

Chapter 2

COUNTRY CONTEXT

2.1 GEOGRAPHIC AND POLITICAL CONTEXT

Rwanda is a landlocked country in the Great Lakes region of central Africa covering roughly 25,000 square kilometers of land and 1,400 square kilometers of water.

Rwanda's population was estimated at slightly more than 9 million people in mid 2006. The current population growth rate is estimated at 3.5 percent per year while the population density is the highest in Africa, at 350 people per square kilometer,³ and more than 450 people per square kilometer of arable land.⁴

The political, social and economic context of Rwanda is profoundly affected by the civil war of the early 1990s and genocide of 1994 and the country continues to deal with the consequences. Whether considering demographic trends, issues of land ownership or penal-code reform, the background of devastation and horror impinges on the consciousness of all concerned. Even 13 years after the genocide, there is an unspoken assumption often underlying discussions of the nation's future to the effect that Rwanda cannot be considered an ordinary country.

A transitional 'government of national unity' established after the genocide of 1994 took extensive crisis prevention measures in the spirit of 'never again'. It introduced fundamental changes that would open doors for reconciliation and help the country to move forward and build a new nation whose citizens could live in harmony and prosperity.

The country adopted a multiparty system, which has continued since the 2003 presidential and parliamentary elections. The Rwandan Patriotic Front is the ruling party. It was an important actor in the political discourse throughout the transitional period and has continued to play this role since the 2003 presidential and parliamentary elections. These elections marked the conclusion of the nine-year transition to open party political activity at all levels. While Rwanda has made remarkable progress in the democratic process, the process could mature further through the empowering of political parties, civil society and the private sector.

Rwanda has gone through many positive developments despite its turbulent history. For example, women have entered Rwanda's political and administrative institutions in impressive percentages. They now occupy half the seats in the National Assembly and almost one third of the portfolios in the new government.

Regional peace and stability is an issue of major concern to the GoR and its partners. Rwanda lies at the centre of a very densely populated region that encompasses Rwanda, Burundi, the Kivu region of the eastern Congo and south-western Uganda. This area shares very similar languages, a common culture and a long history of socio-economic and politico-military interaction. Rwanda's stability is intimately linked with the stability of this broader region and vice-versa.

3 UNDP, 'Turning Vision 2020 into Reality: From Recovery to Sustainable Human Development. National Human Development Report', Kigali, 2007.

4 United States Agency for International Development, 'Rwanda Democracy and Governance Assessment', Office of Democracy and Governance, November 2002.

2.2 ECONOMIC SITUATION— RECOVERY AND TRENDS

Rwanda's economy is agrarian. Agriculture employs almost 80 percent of the population,⁵ accounting for more than 40 percent of gross domestic product (GDP) and more than 70 percent of exports.⁶ Apart from unexploited gas reserves beneath Lake Kivu, Rwanda is poorly endowed with mineral resources. Subsistence food production is the dominant activity in the agriculture sector. Production of coffee and tea for export is still modest.

The service sector contributes approximately 39 percent of GDP and employs roughly 6.5 percent of the working population. Within this sector, wholesale and retail trade as well as public administration account for approximately 50 percent of services. The economic contribution of tourism, while growing rapidly, remains marginal.

The industrial sector makes up 20 percent of the GDP and employs slightly less than 2 percent of the working population. Manufacturing constitutes the most important source of industrial activity, accounting for almost 12 percent of GDP while construction accounts for another 8 percent.⁷

The percentage of Rwandans living in poverty has decreased from 60.4 percent in 2000–2001 to 56.9 percent in 2005–2006. As a result of the country's high population growth rate, this progress has been overshadowed by an increase in the absolute number of people living in poverty, increasing from 4.8 million to 5.4 million persons during the same period. Poverty in Rwanda is mainly a rural phenomenon: while the population is 83 percent rural, 92 percent of the poor live in rural areas. There are also significant inequalities within and between rural provinces.⁸

2.2.1 SOUND MACROECONOMIC INDICATORS

Rwanda's economic growth was rapid in the years following the genocide, largely due to determined economic policy, the 'catch-up' effect (due to starting from a very low baseline in 1994) and relatively high aid flows. Economic growth has been more modest in recent years. For 2007, the GoR forecast for GDP growth is 6.0 percent (Table 1).

Fitch Ratings has assigned a 'B-' foreign currency rating to Rwanda with a Positive Outlook. According to Fitch Ratings, Rwanda's rating is supported by a good track record of macroeconomic management and reforms, and the receipt of substantial bilateral and multilateral debt relief in 2005 and 2006.⁹

2.2.2 TRADE ISSUES

Despite an increase in goods exports in the last two years, Rwanda struggles with a chronic trade deficit. Imports have risen sharply since 2004, largely as result of the increasing costs of imported fuel and energy. The GoR is actively seeking ways to increase domestic energy production, such as exploitation of methane deposits of the Lake Kivu.

Despite strong market-oriented policies, Rwanda's economy is not yet well integrated into regional and global markets. Its landlocked position, deficient infrastructure and small domestic market with limited purchasing power have held back foreign direct investments. At the same time, a strong national currency, buoyed by the high level of development assistance, has favoured imports and discouraged exports.

Official economic statistics do not fully record trade by the informal sector, which constitutes a significant proportion of economic activity in

5 UNDP, 'Turning Vision 2020 into Reality: From Recovery to Sustainable Human Development. National Human Development Report', Kigali, 2007.

6 Economist Intelligence Unit, 'Rwanda – Country Profile 2006', London, England, 2006.

7 Ibid.

8 National Institute of Statistics Rwanda, 'Preliminary Poverty Update Report, Integrated Living Conditions Survey 2005/06', (Enquête Intégrale sur les Conditions de Vie des Ménages), December 2006.

9 FitchRatings, 'Republic of Rwanda', 19 December 2006, available online at www.fitchratings.com.

Table 1. Key economic data

	2000	2001	2002	2003	2004	2005	2006	2007
Population (million)	8.34	8.24	8.13	8.35	8.58	8.81	9.06	9.31
Nominal GDP (Rwf billion) (USD million)	676.1 1,733.5	741.9 1,674.3	781.5 1,643.9	955.2 1,775.7	1,137.9 1,980.2	1,327.1 2,379.1	1,583.0 2,868.9	1,838.9 3,361.8
Real GDP (Rwf billion) (USD million)	683.8 1,753.2	741.8 1,674.2	823.0 1,731.4	825.4 1,534.4	868.8 1,512.0	930.4 1,668.0	981.1 1,778.2	1,039.8 1,900.9
Real GDP growth (% annual change)	8.1	8.5	11.0	0.3	5.3	7.1	5.5	6.0
Nominal GDP per capita (USD)	207.80	203.31	202.24	212.68	230.86	269.92	316.71	361.11
Price inflation (% annual change)	3.9	3.4	5.3	7.4	12.1	5.6	12.2	6.6
Export of goods (USD million)	69.0	93.6	67.4	63.3	98.1	125.0	147.4	176.8
Import of goods (USD million)	-226.9	-226	-207.9	-237.2	-278.5	-361.9	-446.4	-589.8
Current account balance (USD million) (% of GDP, including Official Transfers)	-114.9 -6.6	.0 -5.9	-105.9 -6.4	-104.7 -5.9	-31.4 -1.6	-57.7 -2.4	-207.3 -7.2	-226.3 -6.7
Exchange rate	390.02	443.09	475.37	537.91	574.63	557.81	551.76	547.00

Sources: Population—Census 2002 via JF Financial Model (MINECOFIN); GDP—2000-2006 NIS, 2007 MINECOFIN estimate; Price Inflation—NISR CPI; Exports, imports and current account balance—BNR

Rwanda. It is particularly significant in regions adjacent to the Democratic Republic of the Congo and Burundi, where Rwanda has an important trade surplus in both goods and services. Other positive signs include imports of capital goods in last two years that have grown faster than imports of consumption goods.

Much hope is placed on the integration into the East African Community, which was planned for completion in 2007. While the GoR admits that adjustment to competition from the larger economies of Kenya, Tanzania and Uganda will

be challenging, it is convinced that long-term gains will outweigh the costs.

2.2.3 INVESTMENT NEEDS

Rwanda's ambitious economic policy goals imply vast investments in economic and social infrastructure, as stipulated in their Long-term Investment Framework/Portfolio (see Table 2) and EDPRS.

As the Long-term Investment Framework/Portfolio document points out, securing financing is one of the country's biggest challenges.¹⁰ Official

10 Government of Rwanda, 'Rwanda: A Long Term Investment Framework', Kigali, February 2006.

Table 2. Finance requirements of Long-term Investment Framework/Plan (2006-2010)

	2006	2007	2008	2009	2010	Total
USD, millions	270	520	690	600	470	2,550

Source: Government of Rwanda, 'Rwanda: A Long-term Investment Framework', Kigali, Rwanda, 2 August 2006.

development assistance, which ranges from \$400 million to \$500 million annually, currently covers more than half of the GoR's budget and most of their capital investment budget. Debt relief has been received through the Heavily Indebted Poor Countries Initiative, fiscal performance has improved and the share of grant aid in Rwanda's overall Official Development Assistance is expected to increase. But these sources alone cannot cover investment requirements in the coming years. Even with a higher targeted level of revenue mobilization, the annual resource gap to meet the Millennium Development Goals (MDGs) would average approximately \$1,000 million during the period 2009 to 2020.

2.3 SOCIAL SITUATION— INDICATORS AND TRENDS

The legacy of the 1994 genocide and the armed conflict that preceded it continue to weigh heavily on the social and economic recovery of the country. These events impoverished Rwandans and increased their vulnerability, particularly among the widows and orphans of the genocide, recently returned refugees, resettled internally displaced persons and the families of detained suspects of genocide related crimes. These problems, combined with very high rural population densities and small farm sizes, have left many Rwandan communities unable to provide adequately for their poorest and most vulnerable groups.

Vulnerable people, such as women-headed and child-headed households, are generally at greater risk of being poor than other groups. Almost

25 percent of Rwandan households were headed by women in 2006 and 0.7 percent were headed by children.¹¹ An encouraging decline in poverty rates has been registered, however, in households that are headed by women, from 66 percent in 2001 to 60 percent in 2006.¹²

2.3.1 HEALTH

Health care infrastructure was badly damaged during the early 1990s. It has since been rebuilt although the health status of Rwandans remains poor. Mental health problems, due largely to the horrors of the genocide and its aftermath, are prevalent in a society that is not equipped to deal with these problems. Preventable diseases like HIV/AIDS and malaria remain a burden on Rwandan economy both in terms of direct costs to the poor and vulnerable households and in terms of loss of labour and labour productivity.

Recent key indicators from the health sector are still stark. Between 2000 and 2005, under-five mortality decreased from 196 per 1,000 births to 152 per 1,000, recovering to pre-war levels. A child born into a poor (bottom quintile) family has a one in five chance of dying before reaching the age of five—twice as high as for a child born into a rich (top quintile) family. Malaria has become the leading cause of morbidity and mortality in Rwanda and children under the age of five account for 35 percent of all malaria related deaths. HIV prevalence among women in Kigali is 8.6 percent, meaning that a woman living in Kigali is eight times more likely to get infected with HIV as a man living in the northern province.¹³

11 National Institute of Statistics of Rwanda, 'Millennium Development Goals: Towards Sustainable Social and Economic Growth', National Institute of Statistics of Rwanda, Kigali, 2007.

12 Ibid.

13 UNDP, 'Turning Vision 2020 into Reality: from Recovery to Sustainable Human Development. National Human Development Report', Kigali, 2007.

Table 3. Rwandan health indicators compared to other countries in the region

Health indicators	Year	Rwanda	Kenya	Uganda	Tanzania	South Africa
Public health expenditure (% of GDP)	2002	3.1	2.2	2.1	2.7	3.5
Health expenditure per capita (PPP USD)	2002	48	70	77	31	689
Births attended by skilled personnel (%)	1995-2003 ^a	31	41	39	36	84
Infant mortality rate (per 1,000 live births)	2003	118	79	81	104	53
Physicians (per 100,000 people)	1990-2004	2	13	5	2	69
HIV prevalence (% ages 15-49)	2003	5.1	6.7	4.1	8.8	21.5
Malaria cases (per 100,000 people)	2000 ^b	6,510	545	46	1,207	143
Tuberculosis cases (per 100,000 people)	2003 ^c	628	821	621	476	341

Notes: a) Data refer to the most recent year available during the period specified. b) Data refer to malaria cases reported to the World Health Organization and may represent only a fraction of the true number in a country. c) Data refer to the prevalence of all forms of tuberculosis.

Source: The Economist Intelligence Unit, 'Uganda Country Profile', 2006.

Table 3 reflects Rwanda's health indicators compared to other countries in the region. On average, there is less than one public hospital per 200,000 people. Churches operate nearly half the country's health care centres and district hospitals. In the commercial private sector, there is a single tertiary hospital in Kigali and a scattering of private clinics. An estimated 87 percent of the population has access to health care, among the highest in the East Africa region, although there are only two doctors and two paramedics per 100,000 people and access is skewed in favour of urban areas where less than 15 percent of the population lives. Overall, Rwanda's health indicators (particularly maternal and child

mortality) remain poor, and some of the MDG targets remain challenging.

2.3.2 HIV/AIDS

The most recent findings on HIV/AIDS prevalence are from the Rwanda Demographic and Health Survey of 2005,¹⁴ which observed an adult prevalence rate of 3.0 percent nationally, with marked variations between the sexes: 2.3 percent males; 3.6 percent females, and by residence: 2.2 percent rural and 7.6 percent urban.¹⁵ Since 2003, Rwanda has made significant progress in revising strategies to fight HIV/AIDS. The national response is characterized by a multi-sectoral, multi-disciplinary, decentralized and

14 Institut National de la Statistique, 'Rwanda Demographic and Health Survey 2005', Ministry of Finance and Economic Planning, Kigali, July 2006.

15 UNGASS, 'Rwanda: Follow up to the Declaration of Commitment on HIV/AIDS. Reporting period: January 2003-December 2005', February 2006.

community-based approach. Several key policy statements have been developed and clarified, particularly involving new aspects of the epidemic after the national plan 2002–2006 was made. Key policy statements have been developed for orphans and other vulnerable children 2002–2004, anti-retroviral therapy 2004, HIV/AIDS in the workplace, and for condoms 2005. In addition, a national HIV/AIDS policy document encompassing all policies was drafted 2005.¹⁶

Despite strong commitment and proactive initiatives by the government of Rwanda, challenges to combat the disease remain. For example, prevention of mother to child transmission programme monitoring reports showed that the percentage of infected infants born to HIV-infected mothers has increased from 9.5 percent in 2003 to 11.0 percent in 2005. The programme data also revealed that there has been an increase in the number of pregnant women seeking care and provided with Nevirapine for prevention of infection to newborns from 14.2 percent in 2003 to 27.8 percent in 2005.¹⁷

The government objective is to reduce mother to child transmission of HIV by 50 percent by 2010 by increasing the percentage of health care facilities offering mother to child transmission services.

2.3.3 CHILD MORTALITY

According to the latest MDG country report,¹⁸ a 22.4 percent reduction in infant mortality has been achieved between 2000 and 2005, bringing infant mortality rates to 86 per 1,000 live births, roughly their level in 1992.

2.3.4 MATERNAL HEALTH

The national MDG objective is to reduce the maternal mortality rate by three quarters, from

611 per 100,000 live births in 1990 to 153 in 2015. In 2000 the maternal mortality rate was 1,071, by 2005 the rate had declined to 750 per 100,000 live births a reduction of nearly 30 percent.¹⁹

2.3.5 MALARIA AND OTHER DISEASES

Over the past decade malaria has become a leading cause of morbidity and mortality in Rwanda with roughly one million cases of malaria reported in the past five years, making malaria one of the leading causes of death. However the malaria case fatality rate has declined from 9.3 percent in 2001 to 2.9 percent in 2006 in the general population, and declined in children under five from 10.1 percent in 2001 to 2 percent in 2006.²⁰

2.3.6 EDUCATION

The government of Rwanda considers education critical for achieving sustainable economic growth and development. In its Poverty Reduction Strategy Paper (PRSP), the government puts quality basic education for all as its first priority. The Rwanda 2020 vision statement calls for universal adult literacy by 2020. It aims to ensure that all Rwandan citizens will acquire basic primary education by 2010 and that significant improvement will be shown in secondary and tertiary education.

To achieve the above objective, the government provides free mandatory primary education for all children and conducts awareness campaigns to encourage parents to send their children to school. This has resulted in a steady increase in primary school enrolment rates from 87 percent in 2003 to 95 percent in 2006.²¹ While the increase in numbers of primary schools and classrooms did not keep pace with this rapid growth in student population, the number of teachers

16 Ibid.

17 Ibid. The same source reports that there was an estimated 7.5 percent reduction in the proportion of infants born with HIV as a result of anti retroviral treatment for prevention of mother to child transmission between 2003 and 2005.

18 National Institute of Statistics of Rwanda, 'Millennium Development Goals: Towards Sustainable Social and Economic Growth', National Institute of Statistics of Rwanda, Kigali, 2007.

19 Ibid.

20 Ibid.

21 Ibid.

grew even more rapidly, reducing the student teacher ratio from 60:1 to roughly 54:1 in this period.²² Gender equality in primary and secondary enrolment has also remained good, though this indicator has not been as encouraging at the tertiary level in the recent years.

2.4 ENVIRONMENTAL SITUATION— CHALLENGES AND TRENDS

Land scarcity drives environmental degradation while environmental degradation exacerbates the effects of land scarcity: Rwanda's population density is more typical of south or East Asia than sub-Saharan Africa. With close to 350 people per square kilometre, it is the highest in Africa and among the highest in the world. The median population growth projection foreseen in the national census of 2002 has the overall population growing at an average of 2.5 percent for at least 20 years—from 8.1 million in 2002 to 13.4 million in 2022.²³ Rural populations are projected to grow more slowly than urban populations, but are still expected to increase from 6.8 million in 2002 to 9.5 million in 2022. Rwanda's population is around 83 percent rural and this population is highly dependent on subsistence agriculture. Virtually all rural Rwandans use biomass fuels, mostly firewood, as their principal energy source. Levels of fertilizer use and cash crop production are very low.

The rugged topography of the country, often referred to as the 'Land of a Thousand Hills', greatly increases the threat of soil erosion.²⁴ It is estimated that half the country's farmland suffers

moderate to severe erosion. Increasing intensity of agricultural land use and ongoing gradual agricultural transformation further increases the threat of soil degradation. Cultivation has been pushed onto seasonally flooded bottomlands and steep, fragile slopes previously devoted to grazing and woodlots. Fallow periods are declining. When hundreds of thousands of rural Rwandans were either killed or forced to flee their homes in 1994, one result was the widespread neglect of many anti-erosion structures across the countryside.²⁵

Traditional land tenure systems exacerbate problems of fragmentation of agricultural land, further driving land degradation. High demand for wood (and charcoal) for domestic fuel, industry and construction maintains pressure on the country's limited forest resources, which are mostly plantations of exotic tree species and a diminishing area of natural forest reserve. An estimated 50.2 percent of Rwanda's forest cover was lost between 1990 and 2005.²⁶

Low rural incomes limit communities' capacities for improving their water and sanitation services while high levels of rural poverty and population density put increasing pressures on land and water resources. The use of Rwanda's valley bottom marshes for agriculture has expanded quickly in recent years, with little planning or control. Subject to the same land tenure regime as dry lands, marsh lands are being sub-divided into progressively smaller plots, with little or no attention paid to the affect of this transformation on local water supplies or the need to carefully manage these highly productive, sensitive sites.²⁷

22 Ibid.

23 Central Statistics Office, 'Synthèse du 3ème Recensement Général du Rwanda—Août 2002', Ministry of Economics and Finance, Kigali, Rwanda, 2003.

24 Clay, Daniel, Thomas Reardon, and Jaakko Kangasniemi, 'Sustainable Identification in the Highland Tropics: Rwandan Farmers' Investments in Land Conservation and Soil Fertility', *Economic Development and Cultural Change*, Vol. 46, No. 2, January 1998, pp 351-377.

25 Kairaba, A, 'Integrating Land Issues into PRS and the Broader Development Agenda—Rwanda Country Case Study', paper presented at regional workshop on land issues in Africa and the Middle East, Kampala, Uganda, 29 April - 2 May 2002.

26 UNDP, 'Turning Vision 2020 into Reality: From Recovery to Sustainable Human Development. National Human Development Report', Kigali, 2007.

27 Kairaba, A, 'Integrating Land Issues into PRS and the Broader Development Agenda—Rwanda Country Case Study', paper presented at regional workshop on land issues in Africa and the Middle East, Kampala, Uganda, 29 April - 2 May 2002.

Urban environmental problems in Rwanda are less critical but increasing. While the country's urban population is only 17 percent of the overall population, it is growing more than twice as fast as the country's population as a whole. Rwanda's urban population is projected to grow from 1.4 million in 2002 to 3.8 million in 2022. This will strain waste management capacities in particular. This strain will be most severe in the capital Kigali, which accounts for roughly half of the country's overall urban population.

The government's response to environmental challenges, until recently at least, has been limited. Budgetary support for environmental management—estimated at less than 1 percent of government budgets in the first PRS period—has been inadequate. Institutional and administrative capacities at the central and local government levels are similarly inadequate. These inadequacies are reflected in modest policy and legislative instruments related to environment and resource management and limited capacity for coordination and enforcement of policies and regulations.

These environmental management challenges, combined with Rwanda's other daunting development challenges, resulted in the 2003 'MDG Status Report' for Rwanda assessing the country's prospects for ensuring environmental sustainability as "*unlikely*." The more recent 2007 MDG Country Report for Rwanda, issued following the evaluation mission, does not directly assess the likelihood of achieving this goal.

2.5 RWANDAN NATIONAL PRIORITIES

Along with rehabilitation and economic development, the GoR has focused much of its effort on addressing the consequences of the genocide and the institutional problems that were deemed responsible for the genocide.

2.5.1 LONG TERM RWANDAN DEVELOPMENT PRIORITIES ARTICULATED IN VISION 2020

Vision 2020 was conceived to provide a basis for a new start to build peace and prosperity in the 21st Century. It regards national reconciliation,

domestic and regional security, good governance and economic transformation as key to achieving its ambitious goals.

Vision 2020 calls for the achievement of the MDGs and for moving Rwanda out of underdevelopment and poverty. Its targets for 2020 include: a GDP per capita of \$900, an increase from \$230 in 2000; a reduction in the incidence of poverty from 60 percent to 25 percent; an increase in life expectancy from 49 years to 65 years; and an increase in adult literacy from 48 percent to 90 percent. Other key objectives include:

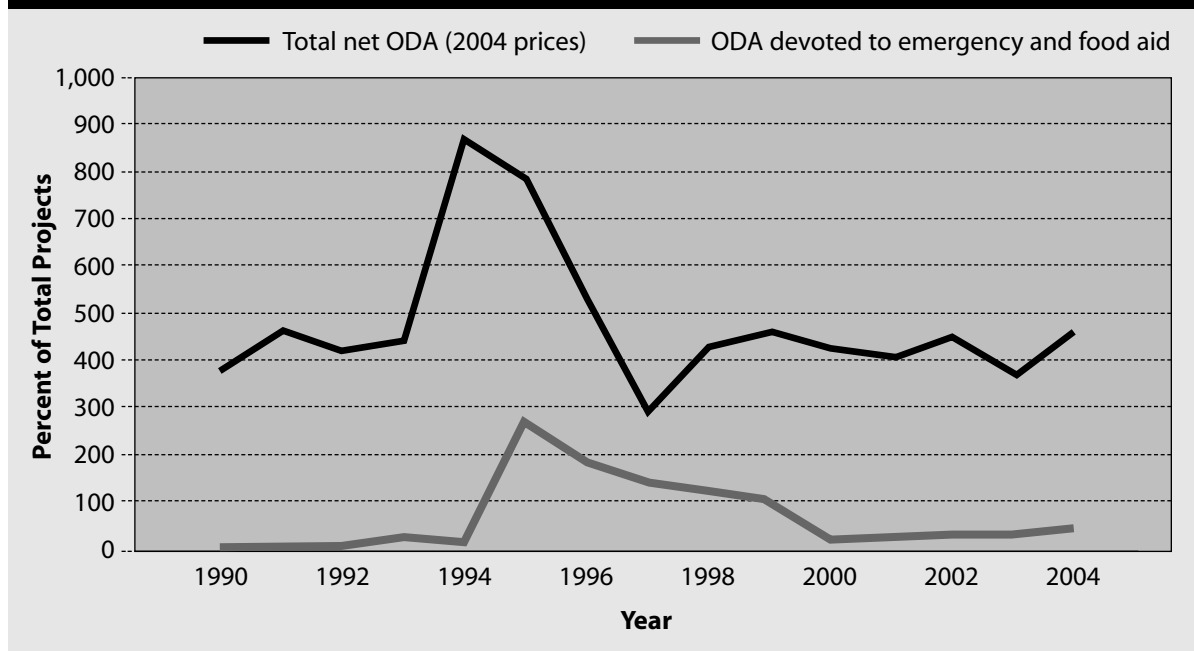
- Good political and economic governance
- Rural economic transformation
- Development of services and manufacturing
- Human resource development
- Development and promotion of the private sector
- Regional and international economic integration
- Poverty reduction

Through extensive national consultations, the GoR has also identified reform of the constitution, legal system and judiciary as national priorities.

2.6 DEVELOPMENT COOPERATION— FOCUS, CHALLENGES, COORDINATION, HARMONIZATION

Official Development Assistance continues to play a large socio-economic role in Rwanda. After peaking in the mid-1990s, volumes fell abruptly in the late 1990s then rose more gradually in this decade (see Figure 1). According to the GoR, in 2005 Official Development Assistance to Rwanda was just less than \$500 million, representing 23 percent of the GDP. This amounted to \$55 per capita, compared with an average in Sub-Saharan Africa of approximately \$25 per capita. Official Development Assistance accounts for more than half of the GoR's annual budgets and

Figure 1. Official development assistance received by Rwanda, 1990-2004



Source: Organisation for Economic Cooperation and Development-Development Assistance Committee (OECD-DAC), 'International Development Statistics'; MINECOFIN, '2006 Annual Aid Effectiveness Report'.

more than 90 percent of its capital investment budgets. Annual Official Development Assistance by 2006 and 2007 would amount to between \$500 million and \$600 million per year.

Most of this aid comes from a relatively limited group of development partners. In 2005, the seven biggest sources of funding were the World Bank, the European Union, the United Kingdom, the African Development Bank, the United States, the UN system and Sweden.

In the past 12 years, the strategy and focus of development assistance in Rwanda has changed substantially. In the years following the genocide, attention focused on emergency activities, humanitarian aid and reconstruction. At the beginning of the century focus shifted to more long-term development programmes, and in the past several years, aid policy has increasingly converged around the principles of ownership, coordination, alignment and harmonization.

In recent years, Rwanda has become one of the front line countries in the 'new architecture of

aid', shaped by principles defined in MDGs, the Monterrey Consensus, the Rome Declaration on Harmonization and the Paris Declaration on Aid Effectiveness, Ownership, Harmonisation, Alignment, Results and Mutual Accountability. In July 2006, the GoR adopted a Development Assistance Policy that draws heavily on the principles of the Paris Declaration and the related international process. Rwanda's policy identifies un-earmarked budget support as GoR's preferred modality for external assistance, followed by sector budget support and stand-alone projects. It further stipulates that stand-alone projects must be on-budget and on-plan. The GoR also prefers that donor resources be pooled rather than earmarked for individual projects.

While clearly preferring programme-based modalities, the GoR wants to maintain a balanced aid portfolio. General budget support (GBS) is currently approximately 40 percent of all disbursed Official Development Assistance. It may increase, but the government also sees risks involved in this modality, such as increased conditionality and potential fluctuations in

volume. A recent evaluation of GBS²⁸ concluded that, taking account both flow-of-funds and other effects, GBS has had a positive effect on the non-income dimensions of poverty reduction, such as access to basic services. The public-action strategies that GBS supports have only recently begun to focus more directly on growth and poverty reduction through increasing income. A key sustainability issue is the political nature of Rwanda's development assistance and GBS in particular, reflecting the country's recent history and complex geopolitical situation.²⁹

2.6.1 AID POLICY—COORDINATION, HARMONIZATION AND ALIGNMENT

A key element of GoR's Aid Policy is their Aid Coordination, Harmonization and Alignment framework, designed in consultation with the development partners and other stakeholders. In addition to modality issues, the Aid Policy also sets explicit objectives for:

- Ensuring that aid flows are aligned to national priorities
- Strengthening capacities for coordinated support
- Using the country's public finance management and procurement systems
- Avoiding parallel programme implementation units
- Increasing the predictability of aid flows
- Using common arrangements or procedures (programme-based approach)
- Increasing the use of joint field missions and joint country analytic work
- Strengthening mutual accountability

The GoR's Aid Policy relies heavily on the programme-based approach and related instruments. While this is coherent with the best practices of the international community, experience from other

countries calls attention to some inherent risks of the programme-based approach including: the tendency towards administration-driven centralism at the expense of service delivery at local levels, and the risk of overemphasizing the role of the public sector, with little involvement of private actors and the civil society. At present, the roles of and linkages with the private sector are not clearly elaborated in Rwanda's Aid Policy.

The Aid Policy includes a comprehensive structural set-up that emphasizes the GoR's ownership of the process. A Cabinet-level Aid Policy Implementation Committee consists of the Ministry of Finance and Economic Planning (MINECOFIN), Office of the President, the Prime Minister's office, the Ministry of Foreign Affairs, the Ministry of Local Government, Community Development and Social Affairs (MINALOC), the National AIDS Control Commission and the Human Resources and Institutional Capacity Development Agency. This committee provides high-level oversight and strategic direction.

2.6.2 EXTERNAL FINANCE UNIT AT MINECOFIN

The External Finance Unit of MINECOFIN works with the GoR and development partners to coordinate and manage external aid. It is also the Technical Secretariat of the Aid Policy Implementation Committee. Until the end of 2008, the External Finance Unit will be supported by an Aid Coordination Unit (ACU), financed by a basket fund from seven donors and managed by UNDP Rwanda.

2.6.3 SECTORAL CLUSTERS

At the sectoral level, the dialogue between the GoR and donors is organized in round tables called 'clusters'. Currently, 11 clusters operate. Each has a designated lead ministry and a lead donor. Some clusters also include members from civil society. The clusters meet every one to three months and their agendas are typically concerned

28 IDD and Associates, 'Joint Evaluation of General Budget Support 1994-2004', May 2006.

29 Ibid.

with sector policies and strategies, sector plans and sector budgets.

The experience of working in clusters is fairly new and their performance appears to be uneven. Capacity building is included as an element in the strategies of all clusters. When preparing their strategies, these sectoral working groups are expected to analyze their own capacity implications.

2.6.4 PROGRAMME-BASED APPROACHES

According to the External Finance Unit, introducing programme-based approaches to line ministries has been difficult. Some ministries prefer to stay with the familiar project approach, without taking account of the Aid Policy. The External Finance Unit deals with this dilemma through a High Level Committee composed of officials from various sectors. Problems exist among the development partners as well. For example, the Minister of MINECOFIN is empowered to sign all aid contracts, but a major development partner recently signed a financing agreement directly with the Supreme Court.

2.6.5 GOVERNMENT'S ROLE IN AID COORDINATION

The GoR plays an effective role in aid coordination, despite the capacity problems of the public sector, exercising clear ownership and leadership of external assistance. Key policy areas have been explicitly defined at central and sectoral levels and the GoR political leaders endorse them actively. In most sectors, there is a single GoR organization in charge and others acknowledge its leadership. The task of the lead ministry is facilitated by the fact that one of the development partners is assigned as the lead donor in the sector and they work together. The overall structure of development assistance has been designed in consensus with the development partners and

they all participate actively. Challenges remain in defining adequate mechanisms for stakeholder participation and consultation, in particular regarding non-state actors. More systematic and efficient performance monitoring is needed to ensure the relevance of policies.

2.6.6 ALIGNMENT AND HARMONIZATION— PROGRESS AND CHALLENGES

Alignment³⁰ is relatively good in Rwanda and has progressed enormously since the latter half of the 1990s when most of the cooperation was based on donor-defined modalities and stand-alone interventions. In 2006,³¹ half of Rwanda's aid was reported on the GoR budget: 69 percent was disbursed in the fiscal year for which it was scheduled, and approximately 41 percent relied on public finance management systems of the GoR. This latter figure corresponds with the proportion of the GBS in Rwanda's aid receipts.

Yet much remains to be done. While all Rwanda's development partners are signatories of the Paris Declaration, some of them have had difficulty converting the alignment principles into operational practices. The persistence of parallel project implementation units are examples of this. Out of 48 project implementation units in 2006, UNDP finances 23 and the World Bank 11. While the development partners generally support the GoR's poverty reduction strategies and other key development policies and sectoral strategies, there is ongoing debate regarding underlying assumptions, such as the relative emphasis on economic growth and the role of civil society.

Although the Aid Coordination, Harmonization and Alignment structure offers an opportunity for mutual assessment of progress, no comprehensive

30 According to OECD/DAC, alignment refers to the commitment made by donors to adjust their support with the strategies, plans, institutions, procedures and systems of the partner country (government-donor relationship), thus progressing towards more flexible aid modalities. Harmonization is the commitment by donors to rationalize and coordinate their multiple activities so that the collective aid effectiveness is maximized under the leadership of the partner country (donor-donor relationship). Source: OECD/DAC, 'Harmonising Donor Practices for Effective Aid Delivery', Paris, France, 2003.

31 Government of Rwanda, '2006 Survey on Monitoring the Paris Declaration on Aid Effectiveness', Rwanda's Submission to OECD-DAC, 13 November 2006.

and systematic mechanisms for this purpose have yet been defined. The Budget Support Harmonization Group does undertake joint sectoral reviews. Further development of mid-term expenditure frameworks and public finance management systems will probably enhance the operationalization of alignment.

The Public Finance Management Action Plan and Organic Budget Law, both adopted in 2006, as well as procurement reforms are significant landmarks in strengthening public financial management. The evaluation of the GBS in Rwanda notes that the Partnership GBS has played a significant role in improving public finance management systems. In particular, Partnership GBS technical assistance and policy dialogue have contributed greatly to public finance management system development and, more generally, to the systemic capacity of government.³²

The donor community in Rwanda acknowledges the importance of the harmonization process. Nevertheless, operationalizing harmonization poses challenges. According to a 2006 survey on the Paris Declaration and Aid Effectiveness in Rwanda,³³ programme-based approaches and related modalities are applied only in the education sector. On average, 13 percent of donor missions were undertaken jointly. In country analytic work, collective efforts were more common, covering approximately half of all country analysis undertaken.

The patterns in providing technical assistance still have to be clarified to ensure that it is provided on a demand-driven basis and according to the country's needs. Some donors are cautious with the GBS because it is politically vulnerable. They believe donor governments are less likely to cancel funding to sectoral activities than to GBS. This concern was also highlighted in the evaluation of GBS in Rwanda.³⁴

32 IDD and Associates, 'Joint Evaluation of General Budget Support 1994-2004', May 2006.

33 Government of Rwanda, '2006 Survey on Monitoring the Paris Declaration on Aid Effectiveness', Rwanda's Submission to OECD-DAC, 13 November 2006.

34 IDD and Associates, 'Joint Evaluation of General Budget Support 1994-2004', May 2006.