. **There has been a consistent improvement in governance indicators over time.** According to the Governance Research Indicator Country Snapshot indices of corruption compiled by the World Bank Institute, between 1998 and 2004, Rwanda improved its record on all six indicators, namely voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption (see Figure 1). Compared to the average for sub-Saharan Africa, however, Rwanda ranks relatively poorly on voice and accountability, political stability, and the rule of law, due to the previous years of civil conflict. It ranks better in terms of government effectiveness, regulatory quality, and control of corruption (see Figure 2). Bilateral donors, such as USAID, are actively working with Government to create a more open political dialogue, with technical assistance and capacity building for enhancing the democratic process and good governance. Moreover, the Government's decentralization program could significantly improve voice and accountability as well as good governance as decision making moves closer to the beneficiaries and with the implementation of citizen scorecards and other accountability mechanisms.

Figure 1: Trends in Governance Indicators



Note: Horizontal lines represent confidence intervals.

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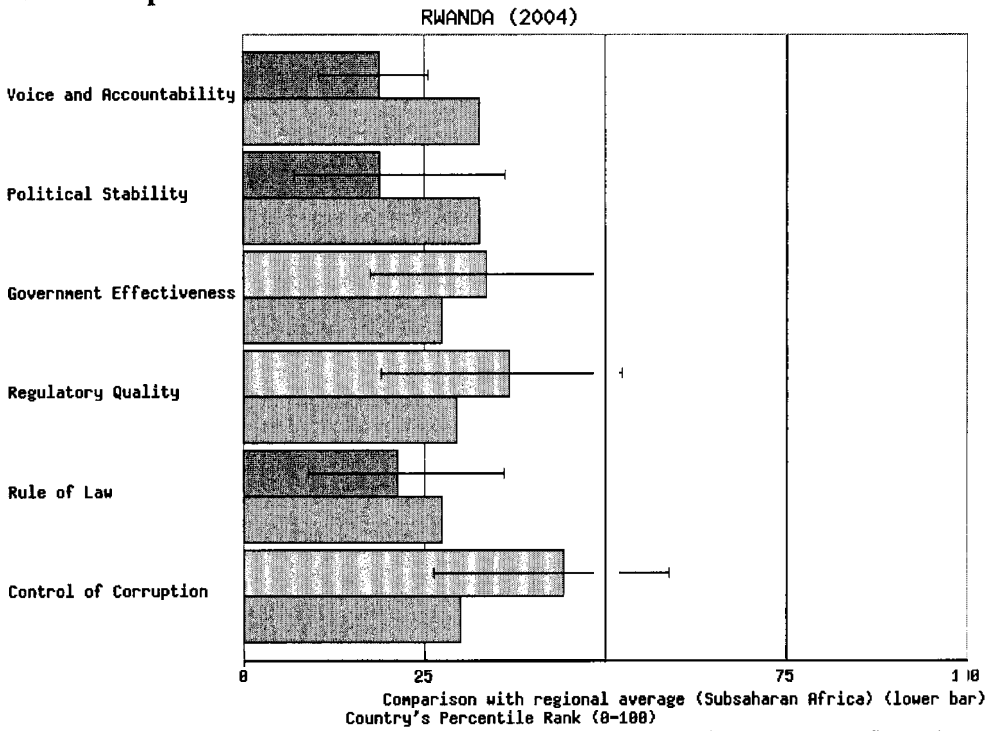
particularly to support infrastructure development. This should facilitate sterilization while also supporting the productive sectors and strengthening external competitiveness.

Figure 2: Comparison of Governance Indicators with Sub-Saharan Africa Average



Note: Rwanda (upper bar). Horizontal lines represent confidence intervals.

B. The Government's Vision

20. **The GoR's long-term vision is outlined in its Vision 2020 document.** In it, the Government has articulated an ambitious development program, which aims to transform Rwanda to a middle-income country by the year 2020. The bold targets of Vision 2020 include increasing per capita GDP from US$230 in 2000 to US$900 in 2020, reducing the proportion of the poor from 60 percent of the population to 25 percent, increasing life expectancy from 49 to 65 years, and increasing the literacy rate from 48 to 90 percent. Top among the key objectives of Vision 2020, is good political and economic governance.

21. **While Vision 2020 articulates the GoR's long-term aspiration for the country, the PRSP provides the operational framework for poverty reduction and growth for the medium term.** The PRSP provides a comprehensive diagnosis of the causes of poverty and outlines the key objectives and actions required for reducing it. In order to reduce the proportion of the poor from 60 percent to 30 percent by 2015, the government estimated in 2002, that given a consistent population growth rate of 3 percent per annum, GDP would have to grow by at least 7 percent annually. Achieving this

objective is the main challenge the government faces given Rwanda's population growth and the current state of infrastructure.

22. **The first PRSP outlined six priority action areas**: (a) rural development and agricultural transformation; (b) human development; (c) economic infrastructure; (d) good governance; (e) private sector development; and (f) institutional capacity building. The PRSP stressed the importance of defining sectoral strategies and associated MTEFs to guide public actions for implementation. It also highlighted the challenges that required immediate attention, such as the impact of HIV/AIDS, shelter for the homeless, the process of demobilization and reintegration, and labor intensive public works. The PRSP was endorsed by the Boards of the Bank and Fund on August 12, 2002.

23. **For the medium-term, the Government has formulated a private sector-led growth strategy with agriculture and the rural economy as the leading source of growth**. The GoR's plan is to continue to increase public investments in the agriculture sector during the "primary growth phase" from 2002-2006, and to have the private sector play a major role in investment during the "consolidation phase" from 2006-2010. A key pillar of the approach is the Strategic Plan for Agricultural Transformation (PSTA), which was finalized in 2004 and launched in June 2006. The strategy aims to increase the income of the vast majority of people living in rural areas by improving agricultural productivity and facilitating transformation from a subsistence economy to one that is geared to production for the market (e.g., through the promotion of non-traditional exports such as horticultural products, pyrethrum, and hides and skins). Moreover, Government views export promotion and the service sector as important sectors for growth, and aims to provide the necessary infrastructure and training support to these sectors.

24. **In its Vision 2020 statement, the GoR envisions a transformation from a largely agriculture-based economy to a knowledge- and information-based economy, in order to reach middle-income status by 2020.** The government emphasizes its intention to use investment in Information and Communications Technologies (ICT) as the key driver for this transition and as a vehicle for improving service delivery, particularly in the rural areas. In 2000, the government created the Rwandan Information and Technology Authority (RITA) to coordinate all ICT investments, and launched the ICT strategy with the first National Information and Communication Infrastructure (NICI) plan, which covered the period 2000-2005. Currently the GoR is implementing the NICI II plan. Now, all ministries in Kigali have reached some level of office automation, with the Ministries of Health, Education and Finance being the most developed. Fiber optics link most of the ministries and some ministries have functioning local area networks (LANs). Key initiatives looking forward include setting up public information kiosks, community electronic information kiosks, and a land records information system.

25. **Rwanda's progress in establishing an aid coordination, harmonization, and alignment framework is being recognized as international best-practice.** The Cabinet has approved an Aid Policy Paper, prepared through an extensive process of consultations involving key stakeholders in Rwanda's development, which articulates the

government's vision for improved aid management and policies. The Aid Policy aims to increase efficiency and efficacy of aid in partnership with all in-country donors, in line with the 2005 Paris Declaration on Aid Effectiveness. The policy incorporates many of the elements from the Paris Declaration, and sets objectives for negotiation and management of aid that respond to Rwanda's development needs. It clearly outlines the government's commitment, expectations, and preferences regarding the types of external assistance it solicits, and the process to be adopted in the negotiation and management of external aid, which includes a much clearer division of tasks between government institutions and departments. It also provides a basis for attracting increased volumes of assistance needed in the medium term for Rwanda to meet its development objectives.

C. Implementation of the PRSP 2002-05

26. **The assessment of progress in implementation of the PRSP is based on the Annual Progress Reports (APRs), the corresponding Bank-Fund Joint Staff Assessments, and other independent assessments**. The APRs prepared by the GoR in 2004, 2005 and 2006 provide a fair and candid review of progress made so far. Implementation of the PRSP is assessed with respect to overall progress in achieving outcomes, institutional arrangements and governance, monitoring and evaluation arrangements, and donor coordination. These are discussed below.

Overall Progress in Outcomes

27. **GDP growth has averaged just under 6 percent per year over the period 2002-2005**. Periods of poor and delayed rains led to a growth rate of 0.9 percent in 2003—the lowest for the period. However, by 2005, growth had recovered to 6 percent due to a good harvest. This led to a reduction in inflation from a high of 12 percent in 2004 to 7 percent by 2005. However, recent incidence of drought in the region indicates that overall GDP growth may fall from 6 percent in 2005 to about 3 percent in 2006. These incidents of drought or delayed rains, serious power outages in 2003 and 2004, along with increasing world oil prices have been the main factors contributing to these outcomes.

28. **While the fiscal program was broadly on track in the first half of 2005, there were slippages in the third quarter under the PRGF program**. The government restrained expenditures during the first half of the year to remain in line with the reserve money target. However, some non-concessional debt was contracted to guarantee the lease of generators purchased due to the electricity crisis. As a result of these events, the performance criteria on priority spending and non-concessional debt under the PRGF were missed. The domestic fiscal deficit at the end of the third quarter was substantially below the target.

29. Imports continued to be buoyant at the end of the third quarter of 2005, while exports were slightly higher than programmed mostly driven by an increase in coffee and coltan prices. Despite a wider current account deficit, higher-than-programmed project disbursements by donors kept the reserve coverage at close to 6 months of imports. In line with these developments, the nominal and real effective exchange rates rose

substantially by about 9 and 15 percent, respectively during the first six months of 2005. Overall, monetary policy was broadly in line with the PRGF program. The end-June performance criteria and end-September indicative targets on reserve money and net foreign assets were met under the 6^{th} review of the PRGF.

30. **In the case of rural development, all APRs noted the lower than expected progress, particularly on agricultural transformation**. Among the factors hindering progress towards agricultural transformation are regional and global pressures (including commodity price fluctuations, global value chains and climate change); lack of differentiation in the development strategy between high and low potential agricultural areas; and lack of a framework linking priorities to what is feasible over the short to medium term given institutional capacity and resource constraints. However, there has been recent progress in outlining action plans and within the context of the policy dialogue with Government, there has been increasing focus on addressing the most constraining factors to production.

31. **The APRs reported on progress toward private sector development and export promotion**. A one-stop-shop center in the Rwanda Investment and Export Promotion Agency was established to facilitate business development. In 2003, a law that redefined the role of OCIR-Thé and OCIR-Café (the former commodity marketing boards for tea and coffee) was passed. These organizations now provide extension activities to improve the capacity of smallholders and facilitate their access to inputs, and are no longer involved in setting prices. So far, three tea factories and Rwandex (the major coffee exporter) have been privatized. In the financial sector, following the sale of two government-owned banks, five of six major commercial banks are now private. Rwandatel (the state telecommunications company) was privatized in June 2005 and the management of Electrogaz (the main public utility responsible for delivery of services in water, gas, and electricity) was transferred to a private operator as an initial move toward privatization[3]. In addition, a multi-sectoral regulatory agency, Rwanda Utilities Regulatory Agency (RURA), was established to oversee the regulatory framework in water, electricity, and telecommunications related to private investment. With regard to trade and regional arrangements, an export promotion strategy and action plan has been developed and an area close to Kigali airport has been designated as an Export Processing Zone. Tax and other incentives are in place to attract foreign investors. Additional reforms undertaken in the area of private sector development, export promotion, and the financial sector are listed in Annex 2. Rwanda joined the COMESA Free Trade Area in 2004 and is in the final stages of the application process to join the East African Community (EAC).

32. **In line with the PRSP, Rwanda was successful in reallocating funds to priority areas, while reducing military spending,** which has contributed to significant outcomes in the social sectors. Priority spending, as a percent of GDP, rose from 4.0 percent in 2000 to 7.0 percent in 2004, and is estimated to have reached 10.1 percent in 2005. More than half of total priority expenditures have gone to the education and health

[3] The Government has not renewed this performance contract and is now reviewing options for reform of the utilities sector.

sectors. In addition, spending on productive sectors (such as agriculture, export promotion, the Common Development Fund, and infrastructure) has steadily increased over the past few years. Military expenditure, on the other hand, declined from 3.4 percent of GDP in 2000 to 2.1 percent in 2005. Significant reductions in military spending since 1999 reflect improvements in the security situation, reduced personnel costs following the demobilization of over 19,000 soldiers, and increased efficiency in the management of the Rwanda Defense Force.

33. **Impressive progress has been made in primary education.** The gross enrollment ratio in primary education rose from 71 percent in 1990 to 137 percent in 2005 while net enrollment increased from 66 percent to 93.5 percent, during the same period. The target of universal primary education by 2015 seems feasible, but the primary education completion rate, which stood at 55 percent in 2005, needs to improve to keep Rwanda on track for the Millennium Development Goals. The enrollment rates, both gross and net, at the secondary level, are quite low at 15.3 percent and 10.4 percent, respectively. The government is actively tackling these concerns through policy commitments to a fee-free nine-year basic education program, which aims to double the transition rate from primary to secondary school by 2010, and by adopting measures to improve the quality of education through reforms in teacher training. In addition, to strengthen the curriculum and ensure its implementation, the government established the National Curriculum Development Center and the General Inspectorate of Education. Furthermore, Parliament passed the Ministry of Education's new National Science, Technology and Innovation Policy in 2005. This will eventually change curricula at all levels of education, to support Rwanda's move toward a knowledge-based, technology-led economy.

34. **In health, Rwanda's immunization program is considered one of the best in sub-Saharan Africa** with a coverage rate of 85 percent for DPT3, relatively low attrition rates and limited inequities. Infant and under five mortality have dropped gradually and have now reached pre-genocide levels. However, much more needs to be done. For example, chronic malnutrition affects 45 percent of children under five. While access to basic health services, including assisted deliveries and family planning, is improving, the 2005 APR points out that reducing the maternal mortality rate towards the MDG in 2015 is a major challenge for Rwanda due to the high cost of delivering quality obstetrical services. In an effort to address these issues, the Ministry of Health in collaboration with stakeholders has revised the Health Sector Strategy (to increase its focus on the problem of maternal and child mortality), as part of the process to move towards a sector-wide approach (SWAp).

35. **Government has adopted several important health sector reform measures to consolidate progress made so far**. First, public spending on health has increased substantially in the past few years, and is facilitating access to a pro- poor package of care. Second, efforts to expand social protection mechanisms are yielding good results with enrollment rates in micro-insurance schemes (*mutuelles*) reported to reach over 40 percent of the population. Third, the new Health Strategy, together with the Poverty Reduction Strategy, represents a sound basis for addressing disparities in health outcomes and service provision. Fourth, the government is scaling up performance based

contracting schemes for high impact services and is implementing a decentralized program for community health at the district level, using performance contracts with local governments. Fifth, the Ministry of Health, in close collaboration with stakeholders, has developed a reproductive health policy. Finally, innovative schemes are being piloted to address the shortage of human resources, including hardship allowances for work in rural areas.

36. **The Gacaca system (community based legal hearings of the detained genocide suspects), approved by the National Assembly in October 2000, is now operational.** Between 1997 and 1999, only 2 percent of the cases of the over 100,000 detained genocide suspects were resolved under the conventional justice system as prescribed by the Genocide Law and the International Criminal Tribunal for Rwanda (ICTR). At this pace it would take over 100 years to resolve all the cases. Thus, the Gacaca, a traditional form of conflict resolution based on community participation, was adapted and passed into law to expedite the genocide trials. In 2004, following careful preparations, including the sensitization of the population and the training of the elected jurors, the Gacaca became operational on a pilot basis; and in 2005, the Gacaca jurisdictions were expanded to cover the whole country. This has resulted in the hearing of 4000 cases.

37. Other efforts to promote peace and reconciliation in Rwanda include: (i) the Genocide Survivors Fund which provides support in education, shelter, health, and income-generating activities to the most vulnerable among the survivors; (ii) the integration of 15,000 members of ex-FAR (the former Government army) into the Rwanda Defense Force at various command levels; and (iii) the demobilization of 12,900 ex-FAR members. To date, about three-and-a half million Rwandan refugees have been repatriated and resettled, which is an impressive record, compared to other post-conflict countries. Moreover, the National Unity and Reconciliation Commission, which was established to consolidate the Government's policy in redressing the legacy of divisive politics that has been a prominent feature of Rwanda for many decades, continues to raise public awareness through civic education initiatives (*Ingando*).

Box 1: Summary of Achievements and Key Issues in the Implementation of PRSP I

Sector	Achievements	Selected Areas for Improvement
Agriculture	- the Strategic Plan for Agricultural Transformation finalized in 2004 and launched in 2006	- lower than expected progress in adopting measures to improve input use—ie. water, fertilizer, and seeds
Private Sector Development	- one-stop-shop center established in the Rwanda Investment and Export Promotion Agency - Rwanda Utilities Regulatory Agency established - export promotion strategy and action plan developed - role of OCIR-The and OCIR-Café redefined - three Tea Factories privatized - Rwandex (the largest coffee exporter in the country) privatized - two government-owned banks privatized - Rwandatel (the telecommunication company) privatized	- further reforms are required (i.e., update the legal and regulatory framework governing the financial and commercial sectors, reforms to broaden and strengthen the pension system) to build a sound, deep and diversified financial sector - six Tea Factories to be privatized
Social Sector	- gross enrollment ratio in primary school is at 137%, net enrollment 93% - immunization coverage for DPT3 (diphtheria, pertusis, tetanus) at 85% - enrollment in *mutuelles* is over 40%	- primary education completion rate is at 55% - gross secondary school enrollment is at 15.3%, net enrollment is at 10.4% - chronic malnutrition affects 45% of children under 5
Public Expenditure Management	- MTEF was introduced - Organic Budget Law (OBL) adopted - the Joint Monitoring System was adopted - all government agencies are using Zero Balance sub accounts	- the development and recurrent budget are still separate - development of a well defined implementation plan to operationalize the OBL - completion of tasks outlined in the action plan of the Country Procurement Issue Paper - alignment of procurement reform implemented by MINECOFIN and by MINALOC

Institutional Arrangements and Governance

38. Two of the most important pillars of the government's agenda for state transformation involve the broadening of grassroots participation and government responsiveness. These are to be achieved through decentralization, human resource development and capacity building. These areas of focus emerged from an analysis of the political causes of the genocide and grassroots consultations in preparation of Vision

2020 and subsequent governance framework. As such, they have been adopted as a central element of the PRSP.

39. **In the area of economic governance, the PRSP was instrumental in improving the budget process and associated institutions**. It facilitated the introduction of the MTEF, which has led to improved budget predictability and a more rational approach to budget preparation, implementation, and monitoring. However, challenges still remain in some sectors where sector strategies and plans are either non-existent or relatively less well developed (notably, the energy sector). There still exist separation between the development and recurrent budget, although the recent restructuring of CEPEX (which is now under the Budget Department) is a positive move toward unifying the budget.

40. **The APRs highlight the significant progress made in establishing institutions for improved public expenditure management**. The Organic Law of State Finances and Assets (i.e., the Organic Budget Law), which is expected to modernize the public financial management (PFM) system, was adopted in March 2006. A Public Procurement Code that incorporates the recommendations of the Country Procurement Issues Paper (June 2004) and complies with international best practices has been adopted by the Council of Ministers and is currently under discussion in Parliament. A system for monitoring budgeted inputs against expenditures (Joint Monitoring System) was introduced in 2003. A Financial Accountability Review and Action Plan was also adopted and a steering committee created to coordinate the implementation of the action plan. The system of zero balance account is operational and all government agencies are now using zero balance sub accounts. Additional reforms undertaken in this area are listed in Annex 2. In 2006, all budget support donors adopted the Public Expenditure and Financial Accountability (PEFA) Performance Measurement Framework as the common assessment tool, thereby ensuring no future separate individual assessment of PFM.

41. **Despite the gains in institutional and legal reforms for improved fiduciary arrangements, capacity continues to be a key challenge that affects overall governance in the country**. There have simply not been sufficient numbers of trained staff to meet the high level of need in these areas. To better coordinate capacity building interventions, the Multi Sector Capacity Building Program (MSCBP) was developed, and the Human Resource and Institutional Capacity Development Agency (HIDA) was established to coordinate the implementation of MSCBP. However, concerted efforts are needed to ensure the effective functioning of HIDA and sound implementation of MSCBP. The recent needs assessment for public accountants and internal auditors undertaken by MINECOFIN highlighted the insufficient numbers as well as the low capacity of existing accountants and internal auditors. In order to fill the current vacancies, 60 new accountants and internal auditors have been selected to be trained and placed in different Government institutions (Ministries, agencies, provinces, and districts). In addition to these, 50 extra trainees have also been selected to be trained to fill gaps that may arise should there be some attrition. A capacity needs assessment is planned in the area of procurement.

42. **The APRs also discussed the GoR's continuous effort towards decentralization**. The process was deepened in 2005 by devolving more responsibilities to sub-national governments and institutions. However, further work will be needed to clearly distinguish between fiscal, administrative, and political decentralization, and to clarify and resolve potential sectoral differences in the transfer of authority from the central to local governments. As weak administrative capacity is a major challenge at all levels, and especially at the district level, efforts in the areas of capacity building and civil service reform are critical. Currently, the Government is dealing with the issue of capacity by setting up incentives to encourage central staff to move to rural areas. This is also part of the Government's vision to streamline the central ministries. The Government also aims to use the system of *Ubudehe* (a traditional Rwandan practice of working together to solve problems) to develop bottom-up planning and budgeting systems that articulate communities' needs. Donors are also providing support for capacity building, through various trust funds and pooled fund arrangements.

Monitoring and Evaluation

43. **The PRSP clearly sets out defined roles and responsibilities** for the Strategic Planning Unit (formerly the Poverty Observatoire), Statistics Department and the Budget Department. Previously, the Poverty Observatoire focused on elaboration of a monitoring framework, assisting Ministries with defining indicators, and capacity building to monitor their programs. The Statistics Department focused on gathering economic data while the Budget Department concentrated on monitoring the budget and spending through the budget process. There was limited attention paid to linking spending to outcomes. Currently, however, the recent institutional reforms have led to the creation of the National Institute of Statistics (by merging the former Statistics and Census Departments), and expansion of the mandate of the Strategic Planning Unit. The Strategic Planning unit is now charged with more strategic thinking and planning, particularly the mandate to elaborate a monitoring framework which reflects how spending translates to outcomes. These reforms are expected to facilitate improved coordination among these agencies.

44. **However, elaboration of time-bound and monitorable indicators in the original PRSP document was limited in certain key areas.** For example, in agriculture and rural development, as well as in infrastructure, the set of indicators and targets outlined in the PRSP matrix were inadequate. This was also the case for governance and social inclusion, which was identified as a core area of focus for the PRSP. Subsequent annual sector reviews and APRs have led to further elaboration of monitorable indicators for key sectors, which will be a key area of focus for the EDPRS.

45. **Internal demand for M&E is now beginning to emerge, based on ongoing sensitization and training workshops coordinated by the Strategic Planning Unit**. There are increasingly improved data available; the focus should now be on analysis of these data. For example, MINALOC is currently engaged in institutionalizing Citizen Report Cards and Community Score Cards to evaluate basic social services in selected provinces. The focus will be on evaluating basic health and education services, as well as

other basic social services such as water and sanitation, justice and administrative services. There are also ongoing impact evaluations of performance-based contracting arrangements in health which will inform the approach to decentralization and service delivery in that sector.

Donor Coordination

46. **To facilitate implementation of PRSP I, the government instituted a cluster group approach which has had mixed results.** The objective of the cluster thematic groups is to facilitate the development and implementation of sector strategies. These clusters are arranged around the main themes of PRSP I, with the aim of harmonizing donor support around government priorities. In November 2003, a Partnership Framework on Harmonization and Alignment between the government and its budget support donors was established, and the government has increasingly taken ownership of the process. The government has also restructured its Central Projects Bureau (CEPEX) to facilitate the engagement with the cluster groups and budget support donors. Progress in donor coordination in the education and health clusters has been significant and recently, the increased capacity of the Ministry of Agriculture has contributed to effective partnership with the rural cluster in the development of an agriculture strategy. However, limited capacity in the line ministries continues to hamper the work of other cluster groups. This is particularly the case for the infrastructure cluster. The recent establishment of sector working groups (SWGs), in the context of EDPRS preparation is expected to foster the development of functional clusters in all sectors.

Conclusion: Overall Assessment

47. **Overall, the Bank and Fund staffs have commended the GoR for its candid assessment of achievements and shortfalls while highlighting those areas that will need more focus and strengthening in Rwanda's second PRSP**. The key areas in need of attention, as highlighted in the 2006 Bank and Fund Joint Staff Assessment Note (JSAN) of the PRSP Annual Progress Report include: a) creation of a sound and overarching macroeconomic framework linked to improved costing and prioritization, and which reflects concerns over debt sustainability; b) continued support toward an enabling environment for private sector development, particularly implementation of measures to improve productivity; and c) continued improvement in service delivery.

D. Medium-Term Outlook/Future Prospects

48. **According to the latest projections, Rwanda would continue to grow at a rate of 4 to 5 percent over the period 2007-09, assuming the productivity effects from current reforms materialize in two to three years**. Inflation is projected to remain around 5 percent, over the period 2006-08. This projection is founded on a further strengthening of fiscal policy, the streamlining of the financial sector and the continued implementation of prudent monetary policies as recommended by the IMF. On the fiscal side, total revenue is expected to reach 14.5 percent of GDP by end-2008 while a marginal reduction in expenditure is expected from 28.5 percent in 2005 to 27.5 percent

by 2008. The fiscal deficit including grants would be reduced from its level of 2.3 percent of GDP in 2003, to 0.8 percent by end-2008 (see Table 1).

49. **To realize its Vision 2020 targets, however, Rwanda's economy would have to grow at a considerably higher rate.** In 2002, the government estimated that, assuming population growth remains at 3 percent; GDP would have to grow by 6-7 percent annually to meet Vision 2020 targets. During the period 2001-05, however, the average growth rate of GDP was only 5 percent, thus sustained annual growth rates of GDP of over 7 percent would be required to achieve the 2020 poverty reduction target. Preliminary results from the Country Economic Memorandum under preparation indicate the primary sources of growth would be in the agriculture, services, and construction sectors. For growth of GDP above the current 5 percent, immediate attention would be required on improving infrastructure, particularly in energy, water, and transport, as well as for services that foster productivity improvements in the agriculture and rural sectors.

50. **Agriculture and rural development form the current base of the economy and are key sources of growth, employment and poverty reduction in the short to medium term.** The production base is predominantly small farms with an average land holding of 0.7 hectares. Due to rainfall variability and timing, and to a lesser extent, the energy crisis (which has affected export crops), growth in the sector has been less than projected under the PRSP. The government's current strategy in agriculture is to put increased emphasis on high value added goods, and support the development of agri-business and agro-processing. An export promotion strategy and an action plan to increase trade have been developed. For the traditional export crops, the government's strategy is to focus on fully washed, premium coffee, the average price for which is about twice that of traditional beans. Donors such as USAID are playing an active role in providing financing, training, fertilizer, and washing stations. Similarly, Rwanda's tea is considered to be of the highest quality and prices are three times that for non-premium tea. World prices for tea have been relatively stable and ongoing privatization of tea factories is expected to increase production and improve quality. By 2010, tea production is expected to double from the 2003 level of 14,300 tons to 28,600 tons.

51. **The service sector will continue to be a strong driver of growth in the medium term.** Activities in this sector consist of banking and financial services (8 percent), transport, storage and communication (18 percent), trading (24 percent), rental property (25 percent), and public administration (25 percent). Activities related to deepening the financial sector, particularly micro-finance, have the greatest potential to contribute to growth in services. In this regard, Government is in the process of elaborating an action plan for the financial sector based on the results from the Financial Sector Assessment Program.

Table 1: Selected Economic Performance Indicators

	1996-98	1999-01	2002	2003	2004	2005	2006	2007	2008
				Actual				*Projected*	
Percent Change									
Real GDP	11.8	6.8	9.4	0.9	4	6	3.0	5.0	4.5
Inflation (CPI average)	10.7	1.6	2	7.4	12	7	4	4	5
Export Volume	14.6	23.1	-10	-12.5	26.8	3.8	10.4	3.4	5.1
Terms of Trade	3.2	-10	-24	3.5	19.5	12.6	-6.3	-3.7	1.5
Percent of GDP									
Public Finance									
Gov. Domestic Revenue	10.1	10.3	12.2	13.5	13.9	15.1	14.1	14.3	14.5
Grants	6.5	7.9	7.2	8.1	12	14.1	12.2	9.8	9.0
Overseas Development Assistance	21.3	18.2	20.5	19.7	25.3	N/A			
Total Expenditures	20.3	19.7	21.3	23.9	26.1	28.5	28.1	27.5	27.5
Fiscal deficit (excl. grants)	-10.2	-9.4	-9.1	-10.4	-12.1	-13.4	-13.9	-13.3	-13.0
Fiscal deficit (incl. grants)	-3.7	-1.5	-1.9	-2.3	-0.2	0.7	-0.7	-3.6	-4.1
Balance of Payment									
Current Account Balance	-7.9	-16.3	-16.6	-19.2	-18.2	-19.4	-21.4	-19.2	-18.2
Exports, GNFS	6.5	7.8	7.7	8.3	10.2	9.3	9.5	10.0	10.1
Imports, GNFS	25.1	24.3	24.5	27.6	28.3	31.4	29.6	29.5	30.0
Official Reserves (mos. of imports)	4.4	5.9	6.3	5	6.3	6.2	4.9	4.8	4.7
External Debt	66.8	72.3	85.3	93.4	91.9	70.7	15.0	18.7	22.1
Memo Items									
Exchange Rate RFR/US$	307	391	476	538	573	570	580	585	596
GDP (US$ million)	1740	1815	1735	1684	1835	2137	2357	2553	2720

Source: Ministry of Finance, World Bank and IMF staff estimates

52. **ICT penetration is expected to stimulate growth in the service sector, though financing remains a major constraint to development and expansion**. Communication costs are particularly important for international trade and new business/product development. ICT development would on the one hand allow more efficient and equitable participation of Rwandans in trade, and on the other contribute to diversifying export products and services, as opportunities for higher value-added ICT products and services become available. Related to this is the government's strategy to strongly emphasize progress in science and technology, and develop a regional and eventually world comparative advantage in ICT and other science based services. Government is also interested in developing Science, Technology and Innovation (STI) skills needed to find, adapt and utilize existing technologies to produce knowledge intensive goods and services. These might include rainwater harvesting systems, and new and accessible means of generating energy, particularly for rural areas.

53. **Construction activities will remain a key driver of growth, in turn stimulating investment and trade**. The government has simultaneously launched initiatives in labor intensive public works to rebuild and generate employment in urban and rural areas. This work will support the government's plan to improve the road networks (particularly rural roads), which has been identified as a major constraint to trade and competitiveness by the Diagnostic Trade Integrated Study (DTIS). The **mining sector** is currently under-developed and there is great potential to improve exports. The government will adopt measures to promote increased prospecting, to identify and assess Rwanda's mining resources, as well as encourage foreign investment. This sector also has potential to be a significant source of non-farm rural employment.

54. **In terms of constraints to growth, the most binding are related to high transport and energy costs, and poor water management**. Transport costs, related to the poor state of both international transit and domestic roads, as well as costs arising from procedural obstacles are important issues to be addressed in pursuing regional integration[4]. The DTIS cites examples of restrictions to establishing a transport company. These limit growth of the sector and Rwanda's ability to develop its potential as a transit country. For example, investment in a truck has in most cases to be financed through a bank loan with high interest rates. Second, trucks capable of operating internationally carry up to 60 tons but due to the weight restrictions cannot be fully utilized. Measures to ease these restrictions would contribute to reducing transport costs, while improving the position of Rwandan transport companies vis à vis their Kenyan and Tanzanian competitors. In the case of energy costs, it is estimated that industrial electricity charges are two to four times higher in Rwanda than in the neighboring countries of Kenya, Uganda, and Tanzania. Government action in developing the Lake

[4] For example, the DTIS gives the example of poor maintenance on the road between Gitarama and Kibuye which raised vehicle operating costs from a 1989 level of $1.00 per kilometer to almost $3.40 per kilometer in 1996. Rehabilitation of the road resulted in a fall of more than 50 percent in vehicle operating costs and an overall reduction in transport costs of about 40 percent. As a result, agricultural surpluses in the area can now be sold in markets throughout the country, and a general shift is taking place from subsistence agriculture to production for the market.

Kivu project aims to address the major energy issues related to electricity generation. However, a comprehensive strategy for the sector that is relevant to the rural context will also be needed. Government has also adopted recent measures (based on the Agriculture Strategic Plan), to invest in rural water infrastructure, and also improve water management, through extension services.

55. **Over the medium term, Rwanda will continue to be highly dependent on foreign aid to finance its development**. Rwanda reached its HIPC Completion Point in April 2005. Achievement of the HIPC Completion point along with additional debt cancellation under the Multi-lateral Debt Relief Initiative (MDRI), has greatly improved Rwanda's debt indicators. The debt to export ratio that stood at 150 percent at end-2003 was drastically reduced to 58.5 percent at end-2005. However, while debt service payment is expected to remain manageable at below 8 percent of exports until 2026, the NPV of debt-to-export ratio would breach the policy-dependent threshold of 150 percent by 2013. These outcomes indicate that, despite debt relief under the MDRI, Rwanda remains at a high risk of debt distress, mainly due to its high degree of reliance on external financing and its narrow export base. The DSA also indicates that Rwanda is highly vulnerable to external shocks. Therefore, going forward, it will be essential to quickly scale up measures to increase productivity and exports, mainly through investment in infrastructure - especially in energy, transport, and water, and continuing to improve the business climate. In the meantime, however, until there is a fundamental change in Rwanda's economic outlook, it would not be prudent for Rwanda to borrow on non-concessional terms, unless under some exceptional circumstances. The Bank and the IMF will continue to jointly monitor the public sector borrowing and debt management, including the concessionality of loans, and assess the impact of borrowing on debt sustainability. Moreover, the framework, approved by the Board of the World Bank on July 11, 2006 to deal with potential problems of free-riding[5] by IDA grant-recipient and post-MDRI countries, will facilitate the monitoring of debt management in Rwanda.

II IMPLEMENTATION OF THE LAST CAS

56. **An assessment of implementation of the last CAS indicates that the Bank's assistance program was relevant to the medium- and long-term strategic development goals of the country**. The 2002-2006 CAS was discussed by the Board in November, 2002, and supported the government's first PRSP. Specifically, it supported the Rwandese Government in undertaking key reforms to promote an improved economic environment for growth and continued progress in meeting its targets in the social sector.

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[5] In this context, the term "free rider' refers to situations in which IDA's debt relief or grants could potentially cross-subsidize lenders that offer non-concessional loans to recipient countries. There is also a potential moral hazard problem, on the part of recipient countries, or borrowers. IDA grants and debt relief may introduce an incentive for countries to over-borrow from other creditors, which would force IDA to increase the grant share of its assistance. Appropriate design of incentives to recipient countries are therefore needed to address this problem.

In addition, the CAS supported the government's effort to establish key institutions related to good governance and improved service delivery.

A. Lending and Non-Lending Services

57. **The CAS outlined three scenarios related to a base case (US$250-317m), along with a high case (US$412m) and a low case (US$80m).** The low case scenario represented the amount of lending commitments that would be consistent with Rwanda's long-term debt sustainability, while the high case was based on the 3 year IDA allocation determined by the IDA performance based resource allocation process. The CAS noted that despite concerns over debt sustainability, a high case scenario was essential as a performance incentive for Rwanda and a signal to development partners for enhanced assistance if performance turned out to be exceptional.

58. **Actual lending was based on the base case scenario.** It included US$100 million in grants for the period FY03-05. The eight operations in the base case focused on the social sectors (mainly education and health), capacity building at local and central levels, economic infrastructure and institutional reforms. Along with the CAS, the Board approved in **FY03**, an Institutional Reform Credit (IRC) for US$85 million, which focused on reforms of public expenditure and financial management, along with key reforms to strengthen the private and financial sectors. The MAP (the HIV/AIDS Multi-Sectoral Project, which is part of the Bank's Multi-Country Action Plan Against HIV/AIDS in Africa) was approved in 2003 for US$32 million. In **FY04**, the first PRSC was approved for US$65 million (US$50 million grant and US$15 million credit), along with the Public Sector Capacity Building Project (US$20 million), and the Decentralization and Community Development Project (US$20 million). A credit for an Urgent Electricity Rehabilitation Project (US$25 million) was approved in **FY05;** and in **FY06**, the second PRSC (US$55 million), and the Urban Infrastructure and City Management Project (US$20 million) were approved in the form of grants.

59. **Completed Economic and Sector Work (ESW) have informed policy dialogue, technical assistance, and project preparation.** Most of the non-lending services planned were completed, though some were delayed. In FY03, the Public Expenditure Management Review; Education Country Status Report; and Financial Accountability Review and Action Plan (FARAP) were completed. Results from these reports informed preparation of development policy lending. In particular, the FARAP was instrumental in facilitating donors' move to budget support. The Country Economic Memorandum (CEM), which was planned for FY03 is currently under preparation[6]. In FY04, the HIPC Completion Point; Financial Sector Assessment, an analytical paper on Health and Poverty, and the Country Procurement Issues Paper (CPIP) were completed. In FY05, the Education Sector Expenditure Review and Public Expenditure Review were conducted. The above analytical work also informed the substantial technical assistance

[6] The CEM was delayed due to the various competing activities that were in demand and necessary for scaling up Bank assistance and the move toward budget support. Specifically, these pertained to preparation of the FARAP and a PER. However, during the same period the 2002 CAS was under preparation, the Institutional Reform Credit (IRC) was also being prepared. In addition, the Bank provided support toward preparation of the PRSP, which led to the production of the first JSAN.

provided by the Bank in the preparation of the first and second PRSCs. There is also an ongoing impact evaluation of the performance-based contracting schemes to be finalized by end of 2007. Annex 5 presents a summary of all non-lending services provided to Rwanda during the CAS period.

B. Portfolio Management

60. **As of July 2006, the Rwanda portfolio consisted of eleven projects for a net commitment of US$292 million or about US$36 per capita[7].** The sectoral breakdown of the lending portfolio reflects the priority areas of the PRSP and consists of 15 percent to human development related projects, 25 percent rural development, 29 percent infrastructure and private sector development, and 31 percent economic development. Annex 4 presents the status of the active portfolio. Over the CAS period, disbursements have been heavily dominated by those from adjustment operations, while most of the project or investment operations have yet to reach their peak.

61. **The implementation progress of the portfolio has been generally satisfactory** (seven projects), with four projects (Regional Trade Facilitation, Competitiveness and Enterprise Development, Public Sector Capacity Building, and Urgent Electricity) rated Moderately Satisfactory (see Annex 4). Rwanda's performance is above the average for the Africa region. There are currently no projects at risk, and no problem projects in the portfolio. The disbursement ratio has been steadily improving, and is currently slightly above the average for the Africa Region. The Country Portfolio Performance Review (CPPR) conducted in May 2006 identified four major areas that require urgent attention: institutional arrangements, procurement, fiduciary management, and monitoring and evaluation (M&E), which are discussed below. The CPPR outlines an action plan for addressing the main issues in these areas.

C. What Worked Well and What Worked Less Well

62. **Notwithstanding the challenging economic, social and political situation Rwanda has faced, an assessment of the Bank's program shows significant achievements in a number of areas.** The most significant achievement, besides assisting Rwanda to reach the HIPC Completion Point, has been the sustained implementation of structural reforms and the establishment of institutions aimed at strengthening good governance. The broad-based national consensus on carrying on the reform program was critical in generating donor support for the implementation of policy reforms. The Government's continued commitment, coupled with key reform measures undertaken in the financial management and procurement areas have facilitated an increasing move toward budget support.

[7] These figures do not include the regional East Africa Trade and Facilitation Project which went to the Board in FY06, and which does not count toward Rwanda's IDA allocation. A total of $15 million is allocated to trade facilitation activities in Rwanda, under the project.

Progress in the 2002 CAS Monitoring Indicators

63. **Outcomes in the four main thematic areas of the CAS have been, for the most part, positive.** The 2002 CAS identified the following key themes and objectives for support: (i) Revitialization of the rural economy through the provision of social and economic infrastructure and services to promote market-based agriculture, improve productivity and create employment; (ii) Private sector development through support to policy and institutional reforms and infrastructure investments to enhance productivity and competitiveness and create employment; (iii) Human and social development including support to education, health, HIV/AIDs prevention, elimination of gender disparities, demobilization and reintegration of ex-combatants. A cross-cutting theme was support to improving the effectiveness of the public sector through reforms in public financial and expenditure management.

64. Key achievements and issues in these areas are highlighted below:

- *Revitalization of the rural economy*: Through measures outlined in the Institutional Reform Credit (IRC), the Bank monitored progress toward adoption of the new Land Law, which was adopted in 2005. In the communities where farmer to farmer extension services are being supported by the Rural Sector Support Project (RSSP), productivity has more than doubled. The Bank also monitored progress in privatization of tea factories through the IRC, and provided further financing as well as technical assistance for the process through the Competitiveness and Enterprise Development Project (CEDP). To date, three tea factories have been privatized, out of a total of 10. However, privatization of tea plants, which is expected to increase rural incomes, has been proceeding slower than expected because of difficulties in attracting investors (domestic and foreign). Progress in reforms to improve access to credit and finance, and use of fertilizer and seeds have progressed slowly mainly due to the limited capacity on both the government side, as well as on the part of farmers. A key issue has been putting in placé an extension system (which was destroyed during the war), to facilitate dissemination and capacity support to farmers. Recognizing this need, the Bank is working with other donors in the rural cluster to build support for extension system. Several donors have expressed interest in a basket funding mechanism for extension.

- *Private sector development* (PSD*)*: The CEDP has been the Bank's primary instrument of support to this area, providing both financing and technical assistance. IFC has also provided technical assistance, in collaboration with the CEDP to business development and privatization (see Section D below). The Institutional Reform Credit was also used to support and finance reforms related to PSD. These operations supported the privatization of two banks, and the restructuring of the state commodity boards for tea and coffee. The policy dialogue facilitated the adoption of a pricing premium for high quality tea leaves. The operations also supported reforms to the state utility company Electrogaz, and the establishment of the multi-sectoral regulatory agency RURA. Through the CEDP, support was provided toward the establishment of a one-stop-shop center in the Rwanda Investment and Export Promotion Agency. As a result of measures introduced to improve the business climate, Rwanda was noted as an example of a good reformer in Africa in the Doing Business 2006 report. There is more to be done, however. The Financial Sector Assessment Program (FSAP) that was conducted in 2005 identified a number of areas where further reforms are required (payment systems, pensions, non-bank financial institutions) to build a sound, deep and diversified financial sector that can support private sector growth.

- *Human and social development*: Bank support has been administered through the HIV/MAP, Human Resource Development Project, and the PRSCs. Through the PRSCs, the Bank provided support toward further strengthening sector strategies and costing of these strategies. In addition, the Bank has provided technical assistance in the tools and methods for costing. In general, Bank assistance has greatly facilitated the move toward a more outcome focused policy implementation. Specifically, technical support was provided toward the development of capitation (i.e. transfer per student) grants in education which has helped to facilitate increased community involvement and accountability in service delivery. In the health sector, the Bank continues to provide support to performance-based contracting schemes. In addition, support is being provided to scale up *mutuelles* which pool funds from community members for provision of basic health services at district hospitals. In the water sector, support was provided to develop pilots for direct financing of district water projects to improve access to reliable, affordable, and sustainable water and sanitation services in rural areas. Consequently, with the support from the Bank and other donors, Government has been able to meet and in some cases surpass most targets, particularly in the area of education and immunization. The next step in reforms, under the PRSGs, will focus on improving the linkages between the budget, MTEF and outcomes.

- *Improving the effectiveness of the public financial management and economic governance*: The 2002 CAS supported specific measures to put in place key institutions through the IRC and PRSCs. The Organic Law of State Finances and Assets (Organic Budget Law) has been adopted by Parliament. A Procurement Code that incorporates international best practices has been drafted and is under discussion in Parliament. The action plan that incorporates the recommendations of the Country Procurement Issue Paper (June 2004) has been adopted by the government. Supported by the Bank (and in collaboration with DFID and the EU), the government prepared and adopted an action plan to improve financial accountability based on the Financial Accountability Review and Action Plan (FARAP). The Bank also supported the publication of reports on budget revenue and expenditure in a concise format covering revenue and expenditure outcomes. Since 2003, a 'flash report' is produced on a monthly basis for the priority ministries (health, education, agriculture, and internal affairs). More recent operations - i.e., Public Sector Capacity Building Project and Decentralization and Community Development Project - have placed greater emphasis on capacity building at the central and local government levels, respectively.

Table 2: Progress in Core 2002 CAS Monitoring Indicators

Theme/Objective	CAS Progress Benchmarks			
	Indicators	Status (2000/01)	Target 2005/ Dates	Most Recent Estimate/Date
Poverty Focus	Growth of GDP	6.7%	6.5%	5.7%*
	Rate of inflation	3.40%	3.0%	7.1%*
	Growth of agricultural value added	8.3%	6.5%	4.5%*
	Percent households below the poverty line	60.0%	49.0%	N/A
	Budget share for the PRSP priorities	37.2%	45%	54%
	Annual Review of the PRSP with a Progress Report		2003/2004	2004 and 2005
Revitalization of the Agriculture and the Rural Economy	Adoption of the Land Law		by 2004	June 2005
	Privatization of tea and coffee processing plants		2004	On-going
	Proportion of rural and urban households with access to clean water	52%	57%	57%
Private Sector Development and Employment Creation	Divestiture of government holdings in the banking sector		by 2004	2 commercial banks privatized in 2004
	Ratio of Non-Performing loans to total loans in the banking system	40%[a]	20%	13%
	Privatization of the telephone system and the private management of the electricity/water utility		2003	Rwandatel privatized 2005; Management of Electrogaz transferred in 2003
Human and Social Development	Rate of HIV/AIDS infection	13.7%	N/A	3%**
	Adoption of a strategy for Education for All and the use of SWAP		2003	Completed as planned
	Primary school net enrolment	73.3%	80%	91%
	Transition rate to secondary education	42%	60%	54%+
	% of females enrolled in tertiary education	28%	33%	39%++
	Infant Mortality Rate (per 1000 births)	107	83	86
	Maternal Mortality Rate (per 100,000 births)	810	608	1071
	Contraceptive Prevalence Rate	7.9%	N/A	9%+
	Access of the poor to health facilities	70%	80%	
Improvement in the Effectiveness of the public actions and governance	Adoption of the Organic Budget Law and the Procurement Code		2003	OBL submitted 2005 Procurement code submitted 2006 to Parliament
	Adoption of and progress in the implementation of the Plan to improve financial accountability		2003	FARAP completed in July 2003
	Preparation of regular accounts of government financial operations		by 2004	On-going

Note: a. The 2002 CAS shows the ratio of NPL at 30% in 2000. This was later revised to 40%. * Average rate for the period 2002 to 2005; ** in 2004 UNAIDS Report on the Global AIDS Epidemic; + in 2002/2003;++ in 2003/2004. Also note that estimates of indicators for HIV/AIDs and maternal mortality rates have been revised and may not be comparable to estimates reported in the CAS. The maternal mortality rate may likely be further revised based on the 2005 DHS once the new estimates are available.

65. **Most of the CAS monitoring indicators were either achieved or surpassed, as shown in Table 2**. The main areas that were not completely achieved pertained to GDP growth targets and privatization of tea factories. Table 2 summarizes the status in key indicators monitored under the 2002 CAS. GDP growth averaged 5.7 percent between 2002 and 2005, while the target was 6.5 percent. The decline in agriculture output and serious power shortages during 2004 and 2005 (which would have impacted the manufacturing sector, particularly coffee and tea processing) are the main reasons for this lower than expected performance. In addition, inflation peaked at 12 percent in 2004, due to high food and energy prices, before being contained at 7 percent in 2005.

66. **Significant progress was made in the areas of reforms.** Government shares were sold in two commercial banks, the telecommunications company was privatized, the Organic Budget Law was submitted to Parliament in 2004 and has been passed. The Procurement code is currently being debated in Parliament. The Financial Accountability Review and Action Plan has been completed and implemented. In the case of Electrogaz (the electricity and water utility), the management contract was adopted in 2003. However, the country was plunged into a power shortage shortly after the management contractor took control of Electrogaz. The power shortage arose from a combination of draught-depleted hydroelectric reservoirs, lack of investment in new generation, a dilapidated network, and sharp increase in demand. The high tension of dealing with this situation on top of rebuilding the utility created a difficult and stressful environment for the management contractor. Consequently, the contract was converted to a consulting contract in early 2006, and a Rwandan management team is now heading Electrogaz. During this time, with support from the Bank's Urgent Electricity Project, Government added diesel power generation which has nearly eliminated the power shortage, but generation costs are very high, especially with the current record high increases in world oil prices. As a result, Electrogaz power tariffs have increased to about 24 US cents/kWh, including VAT. This is among the highest in the world, and costs will rise further if oil prices continue to increase. In addition, network rehabilitation is still needed, as well as new generation capacity to displace the high cost of diesel. The Bank-supported Urgent Electricity Rehabilitation (UER) Project is financing the highest priority network and generation investments, and a 35 MW power plant based on methane gas from Lake Kivu is being prepared with Bank and IFC assistance. Government is also planning to restructure the electricity and water tariffs to provide suitable price signals for conservation while also reducing the burden of adjustment on the smaller/poorer customers.

67. **Progress was less than targeted in the preparation of regular accounts of government financial operations**. The main constraint to achieving this target has been tied to the extremely low level of capacity in public accounting and auditing. Recognizing this gap, the Bank (through the Public Sector Capacity Building Project) is supporting Government's plan to train public accountants, which are sorely lacking in Ministries. Government has completed a needs assessment and strategy for strengthening capacity which has been discussed with donors. The Bank has assisted in establishing a basket funding mechanism to finance the strategy.

Use of Bank Instruments

68. **Overall, the Bank has been flexible in adapting its instruments to support Government needs**. First, the Bank has responded to the government's request to move increasingly to budget support, by increasing the relative allocation of IDA resources to this instrument. Second, the Bank has been able to respond by increasing the amount of PRSC I, as well as fast tracking preparation of both PRSC I and II when other partners were unable to disburse their commitments and the government could not cover its financial gap. Similarly, the Bank has been responsive to Government's concerns in project implementation, by redesigning the projects to be better tailored to the country's capacity. This has been particularly the case for demand-driven projects where local capacity has been a bottleneck, such as was the case in the Rural Sector Support Project and the Rural Water Supply and Sanitation Project.

69. **The Bank's aid delivery mechanism was appropriate during the 2002 CAS period.** Through its policy dialogue and CAS instruments - particularly the IRC, PRSCs, and the CEDP - the Bank helped establish clear intermediate targets and action plans to support the implementation of the PRSP in key sectors. The Bank's support focused on reforms to: i) improve the overall environment for growth and private sector development; ii) broaden participation and capacity in the development of sector strategies; iii) strengthen the links between sector strategies and the medium-term expenditure framework and overall public expenditure and financial management.

70. **The Bank has made a major contribution toward donor coordination and harmonization.** The preparation of the PRSC-1 helped to generate momentum, which led to a government-proposed menu of actions to initiate donor dialogue on a more comprehensive harmonization framework. The PRSC also facilitated the development of a calendar to align future donor reviews and support with the government's PRSP and Budget cycles. Moreover, donors and Government worked in partnership on the development of sector strategies and MTEFs, which have served as a basis for the move toward SWAps with harmonized features. This provided further impetus to the harmonization process by facilitating dialogue and new harmonization initiatives[8]. A bi-annual joint budget review, (with donor participation), is now institutionalized and aligned with the budget preparation cycle. There are also sector reviews which inform the joint budget review. More recently, GoR and donors agreed to a joint public financial management review which would focus on progress in public financial management reforms, priority actions for the coming year as well as goals for the medium-term. This would greatly facilitate the increased move to budget support by donors.

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[8] MINECOFIN and the UN Resident Coordinator co-chair monthly Development Partners Coordination Group (DPCG) meetings. The DPCG is the largest donor coordination body. It has been effective primarily in information sharing and general contacts with Government, and increasingly on issues related to NEPAD and global issues relevant to Rwanda.

71. **The Bank has also supported the use of joint analytical work**. The Financial Accountability Review and Action Plan (FARAP) was initially supported by the World Bank and DFID. The EU later headed efforts to work toward implementation of the action plan. The Bank adopted the FARAP and its action plan, supplemented by other available diagnostic work, to fulfill the fiduciary requirements for budget support. Thus, a separate CFAA was not necessary. In the case of the Country Procurement Issues Paper (CPIP), instead of mobilizing separate resources, donors decided to rely on the Bank's comparative advantage in this area, consultations during the assessment, and on sharing final results.

72. **The Bank is harmonizing its project implementation processes and collaborating more closely with other donors to strengthen its support to Government**. For example, the World Bank financed Multi-sector HIV/AIDS project (MAP) and the Global AIDS Fund are using the same project implementation unit. The MAP has now harmonized its anti-retroviral procurement procedures with those of the National Tender Board and the Global Fund unit. In addition, collaboration with other donors has been enhanced through secondments of staff from other donor agencies to the Bank office in Kigali. The secondment of a rural development specialist from DFID to the Bank has led to substantial progress in the sector. These collaborations have also helped to leverage Bank resources.

73. **Areas that worked less well have to do, mainly, with issues related to the design of demand driven projects**. Project supervision reports suggest that project design needed to be better aligned with capacity on the ground. Specifically, in those projects (or components of projects) that were designed to be demand driven, the degree of institutional and human capacity building required to enable communities to come together, engage in a participatory process to identify common needs, and prioritize among those needs was sometimes underestimated. Improved understanding of the situation has led to the simplification and streamlining of project design, for example in the rural sector support project and the water and sanitation project. A key lesson learned is that for the next CAS, institutional assessments should pay greater attention to identifying the means to increase the capacity of local communities to engage in the process. In addition, it is recommended that the next CAS explore various means of working in partnership with Project Implementation units to strengthen institutional and human capacity on the ground.

74. **Procurement capacity remains one of the major challenges to project implementation.** Despite a continuous improvement of the overall capacity of procurement specialists in Bank-financed projects, the number of people who have a deep understanding of the procurement rules is still very limited. Decision makers as well as project managers are not always well informed of the best practices and generally accepted rules in procurement. As a result, procurement specialists have the difficult task of ensuring that at the technical level procurement of goods, works and services is made in compliance with the rules set in project documents. They also have the difficult task of convincing decision makers that there is no other option than following the rules. One of the conclusions from the last CPPR is that the Bank must continue building capacity at the technical level (procurement specialists and assistants) but also at the decision

makers' level, to ensure procurement rules are not only understood at the technical level but also that the rules are integrated in the management of Bank-financed projects.

75. **The procurement reform program has also experienced significant implementation difficulties** arising mainly from a weak leadership and loose coordination between ministries in charge of implementing reforms. Despite government's stated commitment to the public procurement reform process, implementation has been slow. Parliament has not yet adopted the procurement code which is still being debated in the Lower House of Parliament. There also has not been sufficient engagement of the key implementing Ministries (MINECOFIN, MINALOC and MINIJUST) and of the National Tender Board (NTB). The recent decision of the Minister of Finance to revive the Procurement Reform Task Force and the appointment of one of his advisors to lead the team as well as the inclusion of the NTB Executive Secretary should give a new impetus to the program.

76. **Overall, Monitoring and Evaluation (M&E) arrangements should be strengthened under the upcoming CAS.** A review of the M&E arrangements found that there was insufficient attention paid to assessing the capacity of implementing agencies to adequately monitor and evaluate projects on a systematic basis. In a number of cases, there was a lack of adequate baseline data, and many of the CAS instruments had performance indicators which were output focused, as opposed to outcome focused. Bank resources and technical experts will be used to address this issue during implementation of the ISN and also in the upcoming CAS.

77. **The current state of energy and water infrastructure in the country suggests that there should have been more attention to this sector.** General neglect of the energy sector has contributed to the recent energy crisis. Rwanda is currently facing three major energy issues: (i) recurrent power shortage brought on by strong demand growth coupled with rising oil prices, unexpectedly low hydropower reservoir levels, and a dilapidated network; (ii) wood-fuel shortage; and (iii) high cost of petroleum fuels. The recently launched Urgent Electricity Rehabilitation Project is designed to address the most pressing issues in electricity generation. Following the Strategic Sectoral, Social and Environmental Assessment conducted to review options for regional power development in the Nile Equatorial Lakes countries, Rwanda, Burundi, and Tanzania have signed a Joint Project Development Agreement for the Regional Rusumo Falls Hydroelectric and Multipurpose Project, for which the financial support of the Bank has been requested. In addition to these efforts, a strategy for broad support to developing alternative sources of energy, particularly related to rural energy will be needed. Assistance toward developing such a strategy will be provided under the PRSG. In the case of transport, a Transport Sector Development project is currently under preparation.

D. IFC & MIGA

78. **IFC involvement in Rwanda has been limited so far, though its presence is now being scaled up.** For most of the CAS period, IFC, in collaboration with the Bank's Competitiveness and Enterprise Development Project, focused on technical assistance related to privatization, small- and medium-enterprise (SMEs), and the financial and

industrial sectors. Rwanda is one of six African countries selected for a special review of the potential of its SME sector. A study is being undertaken to identify promising prospects for smaller IFC investments. This initiative is in its early stages. IFC, jointly with the PSD Department of the Bank and the Development Marketplace, has supported the design and implementation of a business plan competition in Rwanda, through a collaborative effort with the private sector federation and the Rwanda Development Bank. The first cycle of the competition is under completion and the design of the second cycle has been initiated.

79. **MIGA**'s effort in Rwanda has complemented the Bank Group's strategy of accelerating private sector-led growth in the country. In this respect, MIGA undertook an assessment to assist Rwanda in creating a national investment and trade promotion capability in consultation with the Bank's departments, and recommendations were made on the proposed Rwanda Investment Authority. This led to establishment of the Rwanda Investment and Export Promotion Agency (RIEPA, formerly the Rwanda Investment Promotion Agency). Furthermore, prospects for the country to attract foreign investment over the medium to long term were reviewed.

III. THE PROPOSED BANK GROUP INTERIM STRATEGY

80. **The proposed *Interim Strategy* will bridge the period between the current CAS 2002-06 and the next CAS 2008-12, which is expected to be presented to the Board in FY08.** The ISN will consolidate the results of the 2002 CAS while aligning the Bank's strategy to Rwanda's second full PRSP, named the Economic Development and Poverty Reduction Strategy (EDPRS)[9].

81. **This ISN takes into account key issues arising from initial consultations on the EDPRS**. During the CAS period, Rwanda has made considerable progress in the reform of the economy and the implementation of the PRSP, supported by a series of poverty reduction credits/grants by the Bank, with increased partnership within the donor community. There was significant progress in social sector policies, performance and outcomes. However, growth has continued to average about 5 percent per annum, and is below the pace required to meet the poverty reduction goals of the PRSP and meet the MDG target of 25 percent poverty incidence by 2015. Poor infrastructure, particularly energy, water and transport has constrained private investment and productivity. Also, capacity has remained a major constraint to the implementation of development and governance related programs, particularly at decentralized levels.

82. **The strategic elements of the ISN include**: (i) increasing the focus on economic growth and on capacity building to strengthen preparation and implementation of development and governance programs; (ii) consolidating the results of the current CAS

[9] Based on current discussions with the Government, it is expected that the EDPRS will continue to focus on the key areas of the current PRSP while placing a much greater, stronger and multi-sectoral emphasis on those areas directly related to growth, i.e. productive sectors, export promotion, basic infrastructure, in particular, energy, rural roads and water and capacity building

by sustaining the gains made in the social sectors and improving public financial management; and (iii) further improving coordination and harmonization of development assistance across donors to improve aid effectiveness and reduce transaction costs for Government. The strategic thrust of the ISN is in line with the key areas of the Africa Action Plan. The expected contribution of the Bank's lending instruments toward supporting these areas are outlined below.

83. **The Bank aims to scale up its assistance in the productive sectors in line with the expected growth focus of the EDPRS.** However, while Rwanda is a country that can absorb substantially more aid than is being made available to it from IDA resources, (as derived from the performance based allocation system), prioritization and selectivity of activities for IDA support remains essential for the period covered by the ISN. Given the critical need for investment in infrastructure to accelerate growth, the Bank will support the following projects: (a) Transport Sector Development (US$10 million) which will adopt a SWAp approach to support the rehabilitation and maintenance of Rwanda's road network, while also strengthening capacity in the transport sector; (b) Lake Kivu Methane-to Power (US$3.75 million), which will complement IFC's investment in the Lake Kivu Methane-Gas Project, and aim to promote public-private partnerships through the provision of a guarantee for the project; (c) the E-Rwanda [10] (US$10 million), which aims to improve the efficiency and effectiveness of internal government processes through strengthening the management information system, and also through supporting the establishment of public access points to improve citizen's access to information on government programs. The project will also provide support to improving the regulatory and institutional framework for the implementation of reforms related to ICT; and (d) the PRSG series which will support implementation of key policy reforms identified in the recently completed Export Promotion Action Plan, and the Diagnostic Trade Integrated Study. The PRSG will also support technical assistance toward the development of a financial sector action plan based on the results from the Financial Sector Assessment Program, which was recently completed jointly with the Fund. IFC will complement this effort with continued technical assistance to SMEs for business development (as described in section C below).

84. **In addition to the above operations, other priority projects will be presented to the Board should more resource become available.** These prioritized projects include a follow-up to the Rural Sector Support Project (RSSP), as well as the National Water Resources Management (NWRM), which is currently under preparation[11]. The RSSP will continue to support rehabilitation of marshlands, while the NWRM will support reforms to improve piped water to rural areas.

[10] In its Vision 2020 statement, the government emphasizes its intention to use investment in ICT as the key driver for transformation from a largely agriculture-based economy to a knowledge and information based economy and as a vehicle for improving the delivery of public and private services, particularly in the rural areas. In June 2005, the GoR approached the Bank to fund an eRwanda Project, as a subset of phase two of the National Information and Communication Infrastructure (NICI II) Plan. The project focuses primarily on e-Government, including improvements in the financial management, content management, citizen's services, and internal government infrastructure.

[11] If additional resources do not become available during the ISN period, these projects will be programmed in the upcoming CAS.

85. **Given Rwanda is a land-locked country, the Bank will also continue to support regional initiatives to facilitate improved economic ties and cooperation across countries, in the region**. Lending to support improvements in infrastructure will also be complemented by ongoing projects in regional trade facilitation (see Annex 4). In FY06, the Bank approved the East Africa Trade and Transport Facilitation Project (US$15 million grant to GoR), to improve import/export traffic flows and ease Rwanda's accession to the East African Community. The Regional Rusumo Falls Hydroelectric and Multipurpose project will be considered for Bank support in the upcoming CAS. Finally, IFC is also applying a regional approach to support business development and strengthening of the financial sector. Specific activities being considered by IFC are outlined below.

86. **The Bank will also continue its support to improved social service delivery** through PRSC/G III and IV (US$55 million, US$50 million and US$50 million, respectively) in FY07 and FY08. The focus of the PRSG series will continue to support policy reforms and implementation focused on the education, health, water, and energy sectors. Support to the reform program will focus on: (a) strengthening the basis for private sector-led economic growth, through agricultural transformation, promotion of exports, and supporting reforms to deepen the financial sector; (b) strengthening the results orientation of the MTEF, both at the macro and sectoral levels, particularly in education, health, water, and energy, including strengthening the linkages between the budget and the MTEF, and expanding performance-based contracting of services; and (c) continued support to improved governance and transparency, particularly through support to institutional and regulatory reforms to strengthen capacity in public financial management and procurement, including at the decentralized levels Specifically, the Bank will support reforms to revise the budget classification system to improve the alignment of plans at the decentralized level with the budget and MTEF. Finally, in the health sector, during FY07, the MAP project, which has been providing care to HIV/AIDs patients, will be supplemented (by an additional US$10 million), since funds are disbursing quicker than was planned at project design. If more resources become available a Malaria Booster project will also be included.

87. **Support to capacity building will continue through ongoing Public Sector Capacity Building Project (PSCBP), which is focused on building capacity of core ministerial functions through technical assistance and training**. In addition, the Bank will continue to provide both technical and capacity support to the implementation of policy and institutional reforms, particularly in the area of procurement. The priority areas of the project include procurement, financial management, M&E, and building the necessary capacity for ministries to effectively deliver on the PRSP (i.e., strategic planning, human resource management and incentive structures, ICT equipment use and maintenance). The PSCBP's interventions to ministerial ICT functions as well as ICT policies and standards are laying the foundations for e-government to be supported by the Bank's E-Rwanda project planned for FY07. Complementing the work being undertaken under the PSCBP at the central level, the Decentralization and Community Development Project will continue to support the decentralization process by, among other things, pooling resources and technical experts to train, and build capacity of local government administration and communities to manage service delivery and the development

planning process locally. In addition to PSCBP and the DCDP, support for capacity building will also be provided through the PRSGs and E-Rwanda project.

88. **The ISN will draw on the Africa Action Plan (AAP) framework, which outlines how all development partners, including the Bank, will work in partnership with Governments to help every African country reach as many of the MDGs as possible by 2015.** The AAP provides a menu of options and opportunities to be translated into country specific and regional work programs[12]. In addition, the *Capacity Development in Africa: Management Action Plan* elaborates the AAP framework for Bank support to capacity building in Africa. This framework will inform the Bank's assistance to Rwanda, as well as define the results monitoring framework. Table 3 below identifies the priority actions linked to the AAP that the Bank will undertake during the interim strategy period.

[12]These actions focus on the following main areas: (i) Results; (ii) Building capable states and improving governance; (iii) Supporting the drivers of growth in infrastructure; (iv) Building capacity to participate in and benefit from growth and (v) Strengthening the impact of partnerships, through increased country level engagement and scaling up progress toward achieving the MDGs through effective use of aid, including higher levels of aid, beyond current levels in a way that multiplies impact.

Table 3: Links between AAP and the Interim Strategy Proposed Operations/AAA

AAP Focus Areas	New / Ongoing Bank Operations/AAA
Results: the framework for achieving impact through country driven and owned national development strategies.	Poverty Reduction Support Credit/Grant (PRSC/G III, IV) aligned with PRSP and developed in partnership with other budget support donors
Building capable states and improving governance for Public Expenditure Management and service delivery	Private Sector Capacity Building Project, Decentralization and Community Development Project, PRSG III-IV, E-Rwanda, PER
Supporting the drivers of growth in infrastructure; regional integration; building skills for growth and competitiveness; strengthening agriculture, connecting the poor to markets; building a vibrant private sector	Transport Sector Development Project; EAC Trade and Transport Facilitation Project; E-Rwanda; Lake Kivu Methane-to-Power Guarantee; Country Economic Memorandum; Agriculture Policy Note; Investment Climate Assessment;
Building capacity to participate in and benefit from growth through scaling up human development indicators, particularly in education and health	PRSC III and IV, MAP Supplemental, Education CSR update, Health CSR
Strengthening the impact of partnerships through increased country level engagement and scaling up progress to MDGs to use aid effectively in the areas of economic growth; human development and poverty reduction; and for using increases in assistance beyond current levels in a way that multiplies impact.	Joint Results-Based CAS, PRSG Continued support to SWAps Continued engagement in budget support harmonization

A. IDA Allocation and Instruments

89. **Rwanda's IDA allocation for FY07 is SDR51.5 million (approximately US$75 million), with an *indicative* allocation for FY08 of SDR39.9 million (approximately US$58 million), adjusted for FY06 frontloading, grants-related discount and the MDRI netting out mechanism.** However, an additional 30 percent of the FY08 allocation has been further frontloaded to FY07 given the level of need, and the importance of ensuring continued financing to key programs, such as the MAP. This yields a total actual use of US$83 million in FY07 (and results in a further reduction of FY08 indicative allocation by US$8 million). The actual allocation for FY08, after adjusting for front loading in the first two years of IDA14, will depend on several factors: (i) Rwanda's Country Policy and Institutional Assessment (CPIA), which shows the need for improvement particularly in the areas of public sector management and institutions; (ii) the assessment of portfolio performance has shown some weaknesses in procurement; (iii) Rwanda's performance relative to other IDA countries (81 altogether); (iv) the amount of overall resources available to IDA; (v) changes in the list of active

IDA-eligible countries; and (vi) the terms (grants or loans) for which Rwanda qualifies under the low income debt sustainability framework.

90. **The CPIA, governance, and portfolio management are the major determining factors of IDA resource allocation, and Rwanda could potentially increase its allocation by improving its ratings in these areas**. Rwanda's CPIA rating has remained at 3.5 over the last five years, with the exception of 2004 when it declined to 3.4. Table 4 shows the various areas in which implementation of reforms and results on the ground could lead to a higher CPIA score. These include improvements in public sector management, especially in debt policy management; streamlining and reducing costs of customs procedures. Moreover, better portfolio performance is particularly important in improving the overall policy and institutional framework. A higher annual IDA allocation could potentially be achieved depending on the overall resource envelope, and the country's relative performance. In the event that the policy, institutional and fiduciary conditions for budget support or investment lending are deemed inadequate to support effective project implementation, IDA resources could be reduced or the mix of operations could be changed.

Table 4: CPIA and Portfolio Management: Areas for Improvement

Macro-economic Management and Structural Policies	• Streamlining and reduced costs of customs procedures • Reduced cost and time for business start-up • Elaboration of a strategy and action plan for the energy sector • Adoption of an energy sector strategy and action plan • Adoption of specific measures to improve water management, particularly in rural areas • Improved debt policy management
Social Services	• Increased transition rate to secondary education • Reduced pupil-teacher ratio • Elaboration of a population policy
Public Sector Management and Institutions	• Adoption of financial sector action plan • Improved supervision of micro finance institutions • Adoption of capacity building action plan for procurement • Improved efficiency of public financial management • Improved efficiency of procurement planning and execution • Improved links between budget and outcomes
Portfolio Management	• Zero project with unsatisfactory Implementation Performance and Development Objective ratings • Satisfactory compliance with procurement procedures

91. **Table 5 below presents the lending program for FY07-FY08.** During this period, this interim strategy will support PRSG III and PRSG IV, each for an amount of US$50 million. The PRSGs will continue to support the key areas of the PRSP while specific operations continue to support related investments and capacity building needs. Four operations (in addition to the PRSGs) will form the basis of Bank support during the transition period: (i) a Transport Sector Development project[13]; (ii) an eRwanda project; (iii) the Lake Kivu Methane-to-Power Guarantee; and iv) the MAP Supplemental. In addition, there will be greater focus on regional initiatives related to the transport corridor, electricity and water, and trade facilitation.

Table 5: Proposed Lending in the Interim Period (US$ millions)

	IDA Allocation	
	FY2007	FY2008
PRSG III. IV	50	50
Transport Sector Development	10	
E-Rwanda	10	
Lake Kivu Methane-to-Power Guarantee	3.75	
MAP supplemental	10	
Total	83.75	50

Note: Support will also be forthcoming from IDA's portion of the MDRI which will provide additional resources that otherwise would have gone to interest payments.

B. Non-lending Services

92. **In line with this ISN's strategic focus, the Bank's non-lending services - i.e., analytical, advisory, and economic and sector work (ESW) – will support efforts to accelerate growth, build capacity, and improve social service delivery**. To strengthen the knowledge base on the sources of growth and as input to the EDPRS, a Country Economic Memorandum will be completed, along with an Agriculture Policy Note, and an Investment Climate Assessment. In addition, a Science, Technology and Innovation needs Assessment will support the Government's vision in this area. Also planned is a Public Expenditure Review (PER), that will focus on issues related to decentralization and public expenditure management. Building on the FARAP, the PER will help highlight areas that need immediate attention in terms of capacity building, particularly in the context of decentralization. Also related to the issue of capacity, the Bank will support the Government in the implementation of an ambitious procurement reform program which includes: (a) the modernization of the legal and regulatory framework; (b) revamping the institutional framework through the conversion of the National Tender Board into a regulatory agency and decentralization of procurement activities to the

[13] To complement IDA funds, additional resources will be sought from other sources such as trust funds, and the Africa Catalytic Fund for Growth.

beneficiaries' level; and (c) the preparation of a national procurement capacity building program based on an evaluation of the current expertise and future needs. These activities will be financed under the PSCBP. Moreover, the Bank jointly with the IMF will continue to prepare advisory notes on the EDPRSP.

93. In the area of *social services delivery*, a Poverty Assessment will help monitor progress in poverty and social development. Given the changing context of the country due to decentralization and civil service reform, there will be a need to update the country status reports for education and health.

Table 6: Interim Strategy Planned Key Non-Lending Services

Fiscal year	Products
2007	Country Economic Memorandum Agriculture Policy Note Investment Climate Assessment Science Technology and Innovation needs Assessment Poverty Assessment
2008	Health CSR Public Expenditure Review Education CSR update

C. IFC & MIGA

94. With the aim of creating further investment opportunities in the Great Lakes Region and to allow the countries to benefit from economies of scale, the IFC is taking a regional approach while at the same time exploring investment opportunities. Operations under consideration are the following:

- *Infrastructure - Energy*: IFC is seriously considering investing in the Lake Kivu project. It is exploring the possibility of participating in the financing of Kibuye Power Ltd (a Lake Kivu Methane Gas Project) under concession to Dane Associates with Wartsila as a technical partner. Project cost is estimated at US$72 million and IFC may invest up to US$18 million in the project.

- *Infrastructure - Logistics*: Intraspeed SA Rwanda Ltd (ISARL) is a major freight and forwarding company operating in the Great Lakes Region of Eastern Africa. The company is involved in bulk haulage of containerized general cargo and liquid cargo from the major ports of Mombasa, Dar-salaam, Tanga, and Mtwara to Kenya, Mozambique and the land locked destination countries of, Uganda, Rwanda, DR Congo, Tanzania, Burundi, Zambia and Malawi. IFC may invest up to US$ 10 million to assist the upgrade and expansion of ISARL's freight hauling capabilities.

- *Financial Sector:* Rwanda completed the privatization of its financial sector, with the sale of Government's shares in the Banque Commerciale du Rwanda (BCR) to the UK-based Actis Group and the Banque Continental African (BACAR) to Kenya-based FINA Bank. IFC is exploring opportunities for long term credit lines and trade finance facilities to these banks to improve access to finance of SME. In the medium term, there will be a strong role for IFC in the development of the financial sector.

- *Tourism Sector*: Rwanda is developing a cluster of good-quality hotels and may require IFC's assistance for long term financing. IFC has also been asked to help identify potential investors that may be interested in buying Hotel Intercontinental in Kigali and the Kivu Sun Hotel in Kibuye.

95. **In addition, IFC's advisory and technical assistance role is expected to continue to center on the promotion of the private sector,** including, coordinating with the PRSG series and the CEDP to establish a sound enabling environment and the development of the financial sector. In this respect, the IFC is working with the Rwanda Development Bank to develop leasing in Rwanda. Initial support consists of: (i) assisting with the review of the leasing code completed in October 2005; and (ii) contributing to a leasing financing feasibility study. Based on the outcome of the feasibility study, a longer term leasing development program, comparable to the one currently underway in Tanzania, could be in place in Rwanda by the fall of 2006. Also, the IFC has offered, and is likely to provide advisory services to the Government of Rwanda on the privatization of Rwanda Air.

96. **The IFC proposes to develop entrepreneurship in Rwanda**. The program would address the needs of existing SMEs to expand their businesses, but also the needs of potential entrepreneurs. Working with institutions such as the private sector federation and business schools, the program proposes to: build capacity for business service providers; support vocational business skills development; and build capacity for entrepreneurship development and training in business schools and private sector institutions. The IFC would approach interested donors for joint support of these activities, and it is expected that the program would be in place in the latter part of 2006.

97. **MIGA** plays an important role in countries previously affected by conflict, such as Rwanda, by trying to mitigate the image of war-torn countries. This image, whether reflected in the high cost of doing business or other negative perceptions, is the primary issue that MIGA's services seek to address. These services include technical assistance to Governments and investment promotion intermediaries and to non-commercial risk insurance programs, which provide risk mitigation and the facilitation of financial instruments, especially in post-conflict countries where other insurers are often not willing to go. In this respect, Rwanda continues to remain eligible for guarantee support in order to accelerate the recovery of the private sector and increase FDI to the country. In particular, MIGA's focus is on the infrastructure sector. Currently, the agency is exploring opportunities in the power and telecommunication sectors.

D. Donor Roles and Coordination

98. **In implementing the interim strategy, the Bank will continue to collaborate with other key donors to generate synergies and to promote increased coordination and harmonization.** In the area of growth, the Bank will focus on continued support to improved trade and customs facilitation, in collaboration with DFID, EU and other donors to implement the actions identified in the DTIS policy matrix. A sector wide approach (SWAp) for transport is currently under preparation by the Bank along with EU, AfDB, and the government. These three donors now hold at least one joint mission a year marked by a joint aide-memoire. The Bank will also continue its close collaboration with a number of donors in the energy sector, including: (a) the Nordic Development Fund, which is co-financing the Bank-supported Urgent Electricity Rehabilitation Project; (b) SIDA, Norad, and AfDB which are participating together with the Bank in the preparation of the Rusumo Falls project; (c) EU, which is leading the sector dialogue on infrastructure as a whole, while the Bank leads the energy dialogue; (d) UNIDO, which is supporting development of village-based mini-hydro systems that are setting the stage for a programmatic approach to these systems under the Bank's Urgent Electricity Rehabilitation project.

99. **In social service delivery**, sector wide approaches with harmonized features in education, health and water are being adopted. In the education sector, there has been a significant move toward a SWAp approach, supported by DfID, World Bank, UNICEF, EU, AfDB, Sweden, Netherlands, Germany, Belgium, Wallonie Bruxelles, Japan and the World Food Program. The move toward a SWAp in water is being supported by AfDB, EU, World Bank, Belgium, Germany, Netherlands, Japan, and UK. Sector coordination and donor harmonization is being improved with joint periodic reviews of the sector performance and substantial progress towards a common implementation framework (e.g., project implementation units of the Bank and AfDB financed projects have merged and work with the same procedures). Rwanda is one of the best examples of coordination in *HIV/AIDS*, particularly among the Global Fund, US (PEPFAR initiative), and the World Bank. In health, the Bank has been collaborating with the EU on PRSC related health reforms and with several partners (including Belgium, US, and GTZ) on the performance contracting approach. Led by MINALOC, the Bank, DfID, and UNDP have been designing a mechanism that would allow development partners to provide coordinated support for MINALOC in implementing social protection policies with an effective and sustainable framework, given the recent rapid moves to decentralize both functions and Ministry staff.

100. **In the case of capacity building**, the Government's Multi Sector Capacity Building Program (MSCBP) is providing the overall umbrella program for capacity building in the country. To date, four donors contribute to financing of the MSCBP: IDA through its Public Sector Capacity Building Project (PSCBP) and the Africa Capacity Building Foundation; the EU and UK are contributing to the Public Financial Management Reform agenda through the co-financing of a multi donor trust fund to PSCBP. Similar arrangements to support capacity building in procurement are also foreseen, although these are at an early stage. In building capacity at the sub-national level, the Bank will continue to work through the SWAp to support decentralization.

This includes the pooling of resources and technical experts from various donors to train, and build capacity of local government administration and communities, to manage service delivery and the development planning process locally. Under this program, the Bank is the lead in the southern province; GTZ leads in the eastern province, UNCDF in Northern Province, while the Swiss lead in the western province.

E. Consultations

101. **In the context of EDPRS preparations, consultations have revealed key areas of focus for the next poverty reduction strategy and these are reflected in this ISN.** The main areas or issues that arose pertain to the energy crisis and growth, decentralization for improved service delivery and the civil service reform. Concerns of development partners focused on the issue of growth and identifying viable sources of energy to sustain growth. An additional issue raised by development partners related to the need for continued improvement in financial management and procurement to further strengthen economic governance and facilitate the generation of foreign investment. It was stressed that regional initiatives would be necessary in order to help build on peace and stability in the region and also provide a market for the economy to grow.

102. In addition, consultations were held with Government, including Parliamentarians, as well as civil society members on the priority areas to be covered in the ISN. A brief summary of issues that arose from the consultations are included in Annex 8. All agreed on the relevance of the priority areas identified in the ISN, although advice was sought from the Bank on what actions the country could take to improve Rwanda's IDA allocation. In addition, three key requests were made: i) civil society representatives identified the need for a labor market study to inform training and an education strategy; ii) Parliament expressed interest in being more engaged in the CAS and EDPRS process and in line with this requested training from the Bank to facilitate their improved understanding of the CAS process and Bank assistance; iii) Parliamentarians also requested assistance for gender mainstreaming of government programs. It was agreed that the Bank would explore ways of addressing these issues in the upcoming CAS.

F. Monitoring and Evaluation Arrangements

103. **The performance indicators and targets for the period covered by this ISN are presented in Annex 1.** The ISN will continue to monitor the key social indicators identified under the 2002 CAS. In addition, it will also continue to monitor progress in the privatization of tea factories, and it will monitor progress in the production of the accounts of government financial operations. In the latter case, the focus will be on monitoring progress in training and hiring of public accountants in Ministries. Other key indicators that will be monitored are related to the areas of procurement, public financial management and accountability, capacity to plan and implement policies, rehabilitation of the internal road network, and the elaboration and adoption of an energy sector strategy. These are outlined in Annex 1 on performance indicators. Progress against these indicators will be assessed on an ongoing basis through regular consultations with

stakeholders. Monitoring of the quantitative indicators will draw from the rich source of household data, firm surveys, demographic surveys, and the national accounts.

IV. CONSTRAINTS & MANAGING EXPOSURE

104. **Macroeconomic and Financial Instability:** This is rated as an area of low risk given the Government's track record in macro-economic management, which has been rated as satisfactory over the CAS period. To maintain the low risk, as aid is scaled up, it will be necessary for Government to continue implementation of reforms to increase investment to support growth and productivity

105. **Political and Social Risks:** While there is a general perception that social tensions still exist in Rwanda, the national reconciliation process is progressing well and therefore a deterioration in political or social outcomes that will adversely alter the thrust of the development program and the planned IDA support is unlikely. However, a continuing risk factor to Rwanda's political and economic stability is closely linked to the sustainability of the efforts toward peace and stability in the Great Lakes Region. These risks can be mitigated by the continued engagement of the international community in promoting peaceful transitions in neighboring countries and the strong commitment of the Government of Rwanda to the regional peace process in collaboration with international organizations, particularly MONUC. The recent improvement in relations between Rwanda and the DRC provides evidence of declining risk of tensions in the region but continuing efforts are essential to strengthen and sustain this good relationship.

106. **Institutional Capacity:** The main source of risk relates to the limited capacity to implement development programs, including those related to PFM and broad governance reforms and the delivery of services. The recent adoption of the Organic Budget Law will require concerted efforts to accelerate PFM reforms to bring practices in line with the Organic Law. These reforms should be designed and sequenced to take into account the capacity constraints while fostering capacity development. Through the PSCBP and the PRSG series, the Bank will work with Government to ensure that the sequence of implementation is well-defined in line with existing action plans and capacity. Continuing reforms of the civil service will be essential to enhance capacity development. In the area of Civil Service Reform, where there has been a substantial movement, DFID is the lead agency and has been working closely with Government on this aspect. Both the Bank and DFID, in close collaboration with Government will continue to manage this risk, in the context of the EDPRS and the upcoming Joint CAS.

107. **Fiduciary risks**: These remain significant, particularly at the decentralized level. The risks at decentralized levels will be managed through support for improved coordination between the Office of the Accountant General and MINALOC, with the provision of clear instructions to administrative districts on financial reporting and management. In the case of *procurement*, some of the tasks included in the action plan of the Country Procurement Issue Paper adopted by the Council of Ministers in 2004 have

been completed. The government is now engaged in outlining a detailed roadmap to successfully complete its reform program, which will be supported through the PRSG. Furthermore, decentralization of procurement operations at the district level creates a new challenge. In effect, there is a gap between the reforms implemented by the Ministry of Finance and reforms implemented by the Ministry of Local Government. To ensure that procurement does not become a bottleneck to national budget execution as well as to project execution, modalities to close the gap and ensure better communication among stakeholders will be detailed in the road map. These efforts, coupled with Bank support should help mitigate the risks in this area.

108. **Residual Risks**: Other than the above risks, no other risks are foreseen that could derail the implementation of the ISN in support of the PRS and preparations for the EDPRS.

Annex 1: Performance Indicators and Targets by end of Interim Strategy Period

Related AAP Thematic Area and Objectives		ISN Thematic Area and Monitoring Indicators		
		2001 (baseline in 2002 CAS)	**Most Recent Estimate**	**2008/9 Target (end of ISN period)**
		A. Support to Service Delivery		
Enhancing Health, Education, and Social Protection	**Education**			
	Primary school gross enrollment	117%	140%	142%
	Primary school net enrollment	73%	94%	96%
	Primary completion rates	29.6%	55%	72%
	Ratio of girls to boys in primary school	1:1 parity achieved		-
	Pupil-teacher ratio in primary education	58.9	63.5	58.7
	Transition rate to secondary education	43%	47%	47%
	Adopt strategy for Education for All and use SWAP		Completed 2003	-
	Health			
	DPT3 coverage of children (0-1 years)	77%	85%	>90%
	Infant mortality rate (per 1,000 births)	107	83	75
	Contraceptive prevalence Rate	0.3%	9%	10%
	Use of bed nets	4%	30%	60%
	Use of assisted deliveries	30%	39%	50%
	Enrollment in *mutuelles*	7%	41%	60%
	Prevalence of HIV (% of population age 15-49)	13.7%	3%	<=3%
	Population with access to improved water source	52%	57%	60%
		B. Support to Capacity Building and Improved Governance		
Capable States and Governance	**Develop in-country institutional capacity**			
	Improve PEFA indicators (Public Financial Management Performance Measurement Framework) [A-D]	HIPC AAP 8 met	HIPC AAP 2004 8 met	One more benchmark over and above the 8 under HIPC AAP met. Improved assessment in PEFA indicators for budget preparation, monitoring, and execution Improvemed assessment in PEFA indicator for procurement
	Improve capacity to plan and implement policies and programs			The main Ministries/sectors represented in the PRSC/G consistently prepare annual work plans that incorporate sector targets and own capacity building priorities within the MTEF ceiling. The main Ministries/sectors of the PRSC/G employ M&E to improve their strategic plans. 5 to 12 % of core ministries, provincial offices and district offices equipped with the basic

Related AAP Thematic Area and Objectives		ISN Thematic Area and Monitoring Indicators		
		2001 (baseline in 2002 CAS)	**Most Recent Estimate**	**2008/9 Target (end of ISN period)**
				minimum standard of office automation equipment and software to enable them to perform their core functions
	Procurement , Public Financial Management and Accountability	N/A	N/A	Procurement legislation adopted with 90% of procurement officers trained in new procedures 50% increase in trained public accountants employed by Government Increasing number of beneficiaries which use the Government Portal , under eRwanda, for access to services and information
		C. Support to Growth		
Strengthening the Drivers of Growth	**GDP Growth**	6.7%	4.0%	Growth rate of 5% or higher
	Growth of agricultural value added	8.3%	3.2%	Growth rate of 5% or higher
	NPV Debt-to-export ratio		58.5	Maintained below 150%
	Percent of asphalted road network in good condition	23%	40%	45%
	Private investment as a share of GDP	11.8%	12.8%	14%
	Domestic credit to Private Sector (% of GDP)	10.3%	10.7%	12%
	Financial deepening (M2/GDP)	16%	17.3%	19%
	Total trade as a % of GDP	34.3	37.0	40
	Exports as share of GDP	8.3%	10.3	12% Adoption and Implementation of Export Promotion Action Plan
	Privatization of tea factories			At least 3 more completed by end of ISN period
	Energy Sector Strategy developed and implemented	-	-	Adopted and under implementation by end of ISN period
	Develop concrete recommendations to accelerate growth based on growth diagnostic studies (including gender based diagnostics)	-	-	Complete the Country Economic Memorandum along with action plan to sustain growth. Action plan for private sector development and growth (based on completed Private Sector Strategy) fully adopted and implementation initiated.

Annex 2: Overview of Selected Reforms, 2000-2005

Theme/Sector	Reform Undertaken	Year
Private Sector Development and Growth	Land Law Gazetted	2005
	Rwandatel, RwandaEx, and two tea factories privatized	
	Rwanda Environmental Management Agency established	2004
	Investment Code revised to align with revised tax code	
	Commercial Courts established	
	Entry into COMESA	2003
	Adoption of the Revised Internal Trade Act	2000
	Private sector Federation established	
	Public Utilities Regulation Agency established	2003
	Liberalization of telecommunication sector	2001
	Weekly foreign exchange auctions introduced	
Agriculture	Premium pricing of tea leaves for producers introduced	2004
	Agriculture Guarantee Fund established	
	Law passed redefining role of OCIR-Café and OCIR-Thé	2003
Energy	Tariff rate increased further from FRw 81 to FRw 112	2005 2004
	Tariff rate increased from FRw42 to FRw 81	
	Management contract put in place for Electrogaz	2004
Money and Banking	Regulatory Framework for Microfinance Adopted	2005
	Privatization of two banks	2004
	Public credit reporting system updated	
	Banque Populaire de Rwanda recapitalized	2003
	Introduction of weekly foreign exchange auctions	2001
Public Financial and Expenditure Management	Ministerial accounts converted to zero balance accounts as move to Single Treasury Account	2005
	Accountant General appointed	2004
	Auditor General appointed	2003/4
	MTEF adopted	2001
Fiscal Policy and Management	Creation of Large Taxpayer Department	2004
	Revision of tax code	2002
	Introduction of the value added tax (VAT)	2001
Social Sectors and Gender	Capitation grants established for education and health	2004
	Performance based health schemes introduced	
	Policy of Fee Free Primary education adopted	
	Comprehensive Legal Action Plan adopted for Gender equality	2003
Civil Service and Decentralization	Streamlined administrative structure and new civil service incentive structure adopted	2005
	Common Development Fund Established	2002

Annex 3: MDG Achievements and Long-Term PRSP Targets

	MDGs (all goals set as improvements between 1990 and 2015)	1990	MDG goal	Most recent year	Likelihood of reaching the target by 2015
Goal 1. Eradicate extreme poverty and hunger	Halve the proportion of people living under one dollar a day	40%	25%	60%	Challenging. Will require strong sustained growth, coupled with an emphasis on increased productivity in the agriculture sector.
	Halve the proportion of malnourished children	30%	15%	24%	Achievable, subject to strong sustained economic growth and nutrition interventions.
Goal 2. Achieve universal primary education	Have all children enrolled in primary school	67%	100%	93%	Likely.
	Have all children completing primary school	44%	100%	47%	Achievable, subject to increased funding for primary education by US$4.5 per capita per year
	Ensure full literacy rate for 15- to 24-year old	73%	100%	85%	Likely.
Goal 3. Promote gender equality and empower women	Eliminate the gender gap in primary education	0.6%	0%	-3.7%	Already achieved.
	Eliminate the gender gap in secondary education	24%	0%	0%	Achievable, subject to effective implementation of current policies aimed at ensuring universal access to a 9-year basic education
	Eliminate the gender gap in literacy	14%	0%	3%	Likely.
Goal 4. Reduce child mortality	Reduce by two third the under-five mortality rate (per thousand births)	150	50	198	Achievable, subject to increased funding for high impact interventions and vulnerable groups by US$3 per capita per year.
	Reduce by two third the infant mortality rate (per thousand births)	85	28	107	
	Have all 11- to 23-month-old children immunized against measles	83%	100%	96%	Already achieved (to be sustained).
Goal 5. Improve maternal health	Reduce maternal mortality by three quarters (per 100,000 births)	900	300	1071	Unlikely. Would require major upgrading of health system, and tripling public spending on health.
	Have all births attended by skilled health personnel	25%	100%	31%	Achievable, subject to increased funding for high impact interventions and vulnerable groups by US$3 per capita per year.
Goal 6. Combat HIV/AIDS, malaria and other diseases	Stabilize or reduce HIV/AIDS prevalence	13% (1997)	5.1%	5.1%	Already achieved (to be sustained).
	Increase contraceptive prevalence among women aged 15 to 49	21%	n/a	9%	Challenging, despite recent improvements.
Goal 7. Ensure environmental sustainability	Maintain or increase land area covered by forest	--	n/a	12%	Unlikely. Deforestation is an issue.
	Reduce by half the proportion of people having no access to safe water.	42%	21%	27%	Achievable, subject to investment of US$ 2.8 per year per capita over 10 years.

Annex 4: Status of Active Operations

Project	US$ mil.	Objective	Approval/ Effectiveness	Disbursed August '06	Ratings DO	Ratings IP
Rural Water Supply and Sanitation	20	To increasing the availability and sustainability of water supply and sanitation (WSS) services in rural areas; strengthening the capacity of communities and agencies, and mobilize community support.	June 2000/ January 2001	14.05	S	S
Human Resources Development	35	To build up Rwanda's human resources and institutional capacity to deliver education services.	June 2000/ January 2001	24.50	S	S
Rural Sector Support	48	To build capacity in the management of farmed marshland and hillside areas; access to credit and competitiveness in agricultural export; and small-scale rural infrastructure.	March 2001/ October 2001	29.24	S	S
Regional Trade Facilitation	7.5	To improve access to financing for productive transactions and cross-border trade.	April 2001/ April 2002	2.00	MS	MS
Competitiveness and Enterprise Development Project	40.8	To establish an enabling environment for private sector-led economic growth and poverty reduction in Rwanda.	April 2001/ December 2001	34.07	S	MS
Demobilization and Reintegration Project	25	To help consolidate peace in the Great Lakes region and foster reconciliation within Rwanda.	April 2002/ September 2002	19.60	MS	S
Multi-Sectoral HIV/AIDS	30.5	To strengthen prevention measures in order to slow down the spread of HIV/AIDS; and expand support and care for those infected or affected by HIV/AIDS.	March 2003/ August 2003	25.41	S	S
Decentralization and Community Development	20	To boost the emergence of a dynamic local economy, through communities who are empowered to lead their own development process under an effective local government.	June 2004/ December 2004	3.40	S	S
Public Sector Capacity Building	20	To ensure that public sector entities have	July	2.14	S	MS

Project	US$ mil.	Objective	Approval/ Effectiveness	Disbursed August '06	Ratings	
					DO	IP
		the capacity for more efficient, effective, transparent and accountable performance in their redefined roles and functions and for achievement of their strategic objectives contributing to the implementation of the PRSP	2004/March 2005			
Urgent Electricity Rehabilitation	25	To alleviate power shortages, and enhance the capabilities of energy sector institutions.	January 2005/July 2005	2.00	MS	MS
Urban Infrastructure and City Management	20	To increase access to priority urban infrastructure in Kigali and two secondary cities (Ruhengeri and Butare)	November 2005/ June 2006	3.00	S	S
East Africa Trade and Transport Facilitation	199	To improve trade environment through the effective elimination of tariff barriers in the EAC Customs Union area; enhance logistics services efficiency along key corridors by reducing non tariff barriers and uncertainty of transit time; and improve railway services in Kenya and Uganda. (Note: Rwanda will be receiving $15 million from the project.).	January 2006/	0.00		

Annex 5: Summary of Non-Lending Services

Product	Planned Completion Date	Actual Completion Date
CSR Education	FY 03	January 2004
FARAP	FY 03	July 2003
PER (MTEF)	FY 03	November 2003
CEM	FY 03	On-going
CFAA	FY 04	June 2005
Financial Sector Assessment Program	FY 04	May 2005
HIPC Completion Point	FY 04	March 2005
Health and Poverty	FY 04	March 2005
Country Procurement Issues Paper (which replaced the Country Procurement Assessment Review)	FY 04	June 2004
Strategic Gender Assessment	FY 05	dropped
Education Sector Expenditure Review	FY 05	done
PER	FY 05	June 2003
Poverty Assessment	Not planned	June 2003
DTIS	Not planned	June 2005
Transport Country Framework Review	Not planned	2004

Annex 6: Selected Indicators of Bank Portfolio Performance and Management

Indicator*	2000	2001	2002	2003	2004	2005	2006
Portfolio Assessment							
Number of Projects Under Implementation [a]	10	10	8	9	9	10	11
Average Implementation Period (years) [b]	4.6	3.7	1.8	2.1	2.5	3.1	3.9
Percent of Problem Projects by Number [a, c]	0.0	0.0	12.5	0.0	22.2	10.0	0.0
Percent of Problem Projects by Amount [a, c]	0.0	0.0	25.8	0.0	21.8	17.4	0.0
Percent of Projects at Risk by Number [a, d]	0.0	0.0	12.5	0.0	22.2	10.0	0.0
Percent of Projects at Risk by Amount [a, d]	0.0	0.0	25.8	0.0	21.8	17.4	0.0
Disbursement Ratio (%) [e]	40.0	21.3	15.2	13.7	13.1	24.5	24.9
Portfolio Management							
CPPR during the year (yes/no)	yes	yes	yes	yes	yes	no	yes
Supervision Resources (total US$)	1117	1075	1087	2400	2500	2328	2429
Average Supervision (US$000/project)	112	101	136	90-110	90-110	90-110	90-110

Memorandum Item	Since FY 80	Last Five FYs
Project Evaluation by OED by Number	43	3
Project Evaluation by OED by Amt (US$ millions)	863.8	99.9
% of OED Projects Rated U or HU by Number	46.5	0
% of OED Projects Rated U or HU by Amt	31.1	0

a. As shown in the Annual Report on Portfolio Performance (except for current FY).
b. Average age of projects in the Bank's country portfolio.
c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
d. As defined under the Portfolio Improvement Program.
e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.
* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 7: Engagement of Development Partners in Rwanda

CAS Theme/Area	Key Donors/Agencies
Revitalization of the Rural Economy	
Agriculture	World Bank, Belgium, Canada, China, France, Germany, Italy, Japan, Netherlands, UK, US, AfDB, EC, IFAD, FAO, UNDP, WFP
Rural Markets/Infrastructure	EU, WB, US, IFAD, the Netherlands, China,
Environment/Forestry	Germany, World Bank, EU, AfDB, the Netherlands, Belgium, IFAD, FAO, UNDP, UNFPA, UNHCR
Private Sector Development	
Policy and Institutional Reform	World Bank, IMF, Japan, Sweden, UK, AfDB, EC, UNDP, UNECA
Transport Infrastructure	EU, World Bank, Germany
Energy and Water	Belgium, Germany, the Netherlands, AfDB, BADEA, World Bank
Small Scale Enterprises	AfDB, World Bank, Germany, IFAD, EU
Human and Social Development	
Education	Austria, Belgium, Canada, China, France, Germany, Japan, UK, AfDB, World Bank, UNFPA, UNHCR, UNICEF, WFP
Health/HIV/AIDS	Belgium, China, France, Germany, Italy, Luxembourg, Sweden, Switzerland, UK, US, AfDB, EC, Global Fund, World Bank, UNAIDS, UNDP, UNFPA, UNHCR, UNICEF, WFP, WHO
Reintegration/Community Development	EU, the Netherlands, US, Canada, UNHCR, UNDP, Japan, IFAD, World Bank
Water and Sanitation	Austria, Belgium, Germany, Japan, the Netherlands, AfDB, BADEA, EC, IFAD, World Bank, UNICEF
Effectiveness of the Public Sector	
Public Expenditure Management and budget support	World Bank, UK, IMF, EU, AfDB, Sweden, the Netherlands
Public Administration	UNDP, UK, World Bank, Belgium, IMF, EU
Governance	US, Belgium, UK, Switzerland, EU, the Netherlands, Canada, Germany, Norway, IMF

Annex 8: Summary of in-country Stakeholder Consultations for the ISN

The contents of the draft ISN were discussed first with the government of Rwanda, and with GoR's permission, consultations were held with representatives of the permanent commission of the Parliament, donors, and civil society including the representation from the private sector, some non-governmental organizations, and academic institutions. Overall, stakeholders considered the consultation process to be very productive. Stakeholders appreciated being consulted on the ISN contents. This was particularly the case for the Parliamentarians who stressed their interest to be more closely engaged with both the CAS and EDPRS processes. In particular, the Parliament requested assistance from the Bank on support to increase their understanding and better inform members of the process for determining Bank assistance to Rwanda. The key issues raised by each group consulted are summarized below:

Government of Rwanda:

- expressed their concern regarding the declining trend in the level of budget support;
- stressed the need to continue support to the agricultural sector and rural development; and
- expressed concerns regarding sustainability of the MAP project.

Parliament:

- expressed their particular concern over Rwanda's ranking by the Governance Research Indicator Country Snapshot indicators and asked what the country needs to do to improve performance in this area;
- asked for guidance on how Rwanda's IDA allocation could be increased, given Rwanda's limited ability to borrow;
- outlined their concern regarding the implementation of certain projects, particularly in terms of disbursement rates, and the need to extend project closing dates;
- stressed the need to ensure that gender aspects are reflected in the country's programs;
- sought advice on how to support development of the microfinance sector;
- emphasized the need to improve exports in the region as well as globally.
- Bank's role: Parliamentarians suggested the Bank could play a greater role in involving members in the consultation process for the EDPRS and CAS. Members requested assistance or training from the Bank to improve their understanding of Bank assistance, and the EDPRS process, thereby enriching discussion and debate. Assistance was also requested on ways to promote gender mainstreaming.

Private Sector, Civil Society Organizations and Academic Institutions:

- highlighted the importance of strengthening the link between all levels of education, from primary to higher education, was emphasized if the Government is to achieve its vision of a service oriented economy;

- stressed that higher education and vocational training need to be relevant to the demands of the labor market;
- identified the need for a labor market study, that takes into account various growth scenarios, was strongly emphasized;
- noted in particular, the importance of the labor market study given that Rwanda will soon join EAC and will need a skilled labor force, which if not developed could undermine its competitiveness;
- raised the importance of research for adapting technology to local conditions was emphasized;
- noted that women's economic empowerment and improved access to education, particularly at higher levels, was particularly important;
- stressed the importance of devising measures to assist youth in starting their own businesses;
- raised a specific question related to follow-up on the Human Resource Development Project, and whether there was any potential for scaling up this project;
- questioned the existence of the critical gap between strategies for growth and private sector development, as it pertains to implementation (participants noted that it is important to understand why the gap exists and how it can be bridged).
- Bank's role: The important role that the Bank can play in facilitating the link between private and public activities to foster public-private partnerships was noted on two levels. First, through facilitating public-private partnerships to ensure the relevance of education and training for the needs of the labor market and the private sector. Second, through public-private partnerships which ensure that science and technology, and the related research are adopted in a way that reflects local conditions. They stressed that the key to success of the process is relevant and adequate training of the labor force.

Donors:

- discussed the possible synergies that could be realized from working together with the Economic Commission for Africa on the E-Rwanda investment project; and
- raised the possibility of increasing support to the environment sector.

Annex 9: Rwanda— Joint Fund-World Bank Debt Sustainability Analysis

1. **In context of the recently finalized Multilateral Debt Relief Initiative (MDRI) an assessment was undertaken for Rwanda to ascertain the country's eligibility for the debt relief.** Rwanda has qualified for MDRI debt relief because of its overall satisfactory recent macroeconomic performance, progress in poverty reduction, and improvements in public expenditure management. Economic growth in 2005 accelerated and inflation declined. Implementation of Rwanda's poverty reduction strategy has been particularly successful in the social sectors, for example, the primary school net enrolment ratio is now at 91 percent[14] and vaccine coverage varies between 80 and 95 percent in most provinces. In public expenditure management, an organic budget law was approved by parliament. Performance in these areas provided assurance that resources made available under the MDRI will be used effectively.

2. **This joint DSA concludes that, while the MDRI substantially improves Rwanda's debt indicators, the country will have to rely mostly on grants to maintain its debt at sustainable levels.** Rwanda's net present value (NPV) of debt-to exports ratio stood at 58.5 percent at end-2005 and, barring any exogenous shocks or policy reversals, debt-service payments remain manageable at below 8 per cent of exports over the projection period until 2026. However, the NPV of debt-exports ratio would breach the policy-dependent threshold of 150 percent by 2014, indicating that the country is at a high risk of debt distress beyond the projection period.

3. **This joint DSA was prepared using the Fund-World Bank debt sustainability framework for low-income countries (LICs).** The debt data underlying this DSA were updated jointly by the IMF and the World Bank along with information provided by the Rwandese authorities.[15] The medium-term macroeconomic framework was broadly agreed with the authorities in the context of the new PRGF arrangement, which is being considered by the IMF Board at the same time as this DSA[16].

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[14] The completion point trigger was set at 73 percent to be reached in 2001.

[15] Bilateral debt was adjusted to account for the effects of debt cancellation agreements signed with most Paris Club countries; bilateral agreements are in place with Austria, Japan, France, and the United States, and those with Canada and the Netherlands are expected to be signed shortly. Regarding non-Paris Club creditors, China has indicated willingness to cancel all its claims whereas Saudi Arabia and Kuwait stated they were not prepared to deliver further debt relief. Debt owed to Libya and the Abu Dhabi Fund continues to be passive. With respect to multilaterals, IDA, the IMF, the AfDF, IFAD and the EIB have provided updates.

[16] In the case of the Bank, this DSA update will be considered jointly with the Interim Strategy Note.

I. Rwanda's External Debt Since the Completion Point[17] LIC DSA

4. **Rwanda's debt situation is now more favorable than estimated at the completion point.** The completion point LIC DSA (including debt relief provided at the decision point, and the topping up under the HIPC Initiative) projected that the NPV of debt-to-exports ratio would increase to 140.5 percent at end-2005.[18] The current DSA, however, estimates the NPV of debt-to-exports ratio at 58.5 percent in 2005, an improvement of over 80 percentage points.

5. **The improvement in the debt ratio after the topping up under the HIPC Initiative reflects the full implementation of the MDRI[19] and favorable export developments** (Text Table 1). The MDRI contributed 76 percentage points to the reduction, while higher exports led to a further improvement of 12 percentage points. On the latter, actual merchandise and services exports in 2005 exceeded completion point projections by 20 percent, largely due to strong export performance in coffee, tea and minerals. While the volume of new borrowing in 2004-05 was higher than anticipated, it had higher concessionality, so that its overall impact was neutral.

II. External Debt Sustainability Analysis[20]

6. **The medium-term macroeconomic framework is broadly in line with the one presented at the completion point** (Box 1). Most notably, it is based on prudent projections[21] for growth and external assistance to highlight Rwanda's vulnerability to exogenous shocks and reduce the risks of policy errors. However, the proportion of the fiscal financing gap funded through debt flows was revised upward to 33 percent (corresponding to the historical average) compared with 17 percent assumed at the completion point.

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[17] Rwanda reached the completion point in April 2005.

[18] Appendix II in EBS/05/52, March 25, 2005; and IDA/R 2005-0055, March 29, 2005.

[19] The baseline scenario includes MDRI relief from the IMF, IDA and AfDF. For the IMF, the cutoff and implementation dates are, respectively, end-2004 and January 5, 2006; for IDA, the cutoff and implementation dates are, respectively, end-2003 and July 1, 2006; for the AfDF, anticipated cutoff and implementation dates are end-2004 and January 1, 2006 (retroactively). The implementation modalities of MDRI relief for the AfDF are based on staffs' assumptions consistent with IDA terms.

[20] The LIC DSA methodology differs from the HIPC methodology in a number of aspects, notably (i) the current year exports are used as denominators for estimating the debt-to-exports ratio rather than the backward looking three-year moving average of exports; (ii) the use of the WEO exchange rate projections instead of exchange rates at the end of the base year; and (iii) a 5 percent discount rate instead of currency specific discount rates.

[21] Real GDP growth was on average 7 percent during the past nine years, reflecting mostly the catch up effect after the genocide. The medium-term growth rates assumed in this DSA reflect higher investment financed from aid inflows and are consistent with an average ICOR of 4. Greater efficiency reflected in an increase in total factor productivity (with a corresponding decrease in the ICOR) could lead to higher long-term growth rates.

Table 2: Policy-Based External Debt Burden Indicators

	Thresholds 1/	Rwanda's ratios	
		2005	2006-26 2/
NPV of debt in percent of:			
Exports	150	59	153
GDP	40	6	18
Debt service in percent of			
Exports	20	6	4

1/ Policy indicative thresholds as used in the joint IMF-World Bank LIC DSA framework for a medium policy performance. The quality of policies and institutions are measures by the World Bank's CPIA index.
2/ Simple average.

7. **Under the baseline scenario with full implementation of the MDRI, one critical debt burden indicator would exceed the policy-dependent thresholds** (Text Table 2). Rwanda's NPV of debt-to-exports ratio is projected to rise above 150 percent by 2014 and, remain above the policy-dependent threshold up to 2026. However, with the likely higher share of IDA loans the baseline would breach the thresholds even earlier. At the same time, however, the NPV of debt-to-GDP ratio remains well below the threshold throughout the forecast period, while debt service payments continue to be manageable at below 8 percent of exports. The impact of the HIPC and MDRI Initiatives is apparent with the debt service-to-exports ratio falling from 10.5 percent as at end-2004 to 2.6 percent by end-2006.

8. **Shocks to the small export base[22] would substantially worsen Rwanda's NPV of debt-to-exports ratio.** If exports were to grow by less than one standard deviation in 2007, Rwanda's NPV of debt-to-exports ratio would increase to above 200 percent in 2008 peaking at over 300 percent in 2018, while staying above the threshold throughout the projection period. Given the substantial fluctuations[23] in Rwanda's export prices in the last few years, this scenario is comparable to recent history. This is also reflected in the "historical" scenario.[24] If the key macroeconomic variables remained at historical values, Rwanda would experience a sharp increase in the risk of debt distress with projected external debt-to-export ratios following an explosive upward path (Chart 1) as the average historical export growth was only 3½ percent[25].

[22] Exports of goods and services were about 11 percent of GDP in 2005.

[23] In the last ten years, export prices fell sharply in some years (for instance, by more than 20 percent in 1998 and 2001) and increased strongly in others (for instance, by more than 20 percent in 1997 and 2000). The overall export prices index fell by about 30 percent since 1995.

[24] The "historical" scenario is calculated on the basis of performance during 1997 to 2004.

[25] Historical real growth rates were actually higher than the projected growth rates owing to the catch up effect after the genocide.

Box 1. Macroeconomic Assumptions

The macroeconomic assumptions are as follows:

Real GDP growth is projected at 5.5 percent from 2011 onward (increasing gradually from 3 percent in 2006 [1/]) as growth-enhancing sectoral strategies take effect and investment in human capital (health and education sectors) starts to pay off. Specifically, growth is expected to be generated by boosting productivity in the agriculture and export sectors (mostly tea and coffee) by improving water management, controlling soil erosion, intensifying the use of fertilizer, integrating livestock development into land farming, and enhancing extension services. In addition, measures to facilitate trade and reduce transaction costs would contribute to export growth. Over the long term, investments in infrastructure and human capital are expected to boost growth in the services sector.

Per capita GDP is projected to increase gradually from 3.2 percent in 2005 to reach 2.7 percent by 2021 as the population is expected to grow by 2.7 percent on average between 2004–26.

Inflation is projected to fall to 5 percent in 2006 and stay at that level from then onward.

Exports of goods and services would grow at a nominal rate of about 9 percent until 2013 in U.S. dollar terms as the export promotion strategy takes effect and stabilize thereafter at about 8 percent. **Imports** of goods and services would increase by 6 percent on average over the period 2005-26, mostly due to growing demand for capital good imports from the private sector.

The **primary fiscal deficit** would range from 2 to 4 percent of GDP. **Central government tax revenue** would increase from 14.1 percent of GDP in 2005 (excluding one-off revenue) to 18.4 percent of GDP by 2026, mostly on account of a widening of the tax net to the non-monetized sector. **Non-interest expenditure** would remain relatively stable at about 26 percent of GDP throughout the projection period.

The **current account deficit** (including grants) is projected to gradually tighten from about 11 percent of GDP in 2006 to 3 percent of GDP in 2026. Excluding grants, it is projected to gradually improve from 21 percent of GDP in 2006 to about 6 percent of GDP in 2026.

Gross borrowing and official grants are projected to decrease gradually with gross borrowing on average slightly below 4 percent of GDP and official grants on average above 7 percent of GDP. Thus, *in line with the historical average*, two -thirds of external financing will be in the form of grants.

[1/] The growth rate in 2006 reflects poor rains, which are expected to depress agricultural production.

III. Public Debt Sustainability Analysis

9. A public debt sustainability analysis was not undertaken since it would not provide any significant additional insights, given that the consolidated domestic debt of the treasury and the National Bank of Rwanda (NBR) is minor (less than 5 percent of GDP at end-2005). Preventing an increase in domestic debt and thus a crowding out of private investment is a key objective of the new PRGF arrangement. To this end, there is an agreement that any pressures for a real appreciation of the exchange rate from a scaling up of external aid will be accommodated through a nominal exchange rate appreciation. This will maintain low inflation while raising absorption and thus avoid an increase in domestic debt[26].

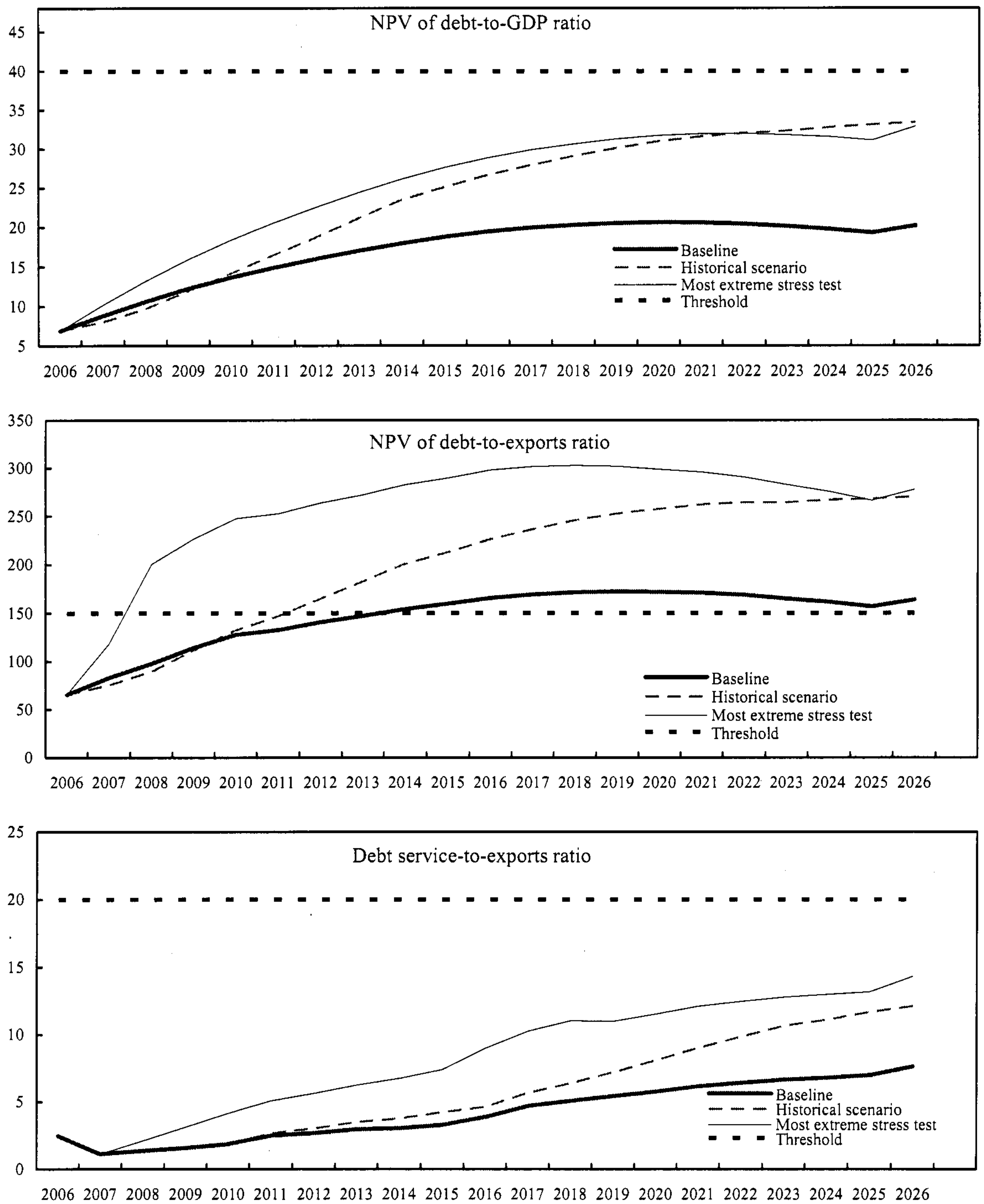
[26] The 2006 program envisages a reduction in consolidated domestic debt.

IV. Conclusion

10. **Although the MDRI lowers Rwanda's immediate risk of debt distress, Rwanda's debt situation could quickly become unsustainable without a high and sustained level of grant financing and strong export growth.** As shown in the DSA, even with a substantial share of grants in gross government financing, Rwanda's external debt situation becomes unsustainable in the medium term. Given Rwanda's relatively small export base, a terms of trade shock or the failure to increase exports could result in an unsustainable deterioration in the debt indicators. Thus overall Rwanda is considered to be at a high risk of debt distress.

11. **The analysis suggests that structural reforms should focus on better protecting Rwanda against shocks.** The government is using the recently completed Diagnostic Trade Integration Study (DTIS) along with an export promotion action plan to design reforms and measures to improve trade facilitation. Specifically, there will be an increased focus on nontraditional and high value exports such as horticulture and washed coffee. The Agriculture Sector Strategy has also identified areas of investment to support improved production and extension for farmers. Moreover, with support from both the EU and the World Bank, investments in road construction should help reduce the costs of transport as should regional projects through the Nile Basin Initiative, and a recently approved regional Bank project on transport. In addition, Rwanda recently joined COMESA, and is expected to join the Eastern Africa Community later this year. These investments and reforms are expected to assist in increasing real growth, while strengthening and diversifying the export base. The implementation of prudent debt management and the efficient allocation of donor funds will also play a critical role in ensuring that debt remains sustainable in the long term.

Figure 1. Country: Indicators of Public and Publicly Guaranteed External Debt
Under Alternative Scenarios, 2006–26
(In percent)



Source: Staff projections and simulations.

Table 3a. Country: External Debt Sustainability Framework, Baseline Scenario, 2006–26 1/
(In percent of GDP, unless otherwise indicated)

	Actual		Projections																	
	2004	2005	2006	2007	2008	2009	2010	2011	2006-11 Average	2012	2013	2014	2015	2020	2021	2022	2023	2024	2025	2026
External debt (nominal) 1/	**93.2**	**72.9**	**15.0**	**18.7**	**22.1**	**25.0**	**27.5**	**29.7**		**31.6**	**33.3**	**34.8**	**36.0**	**38.1**	**37.8**	**37.2**	**36.5**	**35.6**	**34.6**	**36.0**
Of which: public and publicly guaranteed (PPG)	93.2	72.9	15.0	18.7	22.1	25.0	27.5	29.7		31.6	33.3	34.8	36.0	38.1	37.8	37.2	36.5	35.6	34.6	36.0
Change in external debt	-0.2	-20.3	-57.9	3.7	3.3	2.9	2.5	2.2		1.9	1.7	1.5	1.2	-0.1	-0.3	-0.5	-0.7	-1.0	-1.0	1.4
Identified net debt-creating flows	-6.9	-13.7	0.8	3.8	1.8	0.2	-0.3	-1.1		-1.3	-1.9	-1.9	-0.9	-0.9	-0.8	-0.8	-0.8	-1.4	-1.5	0.3
Noninterest current account deficit	**4.1**	**4.7**	**11.6**	**8.9**	**8.0**	**7.1**	**6.9**	**6.4**		**6.3**	**6.1**	**6.2**	**5.9**	**5.4**	**5.3**	**5.1**	**4.7**	**3.6**	**3.3**	**3.3**
Deficit in balance of goods and services	18.2	20.5	22.8	20.4	19.5	18.1	18.1	17.3		17.2	16.7	16.3	16.3	13.8	13.2	12.5	11.8	11.2	10.7	10.7
Exports	10.3	10.7	10.5	10.7	10.9	10.7	10.7	11.2		11.4	11.6	11.7	11.8	12.0	12.1	12.1	12.2	12.3	12.4	12.4
Imports	28.6	31.2	33.4	31.1	30.3	28.8	28.8	28.5		28.6	28.3	28.0	28.1	25.8	25.2	24.7	24.1	23.4	23.1	23.1
Net current transfers (negative = inflow)	-15.6	-16.9	-12.3	-12.9	-12.7	-12.1	-11.3	-11.0		-10.5	-10.1	-9.6	-9.3	-7.2	-6.9	-6.5	-6.3	-6.8	-6.5	-6.5
Other current account flows (negative = net inflow)	1.4	1.1	1.1	1.4	1.2	1.1	0.2	0.1		-0.3	-0.4	-0.5	-1.1	-1.1	-1.0	-0.9	-0.8	-0.8	-0.9	-0.9
Net FDI (negative = inflow)	**-3.8**	**-5.5**	**-9.0**	**-4.6**	**-5.5**	**-5.9**	**-6.2**	**-6.2**		**-6.3**	**-6.6**	**-6.6**	**-5.2**	**-4.7**	**-4.5**	**-4.3**	**-3.9**	**-3.4**	**-3.2**	**-3.2**
Endogenous debt dynamics 2/	**-7.3**	**-12.9**	**-1.9**	**-0.6**	**-0.7**	**-0.9**	**-1.1**	**-1.2**		**-1.3**	**-1.4**	**-1.5**	**-1.5**	**-1.7**	**-1.7**	**-1.6**	**-1.6**	**-1.6**	**-1.5**	**0.3**
Contribution from nominal interest rate	0.4	0.2	0.1	0.0	0.1	0.1	0.1	0.2		0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Contribution from real GDP growth	-3.4	-4.8	-2.0	-0.6	-0.8	-1.0	-1.2	-1.4		-1.5	-1.6	-1.7	-1.8	-2.0	-1.9	-1.9	-1.9	-1.9	-1.8	0.0
Contribution from price and exchange rate changes	-4.3	-8.4	...	...	...	...	...	...		...	...	...	...	...	...	...	...	...	...	...
Residual (3-4) 3/	**6.7**	**-6.5**	**-58.7**	**0.0**	**1.6**	**2.7**	**2.8**	**3.2**		**3.2**	**3.6**	**3.4**	**2.1**	**0.8**	**0.5**	**0.3**	**0.1**	**0.4**	**0.5**	**1.1**
Of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NPV of external debt 4/	...	6.2	6.9	8.8	10.6	12.2	13.7	14.9		16.0	17.1	18.0	18.8	20.7	20.6	20.5	20.2	19.8	19.4	20.2
In percent of exports	...	58.5	65.6	82.9	97.7	114.2	127.8	132.6		140.6	146.9	154.1	159.4	171.6	170.9	168.6	164.8	161.2	156.5	163.7
NPV of PPG external debt	**...**	**6.2**	**6.9**	**8.8**	**10.6**	**12.2**	**13.7**	**14.9**		**16.0**	**17.1**	**18.0**	**18.8**	**20.7**	**20.6**	**20.5**	**20.2**	**19.8**	**19.4**	**20.2**
In percent of exports	...	58.5	65.6	82.9	97.7	114.2	127.8	132.6		140.6	146.9	154.1	159.4	171.6	170.9	168.6	164.8	161.2	156.5	163.7
Debt service-to-exports ratio (in percent)	10.5	6.3	2.5	1.1	1.4	1.6	1.9	2.5		2.7	3.0	3.0	3.3	5.8	6.2	6.4	6.7	6.8	7.0	7.6
PPG debt service-to-exports ratio (in percent)	10.5	6.3	2.5	1.1	1.4	1.6	1.9	2.5		2.7	3.0	3.0	3.3	5.8	6.2	6.4	6.7	6.8	7.0	7.6
Total gross financing need (billions of U.S. dollars)	26.0	-2.3	69.6	113.1	71.6	37.2	28.8	14.8		12.0	-4.0	-2.1	47.7	93.1	112.9	120.7	128.0	88.3	85.5	92.1
Noninterest current account deficit that stabilizes debt ratio	4.3	25.0	69.5	5.2	4.7	4.1	4.5	4.2		4.4	4.4	4.7	4.7	5.5	5.7	5.6	5.4	4.5	4.3	1.9
Key macroeconomic assumptions																				
Real GDP growth (in percent)	4.0	6.0	3.0	4.3	4.5	4.9	5.2	5.5	4.6	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	0.0
GDP deflator in U.S. dollar terms (change in percent)	4.8	9.9	7.1	3.8	2.0	2.0	2.0	1.9	3.1	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	1.9	0.0
Effective interest rate (percent) 5/	0.5	0.3	0.1	0.3	0.4	0.5	0.6	0.7	0.5	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Growth of exports of G&S (U.S. dollar terms, in percent)	36.0	20.2	8.9	9.5	8.8	5.5	6.9	12.9	8.8	9.2	9.6	8.2	8.8	8.5	7.8	8.2	8.6	8.0	8.2	0.0
Growth of imports of G&S (U.S. dollar terms, in percent)	13.0	27.1	18.1	0.9	4.0	1.5	7.1	6.7	6.4	7.7	6.5	6.5	8.0	5.4	5.1	5.2	4.8	4.8	5.7	0.0
Grant element of new public sector borrowing (in percent)	...	...	54.9	56.2	56.1	56.5	56.9	56.9	56.3	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9	56.9
Memorandum item:																				
Nominal GDP (billions of US dollars)	1834.7	2136.8	2357.1	2553.2	2720.4	2908.5	3120.3	3355.8		3609.2	3881.6	4174.6	4489.7	6460.2	6947.8	7472.3	8036.3	8642.9	9295.3	9295.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as $[r - g - \rho(1+g)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments devided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years.

Table 3b. Country: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2006–26
(In percent)

						Projections							
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2020	2025	2026
NPV of debt-to-GDP ratio													
Baseline	7	9	11	12	14	15	16	17	18	19	21	19	20
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2007-26 1/	7	8	10	12	14	16	19	21	23	25	31	33	33
A2. New public sector loans on less favorable terms in 2007-26 2/	7	10	13	16	18	21	23	24	26	28	32	31	33
B. Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	7	9	11	12	14	15	16	17	18	19	21	20	20
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	7	10	13	15	16	18	19	20	20	21	22	20	21
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	7	10	14	17	18	20	22	23	24	26	28	26	27
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007-08 4/	7	11	15	17	18	19	20	21	22	23	23	21	22
B5. Combination of B1-B4 using one-half standard deviation shocks	7	12	18	20	21	23	24	25	26	27	27	25	26
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	7	12	15	17	19	21	23	24	25	27	29	27	28
NPV of debt-to-exports ratio													
Baseline	66	83	98	114	128	133	141	147	154	159	172	157	164
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2007-26 1/	66	75	89	111	132	147	165	182	201	213	258	268	270
A2. New public sector loans on less favorable terms in 2007-26 2/	66	96	121	149	172	183	198	211	224	234	264	252	266
B. Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	66	83	98	114	128	133	141	147	154	159	172	157	164
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	66	118	201	227	248	253	264	272	283	290	299	266	278
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	66	83	98	114	128	133	141	147	154	159	172	157	164
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007-08 4/	66	104	141	157	169	171	177	182	188	191	193	169	176
B5. Combination of B1-B4 using one-half standard deviation shocks	66	110	163	182	197	199	207	212	219	224	226	200	208
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	66	83	98	114	128	133	141	147	154	159	172	157	164
Debt service ratio													
Baseline	2	1	1	2	2	2	3	3	3	3	6	7	8
A. Alternative Scenarios													
A1. Key variables at their historical averages in 2007-26 1/	2	1	1	1	2	3	3	4	4	4	8	12	12
A2. New public sector loans on less favorable terms in 2007-26 2/	2	1	2	3	4	5	6	6	7	7	12	13	14
B. Bound Tests													
B1. Real GDP growth at historical average minus one standard deviation in 2007-08	2	1	1	2	2	2	3	3	3	3	6	7	8
B2. Export value growth at historical average minus one standard deviation in 2007-08 3/	2	1	2	3	4	5	5	5	5	6	11	12	13
B3. US dollar GDP deflator at historical average minus one standard deviation in 2007-08	2	1	1	2	2	2	3	3	3	3	6	7	8
B4. Net non-debt-creating flows at historical average minus one standard deviation in 2007-08 4/	2	1	2	2	3	3	3	3	3	4	7	8	9
B5. Combination of B1-B4 using one-half standard deviation shocks	2	1	2	3	3	4	4	4	4	4	8	9	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2007 5/	2	1	1	2	2	2	3	3	3	3	6	7	8
Memorandum item:													
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	56	56	56	56	56	56	56	56	56	56	56	56	56

Source: Staff projections and simulations.

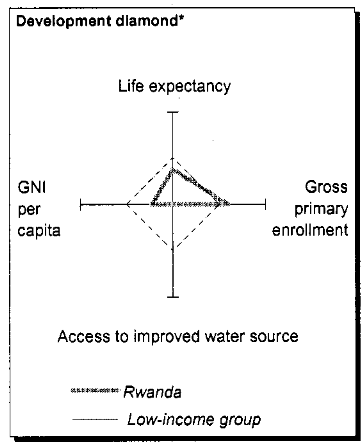
1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Annex 10: Country Indicators

Rwanda at a glance

7/27/06

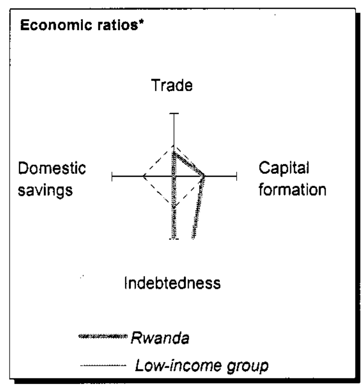
POVERTY and SOCIAL	Rwanda	Sub-Saharan Africa	Low-income
2005			
Population, mid-year *(millions)*	9.0	726	2,343
GNI per capita *(Atlas method, US$)*	230	600	510
GNI *(Atlas method, US$ billions)*	2.1	437	1,188
Average annual growth, 1999-05			
Population *(%)*	3.1	2.3	1.9
Labor force *(%)*	4.0	2.4	2.2
Most recent estimate (latest year available, 1999-05)			
Poverty *(% of population below national poverty line)*	60	..	..
Urban population *(% of total population)*	20	37	31
Life expectancy at birth *(years)*	44	47	58
Infant mortality *(per 1,000 live births)*	118	101	79
Child malnutrition *(% of children under 5)*	24	..	43
Access to an improved water source *(% of population)*	..	58	75
Literacy *(% of population age 15+)*	71	60	61
Gross primary enrollment *(% of school-age population)*	119	93	100
Male	118	98	105
Female	120	87	94



KEY ECONOMIC RATIOS and LONG-TERM TRENDS

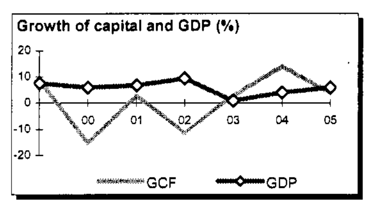
	1985	1995	2004	2005
GDP *(US$ billions)*	1.7	1.3	1.8	2.2
Gross capital formation/GDP	17.3	13.4	20.5	22.3
Exports of goods and services/GDP	10.8	5.2	10.3	9.5
Gross domestic savings/GDP	8.2	-7.3	2.4	0.2
Gross national savings/GDP	..	..	..	..
Current account balance/GDP	-3.9	-1.1	-3.0	-3.1
Interest payments/GDP	0.4	0.7	0.6	..
Total debt/GDP	21.3	79.7	90.2	70.1
Total debt service/exports	10.8	22.8	15.3	..
Present value of debt/GDP	..	..	..	..
Present value of debt/exports	..	..	..	..

	1985-95	1995-05	2004	2005	2005-09
(average annual growth)					
GDP	-4.4	7.2	4.0	6.0	4.0
GDP per capita	-2.9	1.6	2.5	4.2	1.7
Exports of goods and services	-12.3	17.5	11.2	-5.4	9.1

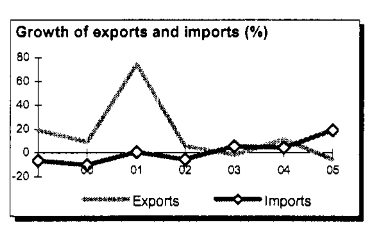


STRUCTURE of the ECONOMY

	1985	1995	2004	2005
(% of GDP)				
Agriculture	45.7	46.9	45.0	45.9
Industry	24.8	17.0	22.6	22.0
Manufacturing	15.0	10.9	11.0	10.4
Services	29.5	36.1	32.4	32.1
Household final consumption expenditure	80.5	96.9	84.7	86.6
General gov't final consumption expenditure	11.3	10.3	12.9	13.1
Imports of goods and services	19.9	25.8	28.4	31.5



	1985-95	1995-05	2004	2005
(average annual growth)				
Agriculture	-2.8	7.4	0.0	4.5
Industry	-9.6	7.3	2.2	4.2
Manufacturing	-9.4	4.6	5.8	6.0
Services	-3.2	6.9	9.8	8.4
Household final consumption expenditure	0.3	4.8	4.6	8.9
General gov't final consumption expenditure	-0.2	10.6	-11.4	8.0
Gross capital formation	-12.2	5.1	14.0	3.8
Imports of goods and services	6.1	2.5	4.2	18.9

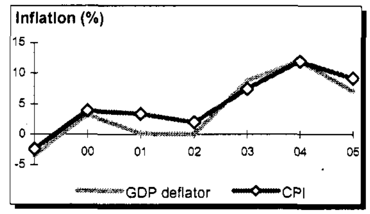


Note: 2005 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

PRICES and GOVERNMENT FINANCE

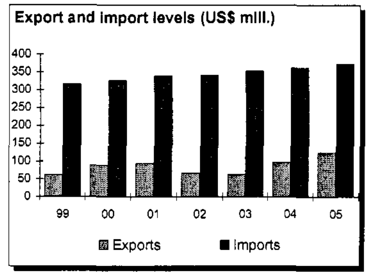
	1985	1995	2004	2005
Domestic prices				
(% change)				
Consumer prices	1.8	22.0	12.0	9.2
Implicit GDP deflator	4.6	51.3	12.0	7.1
Government finance				
(% of GDP, includes current grants)				
Current revenue	12.2	18.1	25.9	29.2
Current budget balance	2.3	5.7	9.9	11.3
Overall surplus/deficit	..	-2.4	-0.2	0.7



Inflation (%)

TRADE

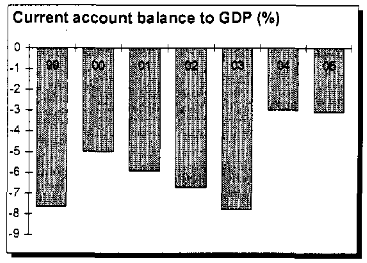
	1985	1995	2004	2005
(US$ millions)				
Total exports (fob)	119	50	97	125
Coffee	86	39	31	38
Tea	17	4	23	24
Manufactures	5	4	30	32
Total imports (cif)	274	238	362	374
Food	41	56	65	69
Fuel and energy	51	22	69	71
Capital goods	56	50	68	76
Export price index *(2000=100)*	88	109	63	78
Import price index *(2000=100)*	70	100	108	119
Terms of trade *(2000=100)*	126	110	58	65



Export and import levels (US$ mill.)

BALANCE of PAYMENTS

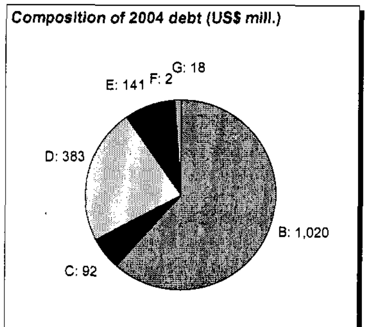
	1985	1995	2004	2005
(US$ millions)				
Exports of goods and services	154	67	189	226
Imports of goods and services	328	334	524	664
Resource balance	-174	-267	-335	-438
Net income	-9	5	-34	-25
Net current transfers	116	247	313	397
Current account balance	-66	-15	-56	-66
Financing items (net)	22	50	158	178
Changes in net reserves	45	-35	-101	-111
Memo:				
Reserves including gold *(US$ millions)*	113	99	314	406
Conversion rate *(DEC, local/US$)*	101.3	262.2	574.6	555.9



Current account balance to GDP (%)

EXTERNAL DEBT and RESOURCE FLOWS

	1985	1995	2004	2005
(US$ millions)				
Total debt outstanding and disbursed	366	1,031	1,656	1,510
IBRD	0	0	0	0
IDA	152	512	1,020	980
Total debt service	18	20	30	..
IBRD	0	0	0	0
IDA	2	13	6	23
Composition of net resource flows				
Official grants	..	..	..	..
Official creditors	71	43	83	..
Private creditors	-3	0	0	..
Foreign direct investment (net inflows)	15	2	..	..
Portfolio equity (net inflows)	0	0	..	..
World Bank program				
Commitments	17	50	35	100
Disbursements	30	35	82	113
Principal repayments	0	6	0	15
Net flows	29	29	82	98
Interest payments	1	7	6	8
Net transfers	28	22	76	90



Composition of 2004 debt (US$ mill.)

A - IBRD
B - IDA
C - IMF
D - Other multilateral
E - Bilateral
F - Private
G - Short-term

REPUBLIC OF RWANDA

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Kigali, 31 JUIL. 2006

N° 4289/06/10/EFU

Mr. Pedro ALBA
Country Director for Rwanda
The World Bank
Washington D.C.

Dear Mr. Alba,

RE: INTERIM STRATEGY NOTE: NON OBJECTION FOR DISCLOSURE

I have the pleasure to communicate to you that the Government of Rwanda grants permission to disclose the ISN, following Board discussions and once it has been finalized by the Bank.

Let me also take this opportunity to convey the great satisfaction and appreciation for the way our negotiations around the resource allocation under the forthcoming ISN were conducted smoothly.

I look forward to meeting you soon during the Annual Meetings in September.

Yours sincerely,

MUSONI James
Minister of Finance and Economic Planning

John RWANGOMBWA
Secretary General and
Secretary to the treasury

Cc: Resident Representative of the World Bank
KIGALI

MAP SECTION