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Report No. 93053-RW

INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED DEVELOPMENT POLICY CREDIT

IN THE AMOUNT OF SDR 47.9 MILLION (EQUIVALENT TO US$70 MILLION)

TO

THE REPUBLIC OF RWANDA

FOR THE

SOCIAL PROTECTION SYSTEM OPERATION (SPS)

December 19, 2014

Social Protection and Labor Global Practice
Africa Region

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

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of November 30, 2014)
Currency Unit is Rwandan Franc (RWF)

US$1 = RWF690
US$1 = SDR0.68294815

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
BNR	*Banque Nationale du Rwanda* (National Bank of Rwanda)
CCSA	Cross Cutting Solutions Area
CID	Criminal Investigation Department
COFOG	Classification of the Functions of Government
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 Office
IMF	International Monetary Fund
ITN	International Training Network
JSAN	Joint staff Advisory Note
JSR	Joint Sector Review
LIC	Low-income Country
LODA	Local Administrative Development Entities Agency
LWH	Land Husbandry, Water Harvesting, and Hillside Irrigation
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
NIDA	National ID Agency
NISR	National Institute of Statistics of Rwanda
NSPS	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
RDRP	Rwanda Demobilization and Reintegration Program
REMA	Rwanda Environment Management Authority
SIDA	Swedish International Development Agency
SP	Social Protection
SPS	Social Protection System
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 *Umurenge* Program
WDI	World Development Indicator

Vice President:	Makhtar Diop
Country Director:	Diarietou Gaye
Senior Global Practice Director:	Arup Banerji
Practice Manager:	Manuel Salazar
Task Team Leader:	Laura B. Rawlings

REPUBLIC OF RWANDA

SOCIAL PROTECTION SYSTEM (SPS-1) DPO

TABLE OF CONTENTS

ANNEXES

The First Rwanda Social Protection Support DPO (SPS-1) was prepared by an IDA team led by Laura B. Rawlings (TTL) and included Joseph Atick, Denise Brain, Tom Bundervoet, Faly Diallo, Winston Percy Onipede Cole, Yoseph Deressa, Peter Isabirye, Yoichiro Ishihara, Maiada Mahmoud Abdel Fattah Kassem, Valence Kimenyi, Jane Wangui Kiringai, Annika Kjellgren, Toni Koleva, Stephen Mukaindo, Dimitrie Mukanyiligira, Lillian Brenda Namutebi, Toru Nishiuchi, Maria Laura Sanchez-Puerta, James Tumwine and Briana Wilson. Cem Mete, Iffath Sharif, and Veronica Silva Villalobos served as peer reviewers.

SUMMARY OF PROPOSED CREDIT AND PROGRAM

THE REPUBLIC OF RWANDA

SOCIAL PROTECTION SYSTEM SUPPORT (SPS-1)

Borrower	The Republic of Rwanda
Implementation Agency	Ministry of Finance and Economic Planning (MINECOFIN), Ministry of Local Government (MINALOC)
Financing Data	SDR 47.9 million (US$70 million equivalent) on IDA Credit terms (38-year maturity and 6-year grace period).
Operation Type	Programmatic development policy financing (1st in a series); single-tranche.
Pillars of the Operation And Program Development Objective(s)	The Program Development Objective (PDO) for this DPO series is "support the Government of Rwanda to improve the efficiency, accountability and coverage of its social protection system." The pillars of support are: (i) efficiency of the social protection system; (ii) accountability and transparency; and (iii) coverage of poor and vulnerable. Policies supported by the proposed SPS-1 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 SP as a centerpiece in achieving Rwanda's ambitious objectives to reduce poverty and strengthen resilience.
Results Indicators	(i) % of individuals over 16 years old in the *Ubudehe* database matched to a national ID *[baseline: 25%; end-target: 60%]* (ii) Number of SP MIS modules developed *[baseline 0: end-target: 2]* (iii) % of targeted local government staff trained on SP program eligibility *[baseline: 0; end-target: 70%]* (iv) % of districts reviewing SP budget during accountability day events (per year) *[baseline 0; end-target: 60%]* (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%]* (vi) % of geographical sectors covered by VUP in the poorest 30% of districts for (a) direct support; and (b) public works [*(a) DS baseline: 54%; end-target: 86%; (b) PW baseline: 42%; end-target: 80%]* (vii) VUP coverage of geographical sectors and households for (a) direct support and (b) public works *[DS (i) Sectors – baseline: 240 sectors; end-target: 360 sectors; (ii) households – baseline: 61981 households; % Female Headed Households (FHH): 66%; end-target: 90,000households; FHH: 66%; PW (i) Sectors – baseline: 180 sectors; end-target: 240 sectors; (ii) households – baseline: 104,400 households; % FHH: 46%; end-target: 130,000 households: % FHH: 48%]*
Overall risk rating	Moderate
Operation ID	P151279

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-1) operation of SDR 47.9 million ($70 million equivalent) is the first 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 recently-approved 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 will focus on three main areas: improving the efficiency of Rwanda's social protection system, strengthening accountability and transparency, and expanding appropriate coverage.

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 2011, the country-defined poverty rate fell from 59 percent to 45 percent, while the extreme poverty rate fell from 40 percent to 24 percent, and the Gini coefficient moved from 0.51 to 0.49.[2]

3. **Even given Rwanda's impressive achievements in reducing poverty, important challenges remain: with a GNI per capita of US$644 (2013), 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 44 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 80 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 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

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[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; Third Integrated household Living Conditions Survey (EICV3) available http://statistics.gov.rw/images/PDF/Main%20EICV3%20report.pdf

[3] Economic Development and Poverty Reduction Strategy 2013-2018 (EDPRS-2); Third Integrated household Living Conditions Survey (EICV3) available http://statistics.gov.rw/images/PDF/Main%20EICV3%20report.pdf

[4] Government of Rwanda and Oxford Policy Management. EICV3 Thematic Report: Social Protection. August 2012.

productivity by 52% and in Brazil the large safety net program, *Bolsa Familia*, reaches close to 25% 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 will expand and deepen safety nets with enhanced efficiency of delivery. 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 on national poverty rates.

5. **Rwanda is among global leaders in building an integrated social protection (SP) 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. **In only 6 years, with World Bank support under the past DPO series and collaboration from development partners, Rwanda has 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 (see Annex 4).** Under the first DPO series (2009-2011) Rwanda was able to pilot and launch the flagship *Vision Umurenge Program* (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) and both direct support cash transfers for destitute households and financial services microcredit loans were introduced. In the subsequent phase of Bank support (2012-2014), the VUP was rapidly expanded from 90 to 240 geographical sectors and coverage expanded from covering 176,000 to 218,000 households – almost a million poor and vulnerable people (see table 4). In addition, Rwanda began to move from a series of ad-hoc programs focused mainly on addressing the needs of post-genocide reintegration to consolidation and building the foundations of a harmonized social protection system.[6] The four main safety net programs have moved from being uncoordinated to being increasingly harmonized, with growing attention to complementarities and lack of duplication. The social protection sector is establishing 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. Ongoing analytical work points to VUP contributions to poverty reduction and asset creation, but also reveals areas of needed reform.

7. **This series 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 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, addressing beneficiary overlaps and better use of income generating programs; (iii) improved accountability and transparency in SP budgets and citizens' engagement;

[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.

(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 conducive to child development. These reforms are supported by this DPO series.

8. **This DPO series is fully supportive of the end-line goals for Rwanda's National Social Protection Strategy (2013-18) and Economic Development and Poverty Reduction Strategy (EDPRS-2) (2013-18) as well as with 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.

9. **Rwanda is characterized by a strong political and financial commitment to the social protection sector.**[7] The sector is increasingly funded by the government (rather than donors or NGOs). Social protection spending has risen steadily and now accounts for close to 3% of total public expenditures, in line with many countries in the region.[8] Also, 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.

10. **The World Bank continues to be a trusted partner in Rwanda's ambitious social protection efforts and works 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 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

2.1 RECENT ECONOMIC DEVELOPMENTS

11. **The IMF and World Bank assessments concur that Rwanda's macroeconomic policy framework is 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. Rwanda's effective economic management was underscored by the authorities' quick and adequate fiscal and monetary response to the short-term aid shortfall, which occurred in mid-2012 and into early 2013.[9] Rwanda successfully completed two reviews under the policy support instrument (PSI) in 2014 followed by the successful previous PSI reviews between 2011 and 2013. The second review states that "Strong policies have played key role in maintaining GDP growth at 7.8 percent on average since 2000, with significant poverty reduction. The economy is

[7] Source: EICV Poverty Report, 2012.
[8] Government of Rwanda and the World Bank (2012). Social Safety Net Assessment.
[9] The aid shortfall following the publication of a UN report alleging Rwanda's involvement in the Democratic Republic of Congo (DRC) in July 2012 created a fiscal gap amounting US$230 million (equivalent to 3% of GDP) in the first half of FY2012/13, although more than half US$140 million was disbursed in the second half.

recovering from the disruptions induced by aid suspension through mid-2013 with growth bouncing back in the first half of 2014 and inflation well contained".

Real Sector Developments

12. **The Rwandan economy started recovering in the first half of 2014.** Real GDP grew by 6.8 percent in the first half of 2014 from 3.5 percent in the second half of 2013. Stimulated by increased government spending, growth in the services sector increased to 8.4 percent from 5.7 percent in the second half of 2013, and led the economic recovery. Sufficient rainfall in the first season (season A between September and February) resulted in higher growth in the agriculture sector at 5.2 percent, up from 0.3 percent in the second half of 2013.

External Sector

13. **Rwanda's external position improved in 2013 after the deterioration caused by the aid shortfall in 2012.** The current account balance improved from −11.3 percent in 2012 to −7.1 percent of GDP in 2013. This improvement resulted from a combination of strong export growth, mainly in mining, and a reduction in import growth. Increased mining production, coupled with favorable international mineral prices, boosted mineral exports in 2013. The resumption of external grants also helped improve the current account. The overall balance of payments as a percentage of GDP improved from −2.9 percent in 2012 to 3.9 percent in 2013. As a result, between December 2012 and December 2013, foreign reserves increased by 35 percent to US$ 1,136 million (equivalent to 5.0 months of imports of goods and services).

14. **Due to lower international prices for Rwanda's major export commodities, the external sector deteriorated in the first half of 2014**. Rwanda's export basket is highly concentrated, with tea, coffee and minerals, accounting for 60 percent of total goods exports. Export values fluctuate with changes in international commodity prices. In the first half of 2014, prices of all traditional exports have declined (coffee by 20 percent, tea by 6 percent, cassiterite by 6 percent, coltan by 32 percent and wolfram by 9 percent). As a result, exports expanded by 1.2 percent in the first half of 2014. Coupled with higher import expansion linked to the economic recovery, the export to import ratio fell from 38.0 percent in 2013 to 24.5 percent.

Monetary, Exchange Rate, and Financial Sector Policies

15. **Rwanda's monetary policy provides a foundation for macroeconomic stability and growth targets.** To improve the effectiveness of Rwanda's monetary policy, the National Bank of Rwanda (BNR) started absorbing excess liquidity in commercial banks. In February 2014, the government, in collaboration with the BNR, initiated a quarterly bond issuance program.[10] Reducing excess liquidity is expected to improve the interbank market and foster responsiveness of market interest rates to BNR policy rate adjustments. Prudent monetary policy, coupled with lower international food and energy prices, has contributed to low inflation. Inflation has been below 4 percent in the first eight months of 2014. The BNR reduced its interest rate twice by 50 basis points in June 2013 (from 7.5 percent to 7.0 percent) and June 2014 (from 7.0 percent to 6.5 percent) to stimulate credit flow to the economy.

16. **Exchange rate policies have been geared toward greater exchange rate flexibility since the introduction of an exchange rate corridor framework in March 2010**. The exchange rate

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[10] Between February and August, two bonds, for Rwf 12 billion (3-year maturity) and Rwf 15 billion (5-year maturity) respectively, were issued. In addition to government bonds, the International Finance Corporation (IFC) issued a Rwf 15 billion bond (5-year maturity).

regime is classified as crawl-like. The BNR started to use a market-based exchange rate calculated as a weighted average of foreign exchange interbank rates and intervention transactions rates in December 2010. In August 2012, the overall foreign exchange risk exposure for banks was set at ±10 percent of their core capital, in line with practice in most East African Community (EAC) countries. The exchange rates depreciated by 6.1 percent in 2013, followed by a depreciation of 3.4 percent in the first half of 2014. Although the gap between official and market exchange rates reached 6 percent in early 2013, it has now been reduced to below 2 percent. The NBR aims to maintain the spread between the official and market exchange rates at the normal transaction levels prevailing before mid-2012.[11]

17. **The financial sector recovered from a slight deterioration and remains sound in 2014.** Financial sector soundness indicators have improved in the first half of 2014. The capital adequacy ratio increased from 23.1 percent in December 2013 to 23.6 percent in June 2014, significantly higher than the 15 percent minimum requirement. The quality of bank assets has improved—after slightly deteriorating in 2013 due to the economic slowdown. The ratio of non-performing loans to gross loans declined from 7.2 percent in September 2013 to 6.6 percent in June 2014. Provisions for non-performing loans stand at 50 percent. Banking system liquidity conditions are in a good position, with the ratio of liquid assets to total deposits at 54.2 percent in June 2014.

Fiscal Policy and Developments

18. **Rwanda's fiscal policy is consistent with its macroeconomic framework and is focused on maintaining stability**, **while promoting economic growth.** The composition of public expenditure creates a foundation for achieving the national goals of growth acceleration and poverty reduction identified in the EDPRS 2. The medium-term fiscal policy framework aims for fiscal consolidation through increased revenue mobilization and expenditure prioritization to remove bottlenecks to economic development. Actual budget expenditures remain above 90 percent of planned expenditures.

19. **In FY2013/14, the government managed fiscal policy effectively in the face of the lagged impacts of the aid shortfall on the economy.** Government achieved a decline in the fiscal deficit from 5.0 percent of GDP in FY2012/13 to 4.0 percent in FY2013/14 mainly due to a lower execution of capital projects implementation and improved tax revenue collection. On the expenditure side, government faced capacity constraints during the fiscal year, evidenced by delays in implementing several projects. On the revenue side, government succeeded in domestic revenue mobilization and the tax revenue to GDP ratio increased from 15.8 percent in FY2012/13 to 16.9 percent in FY2013/14. This was achieved through the combination of improved tax policy and administration that the government has put in place over the past few years. However, actual tax revenue was lower than the projected amount by about 2 percent because of the economic slowdown. On financing, in addition to securing budget support, the government issued T-bills in the domestic market.

20. **Looking forward, the IMF's new 3 year PSI envisages continuing fiscal sustainability, projecting the state budget to significantly improve in the medium-term.** Under these projections, the domestic revenue to GDP ratio will increase from 16.9 percent in FY2013/14 to 19.2 percent in FY2017/18, while the grants to GDP ratio will decrease from 9.3 percent to 3.4 percent in the same period. This means that the share of grants in total revenue and grants will

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[11] IMF 7th review.

decrease from 35.5 percent in FY2013/14 to 15.0 percent in 2017/18, pointing to reduced aid dependency.

21. **Information on the budget and its execution is open to the public.** MINECOFIN's website includes a Budget Execution Report for FY2013/14 as well as the FY2014/15 Approved Budget.[12]

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

22. **Both the near and medium-term economic outlook remains positive**. The World Bank estimates that Rwanda's economy will grow by around 6 percent in 2014, up from 4.7 percent in 2013. With economic growth at 6.8 percent in the first half of 2014, the annual growth projection seems to be attainable. A key factor for growth recovery is the services sector which is supported by increased capital expenditures. Agriculture growth is also expected to be stronger in 2014 on account of a favorable first harvest (season A). Increases in cultivated low land area (including swamps) are expected to counter rain shortfalls in the second harvest season (season B). Inflation is expected to stay low on account of lower international food and energy prices. Over the medium term, rising private sector interest in investing in Rwanda, including in the areas of horticulture and food exports, could support export diversification, generate foreign exchange, and help relieve the balance of payments constraint. Moreover, as the new electricity projects and secondary roads come on stream, this will support the industrial sector.

23. **Rwanda's debt is sustainable.** The IMF/World Bank staff Debt Sustainability Analysis (DSA) from November 2014 concluded that Rwanda remained a low risk of debt distress. Under the baseline scenario all debt burden indicators are projected to remain below the policy-dependent thresholds. Nevertheless, Rwanda's small, concentrated export basket keeps Rwanda vulnerable to external shocks. Standard stress tests show a marginal temporary breache of the present value of debt service-to-exports and the debt service-to-revenues ratios in 2023 when the Eurobonds issued in 2013 matures. At end-2014, external debt in the public sector is expected to remain low at about 24 percent of GDP, while domestic debt is anticipated to be about 7 percent of GDP. Rwanda's debt profile is expected to improve over the medium term, as exports expand and diversify and economic growth remains strong.

24. **The balance of payments is expected to improve in the medium-term while, in the near term, will depend on aid inflows.** A current account deficit is expected to persist in the medium term, although 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 expects that the implementation of the 2012 National Export Strategy, which provides a framework for increasing exports, will yield early results. Exports of goods and services are expected to gradually rise from 15.6 percent of GDP in 2013 to 16.2 percent in 2018 as the export base expands and diversifies. To finance the current account deficit, foreign direct investment (FDI) is expected to increase from 2.0 percent in 2013 to 3.6 percent of GDP in 2018. International reserves as months of imports are projected to be around 4 months after 2014.

25. **The BNR is closely monitoring monetary and exchange rate risks.** The Rwandan franc could depreciate further and inflation could be stable in the medium-term. Food inflation will also need to be carefully monitored. However, the BNR is expected to implement policies to

[12] http://www.minecofin.gov.rw/index.php?id=2

minimize the risk of monetary inflation while supporting the Government's economic growth objective. The BNR will also sustain its efforts to strengthen the monetary policy framework by continuing implementation of policies aimed at tackling the structural excess liquidity. This framework attempts to guide banking liquidity and short-term interest rates to move in line with the targeted monetary policy stance.

26. **The legal and supervisory frameworks are being bolstered to minimize financial sector risks.** The revised central bank law has been drafted and will be submitted to the parliament for approval. The revised law extends the supervisory reach of the central bank to pension funds and insurances. This proactive step will mitigate risks that may arise from the non-bank financial institutions. Following more regional banks (especially from Kenya) joining the Rwanda's banking industry, the BNR, in conjunction with regional countries in the East African Community, has set up a cross-border bank supervisions framework, to counter risk exposures of banks from subsidiary or headquarter banks in neighboring countries.

27. **Fiscal policy is expected to sustain the domestic revenue mobilization efforts.** Under the new PSI, the tax to GDP ratio is projected to increase from 14.9 percent in FY2013/14 to 17.4 percent in FY2017/18 through implementation of various revenue mobilization policies such as revised legislation on property tax, and new tax regimes for agriculture and mining. Therefore, the share of grants in the total revenues is projected to decline from 35.4 percent to 15.0 percent during the period. Expenditure is expected to decline from 30.2 percent of GDP in FY2013/14 to 26.3 percent in FY2017/18, reflecting the medium-term fiscal consolidation. The expenditure composition mirrors government's policies aimed at supporting growth and reprioritizing expenditures in a context of uncertainty from aid inflows. In this regard, government has been improving public investment management systems and procedures. In the formulation of the FY2014/15 plan, a public investment committee was operationalized to screen public investment projects. With a number of large strategic investment projects coming to completion, capital expenditure is expected to decline from 14.0 percent in FY2013/14 to 12.6 in FY2017/18. Recurrent expenditure is estimated to decline from 15.2 percent in FY2013/14 to 12.8 percent in FY2017/18. With the fiscal consolidation efforts, the overall deficit (including grants) is expected to marginally decline to 3.7 percent of GDP in FY2017/18 compared to 4.0 percent of GDP in FY2013/14. Foreign financing has been the main financing source for budget deficits. Most foreign financing consists of highly concessional loans and therefore impacts on debt indicators have been small. Going forward, domestic resource mobilization and subsequent smaller budget deficits are likely to lead to less external financing needs.

Table 1: Key Macroeconomic Indicators

	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Real economy	**Annual percentage change, unless otherwise indicated**							
GDP (nominal, local currency)	10.1	15.7	15.4	9.6	9.5	11.5	13.2	12.9
Real GDP	6.3	7.5	8.8	4.7	6.0	6.0	7.0	7.5
Per Capita GDP (In US$ Atlas Method)	510	550	600	620	-	-	-	-
Contributions:								
Consumption	5.6	7.3	8.0	2.7	-	-	-	-
Investment	7.0	9.3	22.2	7.7	-	-	-	-
Net exports	−2.4	6.7	24.3	−0.4	-	-	-	-

Imports	8.5	44.4	25.6	−5.9	12.9	−1.7	0.0	7.6
Exports	37.2	44.0	27.3	19.0	1.1	5.5	9.4	15.5
Unemployment rate (ILO definition)	-	-	-	-	-	-	-	
GDP deflator	3.6	7.7	6.1	4.7	3.3	5.2	5.8	5.0
CPI (end of period)	0.2	8.3	3.9	3.6	3.2	5.0	5.0	5.0
Fiscal Accounts 1/	**Percent of GDP, unless otherwise indicated**							
Expenditures	25.9	26.5	25.9	27.6	28.6	27.0	25.6	25.4
Revenues	26.3	24.6	24.2	25.1	27.0	24.2	23.1	22.8
General Government Balance (w grant)	−0.4	−2.1	−3.2	−4.5	−3.2	−4.2	−3.4	−3.6
General Government Balance (w/o grant)	−13.8	−12.9	−12.5	−13.1	−11.4	−10.1	−7.5	−7.1
PPG (end of period)	20.0	20.1	21.7	28.4	31.2	33.5	33.6	34.7
Selected Monetary Accounts	**Annual percentage change, unless otherwise indicated**							
Broad Money	16.9	26.7	14.0	15.5	14.3	12.7	14.2	13.9
Credit to non-government	9.9	27.6	35.0	11.1	16.1	17.4	22.7	15.1
Interest (key policy interest rate)	6.0	7.0	7.5	7.0	6.5	-	-	-
Balance of Payments	**Percent of GDP, unless otherwise indicated**							
Current Account Balance	−5.4	−7.2	−11.3	−7.1	−11.8	−11.0	−9.1	−9.2
Excluding Official Transfers	−16.8	−18.8	−18.7	−16.0	−18.8	−16.5	−13.7	−13.0
Imports	28.8	34.1	34.3	32.5	34.9	32.2	28.9	29.0
Exports	11.1	14.0	14.0	15.6	15.5	15.2	14.8	15.6
Foreign Direct Investment	0.7	1.7	2.2	2.0	2.0	2.9	3.2	3.4
Gross Reserves (in billions US$, eop)	0.8	1.1	0.8	1.1	0.9	0.8	1.0	1.1
In months of next year's imports	4.5	5.1	4.1	5.0	3.9	3.8	4.0	4.1
As % of short-term external debt	-	-	-	-	-	-	-	-
External Debt	13.4	12.6	16.2	21.4	23.9	27.0	28.6	31.1
Terms of Trade (2010=100)	100	100	95	113	105	116	119	122
Exchange Rate (average)	588	602	617	643	682	-	-	-
Other memo items								
GDP (nominal, billions of US$)	5.6	6.4	7.2	7.6	7.8	8.5	9.3	10.2

1/ On a fiscal year basis (July-June), For example column ending in 2012 refers to 2012/13
Source: Rwandan Authorities, IMF staff estimates and projection (Second review under the Policy Support Instrument as of November 2014), and World Bank staff estimates.

28. **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.** The adequacy of Rwanda's macroeconomic policy framework could be challenged by risks from a reduction in aid inflows. This could stem from donor concerns about regional instability or budgetary pressures in donor countries. If such a risk were to materialize it would adversely affect public investment and growth relative to the baseline. In order to bolster its resilience to diminishing aid flows, 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 bolstering the growing services sector, improved agricultural capacity could expand productivity and job creation, including in off-farm activities. Agricultural 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 strong investment climate will be critical for private sector development, job creation and higher domestic tax revenue.

Table 2: Key Fiscal Indicators (Percent of GDP)

	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17
Overall Balance	−3.2	−1.2	−5.0	−4.0	−5.1	−3.4	−3.4
Primary balance	−2.8	−0.7	−4.4	−3.2	−4.3	−2.7	−2.6
Total Revenues (and grants)	23.6	25.3	23.7	26.2	24.8	23.4	22.8
Tax revenues	12.5	13.4	14.0	14.9	15.9	16.8	17.3
Taxes on goods and services	6.5	6.8	6.8	7.7	8.2	8.6	8.8
Direct taxes	4.9	5.5	6.1	6.1	6.5	6.9	7.2
Social insurance contributions	-	-	-	-	-	-	-
Taxes on international trade	1.1	1.1	1.2	1.1	1.2	1.4	1.4
Other taxes	-	-	-	-	-	-	-
Non-tax revenues	0.6	0.8	1.8	2.0	1.8	1.9	1.8
Grants	10.4	11.0	7.8	9.3	7.1	4.7	3.6
Expenditures	26.7	26.5	28.7	30.2	29.8	26.8	26.1
Current expenditure	13.5	14.8	13.6	15.2	14.1	13.4	12.9
Wages and salaries	2.5	3.5	3.6	3.7	3.7	3.7	3.6
Purchases of goods and services	3.3	3.6	2.6	2.8	2.7	2.4	2.3
Interest payments	0.4	0.4	0.7	0.8	0.8	0.7	0.7
Current transfers	5.4	5.5	5.0	5.6	5.3	5.2	4.9
Pensions	-	-	-	-	-	-	-
Social assistance	-	-	-	-	-	-	-
Other social transfers	-	-	-	-	-	-	-
Other transfers	-	-	-	-	-	-	-
Capital expenditure	12.6	11.7	12.1	14.0	13.6	12.5	12.3
Capital investments	-	-	-	-	-	-	-
Capital transfers	-	-	-	-	-	-	-
General Government Financing	3.5	1.5	5.2	4.4	5.2	3.6	3.6
Foreign (net)	2.3	2.3	7.3	2.1	3.5	4.4	4.4
Domestic (net)	1.2	−0.8	−2.0	2.4	1.7	−0.8	−0.8
of which: privatization	-	-	-	-	-	-	-

1/ On a fiscal year basis (July-June), For example column ending in 2012 refers to 2012/13
Source: Rwandan Authorities, IMF staff estimates and projection (Second review under the Policy Support Instrument as of November 2014), and World Bank staff estimates.

2.3 IMF RELATIONS

29. **The IMF and the authorities started a new PSI program for another 3 years in 2014. The IMF successfully completed the second PSI Review and Article IV Consultation in December 2014 (see Annex 3).** 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. In addition, the Bank and the Fund have been closely collaborating in Rwanda. Bank staff member participates in the Fund 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 DSA is jointly conducted on an annual basis.

3. THE GOVERNMENT'S PROGRAM

30. **The National Social Protection Strategy (NSPS-2) is fully aligned with the overarching 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 EDPRS2 Social Protection Sector Strategy (2013), set 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 *Umurenge* 2020) 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	44.5%	<30%	<20%
% of population below extreme poverty line	24%	9%	0%
Gini-coefficient (inequality measurement)	0.49	n/a	0.35
Child Chronic Malnutrition	44.0%	n/a	15.0%
% of adult population accessing financial svc	47%	n/a	90%
Citizen satisfaction with service delivery	70.44%	80%	80%

Source: *EDPRS-2 Revised Social Protection Strategy, July 2013 (page 46).*

31. **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 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. A revised implementation plan (NSPS-IP2) accompanies the NSPS-2, reinforcing government's strong leadership to deliver results.

32. **Rwanda has four main social protection programs, with the flagship Vision *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 Development Entities 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.

33. **VUP uses both geographical and household targeting.** 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. Each year 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.

Table 4: VUP Scale-Up from inception (2008) to FY2013/14

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

Source: MINALOC, September 2014

34. **The VUP program has expanded rapidly and now reaches over half of the geographic sectors in Rwanda, with plans for full national coverage by 2018.** Likewise, VUP has consistently increased its VUP beneficiaries. With 6,850 direct support (DS) beneficiaries at the introduction in 2009 and 18,304 public works (PW) beneficiaries at its inception in 2008, the two components in 2013-2014 reach a total number of households of 61,981 and 104,400, respectively. Financial Services (FS) support has remained constant at around 55,000 beneficiaries since its introduction in 2009. The total level of coverage is now therefore over 200,000 households or close to a million beneficiaries, assuming an average household size of 5.6 in the poorest quintiles (EICV3). Noteworthy is also that this beneficiary coverage exceeds pre-established targets.

35. **The remainder of the social protection sector is composed of three other main programs – FARG, 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 four main areas: health, education, direct income support, shelter and income generating activities. The ***Rwanda Demobilization and Reintegration Commission (RDRC)*** 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 with a focus on non-VUP sectors. The program can finance different activities based on the request submitted by local governments but tends to focus on income generating activities, education access and shelter for marginalized people. Table 3 presents a consolidated overview of the main targets set forward in EDPRS-2 as aligned with the Vision 2020 flagship VUP program goals.

36. **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 the sector (see Table 5).** Social assistance expenditures have grown steadily over the past five years and constitute between 2.5% to 3% 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% average for MICs and above the 1.1% average for LICs.[13]

37. **Government estimates the budget for implementing social assistance priorities as articulated in the NSPS-2 at US $522 million over the next five years – an average of US $104.5 million annually (see Table 6).[14]** This is a conservative estimate that mainly focuses on programs administered by the Ministry of Local Development (MINALOC). Overall spending for the sector will increase by 24 percent in the medium term. The expenditure allocations to the sector are projected to rise from US$ 113 million to US$ 142 million between 2014/15 and 2016/17, an increase of 24 percent in three years.

38. **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 5: Trends in Government Support to the main Social Protection Programs

SOCIAL PROTECTION GOVERNMENT FINANCING

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)	2015/16 (Proj.)	2016/17 (Proj.)
Main SP Programs	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	53,835,427	56,869,475
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	44,537,363	47,098,135
UBUDEHE	-	-	-	-	-	4,732,984	4,701,153	6,318,754.28	6,761,067	7,234,341
NUTRITION	-	-	-	-	-	2,810,067	2,810,067	3,402,031.93	2,536,998	2,536,998
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	42,189,103	46,031,300
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	7,116,307	7,820,687
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	2,596,192	3,018,727
4.2. MINALOC - SP (Central)	-	-	-	-	-	301,905	301,905	201,742	132,801	173,440
Other SP Programs										
5. NCPD	-	-	-	756,056	722,911	1,430,468	1,392,065	498,596	422,624	481,741
6. NCC	-	-	-	776,718	670,439	764,638	2,435,199	6,103,941	4,304,188	6,045,804
7.1. MINAGRI GIRINKA	-	-	-	3,778,727	1,661,593	2,250,563	2,249,932	1,596,517	1,756,887	1,930,976
7.2. MINAGRI NUTRITION	-	-	-	-	-	2,265,566	2,199,550	2,830,189	3,217,372	3,623,850
8. MIGEPROFE	-	-	-	1,927,195	1,686,339	3,269,235	2,982,831	4,032,776	4,430,763	4,293,259
9. POOLING RISK				3,845,398	4,137,799	3,078,745	6,919,829	5,556,691	2,885,646	2,801,540
10. MIDMAR	-	-	-	-	-	1,619,920	1,589,912	714,976	1,894,042	2,275,492
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	124,781,353	135,366,292

***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.

4) The data provided for 2014/15 are based on the appropriated budget for 2014/15 whereas the data in SSPS-3 for the same financial year were projections in 2013/14 MTEF

5) The data provided for 2015/16 and 2016/17 are projections from 2014/15 MTEF.

6) In addition to the programs that were in SSPS-3 DPO, others currently considered in the SP sector were also added in the table (MIDMAR, Nutrition Program under MINAGRI & LODA and Coordination of the SP Sector under MINALOC)

Table 6: Cost by NSPS-2 Outcomes as per the EDPRS-2 Revised Social Protection Strategy for 2013-2018 period

NSPS-2 Outcome	RwF mill	USD mill*	% of Total

[13] 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% (Montchuk, 2014).

[14] 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.

1. Increasing coverage of extreme poor & vulnerable[15]	254,882	376.5	73.6%
2. Addressing child poverty & vulnerability	387	0.5	0.1%
3. Ensuring SP system has sustainable impact on extreme poverty	88,368	130.5	25.5%
4. Ensuring effective, efficient & harmonized SP delivery	1,003	1.5	0.3%
5. Improved measurement and visibility of SP results and impact	1,317	1.9	0.4%
6. Improved sector response to climate-related risks	145	0.2	0.04%
TOTAL	**345,851**	**511.2**	**100%**

**Note: Exchange rate as of July 31, 2014 (691RwF); Source: NBR [http://www.bnr.rw/index.php?id=204]*

4. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

39. **This proposed Social Protection System (SPS-1) operation of SDR 47.9 million ($70 million equivalent) is the first 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."***

40. **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 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.

41. **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 2008 with support from piloting to rapid, expanded coverage, reaching just under half of the geographical sectors in the country and close to 1 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 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.

42. **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 administration and program harmonization to deepen needed reforms, especially in the *Ubudehe* registry 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

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

better coordinating income generating programs; (ii) deepen the focus on *accountability and transparency* and in line with the GoR and 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.

43. **This operation 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* household registry classification system 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 new accountability and transparency elements, 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 Government of Rwanda 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 the institutionalizing the analysis of the poverty impacts of the VUP program as part of the EICV household survey work.

44. **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 Strategy[16] (supporting its second pillar on vulnerability and resilience) and the global[17] and Africa Social Protection Strategies.

45. **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 EDRPS-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

[16] World Bank. March 2011. Africa's Future and the World Bank's Support to It. Washington DC: World Bank.
[17] World Bank. 2012. Resilience, Equity and Opportunity: the World Bank's 2012-2022 Social Protection and Labor Strategy.

increasingly consolidated, in line with the National Social Protection Policy and accompanying implementation plan. Finally, this instrument responds to client preference and is consistent with Rwanda's strong macro-fiscal framework.

46. **The policy reforms supported by this DPO series are complemented by two important complements that will help ensure that results are achieved**: (i) a robust program of technical assistance and support being provided by development partners, notably DfID, UNICEF and the EU; and (ii) a cohesive, well-functioning government-development partner Sector Working Group (see Section 4.4).

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

47. **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.

PILLAR 1: EFFICIENCY OF THE SOCIAL PROTECTION SYSTEM

48. **Pillar 1 will improve the administrative efficiency of the social protection system and help generate value for money** through: (i) 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 the creation of a registry of eligible and actual beneficiaries of social protection programs; 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***
- *SPS-2 Trigger #1: MINALOC to sign an MOU with National ID Agency (NIDA) including technical specifications for interface between Ubudehe and NIDA databases*
- *SPS-3 Trigger #1: MINALOC to ensure that the interface between the Ubudehe and NIDA databases is fully functional*

49. **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 *Ubudehe* and program beneficiary registry databases.** This administrative inter-operability is critical to the efficient managing of social programs, notably to identify the poor, address coverage duplication and gaps and promote synergies across programs. A clear identification of households using Rwanda's strong national ID presents an opportunity to address the inter-operability across databases and is a core feature of the *Ubudehe* registry that needs to be strengthened in the *Ubudehe* database of all households in Rwanda. Rwanda's National Identification Agency (NIDA) was established by legislation in 2011 and has rapidly established a leading model for foundational identification systems. The agency has issued IDs 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 registry. The national ID provides a strong foundation for the *Ubudehe* database.

50. **Before the nationwide rollout of the *Ubudehe* update, the revised *Ubudehe* scheme has been piloted in five Districts and includes the use of the national ID and an updated community targeting process.** The goal of the pilot is to examine the functioning of the revised procedure, including households' satisfaction with the 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) using Rwanda's well-established national ID as a foundation for interface across the range of programs using *Ubudehe*. Based on results and lessons learnt from the pilot, the revised *Ubudehe* scheme will, if necessary, be adjusted and fine-tuned for the nationwide rollout which will be completed in mid-2015.

51. **To lay the longer-term foundation for database inter-operability, MINALOC will sign a Memorandum of Understanding with the National ID Agency (NIDA) including technical specifications for interface between the *Ubudehe* and NIDA databases.** This will allow for updates in the foundational ID database (such as births and deaths) to inform the *Ubudehe* database and SP MIS on an ongoing basis, substantially improving MINALOC and other agency's capacity to manage their programs and beneficiary registries. As the rollout of the MoU the third year policy action will be to verify that the interface between the *Ubudehe* and NIDA databases is fully functional.

Area (ii): Improved MIS, including the creation of a registry of SP program eligible and actual beneficiaries with links between the registry 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***
- *SPS-2 Trigger #2: MINALOC to finalize, validate, and adopt MIS technical system specifications and costed roadmap*
- *SPS-3 Trigger #2: MINALOC to develop priority MIS modules and issue protocols on roles and responsibilities for use and maintenance of the MIS*

52. **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), although rudimentary. These systems are currently unable to communicate with each other, however, and the Government of Rwanda cannot manage 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.

53. **In the 2011 NSPS, the Government of Rwanda declared the following vision statement for the SP MIS**: "Having continuous and efficient access to Rwanda's secured web-based National Social Protection MIS by authorized actors, including beneficiaries, for the timely delivery of social protection programs and other interaction with the system, including registration, monitoring, payments, complaints and graduation, among others." Through the WBG's previous Rwanda SPSS DPL series from FY12 – FY14, the government decided on a policy framework for the institutionalizing the SP MIS, including identifying an accountable institution (MINALOC) and establishing a cross-government team for approving policy decisions related to development of the SP MIS. Under this previous series, the GoR conducted an initial SP MIS assessment and piloted a monitoring and evaluation MIS for the VUP.

54. **Under this proposed DPO series, the government will build on the established policy framework and vision statement for the social protection MIS established previously to move into developing an MIS roadmap, costing and rolling out the system**. A consulting firm has been contracted to work with the government, consulting with all development partners, to develop the short-, medium- and long-term objectives for the SP MIS development, and lay out a roadmap based on these objectives with a costing of each next step/component and terms of reference for the final steps. MINALOC has established terms of reference and convened a technical committee from relevant institutions to oversee the contract, implementation of the roadmap and piloting of the SP MIS. To date, this committee has approved an inception report and the short-, medium- and long-term objectives for the SP MIS. Over this DPO series, the committee will approve the technical system specifications, a costed roadmap, and protocols on the roles and responsibilities for use and maintenance of the SP MIS and ensure the development of the priority components. When the full SP MIS is operational following the conclusion of this series, the GoR should see results in more efficient management of Rwanda's Social Protection and Labor programs.

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 Direct Support***
- *SPS-2 Trigger #3: MINALOC to develop policy guidelines for harmonizing income-generating activities across selected SP programs*
- *SPS-3 Trigger #3: MINALOC to implement policy guidelines for harmonizing income-generating activities across selected SP programs*

55. **Instructions will be issued to decentralized officials responsible for the administration of social protection programs as to which benefits should be provided when households qualify for more than one benefit. This policy directive will promote efficiency through improved harmonization, notably by eliminating overlap in direct support benefits from FARG and VUP.** As FARG and VUP are the largest social protection programs in the country, and both issue similar direct support cash transfer benefits for labor constrained households, the part of the policy directive eliminating overlap and duplication between FARG and VUP direct support beneficiaries will generate efficiency gains through harmonization. It will also ensure that labor constrained genocide survivors living in extreme poverty are not disadvantaged (as now) by receiving FARG direct support when they qualify for the larger amounts available from VUP direct support.

56. **In line with the policy focus on graduation, in years 2 and 3, the DPO series will support policy reforms for harmonizing income-generating activities across selected social protection programs.** 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 poverty and dependence on social assistance. However, these programs are largely ad-hoc and are constrained by a lack of coordination and limited evidence on their effectiveness. A review of these programs' basic functions and specifications will be coupled with an assimilation of existing

evidence on performance and lessons from the ongoing poverty assessment and labor market study. This review will guide the introduction of reforms to improve these programs' harmonization and efficiency, in line with GoR aims of improving livelihoods and supporting graduation. [18]

57. **Policy guidelines for harmonizing the income-generating activities across selected SP programs will be developed in year 2 and implemented in year 3.** For example, the public works program might be strengthened to include skills training, intermediation, and/or financial services ("public works plus"). Implementation would also likely entail a profiling mechanism of those with labor capacity to better tailor the income generating activities for various SP beneficiaries.

58. **Pillar 1 Expected Results:** The policy reforms are expected to contribute to an improved, more efficient *Ubudehe* system and database for identifying and registering poor and vulnerable households. This will support improved 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.* In addition, an improved MIS would be set up, including the creation of a registry of SP program eligible and actual beneficiaries with links between the registry and the national ID database, supporting more effective and efficient SP program and system management. Increased harmonization across social protection programs will take place, with improvement in efficiencies by reducing overlap between programs and ensuring better coordination across income generating programs. 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

59. As stated in the Country Partnership Strategy for Rwanda and as planned under Government of Rwanda policy directives, extensive fiscal and program decentralization is planned, with commensurate responsibilities for Rwanda's 30 districts and 416 sectors. New local government staff will be on the front lines for deepening citizen participation and engaging civil society organizations, elements that will be critical to encouraging program and fiduciary accountability. This decentralization is coupled with ongoing financial management reforms in the Ministry of Finance affecting Rwanda's social protection budget. The focus areas of the reforms in Pillar 2 are designed to support this extensive decentralization and benefit from ongoing public financial management reforms through: (i) Improved transparency and accountability in SP budget reporting and discussion; 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***
- *SPS-2 Trigger #4: MINALOC to document, publish and discuss the SP consolidated budget allocation and execution through primary dissemination channels*

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[18] The programs under review 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.

60. **Currently, Rwanda's public budget structure is consistent with acceptable international standards, including the budget classification of social protection sector, but a consolidated social protection budget is needed to inform effective management and support fiscal transparency and accountability in the social protection sector**.[19] Although the government makes the budget information available to the public on annual basis, it is difficult to see the full SP budget allocation as it is published as part of the whole budget of the country and line items cut across categories. Hence, there is a need to for a more simplified and transparent budget information, coupled with information on budget allocation and execution across SP programs, and easily accessed by stakeholders. To enhance transparency and government accountability of SP programs, MINECOFIN will issue a consolidated SP budget for the main social protection programs as defined in the social protection strategy and will apply it to current and projected SP budgets, reporting both allocations and execution (see Table 5). In the second year of the program, the allocation of FY 2016 and execution of FY 2015 will be documented and disseminated through the primary dissemination channels including MINALOC's website, Joint Sector Reviews, Sector Working Groups and district accountability days. A plan for strengthening the preparation and dissemination of the SP budget will be developed to support preparation for the year 2 trigger. This policy reform has strong support among development partners and is a notably useful element when using a DPO lending instrument. This process will be institutionalized and continue in the third year of the program and during subsequent years, in line with the policy reforms.

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***
- *SPS-2 Trigger #5: MINALOC to conduct capacity building training for local government staff to promote and strengthen citizens' engagement*
- *SPS-3 Trigger #4: MINALOC to implement and monitor an SMS system for appeals and complaints*

61. **The strengthened citizens' engagement area would deal with the approval of action plans for strengthening citizens' engagement, including strengthened appeals and complaints mechanism.** An enabling environment will be created for citizens to participate in decision making processes in program activities and in the monitoring of the implementation of agreed actions. In year 1, expansion of staffing at local government levels will be part of a revised structure approved by Cabinet. In this regard, in year 2, MINALOC will expand capacity building training for local government staff aimed at improving their own and citizens' understanding of key social protection programs, including staff roles and responsibilities in implementing VUP. This will result in further strengthened citizens' engagement by sensitizing the community about the key social protection programs and the roles of different stakeholders.

62. **During the first two years, the strengthened citizens' engagement area would center on the expansion of staff at local levels and their capacity building to ensure more effective mobilization and engagement of citizens in the field.** In year 3, policy reforms will center on the

[19]Classification of the Functions of Government (COFOG) and the Government Financial Statistics Manual (GFSM) produced by the IMF

introduction and use of expanded appeals and complaints mechanisms. The plans will ensure 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. This 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.

63. **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 citizen 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.

64. **Pillar 2 Expected Results:** It is anticipated that these policy actions will bring about a greater emphasis on accountability and transparency through SP budget reporting and strengthened citizens' engagement, notably at the local levels given the planned 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.

PILLAR 3: COVERAGE OF POOR AND VULNERABLE

65. **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). 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): Expanded coverage of VUP in line with national target*s**

- ***SPS-1 Prior Action #6: MINALOC and MINECOFIN to approve plan and budget***

for expansion of VUP in FY15

- *SPS-2 Trigger #6: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY16*
- *SPS-3 Trigger #5: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY17*

66. **The VUP is Rwanda's flagship social protection program and its main vehicle for meeting national SP goals**. This DPO series will support the expansion of VUP in line with national targets.

67. **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. Hence, much remains to be done to increase social protection programs' coverage, in line with government plans, given that current coverage of the flagship VUP program has reached only about half of the country geographically. The DPO series proposes to support the efforts of the Government of Rwanda to continue to expand coverage of SP, notably through the flagship VUP program.

68. **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, as well as addressing core challenges with respect to the labor-intensity and predictability of public works, an area of needed reform to ensure that the VUP public works program is meeting its safety net objectives. The VUP programs will be scaled up to reach national coverage by the end of the EDPRS2 period, a goals supported directly by this DPO series.

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***
- ***SPS-1 Prior Action #8: MINALOC to conduct policy study and identify policy options for improving gender and child sensitivity of SP programs***
- *SPS-2 Trigger #7: MINALOC to adopt plan for selected option(s) for improved gender and child sensitivity of SP programs*
- *SPS-3 Trigger #6: MINALOC to incorporate plan and budget for expansion in FY17 of gender and child sensitive SP programs*

69. **Improved poverty targeting is at the heart of an improved social protection system. Building on ongoing system reforms, the next Ubudehe update will include reforms to the community-based classification of poor households.** *Ubudehe* is a community-based mapping and registration exercise in which all households in Rwanda are assigned a poverty category, ranging from 1 (the poorest of the poor) to 6 (the "money rich") and registered in the *Ubudehe* database. The bottom two *Ubudehe* categories are eligible for social protection assistance. Data from the 2010/11 household survey, however, cast doubt on the targeting effectiveness of *Ubudehe:* Only slightly more than half (51 percent) of beneficiaries of the VUP, Rwanda's flagship social protection program, fell within the two bottom consumption quintiles, and 26 percent

actually were in the two top consumption quintiles, suggesting significant inclusion and exclusion errors[20]. To address the suboptimal 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. This categorization process is based on the expanded engagement of the community and on a more active outreach to lower errors of exclusion. In addition, efforts are increased to improve the operational aspects of poverty targeting in public works programs where the errors of inclusion and exclusion are more prevalent than in the direct support grants.

70. **With respect to poverty targeting, the *Ubudehe* process used for classifying households into poverty levels will be improved both through enhancements to the community-based process and through the testing of a poverty scorecard.** The community engagement process at the heart of the *Ubudehe* household poverty classification scheme will be enhanced, with an emphasis on community mobilization and engagement during the Ubudehe update. In addition, a new scorecard based on analyzing determinants of poverty as predicted by the EICV household survey will also be tested, alongside criteria developed through national consultations currently included in the *Ubudehe* update as well as households' self-reported *Ubudehe* classification. The scorecard was developed by the social protection development partners in collaboration with the government, and consists of 10 simple questions that correlate strongly with household poverty levels, based on an analysis of the EICV household survey. Scorecard and existing criteria compared to consumption data will be reviewed to see how these two methods (scorecard or current criteria) can complement each other and how each predicts poverty as measured by the EICV. The evaluation will provide valuable information on the extent to which the revised *Ubudehe* scheme effectively targets the poorest and most vulnerable members of the community and the extent to which a scorecard-enhanced approach could improve poverty targeting. Both methods will use the same community-based validation process, but will differ in the indicators used to guide the categorization.

71. **These reforms in household targeting will be complemented by the rollout of previous reforms in geographical targeting**. The scale-up plan and budget expansion of VUP will be developed and approved so that, rather than adding one new sector in each district in each year, scale-up will be determined by poverty levels within a district (based on EICV data). In the poorest districts, VUP will be operational in a larger number of geographical sectors than in the better off districts. Core elements of the policy dialogue with government and development partners and of the technical assistance being supported by the Rapid Social Response Trust Fund will also focus on the targeting, child-sensitive and labor intensive public works agendas related to this pillar.

72. **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 44% 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.

73. **MINALOC has 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**

[20] EICV3, 2011.

policies. The range of (non-exclusive) options identified by the Government of Rwanda include: (i) Proving 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.[21]

74. **Directives for implementation of these options will be developed as a year 2 DPO trigger**, with an initial emphasis on improving the gender and child sensitivity of public works. This option will also serve as an entry point for needed reforms to strengthen the predictability and labor-intensity of the VUP public works program.

75. **Pillar 3 Expected Results:** The series of prior actions and triggers for this pillar would ensure an expanded coverage of VUP, in line with national goals and with an eye toward needed reforms to enhance the poverty targeting of a range of social sector programs and to improve the gender and child sensitivity of SP programs, in line with national goals.

Technical underpinnings of the DPO series

76. **This SPS Development Policy Operation draws upon analytical work undertaken by the Bank and development partners active in the SP sector**. The World Bank-Government of Rwanda "Rwanda Safety Network Assessment" (2012) provides a foundational assessment. It 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% of the population, compared to a current extreme poverty rate of 24%); (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, notably in public works.

77. **An impact evaluation of the VUP program was also recently completed** which revealed important achievements and areas needing additional attention:[22]

- VUP is generally well received by the population with over 80% of the respondents in the program area agreeing that VUP is well managed and structured.
- There are significant differences 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.

[21] 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.

[22] Hartwig, Renate "The Vision Umurenge Program: Impact Evaluation Report" – World Bank, July 2014.

- 70% of the beneficiaries are correctly targeted according to their self-reported *Ubudehe* status; however, an estimated 50% of the households eligible for direct support (DS) and public works (PW) did not benefit from VUP support; and official versus and self-reported *Ubudehe* categories are hard to reconcile with either the *Ubudehe* database or the targeting lists.
- With respect to impacts, VUP clearly contributes to an increase in livestock holdings, with much stronger impacts for direct support households and for households benefitting from VUP for longer time periods. The impacts range from 0.118 Tropical Livestock Units (roughly equivalent to 0.5 goats) for public works and 0.3 TLUs for direct support (approximately 1.5 goats), with households that have benefited from VUP for three years showing greater gains (0.36 TLU equivalent to 1.5 goats for PW and 0.54 TLU or just over 2 goats for direct support). However, households no longer benefiting from VUP seem to lose their accumulated livestock in the face of shocks.
- Beneficiaries of the VUP direct support cash transfers show significant improvements of 0.2 meals per day and consume 1.7 meals per day on average. Although there is no similar increase among VUP public works beneficiaries, both types of VUP households benefit from an increase in food expenditures.
- VUP has resulted in a 10% higher health insurance enrollment rates for VUP Direct Support beneficiaries.
- 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.

Table 7: DPO Prior Actions and Analytical Underpinnings

Prior actions-SPS-1	Analytical Underpinnings
Operation Pillar 1: Efficiency of the Social Protection System	
Prior action #1: MINALOC to adopt roadmap for updating of the Ubudehe national household poverty database	-Social Protection National Harmonization Policy (2012), - World Bank's Africa Social Protection Strategy (2012-2022) – EDPRS-2 (July 2013) - NSPS-2 (July 2013) - Ubudehe Reviewed Categories and Categorization Process (June 2014). - Hartwig, Renate "The Vision Umurenge Program: Impact Evaluation Report" – World Bank, July 2014. - Rwanda Poverty Assessment – World Bank (draft, 2014)
Prior action #2: Short-, medium-, and long-term SP MIS objectives approved by the MINALOC convened SP MIS Technical Committee	
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 Direct Support	
Operation Pillar 2: Transparency and Accountability	
Prior action #4: MINECOFIN to produce consolidated Social Protection budget identifying the social protection programs	-Rwanda Social Safety Net Assessment (March 2012), - -Rwanda: VUP Wage Setting: Policy to Practice (2013),
Prior action #5: Cabinet to approve revised structure for expanded staffing at district and sector local government levels	
Operation Pillar 3: Coverage of Poor and Vulnerable	
Prior action #6: MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY15	- Child-Sensitive Social Protection in Rwanda; Options Paper (July 2014) - l EDPRS-2 (July 2013) - NSPS-2 (July 2013), - EICV3 (2012) - Qualitative Research Study In the Framework of the Rwanda Poverty Assessment; The World Bank (August 2014)
Prior action #7: MINALOC to adopt procedures to enhance community participation in *Ubudehe* household classification process and launch testing of poverty scorecard	

Prior action #8: MINALOC to conduct policy study and identify policy options for improving gender and child sensitivity of SP programs with consultations across relevant government ministries, development partners and NGOs	- Gender Audit of VUP Public Works, FATE consulting-UNICEF (December 2013)

78. **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-3 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. 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.

4.3. LINK TO CPS, OTHER BANK OPERATIONS AND THE WBG STRATEGY

79. **The focus on social protection proposed by this program is directly aligned with 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 governance[23]. 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.

80. **This program falls under Theme 2 of the CPS: "Improving the productivity and incomes of the poor through rural development and social protection."** As 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.

81. **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

[23] 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.

sector. The program is also benefiting from work with staff in the Jobs Cross-Cutting Solutions Area (CCSA).

82. **This DPO is well aligned World Bank's Africa Strategy and the Africa Region's Social Protection Strategy as well as with the Government's poverty reduction strategy[24] and the global[25] Social Protection Strategies.** In particular, the Africa Region and World Bank SP strategies stress systems building while the Government's poverty reduction strategy envisages the development and implementation of a comprehensive social protection strategy and policy.

4.4. CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

83. **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 Bank plays an active role. Extensive consultations, notably with civil society, were undergone in the formulation of the EDPRS poverty reduction strategies and the National Social Protection Strategy with which the DPO series is aligned.

84. **In addition, Rwanda actively engages its development partners and a large number of NGOs and vertical funds that support major SP activities**.[26] The government has been proactive in initiating better donor coordination and has established, in collaboration with development partners, a Development Partners Performance Assessment Framework (DPAF) to review the performance of development partners against a set of indicators related to quality and volume of aid.

85. **Regarding collaboration with development partners, the 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 (MINECOFIN) national stock taking of EDPRS implementation. The Bank actively participates in these reviews, and the design of the SPS program and the areas it supports are informed by this exercise.

86. **The 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, EC, 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

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[24] World Bank March 2011.Africa's future and the World Bank's Support to it. Washington DC; World Bank

[25] Managing risks, Promoting Growth; Developing Systems for Social Protection in Africa. The World Bank 2012-2022 Social Protection and Labor Strategy.

[26] There are currently 12 bilateral, 3 multilateral (African Development Bank, European Commission, and World Bank), and about 16 UN organizations active in Rwanda.

87. **The policy measures in this proposed program will 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 sector and introducing key administrative building blocks of an effective SP system.

88. **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 para 77 for a summary of results). Although at the time of the EICV 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.

89. **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.[27] In SP programming, this objective is reinforced though 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
FY2010/2011	12262	6617	**65%**	47,854	55,703	**46%**	1115	1484	**43%**
FY2011/2012	18660	8971	**68%**	43,618	50,779	**46%**	3,249	4,636	**41%**
FY2012/2013	28855	14816	**66%**	43,445	45,566	**49%**	2,325	2,371	**50%**

Source: VUP Annual Reports, 2010-2013

90. **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

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

vulnerable members of society for their sustainable graduation out of poverty. This DPO will assist in improving coverage of gender and child sensitive SP programs to promote child development.

5.2 ENVIRONMENTAL ASPECTS

91. **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 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

92. **The PFM system and the associated reforms are adequate for supporting the Bank's SPS series of Development Policy Operations.** This has been evidenced by improvement in scores between the 2007 and 2010 Public Expenditure and Financial Accountability (PEFA) reports, sector public expenditure review reports, public expenditure tracking survey reports and independent mid-term and end-term evaluations of the Public Financial Management Strategy (PFMRS) (2008-2012)[28]. The ultimate goal of the PFMRS is to ensure efficient, effective, and accountable use of public resources as a basis for economic development and poverty eradication through improved service delivery. Although full audit reports on the government's consolidated financial statements are not published, Rwanda's PFM and procurement systems have been improving steadily in line with the government's commitment to reform. The recently approved Program for Results on Governance also supports a strengthened approach to public financial management.[29]

93. **The Recipient of the SPS-1 is the Republic of Rwanda, represented by MINECOFIN**. A single-tranche development policy credit equivalent to SDR 47.9 million (US$70 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-1 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

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[28] Procurement for the conducting a new PEFA is ongoing. The delay is due to adjustments to the change in the methodology introduced by the PEFA secretariat.

[29] http://www.worldbank.org/projects/P149095?lang=en

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.

Reporting, accounting, and internal controls and auditing

94. **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.

Safeguards

95. **There are no outstanding safeguards issues.** The most recent safeguards assessment of the BNR was completed by the IMF in the context of the PRGF arrangement approved on June 12, 2006. The updated assessment was completed on January 26, 2007, and it made several recommendations to address continuing vulnerabilities in the external audit and financial reporting areas. The implementation of these measures is being monitored under the Fund program, but there has been no separate follow-up since 2007. Audits of the Central Bank are annual and the audited financial statements are publicly disclosed and accompanied by internal control reports.[30] The audit opinion issued in December 2013 is unqualified (clean) and in compliance with international financial reporting standards. The National Bank of Rwanda annual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). The audit opinion issued is unqualified (clean) and in compliance with international financial reporting standards. The audited financial statements as of December 31st 2010 were published with an unqualified (clean) audit opinion on October 29th 2012.[31]

5.4 MONITORING AND EVALUATION

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[30] Audits of the Central Bank are annual and published in the annual reports, which can be found under publications at http://www.bnr.rw. The most recent audit report is part of the annual report for June 2012, which will be uploaded on the BNR website. Audit reports are accompanied by internal control reports (not included in the published report). The exercise dates back to audits of 1997, conducted in 2002.

31 The audit was published 22 months after the year-end; good practice guidelines recommend that audit reports be published within six months of the year-end.

96. **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.

97. **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, the ongoing EICV4 is collecting an oversample of VUP beneficiaries to provide a baseline for the impact evaluation of VUP. Based on the EICV4 data, the VUP sample should be assessed to estimate benefit-incidence and generosity. This sample, both VUP and a matched control, 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.

6. SUMMARY OF RISKS AND MITIGATION

98. **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; (ii) vulnerability to any change in the scale of external foreign assistance that can affect the overall government financial position, including implementation of the NSPS and the scale-up of the VUP; (iii) the challenge of intergovernmental coordination between agencies under the Ministry of Local Government (MINALOC), between MINALOC and other agencies and between central and local government actors. There are also a number of program-specific risks, including: (a) the country's limited institutional capacity and experience implementing social protection interventions; (b) an absence of clear 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

99. **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 and the Criminal Investigation Department (CID), which deals with cases of fraud. However, the Ombudsman's office is not decentralized, though districts receive support to tackle cases of fraud and corruption in their jurisdiction. All 30 districts have received qualified audit reports and there is a lack of adequate professionally qualified PFM staff at local levels. The government is actively engaged in capacity building for local government staff in public financial management. This would help mitigate the risk of fraud and corruption at the local government level. Without these mitigation measures, the risk of fraud and corruption is substantial at the district level but moderate at national level.

100. **Macroeconomic**. Rwanda's medium term expenditure framework explicitly include 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 is finalizing 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.

101. **Sector policies and strategies**. Rwanda's social protection sector has a strong policy foundation, grounded in the EDRPS-2 and in the National Social Protection Policy and Vision 2020. MINALOC has been strengthening its institutional capacity and has growing experience implementing social protection interventions since being tasked with building Rwanda's social protection system in 2008. Technical competence remains concentrated mainly at the upper levels of the institution. Continued investments in training and capacity building are being 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.

102. **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.

103. **Institutional capacity for implementation and sustainability.** The following elements pose risks to the program: (a) Capacity gaps in relevant government agencies 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 this SPS reform program and by other development partners, and through active coordination across government agencies. 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.

104. **Fiduciary risk for the program**. The main fiduciary risks to the Program are (i) pressure on the Government of Rwanda's budgetary resources should there be a sharp reduction in foreign assistance; (ii) ongoing fiscal decentralization in the sector coupled with weak financial management capacity at local levels; and (iii) weakness in contract management. Government is continuing with in-house trainings aimed at strengthening capacity in public financial management notably at the local level, including cash flow planning, planning and budgeting as well as strengthening financial management and procurement procedures and will benefit from the operational work on governance in Rwanda.

105. **Environmental and Social Effects**: Environmental and social risks are assessed as Low. The program does not include sectors in the Climate and Disaster Risk Screening Tool. Overall, national systems for handling of environmental and social aspects in development operations are relatively strong and there is a solid recent track record in compliance with both national legislation and World Bank safeguards. There are no anticipated issues related to social conflicts during the implementation of the program.

106. **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 (H, S, M or L)**
1. Political and governance	M
2. Macroeconomic	M
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	M
6. Fiduciary	M
7. Environment and social	L
8. Stakeholders	L
Overall	M

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions and Triggers			Results (Baseline June 2013,Target June 2018)
Prior Actions under SPS -1	**Triggers for SPS -2**	**Triggers for SPS -3**	
Pillar #1: Efficiency of the Social Protection System *Efficiency improved through reformed Ubudehe system and database, improved MIS and increased harmonization across social protection programs.*			
1. MINALOC to adopt roadmap for updating of the *Ubudehe* national household poverty database	1. MINALOC to sign an MOU with National ID Agency (NIDA) including technical specifications for interface between *Ubudehe* and NIDA databases	1. MINALOC to ensure that the interface between the *Ubudehe* and NIDA databases is fully functional	(i) % of individuals over 16 in the *Ubudehe* database matched to a national ID *[baseline: 25%; end-target: 60%]* Source: Analysis of the *Ubudehe* 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: SP MIS Technical Committee
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 policy guidelines for 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: MINALOC
Pillar #2: Accountability and Transparency *Accountability and transparency enhanced through improved SP budget reporting and dissemination and strengthened citizens' engagement.*			
4. MINECOFIN to produce consolidated Social Protection budget identifying the social protection programs	4. MINALOC 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: Reporting from the Districts
5. Cabinet to approve revised structure for expanded staffing at district and sector local government levels	5. MINALOC to conduct capacity building training for local government staff to promote and strengthen citizens' engagement	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: LODA VUP routine monitoring

Pillar #3: Coverage of Poor and Vulnerable *VUP coverage expanded with attention to appropriate design, notably poverty and child-sensitive elements.*			
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	5. MINALOC and MINECOFIN to approve plan and budget for expansion of VUP in FY17	(vi) % of geographical sectors covered by VUP in the poorest 30% of districts: for (a) Direct Support; and (b) Public Works[32] *(a) DS baseline: 54%; end-target: 86%* *(b)PW baseline: 42%; end-target: 80%* Source: LODA VUP routine monitoring (viii) VUP coverage by geographical sector and households for (a) Direct Support and (b) Public Works[33] *Direct Support* *(i) Sectors - baseline: 240 sectors; end-target: 360 sectors;* *(ii) households - baseline: 61,981 households; % Female Headed Households (FHH): 66%; end-target: 90,000 households; FHH: 66%* *Public Works* *(i) Sectors - baseline: 180 sectors; end-target: 240 sectors;* *(ii) households - baseline: 104,400 households; % FHH: 46%; end-target: 130,000 households; % FHH: 48%;* Source: LODA VUP routine monitoring
7. MINALOC to adopt procedures to enhance community participation in *Ubudehe* household classification process and launch testing of poverty scorecard 8. MINALOC to conduct policy study and identify policy options for improving gender and child sensitivity of SP programs	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	

[32] Districts are ranked according to a poverty index and VUP is prioritizing program expansion in the poorest districts.
[33] There are 416 sectors in Rwanda

ANNEX 2: LETTER OF DEVELOPMENT POLICY

REPUBLIC OF RWANDA

Kigali, 03 DEC 2014

No 3865/10/14/CE

MINISTRY OF FINANCE AND ECONOMIC PLANNING
P.O. Box 158 Kigali
Tel: +250 252 575756 Fax: +250 252 577581
E-mail: mfin@minecofin.gov.rw

RECEIVED
04 DEC 2014
By

Ms. Diarietou Gaye
Country Director
The World Bank
NAIROBI

Dear Ms. Gaye,

RE: Rwanda – Letter of Development Policy for Social Protection System

1. On behalf of the Government of Rwanda, I am requesting a credit in the amount of US$70 million from the International Development Association (IDA) for the Social Protection System (SPS-1) 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 58.9 percent in 2000/01 to 56.7 percent in 2005/06 to 44.9 percent in 2010/11, while the extreme poverty rate fell from 40 percent in 2000/1 to 35.8 percent in 2005/6 to 24.1 percent in 2010/11.

4. Even given Rwanda's impressive achievements in reducing poverty, important challenges remain: with a GNI per capita of US$570 (2011), 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 44 percent of Rwandan children under 5. In addition, climate-related risks exacerbate the problems faced by the extreme poor who rely primarily on rain-fed

agriculture for their subsistence and often live in geographical areas prone to natural disasters. Finally, progress towards achieving the Millennium Development Goals (MDGs) is uneven.

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-1 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-1 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 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 series 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 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, addressing beneficiary overlaps and better use of income generating programs; (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 conducive to child development. 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-1 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 and SSPS-3) 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 over the next five years - an average of over US $104.5 million annually.

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.

15. In compliance with our law and practices, we will report 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) and share the information with the World Bank and other development partners.

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-3 household survey data show, our efforts toward 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 toward providing sustainable livelihoods for the poor Rwandan households and allow the country to make progress toward 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 thought 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-1, SSPS-2 and SSPS-3) 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 Social Affairs**
- **Country Manager, World Bank**
  KIGALI

ANNEX 3: FUND RELATIONS ANNEX

IMF Executive Board Completes Second PSI Review for Rwanda and Concludes 2014 Article IV Consultation
Press Release No. 14/564
December 10, 2014

On December 8, 2014 the Executive Board of the International Monetary Fund completed the second review of Rwanda's economic performance under the program supported by the Policy Support Instrument (PSI)[1] and also concluded the 2014 Article IV consultation[2] with Rwanda.

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

Following the Board discussion, Mr. Naoyuki Shinohara, Deputy Managing Director and Acting Chair, made the following statement:

"The Rwandan authorities are to be commended for their strong implementation of the economic program supported by the Policy Support Instrument, carried out against a challenging economic environment. Poverty has declined over time, economic growth has recovered since 2013, and inflation remains contained.

"Fiscal policies remain prudent and the objectives of the FY2014/15 budget are within reach. In the medium term, fiscal deficits are projected to decline with limited recourse to domestic financing. Strengthening the domestic revenue base is an important objective, including for reducing aid dependency, and the authorities should vigorously pursue improvements in revenue administration and tax policy improvements in agriculture, mining, and property.

"The central bank's current monetary policy stance is appropriate in view of rising inflationary pressures and the more flexible monetary policy framework will serve to make monetary policy implementation more effective. However, stepped-up efforts are needed to better promote financial deepening and inclusion, including through implementation of the Financial Sector Development Plan, and to enhance domestic and cross-border financial supervisory and regulatory frameworks.

"The government has taken important steps to strengthen Rwanda's debt management capacity and project implementation, including establishment of a Debt Management Unit. The available room to fund new infrastructure projects and maintain a low risk of debt distress is limited, and sensitive to changing economic circumstances. This requires consistent and prudent debt management, through exploring all available concessional financing options, private sector involvement and judicious use of non-concessional borrowing.

"Removal of remaining structural impediments to private sector investment will help foster greater regional integration and export diversification. Efforts are needed to strengthen the business environment, including by lowering business costs and reducing remaining trade barriers".

The Executive Board also completed the 2014 Article IV Consultation with Rwanda.

Rwanda's economic performance since the turn of the century has been remarkable. Strong policies have played a key role in maintaining Real Gross Domestic Product (GDP) growth at 7.8 percent on average since 2000, with significant poverty reduction. The economy is recovering from the disruptions induced by aid suspension through mid-2013, with growth bouncing back in the first half of 2014 and inflation well contained.

The fiscal deficit for the fiscal year 2014/15 continues to be in line with available resources. Tax revenue is expected to increase by 1 percent of GDP this fiscal year, bringing it to almost 16 percent of GDP. Continued efforts to mobilize more domestic revenue should allow Rwanda to reduce its reliance on donor resources and finance its ambitious development agenda.

The monetary stance has remained unchanged since mid-2014 and is consistent with the projected pick-up in inflation and improved growth outlook. The National Bank of Rwanda (NBR) has implemented a series of measures aimed at improving the transmission mechanism of monetary policy and allowed greater exchange rate flexibility to maintain reserves at adequate levels.

Growth in 2014 is expected to be about 6 percent, rising to the longer-term growth rate of 7.5 percent in the medium term. This reflects improved implementation of government projects and a rebound in agriculture because of favorable climatic conditions early in the year. Prospects in construction and real estate are also favorable. Inflation is projected at about 3 percent by end year, converging to the authorities' target of 5 percent in the medium term.

In terms of risks, weather conditions and delayed project implementation would hinder growth prospects, and a protracted period of slower growth in advanced economies or a decline in commodity prices - minerals and traditional exports - would adversely affect exports.

Executive Board Assessment[3]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Rwanda's continued strong performance under the PSI-supported program, which has led to progress towards macroeconomic stability; robust, sustained and inclusive growth; improved gender equity; and poverty reduction. Despite strong program performance and the favorable economic outlook, Directors noted the country's vulnerability to external shocks and high aid dependency, and encouraged the authorities to sustain the reform momentum. They supported the creation of an enabling environment for successful economic transformation to a more diversified, private-sector-led growth strategy, through macroeconomic prudence and productivity and competitiveness-enhancing structural reforms.

Directors called for continued efforts to strengthen fiscal sustainability through enhanced revenue mobilization and reduced foreign aid dependency. They recommended improvements in tax administration and broadening the tax base with Fund technical assistance, including through tax policy measures in agriculture, mining and property. On the expenditure side, Directors welcomed the identification of specific contingent cuts for FY2014/15, which safeguard priority social spending, in the event of revenue shortfalls. They also encouraged ongoing efforts to strengthen public financial management.

Directors considered the current monetary policy stance appropriate in view of rising inflationary pressures. However, they encouraged the authorities to improve the effectiveness of the monetary transmission mechanism, through the development of deeper financial markets and new monetary instruments. Directors called for the implementation of the Financial Sector Development Plan, to further promote financial deepening and inclusion. They advised strengthening both domestic and cross-border financial supervisory and regulatory frameworks, and improving the AML/CFT regime.

Directors agreed that Rwanda's real exchange rate remains broadly in line with economic fundamentals, and underscored the need to maintain exchange rate flexibility to reduce external imbalances and preserve foreign exchange buffers.

Directors welcomed the establishment of the new Debt Management Unit, and supported the authorities' plans to develop the country's project implementation capacity, guided by a well-prioritized and appropriately phased public investment plan. They noted the authorities' commitment to fully explore concessional financing options and private sector participation, and called for careful management of non-concessional borrowing to mitigate rollover risks.

Directors advised the removal of remaining structural impediments to private sector investment, and encouraged greater regional integration and export diversification. They recommended improving the business environment, including by lowering business costs and reducing remaining trade barriers.

Rwanda: Selected Economic Indicators, 2010-18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
	Act.			Prel.	Proj.				
	(Annual percentage change, unless otherwise indicated)								
Output, prices, and exchange rate									
Real GDP	6.3	7.5	8.8	4.7	6.0	6.0	7.0	7.5	7.5
GDP deflator	3.6	7.7	6.1	4.7	3.3	5.2	5.8	5.0	5.1
CPI (period average)	0.4	5.7	6.3	4.2	2.1	4.1	5.0	5.0	5.0
CPI (end of period)	0.2	8.3	3.9	3.6	3.2	5.0	5.0	5.0	5.0
Core inflation (end of period) [1]	0.2	8.3	2.5	3.8	…	…	…	…	…
Terms of trade (deterioration, -)	16.1	0.0	-5.3	19.0	-6.5	10.2	2.9	2.0	2.3
Money and credit									
Broad money (M3)	16.9	26.7	14.0	15.5	14.3	12.7	14.2	13.9	13.9
Credit to non-government sector	9.9	27.6	35.0	11.1	16.1	17.4	22.7	15.1	11.8
Policy Rate (end of period)	6.0	7.0	7.5	7.0	6.5	…	…	…	…
M3/GDP (percent)	18.5	20.3	20.1	21.1	22.1	22.3	22.5	22.7	22.9
NPLs (percent of total loans)	10.7	8.0	6.0	6.9	6.7	…	…	…	…
	(Percent of GDP, unless otherwise indicated)								
General government budget									
Revenue and grants	26.3	24.6	24.2	25.1	27.0	24.2	23.1	22.8	22.7
of which: grants [2]	13.3	10.8	9.3	8.6	8.2	5.8	4.1	3.5	3.3
Expenditure	25.9	26.5	25.9	27.6	28.6	27.0	25.6	25.4	25.4
Current	15.1	14.3	14.1	14.5	14.7	13.8	13.2	12.9	12.8
Capital	10.7	12.2	11.8	13.1	13.9	13.1	12.4	12.5	12.6
Primary balance	0.0	-1.7	-2.6	-3.8	-2.4	-3.5	-2.7	-2.8	-3.0
Overall balance	-0.4	-2.1	-3.2	-4.5	-3.2	-4.2	-3.4	-3.6	-3.7
Excluding grants	-13.8	-12.9	-12.5	-13.1	-11.4	-10.1	-7.5	-7.1	-7.0

Public debt									
Public gross nominal debt	20.0	20.1	21.7	28.4	31.2	33.5	33.6	34.7	35.6
of which: external public debt	13.4	12.6	16.2	21.4	23.9	27.0	28.6	31.1	33.3
Investment and savings									
Investment	22.5	22.9	25.0	25.5	25.5	25.5	25.5	25.5	25.5
Savings [3]	5.7	4.0	6.3	9.5	6.8	9.0	11.9	12.6	13.7
External sector									
Exports (goods and services)	11.1	14.0	14.0	15.6	15.5	15.2	14.8	15.6	16.2
Imports (goods and services)	28.8	34.1	34.3	32.5	34.9	32.2	28.9	29.0	28.6
Current account balance (including grants)	-5.4	-7.2	-11.3	-7.1	-11.8	-11.0	-9.1	-9.2	-8.4
Current account balance (excluding grants)	-16.8	-18.8	-18.7	-16.0	-18.8	-16.5	-13.7	-13.0	-11.8
Gross international reserves									
In billions of US$	0.8	1.1	0.8	1.1	0.9	0.8	1.0	1.1	1.2
In months of next year imports	4.5	5.1	4.1	5.0	3.9	3.8	4.0	4.1	4.2
Memorandum items:									
GDP at current market prices									
Billion of Rwanda francs	3323	3846	4437	4864	5328	5940	6722	7590	8572
GDP per capita (US$)	570	628	688	696	…	…	…	…	…

Sources: IMF staff and authorities' estimates.

[1] Defined as excluding food and fuel.

[2] From 2014 onward, there is a substantial change in the mix between grants and loans associated with Rwanda's low debt distress risk rating.

[3] The savings rate excludes grants.

[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] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[3] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

IMF COMMUNICATIONS DEPARTMENT

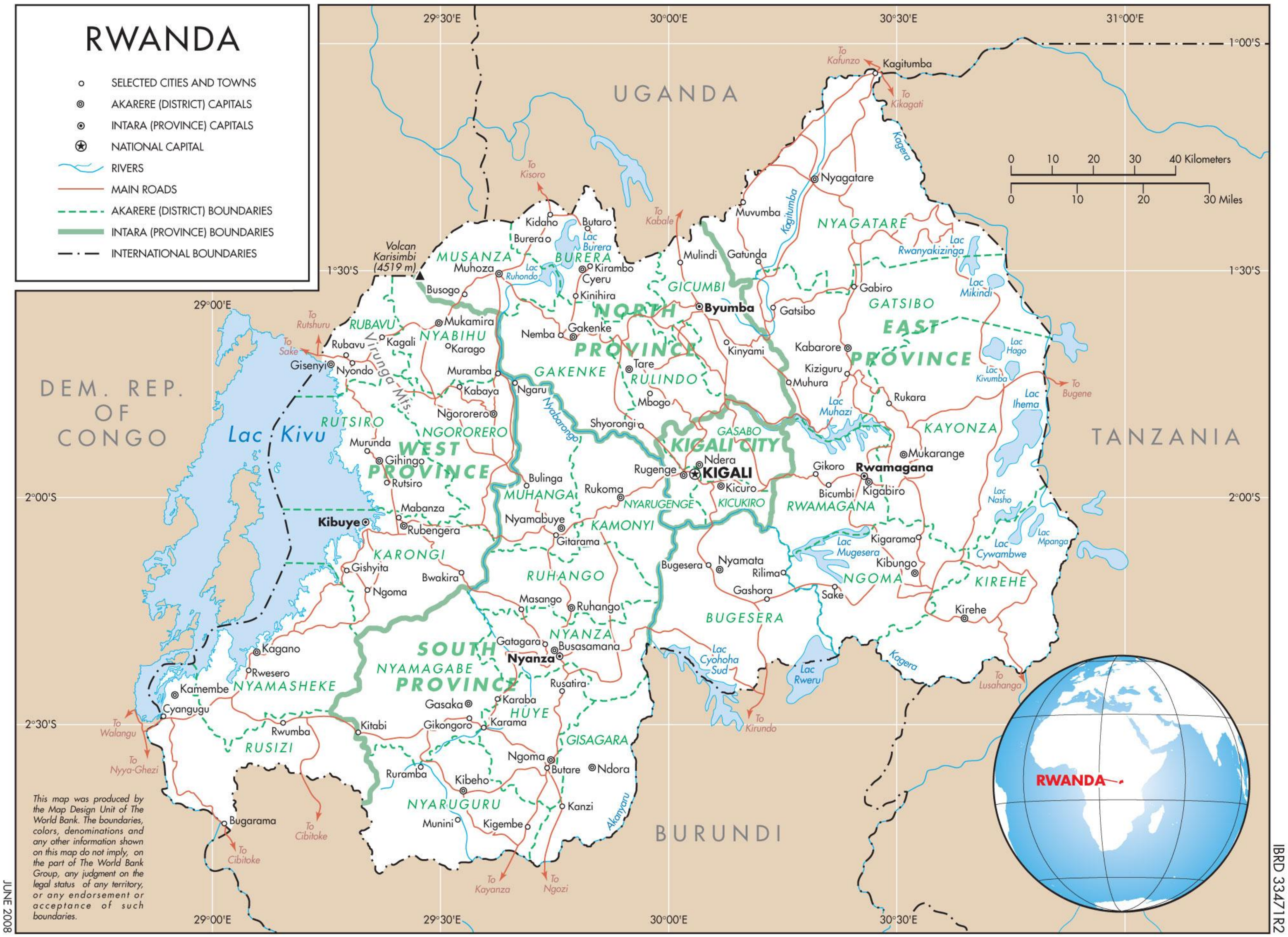
Public Affairs	**Media Relations**
E-mail: publicaffairs@imf.org	E-mail: media@imf.org
Fax: 202-623-6220	Phone: 202-623-7100

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

Community Living Standards (CLS) 3 Part DPO series: CLS-1 -- $6 million; CLS-2 -- $6 million; CLS-3 -- $6 million (2009-2011)	**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)	**Social Protection System (SPS)** 3 DPO series:SPS-1 $70 million; SPS-2, SPS-3 TBD (2015-2017)
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." "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.	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." 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.	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." This SPS DPO series incorporates lessons learned from past engagement in the social protection sector to strengthen core areas and introduce second generation reforms. Specifically, the SPS DPO series supports three pillars: (i) *efficiency* of the SP system by focusing on core areas of administration and program harmonization to deepen needed reforms; (ii) *accountability and transparency* and in line with the GoR and CPS focus on accountable governance, bringing a core focus to budgetary transparency and citizens' engagement; and (iii) *coverage of poor and vulnerable,* to support national coverage of VUP and 'appropriate' to improve poverty targeting and to ensure SP conducive to child development.
Results: This project supported both Social Protection and Health reforms. The main SP result was to **<u>establish and pilot a good practice SP program</u> -- the flagship SP program, the Vision Umurenge Program (VUP),** including: • 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	**Results:** This main result was to **establish the <u>building blocks of a social protection</u> <u>system</u> that is increasingly institutionally mature, central to poverty reduction approaches, and is reaching a growing number of poor and vulnerable families.** Notably: • Policy coordination for a SP system, moving from a series of ad-hoc programs to modern safety net system • Establishment of executive agency for management of SP[34]	**Anticipated Results** This series will help Rwanda reach its goal of a **<u>well-structured SP system with national coverage</u>; and to move to a <u>set of second generation</u> <u>reforms to improve efficiency, accountability and transparency</u> and to expand <u>coverage of poor and vulnerable populations</u>**. Notably: • Improving administrative tools to enhance efficiency, especially the *Ubudehe* database and SP MIS • Increased harmonization across programs to improve efficiency and effectiveness, addressing beneficiary overlaps and better use of income generating

[34] Rwanda Local Development Support Fund (RLDSF –established 2010 as agency under MINALOC) mandated as main agency for SP system coordination, with policy directives, staffing, training supported under DPO series

• 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.	• 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 ½ of intended national coverage	programs • 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)
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 **SP Policy**: Program support to launch of VUP and core elements of Vision 2020.	**Coverage of VUP** Geographical: from 120 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) **SP Policy** Program support to new Rwanda SP Strategy (2013-18) and EDPRS-2 (2013-18)	**Coverage of VUP (targets)** Geographical: from 240 to 360 by close of program. Households: from 218,000 to 300,000 **SP Policy Support:** Program is aligned with end target goals for Rwanda SP Strategy (2013-18) and EDPRS-2 (2013-18).


RWANDA
SELECTED CITIES AND TOWNS
AKARERE (DISTRICT) CAPITALS
INTARA (PROVINCE) CAPITALS
NATIONAL CAPITAL
RIVERS
MAIN ROADS
AKARERE (DISTRICT) BOUNDARIES
INTARA (PROVINCE) BOUNDARIES
INTERNATIONAL BOUNDARIES
UGANDA
DEM. REP. OF CONGO
TANZANIA
BURUNDI
Lac Kivu
NORTH PROVINCE
EAST PROVINCE
WEST PROVINCE
SOUTH PROVINCE
KIGALI CITY
KIGALI
Byumba
Rwamagana
Kibuye
Nyanza
Gisenyi
Cyangugu
Butare
Volcan Karisimbi (4519 m)
Virunga Mts.
MUSANZE
BURERA
GICUMBI
RUBAVU
NYABIHU
GAKENKE
RULINDO
NYAGATARE
GATSIBO
KAYONZA
RWAMAGANA
KIREHE
NGOMA
BUGESERA
GASABO
NYARUGENGE
KICUKIRO
RUTSIRO
NGORORERO
KARONGI
MUHANGA
KAMONYI
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29°00'E
29°30'E
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30°30'E
31°00'E
1°00'S
1°30'S
2°00'S
2°30'S
RWANDA
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