



# Project Information Document/ Integrated Safeguards Data Sheet (PID/ISDS)

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Concept Stage | Date Prepared/Updated: 02-Jan-2018 | Report No: PIDISDSC23346



**BASIC INFORMATION**

**A. Basic Project Data**

Country Rwanda	Project ID P164807	Parent Project ID (if any)	Project Name Rwanda Public Finance Management Reform Project (P164807)
Region AFRICA	Estimated Appraisal Date Aug 13, 2018	Estimated Board Date Sep 25, 2018	Practice Area (Lead) Governance
Financing Instrument Investment Project Financing	Borrower(s) MINECOFIN	Implementing Agency MINECOFIN	

**Proposed Development Objective(s)**

To strengthen policy alignment of the budget, value for money in service delivery and quality of financial reporting

**Financing (in USD Million)**

**SUMMARY**

<b>Total Project Cost</b>	20.00
<b>Total Financing</b>	20.00
<b>Financing Gap</b>	0.00

**DETAILS**

<b>Total World Bank Group Financing</b>	20.00
World Bank Lending	20.00

Environmental Assessment Category C-Not Required	Concept Review Decision Track II-The review did authorize the preparation to continue
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Other Decision (as needed)

## **B. Introduction and Context**

### Country Context

1. Rwanda is a small landlocked country in East Africa. It is bordered by the Democratic Republic of Congo to the west, Tanzania to the east, Uganda to the north, and Burundi to the south. According to World Bank data, the population of Rwanda is approximately 11.61 million, of which 52 percent are women.
2. Rwanda is a low-income country, however it experienced solid economic growth over the last two decades. During 2002-2016, the economy expanded at an annual average rate of 7.8 percent, well above the average for all Sub-Saharan African countries. Political stability, prudent macroeconomic policies, promotion of good governance and favorable investment climate contributed to the fast growth and low inflation. Growth has been driven primarily by services - 58 percent contribution to overall growth, followed by agriculture – 24 percent, and industry – 18 percent<sup>1</sup>.
3. Recently Rwanda's economic growth has been decelerating and averaged 7.2 percent in 2012-2017 compared to 8 percent in 2007-2011. Rwanda's growth of past five years was affected by such adverse factors as lower prices of its traditional export items, such as tea, coffee, and minerals and the 2012 aid crisis. This highlights Rwanda's dependence on external flows, a key feature of its growth model, as the main vulnerability in the evolving global and regional context.
4. Rwanda's public debt has been on an upward trajectory since 2013. Public and publicly guaranteed debt increased from around 37 percent of gross domestic product (GDP) in 2015 to 43 percent in 2016, mostly driven by external debt including both public and publicly guaranteed. Despite the recent increase, public debt level remains manageable, and the joint IMF/World Bank Debt Sustainability Assessment analysis of 2016 confirmed Rwanda's status of low risk of debt distress.

### Sectoral and Institutional Context

5. The Government acted to address growing imbalances through fiscal adjustment and exchange rate flexibility. In mid-2016, the Government moved quickly to address growing imbalances by a policy adjustment program supported by an IMF 18-month Standby Credit Facility. Fiscal tightening aimed at reducing external vulnerabilities and improving the foundations for growth, contributed to the temporary growth slowdown through decelerating credit and private consumption. As a result, 2015/2016 fiscal deficit was at 3.9 percent of GDP lowered by cuts in capital spending.
6. The macro-economic outlook for the medium-term dictates the need to supplement strict fiscal discipline with stronger emphasis on allocative and operational efficiency of public spending during the coming years. Recent adjustments constrain future fiscal choices as fiscal buffers are largely depleted and cannot be used to boost aggregate demand through public spending.
7. In this context, it is important for Government to continue improve efficiency of public spending, enable better service delivery and develop instruments for strategic reallocation of resources. The Government realizes that this requires changes in the way it manages public finances. In response, the Government is preparing the Public Financial Management Reform Strategy 2018-2022 focusing on decentralization, accounting reform, capacity development,

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<sup>1</sup> World Bank 2015 Rwanda Jobs and Employment Study, Figure 24, page 2.



performance-based budgeting, procurement, and Financial Management Information System (FMIS) rollout among others.

8. The Public Financial Management (PFM) reform in Rwanda started with the Public Financial Management Reform Strategy (2008-2012) and continued with the five-year PFM sector strategic plan for 2013-2018. The World Bank-supported US\$100 million Public Sector Governance Program-for-Results provided support to some of the key PFM reforms. Several development partners also formed a PFM Basket Fund to better align bilateral support.

9. The Public Expenditure and Financial Accountability (PEFA) Assessment was used to track reform progress over time. The last assessment was carried out in 2016. The assessment evidenced reasonable fiscal discipline, orderly budget preparation process, and financial controls. At the same time, large in-year changes in the composition of expenditure highlight weak policy alignment of the budget. Annual monitoring of payment arrears and lack of performance information on service delivery may undermine value for money. The quality of reporting is undermined by inconsistent application of accounting standards.

10. The elements of the Medium-Term Expenditure Framework (MTEF) are in place, but linking the budget allocations with performance information has not yet been achieved. Considerable efforts have gone in linking the budget with sector priorities, institutional plans and national priorities reflected in the Economic Development and Poverty Reduction Strategy (EDPRS 2). In line with this, Ministerial budget consultations for FY2015/16 were held during March 2015 and were fully informed by preceding planning consultations where broad priorities were agreed. The result is the production of estimates covering three financial years using administrative, economic and functional classifications. The program classification is in place, however costing of programs remains a weakness. Under the draft PFM Strategic Action Plan, Government plans to improve costing of both capital expenditures and recurrent expenditure financing service delivery and link it with improved performance information and monitoring.

11. Accounting system is not compliant with international standards. Although the intention is to adhere and comply, to the extent possible, with *International Public Sector Accounting Standards* (IPSAS), this has not been fully attained and omissions are very common, as stated by the Office of the Auditor General (OAG). For example, not all the 2013/14 financial statements contain a consolidated cashflow statement supported by detailed segmental reporting: i.e. financial information on government business enterprises and sub-district entities is disclosed in the notes to the consolidated financial statement but their flows and cash balances are not reflected in the consolidated cashflow statement.

12. PFM Sector Strategic Plan 2013-2018 has identified enhancement of training, professionalization and capacity building across all PFM disciplines as a priority area that needs to be addressed to further strengthen and sustain accountability and transparency in the management of public resources, and enable successful implementation of Government's efforts towards poverty eradication as envisioned in EDPRS2 and Vision 2020. The PFM Learning and Development Strategy has been developed and is expected that the Strategy will be adopted by December 2017 by MINECOFIN. Both the PFM Sector Strategic Plan and the PFM Learning and Development Strategy focus on building capacities at national and subnational levels.

13. SmartIFMIS rollout to all Central Government entities, agencies and all Districts allowed to improve financial controls. The functional upgrade of the SmartIFMIS is ongoing. The IFMIS can benefit from further improvements in interfaces with other PFM systems. The interface between e-Government Procurement and SmartIFMIS tracks only contracts from e-GP, while payments are done outside the IFMIS. Payment orders are manually uploaded into the e-Banking, and after a series of approvals, money is transferred to the supplier's bank account. The lack of integration between the procurement, IFMIS and payroll systems is a major challenge for districts PFM operations. The IFMIS



infrastructure is now hosted at the national Data Center, using the Government Cloud infrastructure. A Service level Agreement (SLA) has been signed between the National ICT Agency and MINECOFIN to ensure availability and performance of the IFMIS.

14. The IFMIS has not been able to track revenue and expenditure up to the level of end users (i.e., individual schools and health facilities across the country). Expenditure reports by districts do not capture resources received in kind by non-budget agencies (NBA). Also, the data is not used to prepare aggregated expenditure reports by type of service unit and geographical distribution for tracking analysis (as repeatedly reported by the OAG). The Government plans to roll out IFMIS to service delivery units in the next several years. IT infrastructure needs for rollout include enhanced server capacity, disaster recovery center, and improved network connectivity.

#### Relationship to CPF

15. The proposed Public Financial Management Reform Project will support the Government of Rwanda's PFM Strategy, and inter alia implementation of the Vision 2020. The Project aligns with the World Bank Group Country Partnership Strategy 2014-2018. The Country Partnership Strategy third theme focuses on Supporting accountable governance through public financial management and decentralization. The project is aligned with the World Bank Group's twin goals of shared prosperity and reduced poverty by supporting government reforms that enable the Government of Rwanda to become more effective and efficient and by improving allocative efficiency of the PFM system. The proposed institutional reforms will strengthen the overall governance environment by improving transparency and accountability in the PFM. The project will improve value for money in Government programs and facilitate service delivery.

### **C. Proposed Development Objective(s)**

16. To strengthen policy alignment of the budget, value for money in service delivery and quality financial reporting

#### Key Results

17. The project is expected to achieve the project development objective (PDO) through improving the Government's ability to control resources received by service delivery units, improve reporting of accurate financial information, and increase PFM capacity across all government entities. The achievement of the PDO will be assessed on the basis of the following results and the respective indicators:

- a. Decreased variance in functional composition of expenditure out-turn
- b. Improved control over resources of service delivery units
- c. Compliance of financial statement with accrual IPSAS

### **D. Concept Description**

18. To continue improvements in PFM and facilitate service delivery, the proposed Project will focus on rollout of the FMIS to service delivery units, PFM capacity development (including procurement professionalization) across all government entities, and support to accrual accounting reform implementation. This will allow the Government of Rwanda to ensure better control over resources received by service delivery units, improved reporting of accurate financial information from decentralized public service delivery units, as well as better link between resource allocation and service delivery. The operation will support the PFM Sector Strategic Plan which is expected to be approved in December 2017.

#### *Component 1 – PFM IT Systems Roll Out*



19. This component will help establish infrastructure to roll out FMIS and other PFM systems such as e-Government Procurement (e-GP) to service delivery units. It will finance procurement of the servers to ensure proper disaster recovery for FMIS and e-GP, network equipment and working stations to ensure connectivity of service delivery units to Government's PFM IT systems. The FMIS will be rolled out with existing functionality, which covers core treasury functions, budget planning and controls.

20. The FMIS and e-GP are Government developed and maintained systems. In order to ensure that capacity to expand the systems to future business needs is adequate, this component will also finance training of business analyst for the FMIS and e-GP teams.

#### *Component 2 – Accounting and financial reporting*

21. This component is expected to finance technical assistance related to the initial stage of implementation of public sector accounting reform. Activities will include: (i) defining institutional responsibilities and setting up a work plan for adoption of accounting standards according to international standards; (ii) gradual implementation of internationally accepted accounting standards in line with selected IPSAS based on a work plan, accounting legislation and key fiscal priorities; and (iii) redesign of the national chart of accounts to accommodate transition to accrual accounting and its integration with the budget classification, developing the content of financial reports.

#### *Component 3 - PFM capacity development*

22. The component will support implementation of the PFM Learning and Development Strategy building on achievement of the Governance Program-for-Results. It will finance capacity building activities, including training covering implementation of the medium-term budgeting, performance-based budgeting, accounting and procurement, publication of training materials, training of trainers, etc. Component resources will also be used for various forms of communication activities to raise awareness of and support for PFM reforms, including workshops, conferences, study visits. The Institute of Certified Public Accountants of Rwanda will be supported under the Project as a key institution in charge of auditors and accountants training. As part of the PFM capacity development component, the proposed Project will seek to address gender gap in the PFM profession by ensuring equal access to training and public sector jobs by female and male.

#### *Component 4 – Performance-based budgeting and MTEF*

23. The component will include advice to the MINECOFIN quality assurance of program-based budget submissions and advice on the development and use of cost norms in budget preparation and analysis. Support will also be provided for improving the methodology for indicators that would assess efficiency and results of budget programs. The methodology of budget programs development should allow looking into various social dimensions, including gender, where relevant.

#### *Component 5 – Project management*

24. This component will support the operation of the existing single project implementation unit (SPIU), which will: carry out project procurement, financial management activities and organize audit; help the MoF coordinate project activities; and interact with all local and international entities involved in the project.

## **SAFEGUARDS**

### **A. Project location and salient physical characteristics relevant to the safeguard analysis (if known)**

Kigali



**B. Borrower’s Institutional Capacity for Safeguard Policies**

No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.

**C. Environmental and Social Safeguards Specialists on the Team**

George Bob Nkulanga, Social Safeguards Specialist

Emmanuel Muligirwa, Environmental Safeguards Specialist

**D. Policies that might apply**

Safeguard Policies	Triggered?	Explanation (Optional)
Environmental Assessment OP/BP 4.01	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Natural Habitats OP/BP 4.04	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Forests OP/BP 4.36	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Pest Management OP 4.09	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Physical Cultural Resources OP/BP 4.11	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Indigenous Peoples OP/BP 4.10	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Involuntary Resettlement OP/BP 4.12	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Safety of Dams OP/BP 4.37	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Projects on International Waterways OP/BP 7.50	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.
Projects in Disputed Areas OP/BP 7.60	No	No safeguards are triggered as the project finances only technical assistance, training, and IT procurements.



## **E. Safeguard Preparation Plan**

Tentative target date for preparing the Appraisal Stage PID/ISDS

May 31, 2018

Time frame for launching and completing the safeguard-related studies that may be needed. The specific studies and their timing should be specified in the Appraisal Stage PID/ISDS

The project will not require safeguard studies. The social and gender impact will be assessed as part of the preparation before May 2018.

## **CONTACT POINT**

### **World Bank**

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### **Borrower/Client/Recipient**

MINECOFIN

### **Implementing Agencies**

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## **FOR MORE INFORMATION CONTACT**

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**APPROVAL**

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