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INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT FOR A PROPOSED
DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 67.7 MILLION (US\$95 MILLION EQUIVALENT)

TO

THE REPUBLIC OF RWANDA

FOR THE

SECOND SOCIAL PROTECTION SYSTEM (SPS-2)

November 2, 2015

Social Protection and Labor Global Practice
Africa Region

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THE REPUBLIC OF RWANDA -- GOVERNMENT FISCAL YEAR
July 1 – June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of September 30, 2015)
Currency Unit is Rwandan Franc (RWF)

US\$1 = RWF 712
US\$1 = SDR 0.71238263

ABBREVIATIONS AND ACRONYMS

ACHM	Appeals Complaints Mechanisms
AfDB	African Development Bank
BNR	<i>Banque Nationale du Rwanda</i> (National Bank of Rwanda)
CCSA	Cross Cutting Solutions Area
CID	Criminal Investigation Department
COFOG	Classification of the Functions of Government
CPI	Consumer Price Index
CPF	Country Partnership Framework
CPS	Country Partnership Strategy
DfID	Department for International Development (UK)
DHS	Demographic and Health Survey
DoL	Division of Labor
DPO	Development Policy Operation
DS	Direct Supports
DSA	Debt Sustainability Analysis
EAC	East African Community
EC	European Commission
ECD	Early Childhood Development
EDPRS	Economic Development and Poverty Reduction Strategy
EICV	Integrated Household Living Conditions Survey
EU	European Union
FARG	Genocide Survivors Assistance Fund
FDI	Foreign Direct Investment
FS	Financial Services
FY	Fiscal Year
GFSM	Government Financial Statistics Manual
GNI	Gross National Income
GoR	Government of Rwanda
IDA	International Development Association
IFC	International Finance Corporation
IFRS	International Financial Reporting Standards
ILO	International Labor Organization
IMF	International Monetary Fund
ITN	International Training Network
JSAN	Joint staff Advisory Note
JSR	Joint Sector Review
LIC	Low-income Country
LODA	Local Administrative Entities Development Agency
LWH	Land Husbandry, Water Harvesting, and Hillside Irrigation

M&E	Monitoring and Evaluation
MIGEPROF	Ministry of Gender and Family Planning
MINALOC	Ministry of Local Government
MINECOFIN	Ministry of Finance and Economic Planning
MIS	Management Information System
MOV	Maintenance of Value
NCPP	National Council of Persons with Disabilities
NGO	Non-governmental Organization
NID	National Identification Card
NIDA	National Identification Agency
NIN	National Identification Number
NISR	National Institute of Statistics of Rwanda
NSPS	National Social Protection Strategy
NSPS-2	Updated National Social Protection Strategy
OM	Ombudsman
PDO	Program Development Objective
PEFA	Public Expenditure Framework Assessment
PFM	Public Financial Management
PFMRS	Public Financial Management Reform Strategy
PPG	Public and Publicly Guaranteed
PSI	Policy Support Instrument
PW	Public Works
REER	Real Effective Exchange Rate
RDRC	Rwanda Demobilization and Reintegration Commission
RDRP	Rwanda Demobilization and Reintegration Program
REMA	Rwanda Environment Management Authority
SACCO	Savings and Credit Co-operative
SIDA	Swedish International Development Agency
SP	Social Protection
SPS	Social Protection System
SPTA	Strategic Plan for the Transformation of Agriculture
SPWG	Social Protection Working Group
SSN	Social Safety Net
SORT	System Operations Risk Rating Tool
SSPS	Support to Social Protection System
SWAp	Sector Wide Approach
SWG	Sector Working Group
UN	United Nations
UNICEF	United Nations Children's Fund
VUP	Vision 2020 <i>Umurenge</i> Program
WDI	World Development Indicator

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REPUBLIC OF RWANDA
SECOND SOCIAL PROTECTION SYSTEM (SPS-2) DPO

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SUMMARY OF PROPOSED CREDIT AND PROGRAM
THE REPUBLIC OF RWANDA
SECOND SOCIAL PROTECTION SYSTEM OPERATION (SPS-2)

Borrower	The Republic of Rwanda
Implementation Agency	Ministry of Finance and Economic Planning (MINECOFIN), Ministry of Local Government (MINALOC)
Financing Data	SDR 67.7 million (US\$95 million equivalent) on IDA Credit terms (38 year maturity and 6 year grace period)
Operation Type	Programmatic development policy financing (second in a series of three operations); single tranche.
Pillars of the Operation And Program Development Objective(s)	<p>The Program Development Objective (PDO) for this DPO series is to “support the Government of Rwanda to improve the efficiency, accountability and coverage of its social protection system.”</p> <p>The pillars of support are: (i) efficiency of the social protection system; (ii) accountability and transparency; and (iii) coverage of poor and vulnerable.</p> <p>Policies supported by the proposed SPS-2 are fully aligned with the revised National Social Protection Strategy (NSPS-2 2013-2018) and the Second Economic Development and Poverty Reduction Strategy (EDPRS-2 2013-2018), which place social protection as a centerpiece in achieving Rwanda’s ambitious objectives to reduce poverty and strengthen resilience.</p>
Results Indicators	<ul style="list-style-type: none"> (i) % of individuals over 16 years old in the <i>Ubudehe</i> database matched to a national ID [<i>baseline: 25%; end-target: 60%</i>] (ii) Number of SP MIS modules developed [<i>baseline 0; end-target: 2</i>] (iii) % of targeted local government staff trained on SP program eligibility [<i>baseline: 0; end-target: 70%</i>] (iv) % of districts reviewing SP budget during accountability day events (per year) [<i>baseline 0; end-target: 60%</i>] (v) % of primary appeals that have been resolved at first instance at sector levels within two weeks in VUP sectors [<i>baseline 80%; end-target: >80%</i>] (vi) % of geographical sectors covered by VUP in the poorest 30% of districts for (a) direct support; and (b) public works [<i>(a) DS baseline: 54%; end-target: 95%; (b) PW baseline: 42%; end-target: 80%</i>] (vii) VUP coverage of geographical sectors and households for (a) direct support and (b) public works [<i>DS (i) Sectors – baseline: 180 sectors; end-target: 395 sectors; (ii) households – baseline: 43,671 households; % Female Headed Households (FHH): 66%; end-target: 96,000 households; FHH: 66%; PW (i) Sectors – baseline: 150 sectors; end-target: 240 sectors; (ii) households – baseline: 89,011 households; % FHH: 46%; end-target: 130,000 households: % FHH: 48%</i>]
Overall risk rating	Moderate
Climate and disaster risks	None
Operation ID	P155024

IDA PROGRAM DOCUMENT FOR A PROPOSED CREDIT TO THE REPUBLIC OF RWANDA

1. INTRODUCTION AND COUNTRY CONTEXT (INCLUDING POVERTY DEVELOPMENTS)

1. **This proposed Social Protection System (SPS-2) operation of SDR 67.7 million (\$95 million equivalent) is the second in a series of three development policy operations (DPOs) whose objective is to “support the Government of Rwanda to improve the efficiency, accountability and coverage of its social protection system.”** Building on the previous DPO series, and as a key component of the June 2014 Country Partnership Strategy, this proposed programmatic work will help the Government of Rwanda stay on course for reaching its ambitious poverty reduction goals, while addressing a set of second-generation reforms critical to strengthening Rwanda’s social protection system. This operational series focuses on three main areas: improving the efficiency of Rwanda’s social protection system, strengthening accountability and transparency, and expanding social protection (SP) coverage among poor and vulnerable populations.

2. **The Government of Rwanda has established social protection as a priority in its ambitious goal to “accelerate poverty reduction to less than 30 percent of the population” and to “reduce extreme poverty to 9 percent” by 2018.**¹ Sustained economic growth of an average rate of 8 percent per annum for the last 10 years has been used effectively as a driver for substantial reductions in both poverty and inequality. Between 2001 and 2014, the country-defined poverty rate fell from 59 percent to 39 percent, while the extreme poverty rate fell from 40 percent to 16 percent, and the Gini coefficient moved from 0.51 to 0.45.²

3. **Even given Rwanda’s impressive achievements in reducing poverty, important challenges remain: with a GDP per capita of US\$718 (2015), Rwanda remains one of the poorest countries in the world, with high levels of vulnerability, notably among children and people living in rural areas.** Poverty remains high among households with many children, and child malnutrition continues to affect 38 percent of Rwandan children under 5, a sign of severe limits on the productive capacity of the next generation.³ More than 90 percent of the poor live in rural areas and over 70 percent of Rwandans are employed in agriculture. The poorest Rwandans are agricultural laborers, but household agricultural production (which more than doubled between 2001 and 2011) has been a key driver of poverty reduction. Generally, much work remains to ensure extension of the coverage of SP programs to poor households, to maximize the poverty impact of Rwanda’s social protection programs, and to ensure that opportunities exist for families benefitting from social protection to build pathways out of poverty.⁴

4. **Evidence from countries with well-established safety net programs reveals that effective and properly targeted social safety nets play a powerful role in combating poverty**

¹ Economic Development and Poverty Reduction Strategy 2013-2018, page 1.

² Economic Development and Poverty Reduction Strategy 2013-2018 (EDPRS-2), page 9, Table 1.4; Fourth Integrated household Living Conditions Survey (EICV4) available <http://www.statistics.gov.rw/publications/rwanda-poverty-profile-report-results-eicv-4>

³ Economic Development and Poverty Reduction Strategy 2013-2018 (EDPRS-2); Fourth Integrated household Living Conditions Survey (EICV4) available <http://www.statistics.gov.rw/publications/rwanda-poverty-profile-report-results-eicv-4>; Demographic and Health Survey (DHS) of 2015 using the stunting rate as the rate of malnutrition.

⁴ Government of Rwanda and Oxford Policy Management.

and inequality. For example, in Ethiopia, the national safety net program helped cut the poverty rate by 6 percentage points, in Kenya, a food for work program helped raise agricultural productivity by 52 percent and in Brazil, the large safety net program, *Bolsa Familia*, reaches close to 25 percent of the population and has contributed to dramatic reductions of poverty and inequality. Rwanda is looking to achieve similar gains. With the support of this DPO series, Rwanda is expanding and deepening safety nets and moving toward a more efficient safety net system. This program can help Rwanda to move to the next stage of social protection system development, as other countries have done in similar long-term initiatives, and so make a measurable dent in national poverty rates.

5. **Rwanda is among global leaders in building an integrated social protection system in a low-income environment that is closely tied to national goals of poverty reduction.** Rwanda has emphasized the importance of building effective social protection systems to boost resilience to shocks, ensure equity for the poor and strengthen opportunity through increased human capital development and access to productive employment.⁵

6. **As a result of its commitment to social protection, Rwanda has rapidly established the foundation of a social protection system that is increasingly institutionally mature, central to poverty reduction approaches, and is reaching a growing number of poor and vulnerable families.** These efforts, marked by the design of the flagship *Vision 2020 Umurenge Program* (VUP) in 2008, have received strong technical and financial support from the World Bank and other development partners.

7. **The World Bank has partnered with Rwanda in establishing a strong foundation for social protection through three series of three Development Policy Operations each, with the proposed operation as the second in the third series.** (see Annex 4 for details):

- Under the **first DPO series** (2009-2011), Rwanda was able to pilot and launch the flagship VUP, drawing on international best practice with respect to policy and program design. Coverage of the nascent public works program expanded from 30 to 90 geographical sectors (out of a national total of 416), coverage expanded from 25,000 to 176,000, and both direct support cash transfers for destitute households and financial services microcredit loans were introduced. The National Social Protection Strategy (NSPS) was launched in 2011.
- Under the **second DPO series** (2012-2014), the VUP was rapidly expanded from 90 to 240 geographical sectors and coverage expanded from 176,000 to 218,000 households – almost a million poor and vulnerable people (see Table 4). In addition, under the updated national social protection strategy (NSPS-2, 2013), Rwanda began to build the foundations of a harmonized social protection system.⁶ The four main safety net programs moved from being uncoordinated to being increasingly harmonized, with growing attention to complementarities and lack of duplication. The social protection sector established a set of sub-systems to support the effective delivery of services, including: geographical and household poverty targeting, a nascent appeals and complaints mechanism, a management information system for monitoring implementation, and links with disaster response.

⁵ World Bank. July 2012. Africa Social Protection Strategy 2012-22; Managing Risk, Promoting Growth: Developing Systems for Social Protection in Africa.

⁶ The four main social protection programs, as defined by the SP Strategy, are the Vision 2020 Umurenge Program, the Genocide Survivors' Fund (FARG), the Rwanda Demobilization and Reintegration Program (RDRP) and the MINALOC Decentralized Funding Program.

Ongoing analytical work points to VUP contributions to poverty reduction and asset creation, but also reveals areas of needed reform.

- The current **third DPO series** (2015-2017), is helping Rwanda reach its goal of national social protection coverage and will deepen social protection reforms through three areas of focus: improving efficiency; strengthening accountability and transparency; and expanding coverage among poor and vulnerable populations. The DPO supports a set of second generation reforms in social protection, building on past lessons and experience. In transitioning from the establishment of the flagship VUP program to address core needs, Rwanda is moving toward consolidating a social protection system. This transition involves a set of second generation reforms to strengthen specific areas of program design and delivery, notably: (i) improving administrative tools to enhance efficiency, especially the *Ubudehe* database and SP MIS; (ii) increasing harmonization across programs to improve efficiency and effectiveness, addressing beneficiary overlaps and better use of income generating programs; (iii) improving accountability and transparency in SP program budgets and citizens' engagement; (iv) strengthening local capacity in line with the substantial decentralization of social protection budgets and staffing; (v) expanding the flagship VUP program to reach full national coverage; (vi) updating poverty targeting; and (vii) introducing gender and child sensitive reforms conducive to child development. These reforms are supported by this DPO series.

8. **The first DPO under the current ongoing series, Social Protection Systems (SPS-1), established a set of core reforms under each of the three pillars and laid the groundwork for the series (for additional detail, please see para. 47).** Contributing to Efficiency (Pillar 1), reforms included harmonization between the two largest safety net programs, VUP and Genocide Survivors Assistance Fund (FARG); the launching of a new *Ubudehe* household registry serving as a foundational database for the social protection sector MIS; and the establishment of objectives for a harmonized SP management information system. Contributing to Accountability and Transparency (Pillar 2), reforms included: the formal establishment of social protection as a sector, with related program composition and public expenditures; substantial decentralization and an expansion of key posts at the local government level contributing to direct citizens' engagement. Contributing to Coverage of Poor and Vulnerable (Pillar 3), coverage of the flagship VUP program expanded from 240 to 330 sectors; the *Ubudehe* poverty classification system for households was restructured; and the government approved policy options for improving the gender and child sensitivity of SP programs.

9. **The current DPO series will help Rwanda achieve the end-line goals in Rwanda's National Social Protection Strategy (2013-18) and Economic Development and Poverty Reduction Strategy (EDPRS-2) (2013-18) as well as Rwanda's goals of strengthening the prospects of its vulnerable population for graduation from poverty and social assistance.** Rwanda is emphasizing graduation from poverty and social assistance in its policy dialogue and development partners are actively engaged in helping the country focus on graduation, including by supporting productive investments in the human capital of the young and helping poor households with available labor capacity to generate higher incomes.

10. **Rwanda continues to be characterized by a strong political and financial commitment to the social protection sector.** Social protection spending has risen steadily and now accounts for close to 3 percent of total public expenditures, in line with many countries in the region.⁷ Also,

⁷ Government of Rwanda and the World Bank (2012). Social Safety Net Assessment.

the government continues to demonstrate strong policy dialogue and increased capacity for delivery in the line ministries, providing a solid foundation for strengthening the social protection system.

11. **The World Bank remains a trusted partner in Rwanda’s ambitious social protection efforts, working very closely with other development partners in the SP sector.** The Government of Rwanda’s revised Division of Labor (DoL - 2013) framework for the SP sector in the country identifies the World Bank as a main international partner, along with the Department for International Development (DfID) (the lead donor agency for social protection) and UNICEF, with whom the World Bank coordinates closely. There is a shared vision between development partners and the government regarding social protection and the donor community is fully supportive of the government’s core poverty reduction and social protection strategies.

2. MACROECONOMIC POLICY FRAMEWORK

12. **The World Bank assesses that Rwanda’s macroeconomic policy framework remains adequate for development policy operations, reflecting Rwanda’s effective macroeconomic management.** Rwanda’s prudent macroeconomic policy has enabled the country to achieve high economic growth, poverty reduction and macroeconomic stability in the past decade. Both monetary and fiscal policy have been coordinated and implemented in a prudent manner. The results of the 2014 CPIA show that the economic management rating improved from 3.8 in 2013 to 4.0 in 2014, which is much higher than the IDA countries’ average of 3.4. Rwanda has also successfully completed its third review of a current IMF Policy Support Instrument in May 2015, in which the Fund confirmed the country’s performance has been satisfactory and the policy stance remains appropriate.

2.1 RECENT ECONOMIC DEVELOPMENTS

Real Sector Developments

13. Rwanda had positive macroeconomic development in 2014. The growth rate accelerated to 7.0 percent from 4.7 percent in 2013, one of the highest in the Sub-Saharan African countries. Higher government spending stimulated domestic demand. The services sector, the main driver of the economy, grew by 9.0 percent, from 5.7 percent in 2013. The agriculture sector expanded by 5.3 percent in 2014, up from 3.3 percent in 2013, due to a good harvest. However, the industry sector growth decelerated from 9.3 percent in 2013 to 5.8 percent in 2014. The deceleration is observed in all three key subsectors (i.e., mining and quarrying, manufacturing and construction). The overall growth momentum continued in 2015 with the growth rate at 7.6 percent in Q1 2015.

External Sector

14. **The external position deteriorated in 2014, but has improved in the first half of 2015.** The current account deficit deteriorated from 7.4 percent in 2013 to 11.8 percent in 2014, the highest level since 1998. The decline in grant aid contributed to more than half of the deterioration (although this partly reflects a switch from grants to loans by major development partners including the World Bank). Also, the deterioration resulted from a combination of worsening of the trade balance (lower export growth and higher import growth) and of public current transfers. Rwanda’s traditional exports, especially tea and minerals, suffered from the declines in international commodity prices. Import growth reflected higher domestic demand. The overall balance of payments as a percentage of GDP deteriorated from 3.0 percent to -1.1 percent of GDP. Although

foreign reserves declined to US\$986 million, the level is equivalent to 4.5 months of imports and considered adequate. The situation improved in the first half of 2015, with the trade deficit declining by 5 percent to US\$859 million (-21 percent of GDP in Q1 2015), mainly due to negative import growth (mainly energy imports).

Monetary, Exchange Rate, and Financial Sector Policies

15. **The National Bank of Rwanda (BNR) has been adopting an accommodative monetary policy to support growth and macroeconomic stability.** To this end, the BNR implemented a series of measures aimed at supporting the financing of the economy and developing the domestic bond market. In February 2014, the Government of Rwanda, in collaboration with the BNR, initiated a quarterly bond issuance program. By August 2015, three bonds were issued, amounting to Rwf 15 billion (3-year maturity), Rwf 15 billion (5-year maturity) and Rwf 10 billion (10-year maturity). Also, the International Finance Corporation (IFC) issued an Rwf 15 billion bond (with 5-year maturity). Reducing excess liquidity is expected to improve the interbank market and foster responsiveness of market interest rates to the BNR policy interest rate. Low inflation has enabled the BNR to keep an accommodative monetary policy. The BNR has been maintaining its policy rate at 6.5 percent since June 2014 to stimulate credit flow to the economy.

16. **Credit to the private sector is steadily improving.** Year-on-year growth rate of credit outstanding to the private sector accelerated from 10.9 percent in December 2013 to 27.8 percent in June 2015, indicating that positive economic development continued in the first half of 2015. Economic recovery in 2014 and subsequent improvement in financial sector soundness have improved commercial banks' lending activities.

17. **In recent years, Rwandan authorities have allowed for greater exchange rate flexibility, allowing the exchange rate to be market determined.** The exchange rate regime is classified as *de facto* crawl-like and *de jure* floating. The BNR started to use a market-based exchange rate calculated as a weighted average of the foreign exchange interbank rates and the intervention transactions rate of December 2010. The exchange rate against the US dollar depreciated by 7.2 percent between January 2014 and July 2015. This is mainly due to the appreciation of the US dollar against other currencies. The Rwandan franc has been appreciating against the euro and other regional currencies. Thus, the Real Effective Exchange Rate (REER) of the Rwandan franc has appreciated by 12 percent between January 2014 and May 2015.

18. **Inflation has been stable.** The appreciation of the REER, low energy prices and stable food production altogether contributed to stable inflation rates. Consumer price index (CPI) decelerated from 4.2 percent in 2013 to 1.8 percent in 2014. In the first eight months in 2015, CPI grew by 1.8 percent

19. **The financial sector remains sound.** The capital adequacy ratio increased from 23.1 percent in December 2013 to 24.3 percent in June 2015, higher than the 15 percent minimum requirement. The ratio of nonperforming loans to gross loans declined from 7.0 percent in December 2013 to 5.9 percent in June 2015.

20. **Monetary policy is accommodative but transmission mechanisms could be improved.** Despite the accommodative monetary policy, high and unchanged lending rates reveal the ineffectiveness of the transmission mechanism of monetary policy. Factors hindering transmission include: (i) high bank concentration and limited competition; (ii) high operating costs in the banking sector; (iii) shallow and illiquid money markets and interbank markets; and (iv) a large informal economy.

Fiscal Policy

21. **Fiscal policy is consistent with the macro framework focused on maintaining stability, while promoting economic growth.** The composition of the public expenditures lays foundations for achieving the national goals of growth acceleration and poverty reduction identified in the second Economic Development and Poverty Reduction Strategy (EDPRS 2). The medium-term fiscal policy framework aims for fiscal consolidation through increased revenue mobilization and expenditure prioritization, including infrastructure projects, to remove bottlenecks for economic development.

22. **Preliminary results in the first three quarters of the FY2014/15 budget demonstrate both challenges and successes.** Tax revenues were short of the target by 2.4 percent. The shortfall is attributable to the slower roll-out of electric billing machines and slower import growth affecting taxes on international trade. The implementation of the East African Community (EAC) customs union has reduced import taxes for goods from EAC which has negatively affected taxes on international trade. In the third quarter, while non-tax revenues exceeded the target by 36 percent, tax revenues were short of the target by 3.5 percent. On expenditures, the execution rates of capital expenditures and net lending were short of the target by 17 percent in the first half of FY2014/15. To accelerate the execution of capital investment projects, the government has been strengthening project monitoring. These efforts paid off in the third quarter, with capital expenditures increasing by 12 percent from the second quarter. Given the importance of public investment in the economy, continued efforts are required to improve public investment management.

23. **The government reconfirmed its medium-term commitment to achieve fiscal consolidation.** In the budget framework paper in May 2015, the government reconfirmed its medium-term commitments to achieve fiscal consolidation through increased efforts towards domestic revenue mobilization with new tax measures and expenditure rationalization / prioritization, including quality at the entry of public investment projects, as reliance on external donor finance reduces.

24. **Information on the budget and its annual execution is open to the public.** The Ministry of Finance and Economic Planning (MINECOFIN) website includes information on Budget Execution Report for the FY2013/14 as well as the 2015/16 Approved Budget.⁸

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

25. **Both the near- and medium-term economic outlook remains positive.** The World Bank projects that Rwanda's economy will grow by 7.4 percent in 2015 and 7.6 percent in 2016 and 2017, close to its growth potential. As Rwanda is a net oil importer, the sharp drop in oil prices has had a positive impact on the economy through an improved trade balance, lower inflation rates, and lower expenditures on fuel subsidies. These factors would contribute to macroeconomic stability and increase fiscal and monetary policy flexibility. Rwanda's favorable outlook builds on continued macroeconomic stability and continued implementation of priority policies (e.g., strategic investment) through the budget. An implementation of priority policies, such as the third Strategic Plan for the Transformation of Agriculture (SPTA 3), which aims to intensify agriculture and animal resource production through land consolidation, mono-cropping, and a larger livestock sector, is expected to contribute to the expansion of the agriculture sector.

⁸ <http://www.minecofin.gov.rw/index.php?id=2>

26. **Nevertheless, there are factors to be aware of that could pose risks to this positive outlook.** As the public sector plays a key role in both investment and consumption, Rwanda's near-term outlook depends on implementation of the government budget, especially to overcome the strong stop-start cycle in investment. In addition, if the external environment further deteriorates and affects the economies of Rwanda's trading partners, it would negatively affect Rwanda's exports of goods (coffee, tea, and minerals) and services (tourism), which could increase the current account deficit. While Rwanda is less reliant on private capital flows, compared to other developing countries, impacts on financing (including aid, remittances and FDI) will have to be carefully monitored. A third risk is regional instability: tourism receipts are Rwanda's largest source of foreign exchange but are heavily dependent on regional security. A fourth risk is the rain-fed nature of Rwanda's agriculture. Abnormal rain and floods severely affect not only the agricultural sector but also the food manufacturing and trade sectors. There are also three global emerging downside risks to be aware of, including an increase in US interest rate / appreciation of the US dollar, slowdown of the Chinese economy, and slowdown of the European economy, that could cause projections shortfalls.

27. **Rwanda's debt is sustainable: the latest IMF/World Bank Debt Sustainability Analysis (DSA) in November 2014 concluded that Rwanda kept a low risk of debt distress.** Under the baseline scenario all debt burden indicators are projected to remain below the policy-dependent thresholds. Standard stress tests show in 2023 (when the Eurobond issued in 2013 is set to mature) a marginal temporary breach of the debt service-to-revenue (24.9 percent) ratio, and the debt service-to-exports ratio being identical to its threshold. These findings highlight the vulnerability of the Rwandan economy to external shocks and liquidity pressures at the time the Eurobond matures. Reflecting the situation, Rwanda's credit ratings improved since mid 2014. Most recently, Standard & Poor's confirmed Rwanda's rating (B+) in September 2015.

28. **The balance of payments is expected to improve in the medium term.** In the near term, aid flows will continue to play an important role. While the current account deficit is expected to persist in the medium term, its magnitude is expected to narrow as imports of capital goods for large investment projects diminish and exports continue to grow. While exports are vulnerable to fluctuations in international commodity prices, the Government of Rwanda expects that the implementation of the second National Export Strategy, which provides a framework for increasing exports, will yield early results.

29. **The BNR is closely monitoring inflation, exchange rates and financial sector risks. The BNR has shown commitment to implementing a prudent monetary policy, with an aim of preventing monetary sources of inflation.** With this prudent monetary policy and declining oil prices, inflation will be moderate. The financial sector is expected to remain stable and sound in the medium term as the BNR is strengthening its regulatory and supervisory frameworks. The banking law is being amended and the pension law was promulgated on May 18, 2015. To bolster financial sector safeguards, with the support of the World Bank, the BNR is developing an emergency liquidity guarantee facility and a deposit insurance fund. For effective supervision of microfinance financial institutions, BNR plans to consolidate the *Umurenge* Savings and Credit Co-operatives (SACCO) into a large cooperative bank by 2016. The Rwandan authorities have joined the Eastern and Southern Africa Anti Money Laundering (AML) group and plan to bolster their AML framework.

Table 1: Key Macroeconomic Indicators

	2011 (Act.)	2012 (Act.)	2013 (Act.)	2014 (Act.)	2015 (Pro.)	2016 (Pro.)	2017 (Pro.)
Real economy	Annual percentage change, unless otherwise indicated						
GDP (nominal, local currency)	15.7	15.3	9.7	10.8	9.6	9.7	9.8
Real GDP	7.9	8.8	4.7	7.0	7.4	7.6	7.6
Contribution to Real GDP (%)							
Consumption	7.5	7.4	2.4	6.0	4.8	5.5	5.5
Investment 1/	2.2	5.2	2.1	2.6	4.9	1.2	0.7
Net exports	-1.8	-3.8	0.2	-1.7	-2.3	0.8	1.4
Per Capita GDP (US\$)	575	630	639	652	662	717	797
Imports	22.6	24.4	5.3	10.3	8.1	7.1	5.3
Exports	38.1	13.0	21.2	5.9	3.0	18.5	17.1
Unemployment rate (ILO definition) (%)	0.6	0.6	0.6	0.6	n.a	n.a	n.a
GDP deflator	7.3	6.0	4.8	3.6	2.0	2.0	2.0
CPI (period average)	5.7	6.3	4.2	1.8	2.0	2.0	2.0
Fiscal Accounts	Percent of GDP, unless otherwise indicated						
Revenues	25.6	23.5	25.9	24.5	23.9	23.3	22.7
Expenditures	26.0	26.5	29.9	30.7	28.6	28.5	28.4
General Government Balance (w grant)	-0.3	-3.0	-4.0	-6.2	-4.7	-5.1	-5.6
General Government Balance (w/o grant)	-11.9	-10.7	-13.4	-14.0	-11.5	-10.9	-10.5
PPG (end of period)	22.1	21.5	27.5	30.4	28.4	27.0	25.7
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated						
Broad Money	21.0	12.5	22.8	12.1	12.2	12.2	12.3
Credit to non-government	33.9	17.5	15.1	13.3	16.6	16.2	16.1
Interest (key policy interest rate)	7.0	7.5	7.0	6.5	-	-	-
Balance of Payments	Percent of GDP, unless otherwise indicated						
Current Account Balance	-7.3	-10.2	-7.4	-11.8	-12.4	-10.4	-8.0
Excluding Official Transfers	-17.6	-16.4	-14.9	-16.9	-17.5	-15.3	-12.7
Imports	34.1	33.0	32.5	33.9	33.5	32.7	31.3
Exports	15.3	15.4	17.0	16.7	15.6	16.9	18.0
Foreign Direct Investment	1.9	3.5	3.4	3.4	3.5	3.6	3.7
Gross Reserves (in billions US\$, eop)	1,050	844	1,136	1,022	989	1,149	1,607
In months of next year's imports	4.5	5.3	4.1	5.1	4.5	4.0	4.2
As % of short-term external debt	-	-	-	-	-	-	-
External Debt	19.9	19.1	24.9	26.2	29.2	30.4	30.8
Terms of Trade (2010=100)	100	94	100	99	100	100	100
Exchange Rate (average against US\$)	600	631	670	694	-	-	-
Other memo items							
GDP (nominal, billions of US\$)	6.4	7.2	7.5	7.9	8.2	9.2	10.4

1/ including change in inventories Source: BNR, NISR, MINECOFIN and World Bank (2014)

30. **Domestic revenue mobilization remains a priority of fiscal policy.** The tax to GDP ratio is projected to increase from 15.0 percent in 2014 to 15.9 percent in 2017 through implementation of various revenue mobilization policies such as revised legislation on property tax and new tax regimes for agriculture and mining as well as continued efforts to improve the efficiency of tax administration. On the other hand, the grants to GDP ratio is projected to decline from 7.8 percent to 4.8 percent during that period. Public expenditures are expected to decline from 30.7 percent of GDP in 2014 to 27.6 percent in 2017, reflecting medium-term fiscal consolidation. The expenditure composition mirrors government's policies aimed at supporting growth and reprioritizing expenditure in a context of uncertainty from aid inflows. In this regard, the government has been improving public investment management systems and procedures. In the formulation of the

FY2014/15 budget, a public investment committee was operationalized to screen public investment projects. Furthermore, the government has formulated a national investment policy to replace the existing public investment policy, focusing on how public investment leverages private investment. Spurred by fiscal consolidation efforts, the overall deficit (including grants) is expected to be stable at around 4-5 percent in the medium term. Foreign financing has been the main source of financing budget deficits, but most are highly concessional loans and therefore impacts on debt indicators have been small. Going forward, a combination of domestic resource mobilization and fiscal consolidation is expected to contribute to fiscal balance, with stable financing needs over the medium term.

Table 2: Key Fiscal Indicators (Percent of GDP)

	2011 (Act.)	2012 (Act.)	2013 (Act.)	2014 (Act.)	2015 (Pro.)	2016 (Pro.)	2017 (Pro.)
Overall Balance	-0.3	-3.0	-4.0	-6.2	-4.7	-5.1	-5.6
Primary balance	0.1	-2.5	-3.2	-5.3	-3.7	-4.3	-4.9
Total Revenues and Grants	25.6	23.5	25.9	24.5	23.9	23.3	22.7
Tax revenues	13.1	14.6	14.5	15.0	15.3	15.6	15.9
Taxes on goods and services	6.9	6.9	7.0	7.2	7.3	7.4	7.5
Direct taxers	5.2	6.5	6.4	6.6	6.7	6.8	6.9
Taxes on international trade	1.1	1.1	1.1	1.2	1.3	1.4	1.5
Other taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenues	1.0	1.2	1.9	1.7	1.8	1.9	2.0
Grants	11.5	7.8	9.4	7.8	6.8	5.8	4.8
Expenditures	26.0	26.5	29.9	30.7	28.6	28.5	28.4
Current expenditures	14.9	14.5	13.8	15.6	14.6	14.5	14.4
Wages and compensation	3.4	3.6	3.7	3.7	3.5	3.5	3.5
Goods and services	3.6	3.3	2.5	3.3	3.3	3.3	3.3
Interest payments	0.4	0.4	0.8	0.8	1.0	0.9	0.8
Current transfers	5.8	5.4	5.1	5.1	5.1	5.1	5.1
Other social transfers	1.6	1.8	1.6	2.7	1.7	1.7	1.7
Capital expenditures	11.1	12.0	16.1	15.1	14.0	14.0	14.0
Domestic	5.4	5.0	5.3	6.2	6.0	7.0	8.0
Foreign	6.2	6.6	8.0	7.1	7.0	6.0	5.0
Net Lending	-0.6	0.4	2.8	1.7	1.0	1.0	1.0
General Government Financing	0.7	2.3	5.1	5.5	4.7	5.1	5.6
External (net)	3.5	1.2	6.8	3.4	3.6	3.8	3.8
Domestic (net)	-2.8	1.1	-1.8	2.2	1.0	1.3	1.8

Source: MINECOFIN and World Bank staff calculation. (2014)

31. **In the medium term, Rwanda’s macroeconomic policy framework is expected to remain adequate, given prudent macroeconomic policy management and the Government of Rwanda’s continuing efforts to strengthen the macroeconomic policy framework.** Rwanda is expected to continue expanding its domestic tax base and further promote private sector development for higher domestic tax revenue. To achieve private sector development and further poverty reduction, Rwanda needs to diversify its economy by addressing a number of structural constraints. In addition to the growing services sector, agriculture is another area where Rwanda has substantial capacity to build on current success and continue expanding productivity and job creation. Agriculture harvests remain vulnerable to adverse weather conditions while only 3 percent of total cultivated land is irrigated. Increasing cultivated area under irrigation will be paramount for sustainable agriculture production. Expanding the export base and diversifying its export basket is another important area to address. Improving access to finance and creating a conducive investment climate will be critical for private sector development, job creation and

higher domestic tax revenue.

2.3 IMF RELATIONS

32. **The IMF successfully concluded the third review under the new Policy Support Instrument (PSI) in May 2015.** The IMF and the authorities started a new PSI program for another 3 years in 2014, following the successful completion of the three-year PSI in December 2013. The new PSI represents a continuation of the authorities’ prudent approach to economic policy. The fiscal framework aims to increase revenue mobilization, adjust spending to available resources, while protecting priority spending, and minimizing domestic financing to leave ample scope for private sector credit growth. On the monetary side, the BNR remains committed to low inflation and financial sector stability, and is building its capacity to achieve these objectives. The Bank and the IMF have been closely collaborating in Rwanda. A World Bank staff member participates in IMF missions and sometimes the Fund’s internal meetings and vice versa. The Joint Staff Advisory Note (JSAN) for the EDPRS 2 was completed in December 2013 and the Debt Sustainability Analysis (DSA) is jointly conducted on an annual basis. In formulating the Program for Results Program on Public Sector Governance, the World Bank and the IMF collaborated specially on public financial management (PFM).

3. THE GOVERNMENT’S PROGRAM

33. **The National Social Protection Strategy (NSPS-2) is fully aligned with the overarching Economic Development and Poverty Strategy (EDPRS-2 2013-2018) and both display evidence of the Government of Rwanda’s sustained prioritization of the social protection sector.** The approved National Social Protection Strategy (2011) and its updated version, the EDPRS-2 Social Protection Sector Strategy (2013-18), sets out the mission and goal for social protection in Rwanda. The strategy sets out the goal of the sector, “*to contribute to reduced poverty and vulnerability and to promote equitable growth*”, which links directly to the EDPRS-2 aim of “ensuring a better quality of life for all Rwandans by promoting growth and reducing poverty”. This strategy establishes how the social protection sector will contribute to a range of EDPRS-2 objectives, both as a foundational sector and by delivering results under the Rural Development Theme through reducing rural poverty, promoting equitable growth and supporting economic transformation. Baselines with relevant policy (EDPRS-2) and program (Vision 2020 Umurenge) targets are outlined in Table 3.

Table 3: Government Policy Targets relevant to SP Sector:

Indicator	Current Status	EDPRS-2 Target (2018)	Vision 2020 (2020)
% of population below poverty line	39%	<30%	<20%
% of population below extreme poverty line	16%	9%	0%
Gini-coefficient (inequality measurement)	0.44	n/a	0.35
Child Chronic Malnutrition	38%	n/a	15%

Source: *Integrated Household Living Conditions Survey, 2013/14.*

34. **Rwanda has also developed a strategic framework and implementation plan for achieving SP outcomes, the overall objective being to ‘establish a SP system that can tackle poverty, inequality and vulnerability, and improve access to essential services and social insurance.’** Priority areas include: (i) increasing coverage of extreme poor and vulnerable; (ii) addressing child poverty and vulnerability; (iii) ensuring that the SP system has sustainable impact on extreme poverty; (iv) ensuring effective, efficient and harmonized SP delivery; (v) improved

measurement and visibility of SP results and impact; and (vi) improved sector response to climate-related risks. Accompanying the National Social Protection Strategy (NSPS-2), a revised implementation plan (NSPS-IP2) reinforces government’s strong leadership to deliver results.

35. **Rwanda has four main social protection programs, with the flagship *Vision 2020 Umurenge Program (VUP)* as the cornerstone for an increasingly consolidated social protection sector.** Established in 2008, its goal is the elimination of extreme poverty by 2020. The VUP is implemented by the Local Administrative Entities Development Agency (LODA), a semi-autonomous agency under MINALOC, with a mandate to coordinate implementation of local government support activities in economic development and social protection. The VUP is composed of four components namely: (i) labor-intensive public works (PW) that provide support to extremely poor families with under-employed adults through creation of employment opportunities, encouraging saving and development of productive activities; (ii) direct support (DS) to the poorest households unable to supply labor; (iii) financial services (FS) to facilitate investment in income-generation and entrepreneurial activities; and (iv) sensitization and skills development. The VUP is implemented through decentralized administrative structures (districts and geographical sectors) with strong community participation at the sector level while districts provide oversight, technical support, and supervision.

36. **VUP uses both geographical and household targeting, with a strong emphasis on community based targeting at the household level.** Geographical targeting prioritizes the poorest districts and poorest geographical sectors therein. At the household level, the VUP uses the *Ubudehe* community-based methodology to target eligible beneficiaries. Specifically the *Ubudehe* targeting method allocates each household to one of six income and poverty-related categories differentiated by qualitative criteria. In each update, village-level communities identify the poorest households that are most in need of income support from a range of social programs, including educational stipends and subsidies for health insurance. A range of social sector programs then use *Ubudehe* data as an input for determining beneficiary eligibility. A new *Ubudehe* survey was conducted in mid-2015 and is currently in the appeals process, whereby households can contest their classification if they disagree. The World Bank’s Poverty and Social Protection teams have been engaged in targeting discussions and support, along with other development partners, to help the government strengthen poverty targeting (see discussion of Pillar 3 in Section 4.2).

Table 4: VUP Scale-Up from Inception (2008) to FY2014/15

PERIOD	COVERAGE (# of sectors)			% of total Sectors			Beneficiaries (# of households)		
	DS	PW	FS	DS	PW	FS	DS	PW	FS
2008	0	30	0	0	7	0	0	18,304	0
Mini Year 2009	30	30	0	7	7	0	6,850	17,886	0
2009-2010	60	60	60	14	14	14	9,692	61,335	55,675
2010-2011	90	90	90	22	22	22	18,892	103,557	53,228
2011-2012	120	120	120	29	29	29	27,631	94,397	55,326
2012-2013	180	150	150	43	36	36	43,671	89,011	55,212
2013-2014	240	180	150	58	43	36	61,981	104,400	51,142
2014-2015	330	210	211	79	50	51	84,354	111,923	17,042

Source: LODA, September 2015

37. **The VUP program has expanded rapidly and now reaches over three quarters of the geographic sectors in Rwanda, with plans for full national coverage by 2018.** Likewise, VUP has consistently increased the number of VUP beneficiaries. With 6,850 direct support (DS)

beneficiaries at its introduction in 2009 and 18,304 public works (PW) beneficiaries at its inception in 2008, the two components now reach 84,354 and 111,923 households, respectively. Financial Services (FS) support has remained constant at approximately 55,000 beneficiaries per year since its introduction in 2009, with a recent drop.⁹ The total level of coverage is now therefore over 200,000 households, reaching more than a million beneficiaries, assuming an average household size of 6 in the poorest quintile. Noteworthy is also that this beneficiary coverage exceeds pre-established targets.

38. **The remainder of the social protection sector is composed of three other main programs – FARG, Rwanda Demobilization and Reintegration Commission (RDRC), and MINALOC Decentralized -- and a series of smaller programs addressing a range of risks and vulnerabilities. The Genocide Survivors Support Fund (FARG) was established in 1998 to provide assistance to needy genocide survivors in five main areas: health, education, direct income support, shelter and income generating activities. The Rwanda Demobilization and Reintegration Program (RDRP) was established in 1997 to provide social protection interventions to the eligible ex-combatants. It provides income support for a pre-determined duration plus long term cash transfers, which are differentiated based on severity of disability. RDRP also provides support in the areas of health, education, shelter and income generating activities. The MINALOC Decentralized Funding Program provides earmarked transfers to Districts for the purposes of social protection. The program can finance different activities based on the request submitted but tends to focus on income generating activities.**

Table 5: Trends in Government Support to Social Protection Programs

Government SP Financing	2009/10 (actual)	2010/11 (actual)	2011/12 (actual)	2012/13 (budget)	2012/13 (actual)	2013/14 (Budget)	2013/14 (actual)	2014/15 (budget)	2014/15 (actual)	2015/16 (Budget)	2016/17 (Proj.)	2017/18 (Proj.)
Main SP Programs	in US\$	in US\$	in US\$	in US\$		in US\$		in US\$		in US \$	in US \$	in US \$
1. LODA	16,541,353	18,045,113	22,957,625	33,634,311	32,130,552	45,571,647	44,257,978	50,989,011	50,248,919	55,920,774	63,365,393	64,645,395
VUP	16,541,353	18,045,113	22,957,625	33,634,311	32,130,552	38,028,597	36,746,758	41,268,225	39,936,966	40,707,185	53,548,979	53,345,666
UBUDEHE	-	-	-	-	-	4,732,984	4,701,153	6,318,754.28	7,024,266	10,869,941	7,299,766	9,113,137
NUTRITION	-	-	-	-	-	2,810,067	2,810,067	3,402,031.93	3,287,687	4,343,647	2,516,648	2,186,592
2. FARG	23,934,371	28,360,922	31,811,598	33,160,878	34,229,221	38,577,430	36,990,864	37,773,786	37,750,409	37,676,288	49,717,260	55,207,810
3. RDRC	5,559,783	2,869,209	5,975,555	6,014,760	5,871,153	5,915,238	5,649,130	8,312,292	3,847,483	7,519,662	7,467,814	7,559,535
4. 1. MINALOC - SP interventions in decentralised entities	2,264,054	1,808,370	2,649,560	8,912,743	2,519,583	2,414,923	1,846,424	2,081,663	2,081,663	2,024,826	889,892	1,259,788
4.2. MINALOC - SP (Central)	-	-	-	-	-	301,905	301,905	201,742	170,199	111,346	115,216	90,197
Other SP Programs												
5. NCPD	-	-	-	756,056	722,911	1,430,468	1,392,065	498,596	491,012	434,364	298,496	348,059
6. NCC	-	-	-	776,718	670,439	764,638	2,435,199	6,103,941	4,274,701	4,973,051	4,652,927	4,728,051
7.1. MINAGRI GIRINKA	-	-	-	3,778,727	1,661,593	2,250,563	2,249,932	1,596,517	1,539,800	2,114,165	4,431,959	4,893,170
7.2. MINAGRI NUTRITION	-	-	-	-	-	2,265,566	2,199,550	2,830,189	2,819,267	3,002,114	2,782,752	2,701,429
8. MIGEPROF	-	-	-	1,927,195	1,686,339	3,269,235	2,982,831	4,032,776	2,149,683	3,004,456	4,145,666	4,817,749
9. POOLING RISK	-	-	-	3,845,398	4,137,799	3,078,745	6,919,829	5,556,691	9,220,519	6,329,722	6,145,235	5,965,645
10. MIDMAR	-	-	-	-	-	1,619,920	1,589,912	714,976	1,021,215	6,305,020	5,551,103	6,429,771
Total GoR Financing	48,299,561	51,083,614	63,394,338	92,806,787	83,629,590	107,460,278	108,815,618	120,692,178	115,614,871	129,415,787	149,563,713	158,646,598

Notes:

1) Exchange rates applied: 665Rwf from 2009/10 to 2012/13; 666.5 RWF in 2013/14; 689RWF for 2014/15FY, 709.5 RWF for 2015/16FY and 730.8 for 2016/17

2) The source of information is the Finance laws for budget data and budget execution tables from MINECOFIN on domestic resources completed with sector reported information on components externally funded whose execution is done outside MINECOFIN IFMIS system

3) For 2013/14, the provided data are based on revised budget for 2013/14 whereas the SSPS-3 data were based original budget for 2013/14.

5) The data provided for 2016/17 and 2017/18 are projections from 2015/16 budget and MTEF

39. **The policy and program commitment to mobilizing social protection as a cornerstone in the government's poverty reduction goals is backed by a strong financial commitment to**

⁹ The FS component was constrained during FY2014-15 as LODA put in place arrangements for the Umurenge Savings and Credit Co-operatives (SACCO) to assume management of the Financial Services Sector Revolving Funds and the approval, disbursement and collection of loans. This footnote is also relevant for Tables 4 and 8.

the sector. Government defined social protection expenditures have grown steadily over the past five years (see Table 5) and constitute between 2.5 percent to 3 percent of total public expenditures, in line with social assistance expenditures in many countries in the region. Rwanda’s expenditure levels are in line with the 2.7 percent average for middle income countries and above the 1.1 percent average for low income countries.¹⁰

40. **The government has estimated the budget for implementing social protection priorities as articulated in the NSPS-2 to be US \$470.2 million over five years - an average of US \$94.04 million annually (see Table 6).**¹¹ This is a conservative estimate that mainly focuses on programs administered by the Ministry of Local Government (MINALOC). In the first two years, the expenditures from 2012/13 (US\$84 million) to 2014/15 (US\$116 million) have increased by 38 percent. In the next three years, the annual expenditure allocations from MINECOFIN are projected to rise from US\$116 million to US\$159 million between 2014/15 and 2017/18, an increase of 37 percent.

41. **This projected level of social assistance spending is envisaged in the overall macroeconomic outlook supported by the IMF PSI, underscoring the fiscal sustainability of Rwanda’s social protection program.** Furthermore, the level of proposed support under the DPO is consistent with Rwanda’s financial commitment to the social protection sector. The upgrading of Rwanda's social assistance programs and extension of coverage supported by this DPO series continues to be fiscally responsible, even taking into account the ambitious government goals.

Table 6: Cost by Outcomes as per the EDPRS-2 and NSPS-2 for 2013-2018 period

NSPS-2 Outcome	RwF mill	USD mill*	% of Total
1. Increasing coverage of extreme poor & vulnerable ¹²	254,882	346.5	73.7
2. Addressing child poverty & vulnerability	387	0.5	0.1
3. Ensuring SP system has sustainable impact on extreme poverty	88,368	120.1	25.6
4. Ensuring effective, efficient & harmonized SP delivery	1,003	1.4	0.3
5. Improved measurement and visibility of SP results and impact	1,317	1.8	0.4
6. Improved sector response to climate-related risks	145	0.2	0.0
TOTAL	346,102	470.5	100

*Note: Exchange rate as of September 19, 2015 (735.603071RwF); Source: NBR [<http://www.bnr.rw/index.php?id=204>]

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

42. **This proposed Social Protection System (SPS-2) operation of SDR 67.7 million (US\$95 million equivalent) is the second in a programmatic series of three development policy operations (DPOs) whose program development objective (PDO) is to “support the Government of Rwanda to improve the efficiency, accountability and coverage of its social protection system.”**

43. **The policy actions in this DPO series are centered on strengthening the foundations of the social protection system, with an emphasis on second-generation reforms needed to boost efficiency, while keeping direct alignment with core national principles and goals.** The three pillars in the DPO series are needed to support Rwanda to meet the goals set forward in its

¹⁰ Excluding general subsidies, spending on social assistance as a % of GDP varies across countries in the region: Ethiopia, 1.2%, Kenya 0.8%, Lesotho 4.6%, Madagascar 1.1%, Mauritius 4.4%, Mozambique 1.7%, Sierra Leone 3.5%, South Africa 3.5%, Swaziland 2.1%, Tanzania 0.3% (Monchuk, 2014).

¹¹ NSPS-2 priorities are mainly in the area of social assistance – e.g. of safety net transfers—and the expenditures reported refer to Rwanda’s social assistance expenditures.

¹² Outcome 1 is the most expensive to deliver as it includes increased coverage of extreme poor and vulnerable households.

core development strategies by 2018 and 2020. Notably, the EDPRS-2 focuses on four thematic priority areas to take the country's development agenda forward: (i) *Economic Transformation* for accelerated economic growth (ii) *Rural Development* to ensure that poverty is reduced from 44.9 percent to below 30 percent by 2018; (iii) *Productivity/Youth Employment* to create at least 200,000 new jobs annually; and (iv) *Accountable Governance*. This DPO series is directly aligned with these goals.

44. **Past DPO engagement in Rwanda established a strong foundation for launching a new, ambitious social protection system.** The past series supported the establishment of a social protection system, creating the VUP as the flagship social protection program in 2008 with support from piloting to rapid, expanded coverage, reaching just over three quarters of the geographical sectors in the country and close to one million people at the conclusion of the past series. The past series also helped Rwanda set a vision for its SP system and establish a foundation for its management through the development of a spreadsheet based management information system (MIS) plan and initial pilot and a focus on recruiting and training appropriate staff. It also introduced needed flexibility for disaster responsiveness and focused on setting up the initial elements of a grievance and redress system. These past reforms provided the building blocks for the establishment of a well-developed SP system at the level of policies, programs and administrative tools for service delivery.

45. **Building on this foundation, this DPO series continues the programmatic approach to strengthening Rwanda's social protection system, focusing on support for a set of policy reforms that deepen core areas of the SP system and introduce a set of second generation reforms consistent with the degree of maturation of the system.** The pillars and the prior actions and triggers therefore aim to: (i) improve the *efficiency* of the SP system by focusing on core areas of administrative efficiency and program harmonization to deepen needed reforms, especially in the *Ubudehe* socioeconomic classification database and MIS tools used in the nuts-and-bolts management of the sector, and in boosting harmonization across programs to improve efficiency through addressing program overlaps and better coordinating income generating programs; (ii) deepen the focus on *accountability and transparency* and in line with the Government of Rwanda (GoR) and Country Partnership Strategy (CPS) focus on accountable governance, bringing a core focus to budgetary transparency and citizens' engagement; and (iii) continue the focus on the ambitious expansion of coverage, notably of the VUP, emphasizing *coverage of the poor and vulnerable*, given the need to improve poverty targeting and to ensure protection that is both gender-sensitive and conducive to child development.

46. **This DPO series incorporates lessons learned from past engagement in the social protection sector.** Notably, this operation addresses some areas that need strengthening and introduces second generation reforms, focusing on increased efficiency and value for money, strengthened accountability and transparency, and expanded coverage of poor and vulnerable populations (see Section 4.2 for a discussion on analytical underpinnings and results from the impact evaluation). Specifically, this DPO series: (i) strengthens tools to improve the management and service delivery of social protection programs, notably the social protection MIS and the *Ubudehe* database, which is used by a range of agencies; (ii) improves the harmonization and efficiency of programs within the social protection system, notably the two largest programs –VUP and FARG – by ensuring that there will be no overlap in direct support benefits; (iii) responds to the strong focus in Rwanda on enhancing productivity by focusing on harmonizing and strengthening income-generation programs targeted to poor households; (iv) introduces improved accountability and transparency processes and tools, in line with the Government of Rwanda's

and CPS accountable governance focus and in coordination with the increased devolution of responsibilities to local government entities; and (v) supports reforms in the area of child-sensitive social protection which are central to the Government of Rwanda's policy commitments in both social protection and early childhood development, with an eye toward longer-term graduation from poverty and social assistance. Though not included as direct policy actions, the program also supports ongoing efforts aimed at strengthening the labor intensity of public works and institutionalizing the analysis of the poverty impacts of the VUP program as part of the EICV household survey work.

47. The first DPO in the current DPO series (SPS-1) established some core reforms in each of the three pillars and laid the groundwork for the series.

- Efficiency (Pillar 1) concentrated mainly on administrative efficiency and encompassed a series of reforms including: a harmonization policy eliminating duplicate direct support/unconditional cash transfer benefits between the two largest safety net programs, VUP and FARG, contributing to improved efficiency and equity in access to public resources; the launching of a new *Ubudehe* database and household registry wherein national data collection has been completed and is being finalized using a community-based appeals process; the establishment of core SP MIS objectives for a harmonized SP management information system. Under SPS-2, reforms to support efficiency are being strengthened with linkages between the national ID and the *Ubudehe* databases; in the establishment of technical system specifications and a costed roadmap for the SP MIS; and with improved social protection program harmonization through a focus on income-generating programs.
- Accountability and Transparency (Pillar 2) reforms included: the formal establishment of social protection as a sector, with related program composition and public expenditures; the substantial expansion of staffing at the local government level, with an emphasis on those working on social protection programs and strengthening citizens' engagement. This will be deepened in SPS-2 through reporting on the SP budget and a new curriculum with accompanying intensive training for local staff.
- Coverage of Poor and Vulnerable (Pillar 3) reforms included: expanded coverage of the flagship VUP program whose coverage moved from 240 to 330 sectors in Direct Support and 180 to 210 in Public Works (see Table 4); restructuring of the *Ubudehe* poverty classification system for households; identifying and selecting policy options for improving the gender and child sensitivity of SP programs. The testing of a poverty scorecard derived from EICV-4 data is being planned for 2016. This area will be strengthened under SPS-2 through further expansion and reform to VUP and through adoption and development of selected gender and child sensitive social protection reforms.

48. The proposed operation is supportive of the World Bank's twin goals of eliminating extreme poverty and boosting shared prosperity, as well as of sectoral and regional strategies.

Social protection programs such as Rwanda's help combat extreme poverty through direct transfers that (i) provide income support to the extreme poor, and (ii) build capabilities by helping households invest in education, health and nutrition (their own and that of their children) and in productive assets and activity. Social protection enables shared prosperity by cushioning against the impacts of shocks and by providing the security needed to help people take productive risks. The proposed DPO series is also aligned with the World Bank's Africa Strategy¹³ (supporting its

¹³ World Bank. March 2011. Africa's Future and the World Bank's Support to It. Washington DC: World Bank.

second pillar on vulnerability and resilience) and the global¹⁴ and Africa Social Protection Strategies.

49. **The choice of a Development Policy Operation (DPO) as a lending instrument is in line with core Government of Rwanda policy reforms and provides continuity to the programmatic policy reforms supported under the previous DPO series.** The proposed plan is based on a clear set of reforms for a 3 year program that will help propel Rwanda toward the year 2018 goals in the EDPRS-2. It builds on past achievements and lessons learned to support policy and administrative reforms that will help the sector move forward as the SP system is being increasingly consolidated, in line with the NSPS-2 and accompanying implementation plan. Finally, this instrument responds to client preference and is consistent with Rwanda’s strong macro-fiscal framework.

50. **The policy reforms supported by this DPO series are complemented by strong donor engagement supporting a robust technical assistance program and cohesive Sector Working Group -- two important complements that will help ensure that results are achieved.** A robust program of technical assistance and support is being provided by development partners, notably DfID and UNICEF and a World Bank executed Rapid Social Response grant. This support includes financing for technical studies linked to the policy actions as well as support for four full-time technical staff (from DfID) working directly with MINALOC and LODA. There is also an active, cohesive, well-functioning government-development partner Sector Working Group (see Section 4.4) chaired by Government of Rwanda line ministries and co-chaired by development partners, with assignments by sector. This supportive environment provides the necessary foundation for a strong set of policy-based reforms as outlined in this DPO.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

51. **This operation supports priority policy reforms needed to reach Rwanda’s ambitious goals and is correspondingly grounded in three pillars:** efficiency of the social protection system; accountability and transparency; and coverage of poor and vulnerable populations. The SPS-2 operation deepens the reforms introduced in SPS-1 and introduces the theme of graduation which has become central to the policy dialogues in social protection. All prior actions for SPS-2 have been completed and the progress is discussed under each pillar in this section. In substance, all prior actions have remained unchanged from the initial design of the SPS series except for minor rephrasing of prior actions 1, 3, 4 and 5. The revisions were made to strengthen the prior actions due to additional progress made by the Government of Rwanda on the implementation of the program¹⁵.

¹⁴ World Bank. 2012. Resilience, Equity and Opportunity: the World Bank’s 2012-2022 Social Protection and Labor Strategy.

¹⁵ Prior Action #1 (original language) “MINALOC to sign an MOU with National ID Agency (NIDA) including technical specifications for interface between *Ubudehe* and NIDA databases.” The revised language reflects that LODA, not MINALOC, is signatory to the MOU with NIDA.

Prior Action #3 – (original language) “MINALOC to develop policy guidelines for a minimum package to support graduation, including harmonizing income-generating activities across selected SP programs”. The revised language reflects the fact that policy guidelines were not just developed but also adopted.

Prior Action #4 – (original language) “MINALOC to document, publish and discuss the SP consolidated budget allocation and execution through primary dissemination channels”. The revised language reflects that fact that MINECOFIN is also involved in the budget process.

Prior Action # 5 – (original language) “MINALOC to conduct capacity building training for local government staff to promote and strengthen citizens’ engagement”. The revised language reflects the fact that MINALOC has developed

PILLAR 1: EFFICIENCY OF THE SOCIAL PROTECTION SYSTEM

52. **Pillar 1 aims to improve the administrative efficiency of the social protection system and help generate value for money by improving both administrative systems and program harmonization.** DPO-supported reforms will lead to the following achievements which are central to improving efficiency: (i) A reformed *Ubudehe* system and database for identifying and registering poor and vulnerable households to improve inter-operability across SP and other poverty-targeted program databases; (ii) Improved MIS, including links between the *Ubudehe* database, program registries and the national ID database; and (iii) Increased harmonization across social protection programs, addressing duplication of benefits in the main SP programs and ensuring rationalization in the use of income-generating programs to support graduation from poverty and social assistance.

Area (i): Reformed Ubudehe database for identifying and registering poor and vulnerable households

- *SPS-1 Prior Action #1: MINALOC to adopt roadmap for updating of the Ubudehe national household poverty database (completed)*
- *SPS-2 Prior Action #1: LODA to sign an MOU with National ID Agency (NIDA) including technical specifications for interface between Ubudehe and NIDA databases (completed)*
- *SPS-3 Trigger #1: LODA to ensure that the interface between the Ubudehe and NIDA databases is fully functional*

53. **Eligibility for a range of programs in Rwanda – including most social protection benefits and a number of social sector benefits notably in health and education – is based on households’ *Ubudehe* poverty category and requires administrative inter-operability across the *Ubudehe* database and program beneficiary registry databases.** This administrative inter-operability is critical to the efficient managing of social programs, addressing coverage duplication and gaps and promoting synergies across programs. While this operation will not specifically support Rwanda’s National Identification Agency (NIDA), a clear identification of households using Rwanda’s strong national ID system presents an opportunity to support inter-operability across databases, verification of identify and eligibility, and is a core feature of the *Ubudehe* database that needs to be strengthened. NIDA was established by legislation in 2011 and has rapidly developed a leading model for foundational identification systems. The agency has issued national identification numbers (NINs) and associated national identification cards (NIDs) to more than 80 percent of the adult population using biometrics to ensure uniqueness and has links to Rwanda’s system of vital statistics, thereby serving as a national population register.

54. **Under SPS-1, MINALOC adopted a roadmap for updating of the *Ubudehe* national household poverty database.** The revised *Ubudehe* database includes the use of the national ID, a revised classification scheme, and an updated community targeting process. A pilot in five districts allowed a review of the quality of data collection, the categorization and appeals procedures (including households’ satisfaction with the categorization process), the functionality of four new categories, and the ability to create a quality database with inter-operability across programs (including with the Social Protection MIS). One major finding of the pilot was that the coverage of the NID is possibly higher at the national level than NIDA estimates but is lower

and implemented a curriculum focused on upgrading the social protection skills of targeted local government staff appointed as part of the expanded decentralized staffing structure.

among poor and vulnerable populations. Those without a NID, however, will continue to receive benefits in accordance with the existing community validation process and program eligibility criteria.

55. **To lay the foundation for database inter-operability, LODA and NIDA have signed a Memorandum of Understanding, including technical specifications for the interface between the Ubudehe and NIDA databases.** This agreement is critical as it spells out the accountabilities between both agencies and the specific steps needed for their systems to work together. It allows for updates in the foundational ID database to inform the *Ubudehe* database and SP MIS on an ongoing basis, substantially improving MINALOC and other agencies' capacity to manage their programs and beneficiary registries. In the short-run, this MOU prioritizes a linkage between NIDA and *Ubudehe* to verify the NIN of all adults 16+ in the *Ubudehe* database and for NIDA to provide a NID for those that are registered but are missing their physical NID. In the medium- and long-run, this MOU aims to achieve functional inter-operability of the identity data between LODA's *Ubudehe* database and NIDA so that both contain consistent and cross checked data and updates are able to flow between them.

Area (ii): Improved MIS, including links between the updated Ubudehe database, program registries and the national ID database

- *SPS-1 Prior Action #2: Short-, medium-, and long-term SP MIS objectives approved by the MINALOC convened SP MIS Technical Committee (completed)*
- *SPS-2 Prior Action #2: MINALOC to finalize, validate, and adopt MIS technical system specifications and costed roadmap (completed)*
- *SPS-3 Trigger #2: MINALOC to develop priority MIS modules and issue protocols on roles and responsibilities for use and maintenance of the MIS*

56. **A key feature of the effective and efficient operation of SP programs is the management of program data.** Each of the main SP programs in Rwanda has some form of a management information system (MIS), some rudimentary and some well-developed. These systems are currently unable to communicate with each other and the Government of Rwanda cannot track beneficiaries across programs and throughout their life. They also cannot electronically track payments, grievances and redress, and monitor and report efficiently on results. Lack of efficient management of program data and a case management tool impedes the government in efficiently and effectively managing beneficiary and program information.

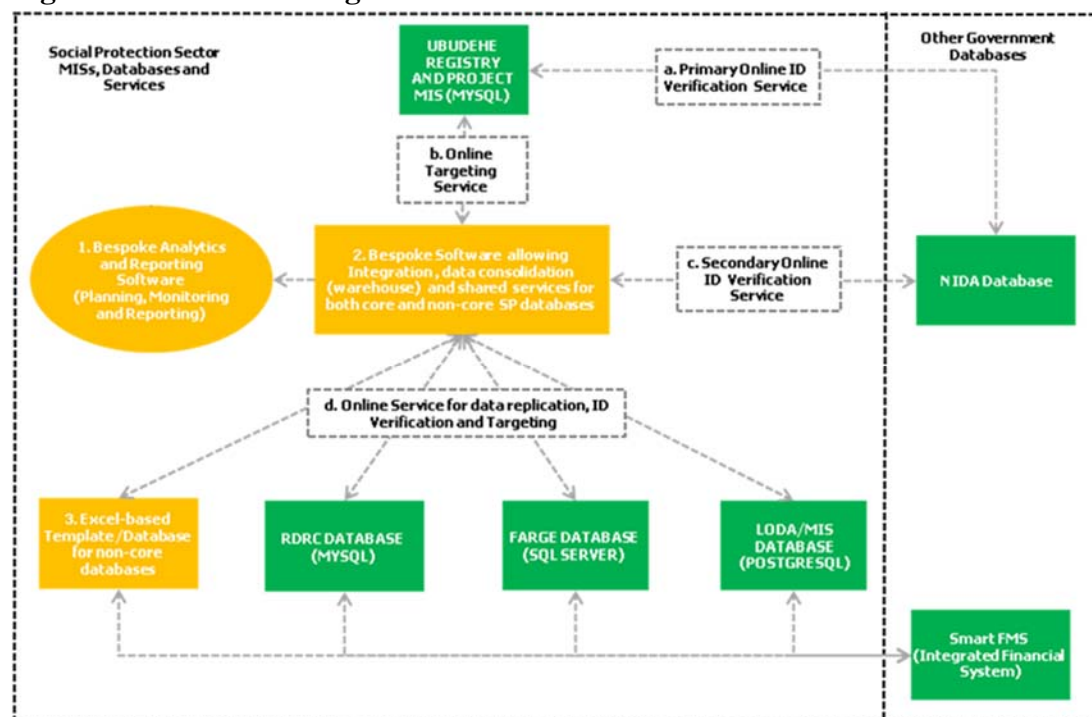
57. **The Government of Rwanda articulated a vision statement for the SP MIS to improve social protection program delivery. In particular, it aims to improve the following areas of program delivery: registration, monitoring, payments, appeals and complaints and graduation processes.** In addition to this vision statement, the government decided on a policy framework for the institutionalizing of the SP MIS, including identifying a responsible institution (MINALOC) and establishing a cross-government team for approving policy decisions related to development of the SP MIS. This MIS Technical Committee is composed of government representatives from various ministries and agencies as well as development partner representatives. The sector Monitoring and Evaluation (M&E) Framework, currently under preparation, will also be underpinned by the SP MIS.

58. **Under SPS-1, the government built on the established policy framework and vision statement and approved short-, medium-, and long-term SP MIS objectives.** In the long-term (by 2018) the objectives are to establish a fully operational, comprehensive, integrated social

protection management information system to support the SP programs’ processes from end to end, including electronic cash payments, improved targeting (including linkage between those who are eligible and those who are selected), a comprehensive appeals and grievance system, and linkages with early warning systems (EWS) for social risk and disaster management and climate change adaptation. The SP MIS will eventually pull together key data on core and complementary social protection programs. Core programs will be prioritized in the short run. The SP MIS will enable the generation of a wide range of M&E reports and analysis to inform program planning and management, as well as the refinement of program design. This system thus aims to: (i) contribute to improved targeting, coverage, harmonization and monitoring of service delivery and payments; (ii) reduce the cost of maintaining many systems, which are currently mainly manual, cannot communicate with each other and are very labor intensive to maintain; (iii) act as enabler of accountability and control of processes; (iv) enhance program management and the ability to harmonize SP interventions to facilitate graduation from poverty; and (v) be aligned with critical SP objectives.

59. **The MIS Technical Committee, through the leadership of MINALOC, has finalized, validated, and adopted the SP MIS technical system specifications and a costed roadmap.** This SP MIS will be an integrated MIS, linking the *Ubudehe* database to verify socioeconomic eligibility for VUP and to separate program specific registries and MISs (VUP, FARG and RDRC to begin) through the use of a single unique identifier (Figure 1 below). Some program MISs will need to be developed as existing systems are very rudimentary and others are already developed and well designed and will be integrated into the SP MIS in their current state.

Figure 1: Rwanda’s Integrated SP MIS Architecture



Source: *Technical System Specifications for Rwanda’s Integrated Social Protection Management Information System (iSP-MIS)*, September 2015, p.17.

Area (iii): Increased harmonization across social protection programs

- *SPS-1 Prior Action #3: MINALOC to issue policy guidelines to decentralized entities as to which benefit to allocate to households eligible for more than one social protection program, with no duplicate benefit from FARG and VUP Director Support (completed)*
- *SPS-2 Prior Action #3: MINALOC to develop and adopt policy guidelines for a minimum package to support graduation, including harmonizing income-generating activities across selected SP programs (completed)*
- *SPS-3 Trigger #3: MINALOC to implement policy guidelines for harmonizing income-generating activities across selected SP programs*

60. **In line with the policy focus on graduation, SPS-2 introduces support to policy reforms for harmonizing income-generating activities across selected social protection programs as part of a graduation ‘package’ currently under development.** The Government of Rwanda currently supports a wide range of income generating activities for poor and vulnerable households. These programs are considered a cornerstone of Rwanda’s efforts to graduate adults endowed with labor capacity out of extreme poverty and dependence on social assistance. However, these programs are constrained by a lack of coordination and limited evidence on their effectiveness. With technical assistance from the Rapid Social Response fund, a review of these programs’ basic functions and specifications has been coupled with an assimilation of existing evidence on performance and lessons from national and international sources. These reviews serve as an input to the active programmatic development of a coordinated approach for promoting graduation.¹⁶

61. **Policy guidelines for a minimum package to support graduation, including harmonizing the income-generating activities across selected SP programs have been developed and adopted under SPS-2 and will be implemented under SPS-3.** These guidelines were approved by MINALOC Senior Managers on September 8, 2015. This package targets beneficiaries of the VUP Public Works with labor capacity and to a lesser extent VUP and FARG direct support beneficiaries. Programs and services included under the minimum package to support graduation are the following: regular and timely cash transfers (through the core Social Protection programs), free access to health insurance, training and coaching support, investment grants and asset transfers (through MINALOC Social Protection earmarked funds, *Ubudehe* grants and GIRINKA), and linkages to financial services. Implementation will also likely entail a profiling mechanism of those with labor capacity to better tailor the income generating activities for various SP beneficiaries, with first priority being given to those with high potential for graduation.

62. **A pilot for the minimum package to support graduation is currently being planned in thirty sectors with more focus on ten flagship sectors.** The pilot will be supported and monitored by MINALOC/LODA and local entities and will be facilitated by a cadre of case workers who will reach out to selected extremely poor and vulnerable households. Caseworkers will manage around fifty households and will visit each of them at least once a month. Taking into account the available budget, quotas could be developed for the number of households to be targeted in each sector, based on population and poverty rates. The signature of contracts with beneficiaries is envisioned

¹⁶ The programs reviewed include VUP financial services, FARG income generating activities, the *Ubudehe* income generating activities; the Rwanda Demobilization and Reintegration Program (RDRP) income generating activities, MINALOC’s earmarked transfers to districts, the GIRINKA one cow program, MINAGRI’s LWH/RSSP projects and MIGEPROF’s income generating activities.

to begin in December 2015 and the administration of the first investment grants would start in March 2016. Intensive monitoring will be focused on the ten flagship sectors to maximize the lessons learned from the pilot.

63. **Pillar 1 Expected Results:** The policy reforms are expected to contribute to an improved, more effective and efficient social protection system for identifying and registering poor and vulnerable households. This will support improved effectiveness and efficiency not only in the management of social protection programs, but will also improve the management of the wide range of poverty-targeted social programs using *Ubudehe*. Having a fully functional linkage between the national population registry (NIDA database), *Ubudehe* database, and SP MIS will allow MINALOC to verify the identity of beneficiaries. Currently there is no automated verification mechanism in the system to be able to track beneficiaries across programs and time to verify continued eligibility after life events and socioeconomic and geographic changes. This is currently carried out manually and is very costly and inefficient. This linkage should, for example, reduce duplicate benefits and aid in payments tracking, and allow for longitudinal tracking of beneficiaries for monitoring graduation and other socioeconomic changes as well as program evaluations. Without having a common unique identifier across programs, this functionality will not be possible. Increased harmonization across social protection programs will also take place, with improvement in efficiencies by reducing overlap between programs and ensuring better coordination across income generating programs as part of the overall focus on graduation. Finally, the reforms will result in stronger, clearer support for improving income generation and livelihoods among the poorest – a key input for improving efficiency and for supporting Rwanda’s policy focus on graduation.

PILLAR 2: ACCOUNTABILITY AND TRANSPARENCY

64. **As stated in the Country Partnership Strategy for Rwanda, there is an acknowledged need for further political decentralization, in particular intensifying citizen participation, expanding the role of civil society organizations, and encouraging fiduciary accountability.** The focus areas of the reforms in Pillar 2 are: (i) enhanced transparency and accountability through SP budget reporting, discussion and dissemination; and (ii) strengthened citizens' engagement.

Area (i): SP budget reporting and dissemination

- *SPS-1 Prior Action #4: MINECOFIN to produce consolidated Social Protection budget identifying the social protection programs (completed)*
- *SPS-2 Prior Action #4: MINALOC and MINECOFIN to document, publish and discuss the SP consolidated budget allocation and execution through primary dissemination channels (completed)*

65. **Under SPS-1, the Government of Rwanda defined the program composition of the social protection sector and the Ministry of Finance and Economic Planning (MINECOFIN) produced a consolidated SP budget allocation and execution for the main social protection programs. Under SPS-2, this consolidated budget information has been expanded to include information on SP programs linked to the Chart of Accounts. Furthermore, the budget information from the Chart of Accounts providing information on both national and district level budgets has been made accessible to the public through the MINALOC website.** In order to continue strengthening access to information on social protection expenditures, MINALOC and MINECOFIN have documented, published discussed and disseminated the SP consolidated budget allocation and execution through primary dissemination channels including MINALOC’s website,

Joint Sector Reviews, Sector Working Groups and district public accountability days. At the district level, where budgets are closely linked to districts' *imihigo* performance contracts, MINALOC has published both the *imihigos* and social protection budgets for each of the 30 districts in Rwanda. This policy reform has strong support among development partners and is a notably useful element when using a DPO lending instrument.

Area (ii): Strengthened citizens' engagement

- *SPS-1 Prior Action #5: Cabinet to approve revised structure for expanded staffing at district and sector local government levels (completed)*
- *SPS-2 Prior Action #5: MINALOC to develop and implement a curriculum for targeted district and sector local government staff to strengthen citizens' engagement in the delivery of social protection programs (completed)*
- *SPS-3 Trigger #4: MINALOC to implement and monitor an SMS system for appeals and complaints*

66. **The strengthened citizens' engagement area centers on a substantial expansion of local government staffing with accompanying capacity building to more closely engage citizens and the introduction of core tools to support citizens' improved engagement.** Under SPS-1, the expansion of staffing at district and sector local government levels was part of a revised structure approved by Cabinet to strengthen government presence in local jurisdictions.

67. **Under SPS-2, MINALOC, as stipulated in their Social Protection Implementation Plan, has developed and implemented a comprehensive capacity building action plan and curriculum for upgrading the skills of the targeted local government staff** aimed at improving their own and citizens' understanding of and engagement in a range of activities and programs, including social protection programs. MINALOC has prepared a curriculum for conducting the planned training of the targeted local government staff, with a focus on local government staff roles and responsibilities in implementing VUP and including modules on: principles of social protection and VUP, targeting, safety nets, exit and graduation guidelines and strategies to enhance graduation, communication, accountability, appeals and complaints, budgeting and finance, etc. This will result in further strengthened citizens' engagement by sensitizing the community about the key social protection programs and the roles of different stakeholders. Following completion of the training, a final report has been issued, and comprises the curriculum and relevant modules, as well as the sector coverage and a list of the local government officials trained.

68. **This capacity building is particularly important in the context of expanded local staffing, enhanced decentralization and the role of MINALOC as the lead agency for local development and social protection.** While central government provides national leadership and co-ordination on social protection, responsibility for implementation has been rapidly devolved to districts and will continue to grow as social protection programs expand. The National Social Protection Strategy (NSPS) proposes mainstreaming and building capacity for those responsible for championing the social protection sector and its interventions at the district level through the Joint Action Development Forum. The MINALOC staff working on social protection will be responsible for supporting districts so that capacity and systems are put in place. Both institutional and human capacity will continually be strengthened to deliver on social protection outcomes overtime.

69. **Under SPS-3, policy reforms will center on the introduction and use of expanded appeals and complaints mechanisms.** This will contribute to the creation of an enabling

environment for citizens to participate in decision making processes, in program activities, and in the monitoring of the implementation of agreed actions, taking advantage of the expanded staff at local government levels. MINALOC will continue conducting in-depth training for local government staff aimed at promoting and strengthening citizens' engagement by sensitizing the community about the key social protection programs and the roles of different stakeholders.

70. **Having an accessible, efficient and responsive Appeals and Complaints Handling Mechanisms (ACHM) is important to ensure accountability of the government social protection system and is in line with the GoR's emphasis on accountable governance.** Such ACHMs will also help to identify and resolve implementation problems of the program in a timely and cost-effective manner. It will enable citizens to have the right to complain to an impartial entity and also serves as early warning systems that would help to identify and address potential problems before they escalate, and to avoid more expensive and time consuming disputes. In this regard, MINALOC will approve the national roll-out of an appeals and complaints mechanism for key social protection programs and monitor its implementation in all operational sectors. In addition to implementing the approved appeals and complaints mechanism, MINALOC will implement and monitor a telephone-based SMS system for appeals and complaints redress mechanism to complement the toll-free telephone number that was introduced during the last DPO series.

71. **Pillar 2 Expected Results:** It is anticipated that these policy actions will bring about a greater emphasis on accountability and transparency through SP program definition, budget reporting and strengthened citizens' engagement, notably at the local levels given the ongoing, extensive fiscal and program decentralization. This is an important foundation for the consolidation of the social protection sector and a useful input for effectively managing the range of SP programs, making clear information available to government actors, development partners and citizens on budget flows and execution and strengthening the capacity of local government staff. In line with the CPS and Rwanda's emphasis on accountable governance and support of decentralized service delivery, this pillar will enhance and strengthen the engagement of citizens to support improvements in service delivery and accountability at the various levels of government. Building on the rapid expansion of local government staff, this capacity building will strengthen citizens' rights and ensure that adequate channels are available for feedback from beneficiaries of social protection programs and civil society more broadly. MINALOC already has a national appeals and complaints mechanism in place for key social protection programs, including a 1-800 number, and monitors its implementation in all operational sectors. The SMS system, planned to be implemented under SPS-3, would be an added tool that would allow for better monitoring of citizens' concerns and addressing them in a timely manner.

PILLAR 3: COVERAGE OF POOR AND VULNERABLE

72. **The objectives of the reforms in Pillar 3 are to ensure that Rwanda's social protection coverage not only expands in line with national targets but that the expanded coverage is appropriate to the needs of the beneficiary population of poor and vulnerable households.** The focus on the poor and vulnerable implies that coverage is: well-targeted to poor areas and households, given needed improvements in poverty targeting; more gender and child-sensitive, with a push for building a stronger link between SP and early childhood development (ECD) as is envisaged in key policy directives aimed at addressing the severe child development deficit in Rwanda, including the 38 percent rate of under 5 malnutrition; and more labor-intensive in public works, an area of needed reform to ensure the efficiency of social protection spending with respect to its short-term safety net objectives poor households. The specific policy reforms to be supported

under Pillar 3 are: (i) Expanded coverage of VUP in line with Vision 2020 targets; and (ii) Improved design of VUP with respect to testing improvements in poverty targeting and introducing gender and child sensitivity of SP programs to promote child development.

Area (i): Estimated coverage of VUP in line with national targets

- *SPS-1 Prior Action #6: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY15 (completed)*
- *SPS-2 Prior Action #6: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY16 (completed)*
- *SPS-3 Trigger #5: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY17*

73. **Ensuring increased coverage of the extreme poor and of vulnerable groups by the social protection system in line with national goals continues to be one of the key challenges facing the social protection sector in Rwanda.** The DPO series supports the efforts of the Government of Rwanda to continue to expand coverage of SP, notably through the flagship VUP program. In addition to increased resources, improved coverage also requires enhanced targeting, so that a larger share of the available resources reaches the extreme poor and vulnerable. In this regard, The VUP programs will be scaled up to reach national coverage by the end of the EDPRS2 period and end of this DPO series.

74. **The expansion of the flagship VUP program has continued, with needed reforms being introduced to Public Works.** The scale-up of Direct Support (DS) components remains in line with the commitments made under the NSPS-2 and EDPRS-2, i.e. an increase from 330 sectors in 2014/15 to a projected 416 sectors in 2015/16. The Public Works (PW) component was maintained at 210 sectors with a focus on increasing the number of days from 48 in 2014/15 to 72 in 2015/16 and by prioritizing labor intensive projects. The continued anticipated scale-up of VUP will require increased, sustained and predictable budget commitments from government. This will need to be accompanied by improvements to the operational aspects of poverty targeting especially in public works programs where the errors of inclusion and exclusion are more prevalent than in the direct support grants, as well as continued efforts to improve the labor intensity of public works.

75. **Scale-up of VUP is being complemented by the rollout of reforms in geographical targeting.** The scale-up plan and budget expansion of VUP is being rolled out so that, rather than adding one new sector in each district in each year, scale-up is determined by poverty levels within a district (based on EICV data). In the poorest districts, VUP is being rolled out more quickly across geographical sectors than in the better off districts.

76. **The VUP budget has been approved by Cabinet as part of the national budget and ratified by Parliament, in line with planning and budgeting norms and regulations.** The preparation of the annual national budget involves consultations between budget agencies (including line ministries such as MINALOC) and MINECOFIN, based on strategic priorities. When budget consultations are finalized, the Minister of Finance and Economic Planning submits the proposed national budget to Cabinet for the fiscal year under preparation as well as expenditure projections for the next two fiscal years. On approval by the Cabinet, the proposed Finance Law and related budget documentation are submitted to Parliament. Once approved, budget agencies receive an appropriation of funds in line with the Finance Law. This has included increased funding for VUP program scale up, following strategic priorities and the parameters set by the national Medium Term Expenditure Framework.

Area (ii): Improved design of VUP with respect to testing improvement in poverty targeting and improving the gender and child sensitivity of SP programs to promote child development

- *SPS-1 Prior Action #7: MINALOC to adopt procedures to enhance community participation in Ubudehe household classification process and launch testing of poverty scorecard (completed)*
- *SPS-1 Prior Action #8: MINALOC to conduct policy study and identify policy options for improving gender and child sensitivity of SP programs (completed)*
- ***SPS-2 Prior Action #7: MINALOC to adopt plan for selected option(s) for improved gender and child sensitivity of SP programs (completed)***
- *SPS-3 Trigger #6: MINALOC to incorporate plan and budget for expansion in FY17 of gender and child sensitive SP programs*

77. **Improved poverty targeting is at the heart of an improved social protection system and Rwanda has been working to address challenges in poverty targeting.** Building on ongoing system reforms, the current *Ubudehe* update includes reforms to the community-based classification of poor households as well as the introduction of a new 13-question based criteria developed through national consultations to aid in poverty classification. *Ubudehe* is a community-based mapping and registration exercise in which all households in Rwanda are assigned a poverty category. The previous ratings ranged from 1 (the poorest of the poor) to 6 (the “money rich”) with the bottom two *Ubudehe* categories being eligible for social assistance. To improve targeting, the GoR recently reduced the number of *Ubudehe* categories from 6 to 4, with only the bottom category being eligible for social protection benefits, and adopted a new set of criteria and indicators to guide the categorization of households into the four new categories, as a complement to the community-based targeting process. These criteria were developed through national consultative processes, not through an analysis of the EICV household survey data collected to measure poverty and living standards (an approach often used to develop a proxy-means based scorecard). The piloting of a poverty scorecard, agreed under SPS-1, has been postponed until EICV4 data are available (2016). The distinct approaches (national consultation based measures in *Ubudehe* versus consumption based measures in EICV) are likely to create discrepancies in poverty measures between the *Ubudehe* categories and the EICV – and the ‘scores’ generated will need to be reconciled appropriately with the community-based process at the heart of the *Ubudehe* categorization process.

78. **In order to review and update the *Ubudehe* data, the Local Administrative Entities Development Agency (LODA) that administers VUP and *Ubudehe* conducted a pilot in five districts -- one district in each province and in the city of Kigali.** The objectives of this pilot phase were: (i) test tools to be used in the national roll-out process, notably the new 4 categories and the 13-question based scorecard developed through national consultations; (ii) to verify the proposed implementation mechanism for roll out; (iii) to test the community perception around categorization using the new categories; and (iv) to test and establish the resource envelope for the roll out. The results of the pilot are currently being reviewed.

79. **Rwanda’s National Social Protection Strategy and its flagship VUP program outline mandates to focus on child-sensitive social protection programs, but this directive has yet to be operationalized.** Developing child and gender sensitive social protection is part of policy directives aimed at addressing the severe child development deficit in Rwanda, including the 38 percent rate of malnutrition among children under the age of 5. Social protection has also been identified as one of the core areas for mobilization under Rwanda’s new ECD policy, a focus that

had earlier not been included in ECD dialogue. There is now a strong policy directive in Rwanda to more fully harmonize ECD and SP approaches.

80. **Under SPS-1, MINALOC developed and identified a set of policy options to increase the gender and child sensitivity of social protection programs, in line with national mandates and policies.** The range of (non-exclusive) options identified by the Government of Rwanda include: (i) providing VUP public works opportunities that are more gender sensitive, particularly less labor intensive opportunities for pregnant and lactating women; (ii) providing a direct support child grant to VUP qualifying households; (iii) establishing mobile crèches or child care services at public works sites to ensure the safety of children during the caregiver’s work and to make public works more accessible for mothers; and (iv) linking VUP beneficiaries to other programs, notably ECD programs and services delivered through the Ministry of Gender and Family Promotion (MIGEPROF) and the National Commission for Children (NCC) – which include home visits, center-based support and community-based services – as well as nutrition programs. Senior officials within MINALOC have engaged a range of stakeholders from government, civil society and development partners in dialogue and in a set of workshops to examine policy and review these options.¹⁷

81. **Plans for implementing these options have been adopted as a year 2 DPO trigger**, with an initial emphasis on improving the gender and child sensitivity of VUP public works, identified as option (i) above. The reform options to be piloted with UNICEF support include: flexible road maintenance, employment in home-based early childhood development centers and employment as support workers in formal early childhood centers. There is limited attention to gender and child sensitivity in the core VUP SP programs (notably public works) and there is a desire to more fully harmonize income support and child services. The focus on improving the gender and child sensitivity of Public Works will also serve as an entry point for needed reforms to strengthen the predictability and labor-intensity of the VUP public works program – areas that have been identified as needing reform. There is also a rapid expansion of NCC staff and the introduction of a cadre of community-based ‘friend of the family’ workers whose work will include support to vulnerable families with young children, in line with option (iv) above.

82. **Pillar 3 Expected Results:** The series of prior actions and triggers for this pillar would ensure an expanded coverage of the flagship VUP program, in line with Vision 2020 goals for national coverage by year 2018. Beyond coverage, the policy actions in this pillar will introduce reforms in poverty targeting through a new, updated *Ubudehe* classification system which will be used by a range of social sector programs, within and beyond social protection including in health insurance and education subsidies. Finally these reforms will improve the gender and child sensitivity of SP programs, in line with national goals in both the Early Childhood Development and Social Protection policies.

ANALYTICAL UNDERPINNINGS

83. **This DPO series draws upon analytical work undertaken by the World Bank and development partners active in the SP sector.** In its analysis of Rwanda’s social protection system, the SPS DPO draws on analytical work conducted by the World Bank entitled “Rwanda

¹⁷ This work is being closely coordinated with UNICEF and has benefited from support from the Rapid Social Response trust fund and a grant from the Early Learning Partnership Program carried out in collaboration with the Harvard School of Public Health and Partners in Health. This has included a series of consultations and the development of models and options reviewed by the Government of Rwanda.

Safety Network Assessment” completed in 2012. The assessment established that: (i) there are clearly gaps in the level of current coverage (although once VUP scales up as planned, that program alone would be expected to cover around 18 percent of the population); (ii) the current levels of support provided through public works (in terms of the size of transfers received by households) are very small, and therefore the social protection provided by that component of VUP is in practice smaller than originally envisaged in the program; (iii) the lack of a coordinated MIS system hinders the ability to effectively monitor implementation of social protection programs; and (iv) the timeliness and predictability of transfers under VUP needs to be addressed.

84. **An impact evaluation of the VUP program** revealed important achievements and areas needing additional attention:¹⁸

- VUP is generally well received by the population with over 80 percent of the respondents in the program area agreeing that VUP is well managed and structured.
- There are significant discrepancies in the levels of financial support across VUP programs, with public works beneficiary households receiving an average transfer of 55,000 RwF per year (for an average of two months of work) versus an average of 160,000 RwF per year for direct support beneficiaries.
- 70 percent of the PW and 92 percent of DS beneficiaries are correctly targeted according to their self-reported *Ubudehe* status. However, official versus self-reported *Ubudehe* categories are hard to reconcile with either the *Ubudehe* database or the targeting lists.
- With respect to impacts, DS beneficiaries show significant improvements of 0.2 meals per day, raising the average from 1.5 to 1.7 meals per day. Although there is no similar increase among public works beneficiaries, both types of VUP households benefit from an increase in food expenditures.
- VUP has resulted in higher rates of school attendance among beneficiary households and a 10 percent higher health insurance enrollment rates for direct support beneficiaries.
- VUP beneficiary households are more likely to invest in livestock, farm equipment, crop inputs, and housing. Detailed information on livestock accumulation shows increase in livestock holdings for both DS and PW, although effects are stronger for DS and households no longer benefiting from VUP seem to lose their accumulated livestock in the face of shocks.
- With respect to VUP’s financial services, access and use of loans among VUP beneficiaries is still limited (which also limited sample sizes and generalizability of the findings), but among those households who had accessed financial services, the loans were used for consumption and to repay existing loans.

85. **The current World Bank Poverty Assessment analyzed contributions to poverty reduction and found that social protection support, in particular through VUP, was perceived as having had a positive impact on improving household conditions.** This was a key finding in the qualitative work (VUP coverage was not high enough at the time of the EICV to generate a representative sample of VUP beneficiaries). From the qualitative study, participants in lower *Ubudehe* categories felt the program provided a key source of employment for youth, who have been employed in terracing and road construction through Public Works. It has also provided an income source for the vulnerable and elderly, particularly through Direct Support.

¹⁸ Hartwig, Renate “The Vision 2020 *Umurenge* Program: Impact Evaluation Report” – World Bank, July 2014.

Box. 1: A Mixed Method Evaluation of Welfare Trajectories

A qualitative study is currently being conducted to complement the VUP impact evaluation, providing the basis for a mixed method analysis focused on the welfare trajectories of VUP beneficiary households. The VUP impact evaluation provides generalizable results but little information on the key drivers and obstacles to improve the economic (and social) wellbeing of beneficiary households. This is a salient issue in light of the current policy discourse and the increasing focus on promoting sustainable graduation from poverty and social assistance.

The qualitative sample takes advantage of the panel data from the impact evaluation to concentrate on ‘outliers’ -- a sample of beneficiary households from the extreme ends of the welfare distribution with respect to changes in welfare.

The investigation is based primarily on semi-structured life history interviews. The life history technique puts greater emphasis on eliciting key events and changes over a period of time, using a respondent-led process to organize, clarify and sometimes justify the experiences. This permits the detailed study of complex relationships and allows for an in-depth investigation of which factors have influenced which outcomes.

The study will explore risk management strategies, map out drivers of asset accumulation and dis-accumulation, examine the role of VUP and other social protection programs in welfare trajectories, and assess how gender and family structures have influenced risk management strategies. The evaluation aims to provide insights and develop paradigms with respect to how households manage risk and what role formal and informal social protection strategies play in risk management.

86. This operation also draws on the recommendations of numerous other studies which have helped guide the reforms proposed in this program, including studies from the World Bank, DfID and UNICEF.

Table 7: SPS-2 Prior Actions and Analytical Underpinnings

Prior actions-SPS-2 (completed)	Analytical Underpinnings
Pillar 1: Efficiency of the Social Protection System	
Prior action #1: LODA to sign and MOU with National ID Agency (NIDA) including technical specifications for interface between <i>Ubudehe</i> and NIDA databases	<ul style="list-style-type: none"> -Social Protection National Harmonization Policy (2012), - World Bank’s Africa Social Protection Strategy (2012-2022) - EDPRS-2 (July 2013) - NSPS-2 (July 2013) - <i>Ubudehe</i> Reviewed Categories and Categorization Process (June 2014). - Hartwig, Renate “The Vision 2020 Umurenge Program: Impact Evaluation Report” – World Bank, July 2014. - Rwanda Poverty Assessment – World Bank (2015), - Maria Laura Sanchez Puerta ,“Stocktaking of Income-Generating Activities (IGA) For the Poor and Vulnerable In Rwanda”-World Bank, draft (November 2014)
Prior action #2: MINALOC to finalize, validate, and adopt MIS technical system specifications and costed roadmap	
Prior action #3: MINALOC to develop policy guidelines for harmonizing a minimum package to support graduation, including income-generating activities across selected SP programs	
Pillar 2: Accountability and Transparency	
Prior action #4: MINALOC and MINECOFIN to document, publish and discuss the SP consolidated budget allocation and execution through primary dissemination channels	<ul style="list-style-type: none"> -Rwanda Social Safety Net Assessment (March 2012), - -Rwanda: VUP Wage Setting: Policy to Practice (2013), - Investment in Social Protection in Rwanda – Save the Children (draft,2015), - Protection to Production (PtoP)- FAO (2015)
Prior action #5: MINALOC to develop and implement a curriculum for targeted district and sector local government staff to strengthen citizens’ engagement in the delivery of social protection programs	

Pillar 3: Coverage of Poor and Vulnerable	
Prior action #6: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY16	<ul style="list-style-type: none"> - Child-Sensitive Social Protection in Rwanda; Options Paper. UNICEF (July 2014) - EDPRS-2 (July 2013) - NSPS-2 (July 2013), - EICV3 (2012) -EICV 4 (2015)
Prior action #7: MINALOC to adopt plan for selected option(s) for improved gender and child sensitivity of SP programs	<ul style="list-style-type: none"> - Qualitative Research Study In the Framework of the Rwanda Poverty Assessment; The World Bank (August 2014), - Gender Audit of VUP Public Works, UNICEF (December 2013) - Demographic and Health Survey (DHS-3) 2015

4.3 LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

87. **The focus on social protection proposed by this program is directly aligned with the recently-approved June 2014 Rwanda CPS.** The June 2014 Rwanda Country Partnership Strategy (CPS) identifies the following areas to concentrate IDA resources: energy, urban development, rural development, social protection and accountable governance¹⁹. These areas are further grouped into three themes: Theme 1: Accelerating economic growth that is private-sector driven and job-creating; Theme 2: Improving the productivity and incomes of the poor through rural development and social protection; and Theme 3: Supporting accountable governance through PFM and decentralization

88. **This program falls under Theme 2 of the CPS:** “Improving the productivity and incomes of the poor through rural development and social protection” As World Bank analysis of poverty shows, growth alone will not be sufficient to reach poverty targets. International and national goals for poverty reduction are only attainable with a strategy that builds the incomes of the poorest quintiles and ensures that the prosperity that is generated by growth is adequately shared. Prior actions under this DPO are chosen to deliver maximum impact on the incomes of the poorest and most vulnerable groups in Rwanda. Also, IDA’s support under the CPS period will focus on consolidating past progress while introducing and scaling up measures that are fundamental to further strengthening of Rwanda’s social protection system. This focus is fully aligned with Rwanda’s 2013 National Social Protection Strategy and the 2013 EDPRS2 and carried out in close coordination with the other main development partners in the social protection sector.

89. **The program is aligned with and supportive of operations in agriculture and governance.** The focus on the rural poor and on improving livelihoods through improved harmonization in income-support programs is strongly aligned with operations in agriculture, while the works on transparency and accountability deepens work supported in the governance sector. The program is also benefiting from work with staff in the Jobs Cross-Cutting Solutions Area (CCSA).

90. **The proposed operation is supportive of the World Bank’s twin goals of eliminating extreme poverty and boosting shared prosperity, as well as of sectoral and regional strategies.** Social protection programs such as Rwanda’s help combat extreme poverty through direct transfers that (i) provide income support to the extreme poor and (ii) build capabilities by helping households invest in education, health and nutrition (their own and that of their children) and in productive

¹⁹ These areas are selected based on five criteria: (i) alignment with the EDPRS 2, (ii) Bank’s comparative advantage, (iii) within World Bank Group synergies; (iv) client demand and (v) risk are used to identify the areas to concentrate IDA resources.

assets and activity. Social protection enables shared prosperity by cushioning against the impacts of shocks and by providing the security needed to help people take productive risks. The proposed DPO series is also aligned with the World Bank’s Africa Strategy²⁰ (supporting its second pillar on vulnerability and resilience) and the global²¹ and Africa Social Protection Strategies

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

Consultations

91. **Rwanda has engaged in extensive consultations with respect to the development of the social protection policies supported by the DPO series.** In addition, there is a high level of donor engagement and the government puts a high priority on aid coordination and effectiveness, in which the World Bank plays an active role. Extensive consultations, notably with civil society, were undertaken in the formulation of the EDPRS poverty reduction strategies and the National Social Protection Strategy with which the DPO series is aligned.

Collaboration with Development Partners

92. Regarding collaboration with development partners, the World Bank is active in the SP sector working group (SWG), which is the main mechanism within which SP policy and implementation issues are discussed between the government and active development partners in the sector. The SWG was heavily involved in the development of the NSPS and NSPS-2 as well as relevant implementation plans. The SWG usually conducts bi-annual Joint Sector Reviews (JSR), one that reviews progress made towards the goals and targets of the strategy the year before, and the other that looks forward. The JSRs feed into Ministry of Finance and Economic Development (MINECOFIN) national stock taking of its EDPRS. The Bank actively participates in these reviews, and the design of the SPS program and the areas it supports are informed by this exercise.

93. **The World Bank SP team engages in regular consultations with the SP core development partners** on every mission and on emerging issues that require collaboration with, and attention by, other development partners. In particular, the team has ensured consistent briefing and sought views of DfID, EU, SIDA, and UNICEF during the development of this DPO series. The Division of Labor Framework reinstates DfID as the lead donor and co-chair of the SP SWG.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

94. **The proposed policy reforms are expected to contribute to the overall objectives of the EDPRS-2, NSPS-2 and Vision 2020 to reduce poverty and vulnerability.** They will do so by supporting the government’s effort to build an SP system that will allow delivery of transfers to the extremely poor segments of the population in an effective, predictable, and sustainable manner while contributing to equitable growth and a reduction in extreme poverty.

95. **The policy measures in this proposed program aim to improve the living standards of the poor** (a) *directly* through reforms to SP programs and systems, including expansion of coverage and enhanced efficiency through the harmonization of SP interventions in the country, and (b) *indirectly* by strengthening the policy development and management capacity of the SP

²⁰ World Bank. March 2011. Africa’s Future and the World Bank’s Support to It. Washington DC: World Bank.

²¹ World Bank. 2012. Resilience, Equity and Opportunity: the World Bank’s 2012-2022 Social Protection and Labor Strategy.

sector and introducing key administrative building blocks of an effective SP system.

96. **The recently completed impact evaluation of the VUP program and initial results from the Rwanda Poverty Assessment provide evidence of the social protection system’s contribution to reducing poverty and boosting human capital** (see section 4.2 for a summary of results). Although at the time of the EICV-3 the coverage of VUP was not large enough to permit a representative sample to be selected and allow for an analysis of impacts, results from the qualitative assessment point to households’ views that social protection support, in particular through VUP, had a positive impact on improving household living conditions. Participants in lower *Ubudehe* categories felt the program provided a key source of employment for youth, who had been employed in terracing program and road construction through public works. It had also provided an income source for the vulnerable and elderly, particularly through Direct Support grants.

97. **Gender equality remains a key priority of the Government’s EDPRS-2 growth agenda, where family and gender are identified as a key cross-cutting priority.²² In SP programming, this objective is reinforced through existing and upcoming design features and is illustrated by the priority given to gender participation in VUP to date.** VUP monitors the inclusion of women under its beneficiaries and as data shows, have over time reported high levels of female participation (see Table 8 below) across all the VUP components. Female participation in Direct Support, Public Works and Financial Services was 66 percent, 49 percent and 50 percent, respectively, in FY2012/13, consistent but trending upwards compared to previous years. Additionally, the VUP has recently completed a Gender Assessment to explore opportunities to introduce new program design features that will support the uptake of women, in particular pregnant women and lactating mothers as well as those with young children. UNICEF is also supporting work to improve the gender-sensitivity and child-sensitivity of the labor-intensive public works programs and is collaborating with the World Bank in examining how to strengthen social protection support to early childhood development, as supported in Pillar 3.

Table 8: Female Participation as % of Total across each of VUP’s Components

	Direct Support			Public Works			Financial Services		
	Female Headed Households	Male Headed Households	% of Female Participation	Female Headed Households	Male Headed Households	% of Female Participation	Female Headed Households	Male Headed Households	% of Female Participation
FY2010-11	12,262	6,617	65%	47,854	55,703	46%	22,356	30,872	42%
FY2011-12	18,660	8,971	68%	43,618	50,779	46%	25,884	29,442	47%
FY2012-13	28,855	14,816	66%	43,445	45,566	49%	29,704	25,508	54%
FY2013-14	40,274	21,707	65%	49,419	54,891	47%	26,594	24,548	52%
FY2014-15	55,211	29,143	65%	53,033	58,890	47%	7,927	9,115	47%

Source: VUP Annual Reports, 2010-2015

98. **The proposed policy reforms are expected to contribute to the EDPRS2 by bringing some of the poorest households to graduation from extreme poverty**, enabling them through income-generating reforms and investments in child development for longer-term poverty alleviation. First, better linking social protection beneficiaries endowed with labor capacity to income generating support will further strengthen their livelihoods. Second, both social protection and early childhood development measures aim to focus the attention on some of the most vulnerable members of society for their sustainable graduation out of poverty. This DPO will assist

²² The Second Economic Development and Poverty Reduction Strategy, July 2013, page 85-86.

in improving coverage of gender and child sensitive SP programs to promote child development.

5.2 ENVIRONMENTAL ASPECTS

99. **The specific policies supported by the SPS series are not expected to have negative effects on Rwanda’s environment, forests, water resources, habitats or other natural resources.** The risk of unanticipated adverse effects to the environment and natural resources is modest. Rwanda has in place adequate environmental controls and legislation under the mandate of Rwanda Environment Management Authority (REMA), providing support to line-ministries including MINALOC in incorporating environmental guidelines in the operational manual for its VUP public works program. Also, the World Bank is supporting REMA with technical assistance to take account of climate risks and opportunities and with land policy technical assistance to review sustainable land management practices.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

100. **PFM is regarded as a key element of public sector governance in Rwanda, as it cuts across different sectors as well as different levels of government.**²³ The main objective of the PFM is “to ensure efficient, effective and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery”. The government embarked on comprehensive PFM reforms more than five years ago with the comprehensive Public Financial Management Reform Strategy (PFMRS) in 2008-12. Building on progress of PFMRS, the PFM Sector Strategic Plan (SSP) 2013-18 was formulated in 2013 to advance reforms. Public Financial Management (PFM) systems and processes of the Government of Rwanda have both strengths and challenges as demonstrated in recent PFM diagnostic reports.²⁴ The strengths of the PFM system include: (i) the simplified public financial guidelines for chief budget managers which provide clear descriptions for the various PFM processes;²⁵ (ii) the orderly, participatory and transparent planning and budget preparation process, and (iii) a strong financial management legal framework. On the other hand, a number of challenges still remain with regards to (i) small number of suitably qualified officials to handle PFM functions coupled with high turnover of the few trained staff; (ii) a relatively undeveloped internal audit; (iii) internal control weaknesses; and (iv) weaknesses in expenditure management. The recently approved Public Sector Governance Program for Results supports a strengthened approach to public financial management.²⁶

101. **An assessment of the systems and processes for dealing with fraud and corruption issues also shows that Rwanda has adequate institutional, organization and legal frameworks for controlling fraud and corruption.** Rwanda further strengthened the legal frameworks in 2013 with the amendment of the law to allow the Office of the Ombudsman to prosecute cases of corruption, though there is a transition to enable the Office of the Ombudsman to be properly

²³ For example, the EDPRS 2 states that “Rwanda’s public finance management system is the platform for the efficient management of the nation’s resources. Its reporting, audit and oversight functions are essential elements in providing effective Accountable Governance” (Para 6.27).

²⁴ Such as the Public Expenditure and Financial Accountability (PEFA) 2007 and 2010 assessments; sector public expenditure review reports; public expenditure tracking survey reports; and independent mid-term and end-term evaluations of the Public Financial Management Reform Strategy (2008-2012)

²⁵

http://www.minecofin.gov.rw/fileadmin/templates/documents/Fiscal_Decentralisation_Unit/Fiscal_Decentralization_Documentation/Interim_PFM_Guidelines.pdf

²⁶ <http://www.worldbank.org/projects/P149095?lang=en>

prepared to take over prosecution of corruption cases from the National Public Prosecution Authority. Rwanda also passed the Whistle Blowers Protection Act, 2013.

102. **The Recipient of the SPS-2 is the Republic of Rwanda, represented by MINECOFIN.** A single-tranche development policy credit equivalent to SDR 67.7 million (US\$95 million equivalent) would be made available following approval and notification by IDA of financing effectiveness. The proposed financing will follow the Bank's disbursement procedures for development policy operations. The financing proceeds will be disbursed against satisfactory implementation of the development policy program and the maintenance of a satisfactory macroeconomic framework. Upon notification by IDA SPS-2 effectiveness, and with the submission by the Recipient of a withdrawal application, the proceeds of the operation will be deposited into an account designated by the Recipient that forms a part of the country's foreign exchange reserves at the BNR. Within two business days, BNR will credit the Rwanda Franc equivalent of the proceeds to the consolidated account maintained on behalf of Government which finances budgeted expenditures. Disbursements will not be linked to specific purchases and no procurement requirements will be necessary. However, the proceeds of the IDA financing cannot be used for ineligible expenditures (i.e. to finance goods and services from the IDA's standard negative list as reflected in the Financing Agreement). If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

103. **Rwanda has an effective system for prescribing the rules and procedures by which public procurement should be carried out, for training in the requisite competencies and for monitoring and enforcing compliance.** The Rwanda Public Procurement Law (Law No. 12 of 2007) was passed in March 2007 and revised in 2013 (Law No. 5 of 2013) and includes the main expected features of a well-regulated public procurement system. The fundamental principles of public procurement are stated in the Procurement Law (Article 4) to be transparency, competition, economy, efficiency, fairness and accountability. Procurement compliance is actively enforced by the RPPA through a program of procurement audits, carried out in accordance with an internal control and audit manual. In addition to the program of procurement audits, procurement activities and contract award proposals are reviewed by a National Independent Review Panel upon complaint by a dissatisfied bidder. Thus the business community is taking advantage of its right to challenge the decisions of Procuring Entities and the Procuring Entities are aware that any departure from the Law or bias and unfairness in evaluation and contract award may be subject to challenge.

104. **The Government of Rwanda also aims to implement a full-fledged e-Procurement System for use by its central and local government entities, as part of its procurement modernization.** Once implemented, the system will be a proven solution and accessible over the Internet by all Government entities and the business community. It will also provide ready-access for buyers and sellers to create and approve purchasing requisitions, placing purchase orders and receiving goods and services, online invoicing and payment.

Reporting, accounting, and internal controls and auditing

105. **The Recipient will report to IDA on the amounts deposited in the Foreign Currency Account and credited in local currency to the budget management system with an indication of the exchange rate applied. The Deputy Accountant General in charge of Treasury will be**

notified accordingly. The BNR will not impose any charges or commissions on Government for these transactions. The conversion from US dollar to Rwanda Franc will be based on the prevailing exchange rate on the date that the funds are credited to the consolidated account. Government, through the Ministry of Finance and Economic Planning, will: (i) provide written confirmation within 30 days to the Bank that an amount equivalent to the financing proceeds from the Bank has been credited to the consolidated account, with an indication of the exchange rate applied; (ii) provide evidence that the Rwanda Franc equivalent of the financing proceeds was recorded as financing for Government budget; and (iii) ensure that the Rwanda Franc equivalent of the financing proceeds are subject to controls to ensure its use for eligible budgeted public expenditures only. The Financing Agreement gives IDA the right to require the Recipient to audit the Foreign Currency Deposit Account through agreed terms of reference.

5.4 MONITORING, EVALUATION AND ACCOUNTABILITY

106. **The SPS results and policy framework (see Annex 1) includes selected results indicators that are closely monitored and will feed into the overall results framework and assessment of NSPS-2 and EDPRS-2 progress.** The SWG is the overarching framework and monitoring is enshrined in the six monthly Joint Sector Reviews (JSR) that assess sector performance on policy, outputs and outcomes and make recommendations for the next six months. The main program, the VUP, is also closely monitored through a division within LODA that is primarily focused on M&E. Both LODA and other programs are the main providers of monitoring and evaluation information for the SWG JSR evaluations.

107. **As part of the Government of Rwanda's commitment to results-based policy, an impact evaluation of VUP was conducted and regular household surveys of living conditions are conducted every three years.** Every three years, the National Statistical Institute of Rwanda (NISR) implements a nationally representative Integrated Household Living Conditions Survey (EICV). For the first time, EICV4 is collecting an oversample of VUP beneficiaries which can be used to estimate benefit-incidence and generosity. As part of the government plan to use EICV for impact evaluation, a VUP pre-program baseline and a matched control should be established in the EICV4 and should be re-interviewed during the EICV5 (planned for 2016/17) to evaluate the impacts of VUP over time using difference-in-difference estimates. This type of analysis should be supported through a program of technical collaboration with NISR and is under discussion with development partners.

Grievance Redress

108. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns.

109. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond.

110. For information on how to submit complaints to the World Bank's corporate Grievance

Redress Service (GRS), please visit <http://www.worldbank.org/GRS>. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

111. **The overall risk of the program is Moderate.** However, there are important risks to program outcomes, notably: (i) vulnerability to weakening of the external economic environment; and (ii) dependence on external foreign assistance that can affect implementation of the NSPS, including the scale-up plans of VUP. There are also a number of program-specific risks, including: (a) the country's relatively recent experience implementing social protection interventions; (b) limited results or mixed results regarding the performance of several social protection programs; and (c) the need for improved program targeting and basic service delivery.

Key risks to program outcomes

112. **Political and governance.** Rwanda has relatively sound institutional and legal frameworks to deal with fraud and corruption cases. There is clear division of responsibilities between the Offices of the Ombudsman (OM) which deal with cases of corruption, the Criminal Investigation Department (CID), which deals with cases of fraud, and the Prosecution Office, which pursues in court evidenced cases of corruption and fraud. However, the risk is that the Ombudsman's office is not decentralized, though districts receive support to tackle cases of fraud and corruption in their jurisdiction.

113. **Macroeconomic.** Rwanda's medium term expenditure framework explicitly includes targeted spending on social programs (of the type supported by this operation) which are integral to the IMF-supported new PSI, which provides additional reassurance that such resources will be delivered to needy citizens. More broadly, although Rwanda's short- to medium-term outlook is vulnerable to external shocks given the country's trade imbalances and concentrated export items, the government finalized the second National Export Strategy to address this and has adopted measures to enhance its revenue mobilization. The Bank will also continue to monitor the evolution of Rwanda's debt indicators under the DSA framework, which are currently healthy and below the typical thresholds.

114. **Sector policies and strategies.** Rwanda's social protection sector has a strong policy foundation, grounded in the EDRPS-2 and in NSPS-2 and Vision 2020. MINALOC has limited institutional capacity and experience implementing social protection interventions and was only tasked with building Rwanda's social protection system in 2008. Despite substantial investments in capacity building, technical competence remains concentrated mainly at the upper levels of the institution. Continued investments in training and capacity building will be carried out, but it will be an ongoing challenge to keep up required levels especially given the ambitious government plans in SP for program harmonization, decentralization, expanded coverage and strengthening the base for graduation. Intergovernmental coordination between agencies under MINALOC, as well as between MINALOC and other agencies, also requires ongoing efforts. A SP Sector Working Group (SWG) has been operational since 2008 but efforts to ensure more effective mobilization and coordination of stakeholders is required, together with enhanced capacity of the SWG secretariat to ensure its sustainability. To address this evolving agenda of ongoing improvements on the inter-agency coordination and harmonization, MINALOC has developed a harmonization policy framework to provide medium term guidance for harmonizing some of the interventions in the sector.

115. **Technical design of the SP programs.** The absence of clear results or mixed results regarding the performance of several social protection programs and the need for improved program targeting and basic service delivery are all areas posing risks for program success. This DPO series and related technical assistance from development partners within the SWG are designed to help mitigate those risks through its emphasis on improving the beneficiary targeting process, the updating of the social protection MIS and support for an improved poverty monitoring and evaluation approach using panel data within the EICV household surveys. The project design is simple and builds on existing structures for delivery. It has been informed by experience from ongoing government programs such as the Social Protection Strategy, and the EDPRS 2.

116. **Institutional capacity for implementation and sustainability.** The following elements pose risks to the program: (a) inadequate capacity of relevant government agencies and poor coordination could hamper implementation and achievement of the PDO; (b) monitoring arrangements are largely adequate, although reports may be produced with some delays, but evaluation capacity needs to be supported in collaboration with NISR to take advantage of EIVC data and VUP oversampling; and (c) errors of inclusion and exclusion in poverty targeting pose risks for program benefits being received by non-eligible recipients. To mitigate these risks, MINALOC is taking multiple steps, several of which are supported under the SPS reform program and by other development partners. In terms of sustainability, there is a challenge of inadequate access to income-generating opportunities that would enable people to sustainably graduate out of poverty. Sustained graduation out of poverty requires not only sufficient economic growth to create jobs and business opportunities, but also that the poor have the skills and information required to access these opportunities. In the absence of these opportunities, people risk repeatedly falling back into poverty, as soon as they exit from transfer programs, creating a cyclical pattern, instead of a sustained pathway out of poverty. This risk will be mitigated through the creation of stronger linkages between transfer programs and complementary skills enhancement and financial services programs.

117. **Fiduciary risk for the program.** The main fiduciary risks to the Program are (i) declines in financial support stemming from volatility of foreign assistance; (ii) management challenges in the context of decentralization, notably at the district level in the context of weak internal controls; and (iii) contract management problems, including delays in payments. This will require in-house trainings aimed at strengthening payment systems, planning and budgeting as well as strengthening financial management and procurement procedures and will benefit from the operational work on governance in Rwanda.

118. **Stakeholders:** The government and other development partners expressed their support to the program. During consultations with the government and development partners, the development partners supported the scope of the program, urging that complementarity with existing and planned support be maintained. This has been taken into account during the preparation of the proposed program and the coordination and consultations with development partners will continue, especially with those funding social protection and related support to Rwanda.

Table 9: Systemic Operations Risk Rating Tool (SORT)

Risk Categories	Rating (High, Substantial, Moderate or Low)
1. Political and governance	Moderate
2. Macroeconomic	Moderate
3. Sector strategies and policies	Moderate
4. Technical design of project or program	Moderate
5. Institutional capacity for implementation and Sustainability	Moderate
6. Fiduciary	Moderate
7. Environment and social	Low
8. Stakeholders	Low
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers			Results (Baseline June 2013, Target June 2018)
Prior Actions under SPS -1 (completed)	Prior Actions under SPS -2 (completed)	Triggers for SPS -3 (to be completed)	
Pillar #1: Efficiency of the Social Protection System <i>Efficiency improved through reformed Ubudehe system and database, improved MIS and increased harmonization across social protection programs.</i>			
1. MINALOC to adopt roadmap for updating of the <i>Ubudehe</i> national household poverty database	1. LODA to sign an MOU with National ID Agency (NIDA) including technical specifications for interface between <i>Ubudehe</i> and NIDA databases	1. LODA to ensure that the interface between the <i>Ubudehe</i> and NIDA databases is fully functional	(i) % of individuals over 16 in the <i>Ubudehe</i> database matched to a national ID [baseline: 25%; end-target: 60%] Source: Analysis of the <i>Ubudehe</i> database
2. Short-, medium-, and long-term SP MIS objectives approved by the MINALOC convened SP MIS Technical Committee	2. MINALOC to finalize, validate, and adopt MIS technical system specifications and costed roadmap	2. MINALOC to develop priority MIS modules and issue protocols on roles and responsibilities for use and maintenance of the MIS	(ii) Number of SP MIS modules developed [baseline: 0; end-target: 2] Source: <u>SP MIS Technical Committee</u>
3. MINALOC to issue policy guidelines to decentralized entities as to which benefit to allocate to households eligible for more than one social protection program, with no duplicate benefit from FARG and VUP Direct Support	3. MINALOC to develop and adopt policy guidelines for a minimum package to support graduation, including harmonizing income-generating activities across selected SP programs	3. MINALOC to implement policy guidelines for harmonizing income-generating activities across selected SP programs	(iii) % of targeted local government staff trained on SP program eligibility [baseline: 0; end-target: 70%] Source: <u>MINALOC</u>
Pillar #2: Accountability and Transparency <i>Accountability and transparency enhanced through improved SP budget reporting and dissemination and strengthened citizens' engagement.</i>			
4. MINECOFIN to produce consolidated Social Protection budget identifying the social protection programs	4. MINALOC and MINECOFIN to document, publish and discuss the SP consolidated budget allocation and execution through primary dissemination channels		(iv) % of districts reviewing SP budget during accountability day events (per year) [baseline: 0; end-target: 60%] Source: <u>Reporting from the Districts</u>
5. Cabinet to approve revised structure for expanded staffing at district and sector local government levels	5. MINALOC to develop and implement a curriculum for targeted district and sector local government staff to strengthen citizens' engagement in the delivery of social protection programs	4. MINALOC to implement and monitor an SMS system for appeals and complaints	(v) % of primary appeals that have been resolved at first instance at sector levels within two weeks in VUP Sectors [baseline: 80%; end-target: >80%] Source: <u>LODA VUP routine monitoring</u>

Pillar #3: Coverage of Poor and Vulnerable <i>VUP coverage expanded with attention to appropriate design, notably poverty and child-sensitive elements.</i>			
6. MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY15	6. MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY16 ²⁷	5. MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY17	<p>(vi) % of geographical sectors covered by VUP in the poorest 30% of districts: for (a) Direct Support; and (b) Public Works²⁸ <i>(a) DS baseline: 54%; end-target: 95%</i> <i>(b)PW baseline: 42%; end-target: 80%</i> <u>Source: LODA VUP routine monitoring</u></p> <p>(vii) VUP coverage by geographical sector and households for (a) Direct Support and (b) Public Works^{29,30}</p> <p><i>Direct Support</i> <i>(i) Sectors - baseline: 180 sectors; end-target: 395 sectors;</i> <i>(ii) households - baseline: 43,671 households; % Female Headed Households (FHH): 66%; end-target: 96,000 households; FHH: 66%</i></p> <p><i>Public Works</i> <i>(i) Sectors - baseline: 150 sectors; end-target: 240 sectors;</i> <i>(ii) households - baseline: 89,011 households; % FHH: 46%; end-target: 130,000 households; % FHH: 48%;</i> <u>Source: LODA VUP routine monitoring</u></p>
7. MINALOC to adopt procedures to enhance community participation in <i>Ubudehe</i> household classification process and launch testing of poverty scorecard	7. MINALOC to adopt plan for selected option(s) for improved gender and child sensitivity of SP programs	6. MINALOC to incorporate plan and budget for expansion in FY17 of gender and child sensitive SP programs	
8. MINALOC to conduct policy study and identify policy options for improving gender and child sensitivity of SP programs			

²⁷ The financing agreement further clarifies that the VUP has expanded direct activities from 330 sectors to 416 sectors.

²⁸ Districts are ranked according to a poverty index and VUP is prioritizing program expansion in the poorest districts.

²⁹ There are 416 sectors in Rwanda

³⁰ All baselines for SPS-2 use June 2013 data, however, in SPS-1 indicator (vii) used June 2014 data.

ANNEX 2: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF RWANDA

Kigali,16 OCT 2015.....

No. 2022/10/15/CE



MINISTRY OF FINANCE AND ECONOMIC PLANNING

P.O. Box 158 Kigali

Tel: +250 252 575756 Fax: +250 252 577581

E-mail: mfin@minccofin.gov.rw

Ms. Diarietou Gaye
Country Director
The World Bank
NAIROBI

Dear Ms. Gaye,

RE: Rwanda – Letter of Development Policy for Social Protection System (SPS-2)

1. On behalf of the Government of Rwanda, I am requesting a credit in the amount of US\$95 million from the International Development Association (IDA) for the Social Protection System (SPS-2) Development Policy Operation.

2. The Government of Rwanda remains committed to achieving sustained economic growth and poverty reduction and consolidating macroeconomic stability. The strategies to achieve these goals are set out in the Second Economic Development and Poverty Reduction Strategy for 2013-2018 (EDPRS 2) building on the progress made under the EDPRS-1 (2008-2012) both of which are consistent with our Vision 2020.

Rwanda's Development Challenges:

3. Rwanda has achieved a remarkable reduction in poverty and extreme poverty over the past decade. The country-defined poverty rate fell from 56.7 percent in 2005/6 to 44.9 percent in 2010/11 to 39.1 percent in 2013/14, while the extreme poverty rate fell from 35.8 percent in 2005/6 to 24.1 percent in 2010/11 to 16.3 percent in 2013/14.

4. Rwanda is making impressive achievements in reducing poverty, though some challenges remain: with a GNI per capita of US\$718 (2014), Rwanda remains one of the poorest countries in the world. More than 90 percent of the poor live in rural areas and poverty remains deep and pervasive. Generally, much work remains to ensure extension of the coverage of social protection (SP) programs to poor households to maximize poverty reduction. In particular, poverty remains high among households with many children, and child malnutrition continues to affect 37.9 percent of Rwandan children under 5. In addition, climate-related risks exacerbate the problems faced by the extreme poor who rely primarily on

Website: <http://www.minccofin.gov.rw>

rain-fed agriculture for their subsistence and often live in geographical areas prone to natural disasters.

Progress in the Social Protection Sector:

5. The Government of Rwanda has established social protection as a priority in its ambitious 5-year goal to “accelerate poverty reduction to less than 30 percent of the population” and to “reduce extreme poverty to 9 percent” by 2018. Social protection is a central element in the EDPRS 2 objectives of expanding coverage of the poor and harmonizing social protection interventions to enhance effectiveness and promote graduation from extreme poverty. The SPS-2 thus contributes to the desired outcomes under the EDPRS-2 Rural Development and foundational themes.

6. Rwanda is a global leader in building an integrated social protection system in a low-income environment that is closely tied to national goals of poverty reduction. This is outlined in the revised National Social Protection Strategy (NSPS-2), approved in July 2013, which draws from the first comprehensive NSPS that was adopted by Cabinet in 2011. The NSPS-2, like the first NSPS, was developed through a consultative and participatory process involving Government, civil society and development partners. It outlines a strategic framework toward achieving SP outcomes, the overall objective being to *‘establish a SP system that can tackle poverty, inequality and vulnerability, and improve access to essential services and social insurance.’*

7. The social protection sector remains central to the Government of Rwanda’s poverty reduction efforts, driven by strong political and financial commitments to the sector. The SP sector is increasingly funded by the government resources, with SP spending, adjusted for inflation, increasing by more than 13 times in real terms between 2004 and 2010/2012, and spending on cash transfers alone expanding more than 14 times. Also, the Government of Rwanda continues to demonstrate strong policy dialogue and increased capacity for delivery in the line ministries, providing a solid foundation for strengthening of the SP system. World Bank financing continues to be critical to supporting Rwanda achieve its ambitious social protection reform objectives, including an expansion of coverage of poor and vulnerable households.

Request for Bank Support:

8. In the context of Rwanda’s overall poverty reduction efforts, the Government of Rwanda has requested World Bank support to improve the efficiency of the social protection system, enhance accountability and transparency and expand coverage to the poor and vulnerable.

9. This SPS-2 supports broader reforms enshrined in the NSPS-2, building on the previous NSPS-1, and underpinning the larger national objectives under the EDPRS-2, of which the flagship Vision 2020 *Umurenge* Program (VUP) remains an important component and the major source of lessons for continued enhancement in operational design for the rest of our government’s social protection interventions.

10. Support from the previous SSPS series, and SPS-1 has helped establish the foundation of a social protection system that is now institutionally mature, central to poverty reduction approaches, and supporting a rapidly growing number of poor and vulnerable families. With DPO support, the four main safety net programs have moved from being uncoordinated to providing a harmonized foundation for a social protection system. The flagship Vision Umerenge Program (VUP) has been expanded beyond initial projections and now reaches over a million vulnerable people, up from a few thousand in its inception in 2008-9. The social protection sector has a set of sub-systems in place to support the effective delivery of services, including: geographical and household poverty targeting, grievance and redress mechanisms, a management information system for monitoring implementation, and results and links with disaster response. Ongoing analytical work points to VUP contributions to poverty reduction and asset creation, underscoring social protection's role in Rwanda's ambitious poverty reduction goals.

11. Building on this progress, the proposed SPS-2 will help Rwanda reach its goal of national coverage and will deepen social protection reforms, notably to improve efficiency, accountability and transparency and to strengthen coverage among poor and vulnerable populations. Rwanda is focused on a set of second generation reforms in social protection, building on past lessons and experience. This set of second generation reforms are focused on strengthening specific areas of social protection program design and delivery, notably: (i) Improving administrative tools to enhance efficiency, especially the Ubudehe database and SP MIS; (ii) Increased harmonization across programs to improve efficiency and effectiveness, with an eye toward boosting graduation from poverty and social assistance; (iii) improved accountability and transparency in SP budgets and citizens' engagement; (iv) Strengthened local staff capacity building in line with the substantial decentralization of social protection budgets and staffing; (iv) expansion of the flagship VUP program to reach full national coverage; (v) improved poverty targeting; and (vi) gender and child sensitive reforms. These reforms are supported by this DPO series and will help Rwanda ensure that the social protection system is well aligned with meeting national goals for inclusion and poverty reduction

12. In addition, SPS-2 supports the Government of Rwanda in promoting a deepening of social protection dialogue and coordination among key stakeholders and ongoing support to promote best-practices. As part of our ongoing commitment to the sector, the Government of Rwanda is working with the World Bank to follow up and undertake ongoing assessment of previously committed policy and institutional actions committed to under the previous Support to the Social Protection System (SSPS-1, SSPS-2, SSPS-3, and SPS-1) operations.

13. A results framework has been established to measure progress in the SPS series. Baseline and target values for each year have been established, against which actual values will be measured annually.

14. The Government of Rwanda estimates the budget for implementing NSPS-2 priorities at US \$522 million - an average of over US \$104.5 million annually over five years. This is a conservative estimate that mainly focuses on MINALOC programs. The budget is expected to increase over time as the social protection system intensifies linkages with other programs in

other line ministries and institutions and intensifies effort to both reach the most difficult cases and to boost graduation.

15. In compliance with our law and practices, we have reported on the financial execution of our budget through audit (March 31, 2015) and budget execution reports (September 30, 2015) as well as on the results generated through those transfers through Annual Performance Reports (September 30, 2015), sharing the information with the World Bank and other development partners. We will continue this practice and share the same information in 2016.

Conclusion:

16. The Government's commitment to reduce poverty among the poorest segments of the Rwanda population is demonstrated through its commitment to its new NSPS-2 and EDPRS-2. As the latest EICV-4 household survey data show, our efforts towards reducing the level of poverty in Rwanda are paying off, and growth has become more pro-poor and inclusive. The ongoing implementation of the NSPS-2 requires ongoing dynamic policy and institutional reform for which we seek the World Bank's assistance in the form of this policy development operation. We are confident that these reforms will go a long way towards providing sustainable livelihoods for the poor Rwandan households and allow the country to make progress towards its hard-to-reach MDG goals. We therefore submit this Letter of Development Policy to seek support from the International Development Association of the World Bank through this operation. We believe this credit is strong and focused, builds on previous support provided by the World Bank through its Community Living Standards and Support to the Social Protection System (SSPS) and the first Social Protection Support operation in this current Development Policy Operations series (SPS-1) operations, and fully supports our comprehensive and ambitious vision of its medium-term economic and social development.

Yours Sincerely,



Claver GATETE
Minister

Cc:

- **Minister of Local Government**
- **Minister of State in charge of Economic Planning**
- **Minister of State in Charge of Social Affairs**
- **Permanent Secretary and Secretary to the Treasury, MINECOFIN**
- **Country Manager, World Bank**

KIGALI

ANNEX 3: FUND RELATIONS ANNEX

IMF Executive Board Completes Third PSI Review for Rwanda

Press Release No. 15/245

May 29, 2015

The Executive Board of the International Monetary Fund (IMF) on May 29, 2015 completed the third review of Rwanda's economic performance under a three-year program supported by the IMF's Policy Support Instrument (PSI)¹. The decision was taken without an Executive Board meeting².

The PSI for Rwanda was approved on December 2, 2013 (see [Press Release No.13/483](#)).

Rwanda's performance under the PSI has been satisfactory. The authorities are to be commended for meeting all quantitative assessment criteria. The performance on indicative targets and structural benchmarks was uneven and it will be important to maintain the momentum of reforms, including on revenue mobilization while strengthening project implementation.

Growth in 2015 is expected to remain strong, while the outlook is stable. The cautious fiscal stance and monetary policy are consistent with the need to preserve policy buffers.

The framework for the FY2015/16 budget is in line with PSI objectives. The budget prioritizes the public investment program in line with available resources, includes measures to improve domestic revenue mobilization, protects priority spending, and limits the crowding out of credit to the private sector. Recent efforts to adopt the electronic billing machines is yet to gain full traction and the agenda on agricultural and property taxation has yet to be carried out.

Rwanda's infrastructure investment needs remain significant. The authorities have stepped up their efforts to strengthen project selection and prioritization to maintain debt sustainability.

The current monetary policy stance remains appropriate. The economy has been operating in a low inflationary environment, an amply liquid banking system, and ample credit to the private sector. Efforts to improve the regulatory framework have been advancing satisfactorily and the consolidation of the SACCOs into one cooperative will further improve the supervisory oversight.

¹ The PSI is an instrument of the IMF designed for low-income countries that do not need or may not want balance of payments financial support. The PSI helps countries design effective economic programs that once approved by the IMF's Executive Board, signal to donors, multilateral development banks, and markets the Fund's endorsement of a member's policies (see <http://www.imf.org/external/np/exr/facts/psi.htm>). Details on Rwanda's current PSI are available at www.imf.org/rwanda.

² The Executive Board takes decisions under its lapse of time procedure when it is agreed by the Board that a proposal can be considered without convening formal discussions.

ANNEX 4: EVOLUTION OF WORLD BANK SUPPORT TO RWANDA’S SOCIAL PROTECTION SYSTEM

<p>Community Living Standards (CLS) 3 Part DPO series: CLS-1 -- \$6 million; CLS-2 -- \$6 million; CLS-3 -- \$6 million (2009-2011)</p>	<p>Support to the Social Protection System (SSPS) 3 Part DPO series: SSPS-1 \$40 million;SSPS-2 \$50 million; SSPS-3 \$70 million (2012-2014)</p>	<p>Social Protection System (SPS) 3 DPO series:SPS-1 \$70 million; SPS-2 \$95 million, SPS-3 TBD (2015-2017)</p>
<p>The program development objective for the three series of operations was to “support the Government of Rwanda’s social protection and health policy reforms designated to reduce extreme poverty, initially in 30 pilot sectors and to expand access to high-impact health, nutrition and population interventions at the community level.”</p> <p>“High impact interventions” are those that have had high impact on reducing disease burden in developing countries. Examples include: immunization, use of insect-side-treated-bed-nets (ITN), integrated management of childhood illnesses, pre and postnatal care etc.</p>	<p>The program development objective is to “support the Government of Rwanda’s efforts to consolidate, enhance efficiency and effectiveness, and expand coverage of its SP system.”</p> <p>The SSPS DPO series supported four main policy areas in the SP sector: (i) policy development and management capacity of the SP sector; (ii) design of a SP Management Information Systems (MIS); (iii) expanding coverage and enhancing harmonization of SP interventions in the country; and (iv) strengthening disaster response by establishing operational linkages between SP and early warning systems.</p>	<p>The program development objective for this DPO series is “support the Government of Rwanda to improve the efficiency, accountability and coverage of its social protection system.”</p> <p>This SPS DPO series incorporates lessons learned from past engagement in the social protection sector to strengthen core areas and introduce second generation reforms.</p> <p>Specifically, the SPS DPO series supports three pillars: (i) <i>efficiency</i> of the SP system by focusing on core areas of administration and program harmonization to deepen needed reforms; (ii) <i>accountability and transparency</i> and in line with the GoR and CPS focus on accountable governance, bringing a core focus to budgetary transparency and citizens’ engagement; and (iii) <i>coverage of poor and vulnerable</i>, to support national coverage of VUP and ‘appropriate’ to improve poverty targeting and to ensure SP conducive to child development.</p>
<p>Results: This project supported both Social Protection and Health reforms. The main SP result was to establish and pilot a good practice SP program -- the flagship SP program, the Vision 2020 Umurenge Program (VUP), including:</p> <ul style="list-style-type: none"> • Appropriate wage policy for Public Works without distorting the labor market • Targeting households as beneficiaries • Establishing a basic payments architecture • Ensuring rules for VUP eligibility 	<p>Results: This main result was to establish the <u>building blocks of a social protection system</u> that is increasingly institutionally mature, central to poverty reduction approaches, and is reaching a growing number of poor and vulnerable families. Notably:</p> <ul style="list-style-type: none"> • Policy coordination for a SP system, moving from a series of ad-hoc programs to modern safety net system • Establishment of executive agency for 	<p>Anticipated Results This series will help Rwanda reach its goal of a <u>well-structured SP system with national coverage; and to move to a set of second generation reforms to improve efficiency, accountability and transparency and to expand coverage of poor and vulnerable populations.</u> Notably:</p> <ul style="list-style-type: none"> • Improving administrative tools to enhance efficiency, especially the <i>Ubudehe</i> database and SP MIS • Increased harmonization across programs to improve efficiency and effectiveness, addressing beneficiary overlaps and better use of income generating programs

<ul style="list-style-type: none"> Establishing budget allocations across VUP areas M&E framework Establishing fora for management and stakeholder engagement, notably SP Sector Working Group, Joint Sector Reviews VUP program evolved from a program manager with a 5 person National Coordination Team to incorporation as a project under the newly-established (in 2010) Rwanda Local Development Support Fund as the locus for coordination of VUP and SP programs. 	<p>management of SP³¹</p> <ul style="list-style-type: none"> Launch of National SP Strategy (2013) Establishment of SP system-wide administrative sub-systems: MIS design; geographical and household poverty targeting; nascent appeals and complaints Clear role for VUP in disaster response Scale up of VUP flagship program to reaching half of intended national coverage 	<ul style="list-style-type: none"> Accountability and transparency in SP budgets and citizens' engagement Strengthening of local staff/capacity building in line with program and staffing expansion for MINALOC and VUP Full national coverage of VUP Improved poverty targeting Gender and child sensitive reforms conducive to child development (SP-ECD harmonization)
<p>Coverage of VUP Geographical: from 30 to 90 geographical sectors (out of 416 total in the country) by close of program. Households: from 25,000 to 176,000</p> <p>SP Policy: Program support to launch of VUP and core elements of Vision 2020 and establishment of National Social Protection Strategy (NSPS, 2011)</p>	<p>Coverage of VUP Geographical: from 90 to 240 geographical sectors (out of 416 total in the country) by close of program. Households: from 176,000 to 218,000 (current 11-2014)</p> <p>SP Policy Program support to updated Rwanda SP Strategy (NSPS-2, 2013-18) and EDPRS-2 (2013-18)</p>	<p>Coverage of VUP (targets) Geographical: from 240 to 360 by close of program. Households: from 218,000 to 300,000</p> <p>SP Policy Support: Program is aligned with end target goals for Rwanda SP Strategy (2013-18) and EDPRS-2 (2013-18).</p>

³¹ Rwanda Local Development Support Fund (RLDSF—established 2010 as a fund under MINALOC evolving from the Common Development Fund) mandated as main agency for SP system coordination, with policy directives, staffing, training supported under DPO series. , transitioned to LODA in 2013, RLDSF transitioned to LODA in 2013.

