

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

March 16, 2013

Report No.: AB7269

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Operation Name	QUALITY OF DECENTRALIZED SERVICE DELIVERY SUPPORT DEVELOPMENT POLICY OPERATION
Region	AFRICA
Country	Rwanda
Sector	Central government administration (50%), subnational government administration (50%)
Operation ID	P145114
Lending Instrument	Development Policy Lending
Borrower(s)	GOVERNMENT OF RWANDA
Implementing Agency	MINISTRY OF FINANCE AND ECONOMIC PLANNING
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Date PID Prepared	March 16, 2013
Estimated Date of Appraisal	April 2, 2013
Estimated Date of Board Approval	May 14, 2013
Corporate Review Decision	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

I. Key development issues and rationale for Bank involvement

Rwanda has restored peace and national security, and achieved remarkable development successes over the last 18 years since the devastating genocide of 1994. The country has achieved high growth, rapid poverty reduction and, since 2005, reduced inequality. Between 2001 and 2011, real GDP growth averaged 8.2% per annum, and total household consumption expenditures per adult equivalent recorded an increase of 28%. Between 2001 and 2011, the poverty rate dropped by fourteen percentage points (from 59% in 2001 to 45% in 2011).

While Rwanda has made great strides toward addressing its development challenges by significantly reducing poverty (with a notable acceleration over the last five years), Rwanda remains among the world's poorest countries: 45% of the population live below the poverty line and 24% are extremely poor. The provision of social services and public goods is steadily increasing, consistent with the Millennium Development Goal (MDG) targets, with notable improvements in the delivery of health and education services. However, child malnutrition continues to affect a significant number of Rwandans: 44% of children under the age of 5 are stunted. Households that rely on farm wage labor continue to be among the poorest and have

largely missed out on the benefits arising from the poverty reduction trend over the last 10 years. In addition, climate-related risks exacerbate the problems faced by the extreme poor who rely primarily on rain-fed agriculture for their subsistence.

The international community has provided strong support to Rwanda's progress in growth and poverty reduction. For example, over the last decade, aid has supported major reforms in economic policy making. Development partners also supported important sector programs, which have led to remarkable achievements in agricultural productivity and health outcomes – areas where many other low income countries are facing major challenges.

Over the medium term, Rwanda has set itself four overarching development goals focused on: (i) economic transformation; (ii) rural development; (iii) enhanced productivity and youth employment; and, (iv) accountable governance and quality service delivery. Decentralization has been a key aspect of Rwanda's strategy to achieve its development goals. Increasing responsibility has been transferred to sub-national governments both for the delivery of basic services and the promotion of local economic development. Looking ahead to the next decade, one of Rwanda's key priorities is to design and implement reforms to further improve the quality of service delivery at the local government level. This will require both greater administrative capacity – building skills and systems – and strengthened accountability for performance.

Since 2000, the Government has implemented decentralization in a phased approach. The first phase (2001-05) focused on creating new administrative structures and introducing elections for new sub-national government levels. This was followed by the second phase (2006-10), which focused on strengthening the capacity of district and sub-district (“sector”) governments to deliver basic services to the population – e.g. health, education, social protection, civil and land registration, etc. Districts were reduced in number, from 107 to 30, while their staffing levels were increased. Capacity building efforts were focused on direct policy implementation and service delivery at the level of the 416 sub-district sector governments, and on planning and implementation support at the district level. District mayors took on specific commitments in terms of improved service delivery, reflected in performance contracts signed with and monitored by the national government.

Rwanda is now entering the third phase of its decentralization policy, further emphasizing the improvement of citizen participation at the local government level, both in policy formulation and implementation. In addition, the Government is working towards further enhancing the ability of sub-national governments to deliver basic services and promote local economic development. This involves efforts to increase both revenue raising powers and the overall administrative capacity of local governments. A clear indication of the progress on decentralization is the rise in financial transfers from the central to local governments. The share of domestic revenues of the central government transferred to districts has increased significantly, from 1.4% in 2002 to 33.3% in 2011/12. Similarly, by 2010 the number of sub-national government staff was almost on a par with that central government staff, with 8,549 employees at the local level compared to 10, 284 employees at the central level.

Despite Government efforts to improve the quality of service delivery at the local government level, many challenges remain. For example, the overall citizen satisfaction rate with service delivery stood at 66% according to the 2010 governance scorecard. Some of the main challenges going forward are: (i) adopting a coherent policy and legal framework to guide decentralization efforts; (ii) further improving administrative capacity and management systems at the local

government level; (iii) increasing local government flexibility for raising and allocating resources to meet specific district needs; and, (iv) further enhancing mechanisms for citizen participation and public sector accountability, including through greater access to information. In this regard, the government recognizes that increasing civil society's voice and engagement in policy formulation and service delivery remains an important mean to improve service delivery in the medium term.

The proposed operation "QUALITY OF DECENTRALIZED SERVICE DELIVERY SUPPORT DEVELOPMENT POLICY OPERATION" supports policy reforms by the Government of Rwanda to address these challenges, as articulated in its own strategies. These include the Vision 2020 and Rwanda's second Economic Development and Poverty Reduction Strategy (EDPRS II) covering 2013-18, which is currently being finalized.

II. Proposed Objective(s)

The program development objective (PDO) is to assist the Government of Rwanda in improving the quality of service delivery at the local government level.

The main policy areas supported by this proposed operations are:

1. Strengthened policy and legal framework for decentralization;
2. Capacity development for quality service delivery at the local level;
3. Enhanced local government fiscal autonomy; and
4. Improving government transparency and accountability to citizens.

By supporting efforts to improve service delivery, government accountability and citizen participation in policy formulation and implementation, the proposed operation contributes to the two main pillars of the Country Assistance Strategy (CAS) 2008–2012, namely to promote economic transformation and growth, and reducing social vulnerability. By supporting public sector capacity building it also contributes to the cross cutting capacity filter in the CAS. The proposed project is also likely to be strongly consistent with the new CAS which will be finalized in the first half of FY14. Indeed, the CAS will be aligned with the EDPRS II, which has an overarching priority theme the strengthening of Accountable Governance including citizen participation and improving the quality of service delivery. Moreover, the EDPRSII will put an increased focus on policy design and implementation at the district level, including through District Development Plans and District budgets.

This proposed operation is fully aligned with the government's medium term strategies, thereby ensuring its ownership. The operation draws its policy actions and results framework from the country performance assessment framework (CPAF) and other strategy papers (including the Sector Strategic Plans for decentralization and PFM), and therefore supports the further development and use of Rwanda's own systems.

III. Preliminary Description

Policy Area 1: Strengthened policy and legal framework for decentralization

Despite the progress achieved in the first and second phases of decentralization, the division of roles and responsibilities between local governments and line ministries/departments as well as among local governments requires further clarification. Therefore, the objective of this policy area is to support the government of Rwanda in formulating and implementing a coherent policy and legal framework that will contribute to service delivery at the local government level.

The proposed prior action is:

- The government approved a new decentralization policy to clarify roles and responsibilities and enhance civil society participation in government and strengthen local government systems and capacities. (**Fully achieved:** Cabinet approval in Jan 2013).

Policy Area 2: Capacity development for quality service delivery at the local level

Limited capacity at both central and local levels is a key constraint to improvements in the quality of service delivery. As about one third of central government resources are now transferred to local governments, capacity development at the sub-national level is increasingly important. Therefore, the objective of this policy area is to support the government of Rwanda in improving capacity at the local government level. In particular, given that the evidence from the decentralization process over the last decade has shown capacity building interventions to be too supply driven and uncoordinated, the aim of this policy area is to enhance bottom-up district-led capacity building plans that look holistically at organizational and individual capacity strengthening needs.

The proposed prior action is:

- Approval of capacity building plans for at least 90% of Districts (**Fully achieved:** 28 out of 30 districts approved capacity building plans).

Policy Area 3: Enhanced local government fiscal autonomy

The Government recognizes that, as sub-national administrative capacity and associated accountability processes are strengthened, local government responsibilities must be matched with increased fiscal autonomy. There are two primary drivers of this autonomy: increased flexibility – within legally prescribed limits – for local revenue raising; and, increased use of discretionary grants from central government. While one third of central government revenues are transferred to sub-national governments, the share of discretionary block grants in total transfers is only about 20%. Further, the share of local revenues in local government budgets is very low, ranging from 5 to 20%: districts remain heavily reliant on central government transfers and until recently the legal framework for local revenues was highly restrictive. Increased sub-national fiscal autonomy – coupled with strengthened capacity and accountability – will support improvements in service delivery quality through two channels. First, it will allow local services to be more responsive to local needs, ensuring more efficient and effective use of public resources. Second, it will lay the foundations over the longer-term for the development of a stronger accountability relationship between tax payers and local governments.

To this end, the objective of this policy area is to support the government of Rwanda to enhance local government fiscal autonomy. This will include improving the legal framework in order to

enhance local government revenues, while making the structure of local taxes and fees less regressive. The Government passed a law in December 2011 establishing the sources of revenue and property of decentralized entities and governing their management. The law aims to: (i) help streamline local revenue administration, removing nuisance revenues; (ii) increase district and town revenue collections, and; (iii) make the subnational revenue system more progressive. An accompanying Ministerial and Presidential Order has established the list of fees and other charges levied by decentralized entities and determined their thresholds.

Proposed policy action is:

- Gazetting the Presidential Order for fees and other charges levied by decentralized entities (**Fully achieved:** Gazetted in July 2012)

Policy Area 4: Improving government transparency and accountability to citizens

Improving government transparency is critical for citizen participation and more accountable governance – one of the key themes in the ongoing third phase of decentralization. As more resources are allocated to local governments, it becomes more important for these to have stronger institutions of accountability. Therefore, the objective of this policy area is to support the government of Rwanda to establish a legal framework in support of greater transparency in general, and to strengthen an accountability mechanism on financial resources in particular.

Proposed policy actions are:

- Establishment of audit committees in 30% of government ministries (**Not fully achieved:** 3 ministries established audit committees by January 2013; plan to appoint audit committees in 5 additional ministries by March 2013).
- Gazetting the Access to Information Law and approval by Government of electronic document tracking system for all government institutions (**Fully achieved:** gazetted in March 2013).

IV. Poverty and Social Impacts and Environment Aspects

1. Poverty and Social Impacts

Overall, the proposed operation is expected to contribute to poverty reduction and improved social conditions in the country by supporting improvements in service delivery at the local government level, which is expected to increase access to quality basic services among the poor.

2. Environmental Aspects

The supported policy actions are not expected to generate significantly negative environmental impacts.

V. Tentative financing

Source:
BORROWER/RECIPIENT

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International Development Association (IDA)	50
Borrower/Recipient	
IBRD	
Others (specify)	
Total	50

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