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FY2014-2018

COUNTRY PARTNERSHIP STRATEGY FOR RWANDA

WORLD BANK GROUP

THE WORLD BANK IBRD · IDA | IFC International Finance Corporation | MIGA Multilateral Investment Guarantee Agency

Country Partnership Strategy for Rwanda FY2014-2018

Accelerating Economic Growth

June 2014

WORLD BANK GROUP

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Abbreviations and Acronyms

CURRENCY EQUIVALENTS
(Exchange Rate Effective April 1, 2014)
Currency Unit = Rwanda Francs (Rwf)
US$1.00 = 677.660 Rwf

FISCAL YEAR
July 1-June 30

AAA	Analytical Advisory Activities
AfDB	African Development Bank
BNR	National Bank of Rwanda
CAS	Country Assistance Strategy
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CPS	Country Partnership Strategy
DFID	United Kingdom Department for International Development
DHS	Demographic and Health Survey
DIME	Development Impact Evaluation Initiative
DOL	Division of Labor
DPO	Development Policy Operation
DSA	Debt Sustainability Assessment
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy
EICV	Integrated Household Living Condition Survey
FARG	Genocide Survivors Support Fund
FDLR	Forces Démocratiques de Libération du Rwanda
FIRST	Financial Sector Reform and Strengthening Initiative
FONERWA	National Climate and Environment Fund
FSC	Financial Stability Committee
FSDP	Financial Sector Development Plan
GAFSP	Global Agriculture and Food Security Program
GDP	Growth Domestic Product
GEF	Global Environment Facility
GNI	Gross National Income
GPSA	Global Partnership for Social Accountability
ICT	Information and Communications Technology
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
INT	Institutional Integrity
kWh	Kilowatt hour
LAFREC	Landscape Approach to Forest Restoration and Conservation
LWH	Land Husbandry, Water Harvesting and Hillside Irrigation
MDG	Millennium Development Goal
MFI	Micro Finance Institutions
MIGA	Multilateral Investment Guarantee Agency
MINAGRI	Ministry of Agriculture and Animal Resources
MINECOFIN	Ministry of Finance and Economic Planning
MINICOM	Ministry of Commerce and Industry
MININFRA	Ministry of Infrastructure
MOU	Memorandum of understanding
MSME	Micro, Small and Medium Enterprise
MTEF	Medium Term Expenditure Framework
MW	Megawatt
NCD	Non-Communicable Diseases
NISR	National Institute of Statistics of Rwanda
NPL	Non-Performing Loan
NURC	National Unity and Reconciliation Commission
ODA	Official Development Assistance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PforR	Program for Results
PPP	Public Private Partnership
PRGFs	Poverty Reduction and Growth Facilities
PSCF	Peace, Security and Cooperation Framework
PSI	Policy Support Instrument
RDB	Rwanda Development Board
RHA	Rwanda Housing Authority
RRA	Rwanda Revenue Authority
RURA	Rwanda Utility Regulatory Authority
RWF	Rwanda Francs
SME	Small and Medium-size Enterprise
SNEL	Société Nationale d'Electricité
SPP	Standard Power Purchasing
TVET	Technical and Vocational Education and Training
UNODC	United Nations Office on Drugs and Crime
VUP	Vision 2020 Umurenge Program
WBG	World Bank Group
WDI	World Development Indicators

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Rwanda has made extraordinary progress in recent years. It is one of the few countries anywhere in the world that has managed a "triple crown" of fast economic growth, robust reductions in poverty, and a narrowing of inequality. This progress, so notable in this year marking the twentieth anniversary of the Genocide against Tutsi, has helped illustrate the possibilities and opportunities for any country seeking a new path of peace and prosperity. The fact that the poverty rate fell from 59 percent to 45 percent in the last decade and that Rwanda is now ranked as the second easiest place to do business in all of Africa, speaks volumes. Yet we know there is much further to travel on this journey.

What will it take to end extreme poverty and promote shared prosperity by 2030? And how can the World Bank Group—the IFC, MIGA, and the International Development Association—help in that challenge over the next five years?

These questions shape the World Bank Group Country Partnership Strategy which draws heavily on close consultations with the Government of Rwanda, the private sector, civil society organizations, and international development partners. At the heart of the strategy lies the premise that the growth and other developmental dividends of the post conflict period have been skillfully harnessed, and that the transformation of the economy is underway. Rwanda is seeking to make a shift in its growth trajectory that has the private sector at its vanguard.

Growth alone will not be sufficient. Progress on inequality reduction can also play a critical part in helping meet Rwanda's goals of reducing poverty and improving people's social conditions. Well-targeted investments can help raise the productivity and incomes of the lowest groups. These can include cash transfers, focusing on agricultural productivity and rural infrastructure to improve the incomes of the poorest and transform livelihoods in rural areas in a sustainable way.

Managing the wide-ranging consequences of rapid growth will also require flexibility, strong feedback loops, and capacity to respond to unforeseen developments. Building capacity at the district-level will be an important ingredient in these efforts.

To help Rwanda respond to these challenges, the World Bank Group will mobilize financing and knowledge to support the ambitious national agenda of promoting private sector-led growth that is also inclusive and accountable. Working together, Rwanda will be on its way to creating jobs for an increasingly urbanized population and lifting many millions more out of poverty.

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Exective Summary

1 **Rwanda's progress has been rapid in recent years, building on a two-decade-long turnaround which has been remarkable in both its pace and breadth.** A highly strategic approach to development has galvanized domestic and external resources around nationally-defined goals and delivered high rates of economic growth, a significant decline in poverty, a reduction in inequality and progress in nearly all developmental outcomes. Rwanda has done extremely well to reap the post-conflict dividend, and now it is time to focus on challenging second-generation economic reforms of export diversification, structural transformation, regional integration and financial sector deepening. Alongside this economic transformation, the Government will need to boost the incomes of the poorest to maintain the gains in poverty reduction and oversee the social and institutional transitions that come with rapid economic change. This strategy sets out how the combined World Bank Group resources can best help Rwanda achieve its poverty reduction and shared prosperity goals.

Poverty reduction and shared prosperity

2 **Efforts in reducing both poverty and inequality—from high starting points—have been impressive.** The poverty headcount dropped, with the share of population living below the national poverty line falling from 59 percent in the early 2000s to 45 percent in 2011. In Kigali, home to 10 percent of Rwanda's population, the incidence of poverty decreased from 22.7 percent in 2001 to 16.8 percent in 2011. Starting from a much higher base, the rest of the country experienced a 15 percentage point drop in poverty. The poverty gap ratio, which takes into account the distance separating the poor from the poverty line, dropped by almost 10 percentage points, from 24.4 percent in 2001 to 14.8 percent in 2011. This implies that those who still live below the poverty line are now closer to it than they were in 2001, which bodes well for future poverty reduction. Inequality, as measured by the Gini coefficient, fell from 0.52 to 0.49.

3 Though growth was strong throughout the last decade, it is only in the last five years that there has been an effective translation into poverty reduction. The first half of the decade (2001-2006) was characterized by high growth in Kigali and low, pro-rich growth in the rest of the country, leading to an increase in inequality and modest poverty reduction. The second half of the decade (2006-2011) experienced higher overall growth, mainly concentrated in rural areas, and recorded an exceptionally strong growth rate for the poor, in particular the extremely poor. The net result is a decade of strong growth and poverty reduction during which welfare gains were realized at each point in the distribution and were relatively higher for the poor. The agriculture sector has seen household-level agricultural production more than double between 2001 and 2011, accounting for 35 percent of the national's reduction in poverty.

Government's visions and aspirations

4 The Government's medium term vision and targets are set out in a series of sectoral, locality-specific and overarching strategic development plans. The medium term goals are set out in the second Economic Development and Poverty Reduction Strategy (EDPRS 2), which aims to accelerate private sector-led growth and further reduce poverty, including extreme poverty. It seeks to do so while reducing aid-dependency and increasing self-reliance. The four thematic areas are: (i) *economic transformation*, to achieve high and sustained growth and restructure the economy towards services and industry, (ii) *rural development,* to bring the national poverty rate below 30 percent, (iii) *productivity and youth employment*, to ensure growth and transformation are supported by appropriate skills, and (iv) *accountable governance*, to improve service delivery and increase citizen participation in and satisfaction with delivery of development. These thematic areas are supported by eight foundational issues which are long-term ongoing priorities and seven cross-cutting issues.[1]

5 The Government has set demanding targets across the four thematic areas. These include targets for economic growth, reduction of poverty and extreme poverty, increases in the installed electricity capacity, promotion of exports, shifts towards a more urbanized population, enhancements in access to infrastructure, improvements in the quality of the labor force, creation of jobs and SMEs and improved quality of public services. Though some targets are very ambitious, the direction established by the results framework of the EDPRS 2 accords strongly with Bank Group and IMF assessments of the priority challenges. Taken together, the targets represent a highly ambitious agenda for inclusive growth over the coming years.

6 Projections show that poverty targets, though demanding, are attainable—but only if past patterns of growth in consumption and reduction in inequality are repeated in the future. Growth alone is unlikely to reduce poverty sufficiently, and therefore a balanced approach that emphasizes rapid growth for the lowest two quintiles of the population will be crucial. While the vision for the future emphasizes the need for off-farm employment to be created for an increasingly urbanized population, an anchor in agricultural productivity and rural development will remain important to achieve this balance.

[1] *The foundational issue areas are macroeconomic stability, demographics, food security, basic education, primary health care, rule of law, PFM, and decentralization; cross cutting issue areas are capacity building, environment, gender, regional integration, HIV/AIDS and non-communicable diseases (NCDs), disaster management, and social inclusion.*

7 **Accelerating growth and creating jobs through the intensification and deepening of the private sector lies at the heart of the development challenge and implies significant action at policy and investment levels.** The imperative for job creation is extremely strong; the total non-farm labor force increased from 442,000 in 2001 to 1.4 million in 2011. About 100,000 formal and informal jobs are currently created per year, which is only half the annual growth needed to maximize benefits from the demographic dividend.

8 **Despite the very strong performance with respect to the investment climate, multiple challenges remain.** The private sector is relatively small and weak, and geography, low productivity and high energy costs make Rwanda expensive for enterprises dependent on sea ports or energy-intensive processes. The domestic market is relatively limited and expanding trade has been hampered by cross-border tensions and inefficiencies. Enterprise surveys—and feedback from the private sector during the consultations for this CPS—confirm key challenges, highlighting access to finance and availability of land as the most severe constraints, followed by infrastructure (electricity and transport) and labor skills. Other issues relate to the arbitrary, uncertain and unpredictable way in which certain areas of regulation are enforced.

Strategic options

9 **The resources of the WBG are modest relative to the financing needs of the EDPRS.** Selectivity in using IDA and close collaboration with IFC and MIGA are critical in delivering the maximum impact with these limited funds. The CPS identifies a set of principles used in defining future areas of engagement in Rwanda, comprising: (i) alignment with the twin goals of growth and poverty reduction; (ii) comparative advantage relative to other donors; (iii) opportunity to maximise internal WBG synergies and present a coherent 'one Bank Group' approach; (iv) client demand; (v) risk especially with respect to capacity constraints both on the side of Government and the WBG. Based on this approach, the CPS identifies selected priorities for WBG support within three main themes.

10 **The first theme has as its objective: *'accelerating economic growth that is private-sector driven and job-creating'.*** This includes IDA investments and analytical work in energy (to tackle high costs and low reliability which are major barriers to enterprise development) and urban development (to enable the Government's industrial strategy and also help reduce poverty which is lower in urban areas). It envisages active investment by IFC in the financial sector, supported by analytical work by both IFC and the World Bank. IFC also foresees direct investments in the private sector by IFC, alongside potential MIGA guarantees. Both IFC and the WB will engage in policy and analytical work in private sector development, leveraging of public-private partnerships (PPPs) and investment climate work.

11 **The second theme is: *'improving the productivity and incomes of the poor through rural development and social protection'.*** With 80 percent of the labor force dependent on agriculture, this sector is key to increasing incomes. This needs investments in agricultural productivity (partly because of limited scope for expanding cultivable land area), nutrition (to combat child malnutrition in

rural areas), rural roads and IFC investments in horticulture, agribusiness and microfinance. In social protection, IDA will support an expansion of Rwanda's social protection system, notably the flagship Vision Umurenge Program. Support will also help strengthen core service delivery and the effective management and harmonization of Rwanda's social protection system. There will be additional investments for specific vulnerable groups (for example, demobilized ex-combatants or victims of gender-based violence).

12 **The third theme comprises: *'Supporting accountable governance through public-financial management and decentralization'.*** This supports the Government's objective of decentralising decision-making and making Government more open and participatory in its processes. This will include likely IDA investment in PFM, fiscal decentralization, statistical systems and open data. A team is currently considering the viability of a Program for Results operation that would drive results in areas of public financial management, fiscal decentralization, statistical capacity and open data.

13 **Working across these themes is the need to invest in and promote greater regional integration.** Rwanda's size and location will mean that stronger integration with regional economies will be vital for further growth. There are two elements to this. The first relates to the need to expand markets for potential investors, to the need to turn "land-locked" into "land-linked" in the interests of competitiveness. Countries of the region represent potential markets for exports, managers of transport corridors and facilitators of cross-border trade. As such regional integration is as foundational to the future growth path as having a sound domestic investment climate. Secondly, regional integration and cross-border investments will hopefully bring with it greater political stability and security in the region.

14 **Rwanda has expressed its interest in a number of cross-border investments in the Great Lakes region to make use of regional IDA resources.** These include the financing of hydropower generation on the borders with DRC and Burundi and improved transport connections. IFC and MIGA stand ready to engage in such projects where a private sector role exists (e.g., the Rusizi 3 Power Generation project). Some of IFC's Rwanda-based clients already serve both the domestic market and those of neighboring countries, particularly eastern DRC. Looking East, Rwanda has expressed interest in a number of projects that could provide faster access to the sea or more reliable access to affordable energy.

Delivering for results

15 **IDA allocations for the CPS period remain indicative at this stage.** The working assumption is that allocations will be similar to those in the past, perhaps a little higher in recognition of the improving CPIA score and the switch from a mix of grants and credits to credits only. As such, IDA may commit approximately US$200-250 million a year during IDA17, likely spread across three investment operations, two PforR operations and one series of three DPOs. In addition, regional IDA should be leveraged for some priority investments.

16 **Budget support has been a highly effective instrument for the delivery of predictable, flexible financing to a reform-minded government who spent the resources well.** But fluctuations in aid flows have to be managed carefully, and this CPS anticipates

different combinations of instruments that offer some flexibility in the financing that is delivered. This CPS proposes less emphasis on development policy lending. The Government has requested more of the IDA17 allocation in the form of program for results (PforR) operations. While the previous CAS disbursed 66 percent in the form of budget support, this CPS is likely to disburse the same proportion as a mix of PforR and Development Policy Operations.

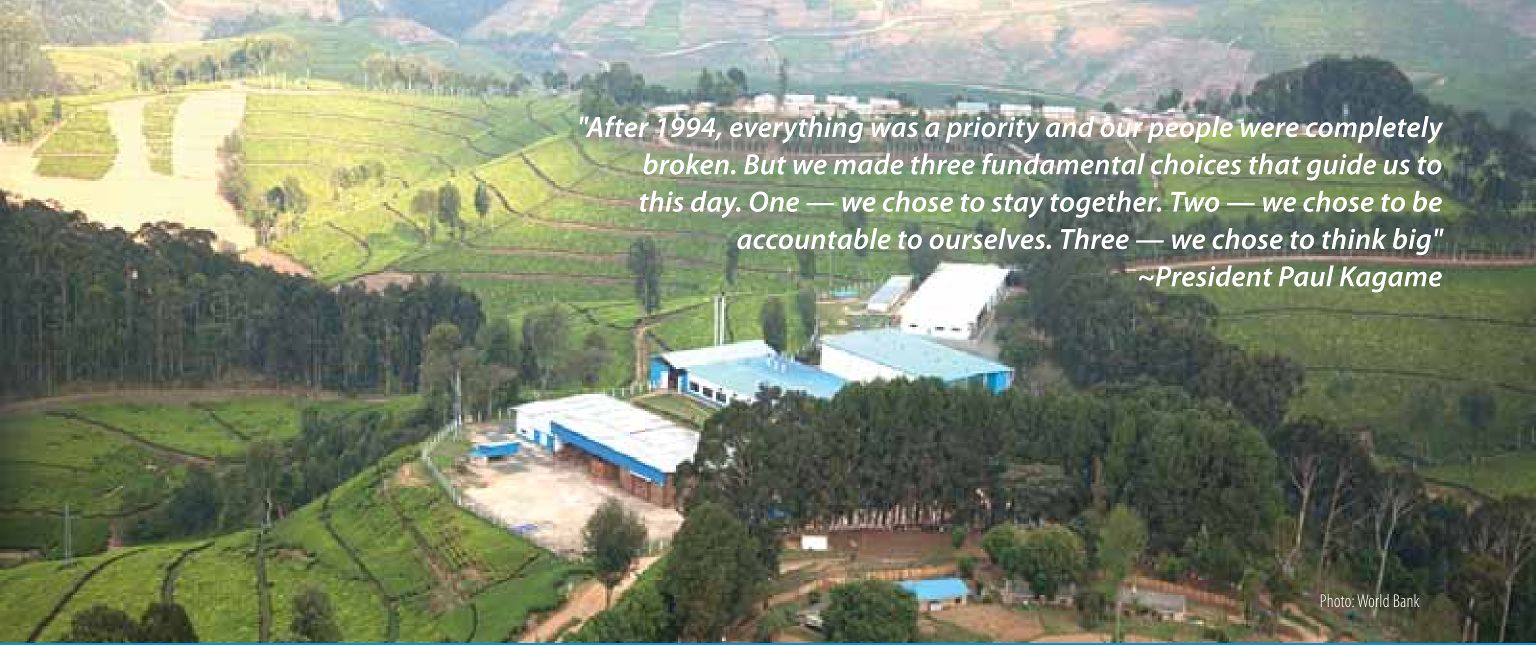
17 **IFC has ten deals outstanding in Rwanda with committed volume of US$38 million.** They envisage that their investments will rise to US$120m by the end of the strategy period, the bulk of which would be in the financial sector. IFC expects to engage in the financial sector through a local currency credit line, a local currency bond issue and supporting the establishment of a microfinance bank. In the infrastructure sector they have identified likely support to the Rusizi III power generation project, Lake Kivu methane extraction projects and Kigali Bulk Water Supply. With respect to manufacturing, IFC is considering investment for a mix-use commercial building in Kigali. IFC's Advisory Services portfolio has been highly valued and regularly received acknowledgement for innovation and impact through the IFC awards schemes. The Rwanda Entrepreneurship Development Program, the Rwanda Investment Climate Program and the Efficient Security Markets Initiative (ESMID) have been particularly useful.

18 **MIGA currently has two active projects (KivuWatt and Bakhresa Grain Milling) in Rwanda (total gross exposure of $110 million.** MIGA is open for business across all of its Political Risk Insurance product lines, including Transfer Restriction, Expropriation, Breach of Contract and War and Civil Disturbance, as well as the Non-Honoring of Sovereign Obligations.

Managing risks

19 **Risks to growth and poverty reduction arise from variable climatic conditions, and the private sector response to government reforms.** Stepping up measures to make agriculture more climate-resilient, for instance through the construction of irrigation facilities and terracing which the Bank is supporting, will be critical. Support for the private sector is targeted at taking advantage of a better business environment. External risks relate to the pace of regional integration and the potential for regional conflict, more-rapid-than expected tapering of donor inflows, and a prolonged slump in the global economy. The CPS seeks to mitigate the risks on the regional integration side through regional projects, the exposure to flu ctuations in aid flows through the choice of instruments and the aid dependence through measures to improve domestic revenues.

MAP OF RWANDA



> *"After 1994, everything was a priority and our people were completely broken. But we made three fundamental choices that guide us to this day. One — we chose to stay together. Two — we chose to be accountable to ourselves. Three — we chose to think big"*
> *~President Paul Kagame*

Photo: World Bank

I. Introduction

1 **Rwanda's progress has been rapid in recent years, building on a two-decade-long turnaround, which has been remarkable in both its pace and breadth.** This Country Partnership Strategy (CPS) is presented to the Board at a time when Rwanda commemorates the twentieth anniversary of the Genocide against Tutsi. In Rwanda, it is a period of intense reflection on the past successes and mistakes and, looking forward, of discussion and debate regarding the future.

2 **A highly strategic approach to development,** which has galvanized domestic and external resources around nationally defined medium- and long-term goals, has delivered economic growth, a significant decline in poverty, and a reduction in inequality (refer to Box 1). Non-material measures of wellbeing have also improved, with impressive progress across a sweep of Millennium Development Goals (MDGs). Of particular note is the progress in advancing gender equality, including in complex areas of political empowerment—Rwanda now has the most female representation in parliament in the world.

3 **While Rwanda has done extremely well to reap the post-conflict dividend, these gains are largely exhausted.** It is time to focus on challenging second-generation reforms of export diversification, structural transformation, regional integration, and financial sector deepening. Economic growth has been strong, but the Government recognizes that structural transformation is needed to underpin the transition to middle-income status. A shift from the current growth path, which is led by public investment dependent on high levels of donor financing, to a growth path that has the private sector at the vanguard of growth, will be one of the most fundamental elements of the transformation.

BOX 1: Delivering development: how has Rwanda done it?

Rwanda's performance since the Genocide twenty years ago has been remarkable in terms of social and economic outcomes. How have they done this and can others learn from the experience? Some important factors include the following:

- **An imperative to re-build from the worst possible situation, innovating where necessary.** At one level, there was no alternative *but* to deliver. The country had been devastated in every aspect and the new Government quickly realized the importance of reviving and restoring confidence in the economy and the fabric of society. During this period, much was achieved through a combination of innovative institutional delivery and participatory community-based approaches that rebuilt the collective spirit of Rwandans.
- **A clear vision, motivated by challenging objectives, supported with resources which do not leak.** A series of strategies and plans developed over the last twenty years have consistently targeted poverty reduction and social and human development outcomes. The attack on corruption and improvements in public financial management (for example, the introduction of a meaningful MTEF) meant that public resources were spent on achieving the vision. Clarity on the end goals has been an important unifying force across Government at different levels and across executive and administrative branches. The development of strong statistical systems has allowed progress to be monitored, adjustments to be made and accountability to be enforced.
- **Contracts for results that cascade through the system and high standards of government effectiveness.** The drive for results has very strong support and leadership from the highest levels in Government. The President's Office and the Prime Minister's Office have driven the culture of performance. They track progress made towards EDPRS goals to hold government staff accountable for achieving results through the agreement of performance contracts (the *imihigo*), which specifies the results to be delivered over the coming year and are now formalized around strategic indicators and targets linked to the EDPRS and MDGs. Rwanda uses incentives such as national pride in combination with consequences for insufficient performance (loss of job for example) to motivate officials. The Annual National Leadership Retreat provides official reporting in front of peers and the President himself on performance against EDPRS goals and retreat-specific actions from the previous year[2]. This has proven very effective in achieving results. Through the National Dialogue Council "*Umushyikirano*" coordinated by the Prime Minister and Chaired by the President, citizens debate issues relating to the state of the nation, the state of local government and national unity.
- **A desire for learning and a cycle of experimenting, measuring, learning, adapting that generates powerfully productive home-grown solutions:** Beginning with simple budget monitoring and expanding into a more sophisticated monitoring system, processes have been developed over time that inform the accountability relationships between the top level of government, line ministries and districts. These are formalized with established monthly, quarterly, and annual reports between groups to measure progress towards the EDPRS targets. As part of efforts to reconstruct Rwanda and nurture a shared national identity, the Government of Rwanda drew on aspects of Rwandan culture and traditional practices to enrich and adapt its development programs to the country's needs and context. The result is a set of home-grown, culturally-customised solutions (e.g. *Gacaca, Umushyikirano,* etc) which have translated into sustainable mechanisms for addressing Rwanda's social and economic development challenges.

[2] *These retreat-specific actions are generally associated with problem areas in achieving the EDPRS or MDG goals and identification of strategies to overcome them.*

4 **Intensifying regional integration, looking both east and west, will ease some of the bottlenecks that the economy faces.** Looking to the Great Lakes region, the recently signed Peace, Security and Cooperation Framework (PSCF) provides opportunities for shared investments that could generate more reliable and affordable power, facilitate trade, and expand markets for Rwanda's exports. Looking to the East African Community (EAC), there are opportunities for infrastructure investments that make transport corridors more functional and power imports more affordable, so reducing costs for businesses investing in Rwanda and improving competitiveness.

5 **A medium-sized client of the World Bank Group (WBG), Rwanda has regularly been presented as a success story for the rewards of efficient donor harmonization and budget support.** Over the last Country Assistance Strategy (CAS) period, 66 percent of the World Bank commitments were in the form of budget support, reflecting the balance of aid modalities adopted also by other multilateral and bilateral donors. By all accounts, evidence suggests this is a country where development assistance has had a positive, sustainable impact.

6 **Recent delays in delivering financing through budget support have exposed the vulnerabilities associated with delivering aid through these mechanisms.** The choice and balance of financing instruments is under re-consideration by many donors—in particular a move away from "general" budget support—and donor coordination mechanisms are being re-drawn as a result. Both donors and the Government remain committed to finding a mechanism that provides space for efficient and effective dialogue on issues of developmental importance. Reducing dependence on donor assistance and expansion of the currently narrow, undiversified export base will be important to minimize the vulnerability of growth to fluctuations in foreign exchange revenues.

7 **The Government's national strategies are highly ambitious.** It is seeking an exit from low-income status by 2020, a reduction of the nationally estimated extreme poverty rate to 9 percent by 2017, and GDP growth rates of 10.2 percent per annum (11.5 percent by 2020). The sectoral targets that cascade from these goals are no less challenging. The collection of goals and targets defined by Government across the broad range of national and sectoral strategy provides a strong sense of alignment with WBG corporate goals for extreme poverty reduction and shared prosperity and represent a strong framework to which the WBG can align.

8 **Acknowledging the progress to date, the prospects and visions for the future,** and the emerging development challenges, this CPS highlights the role for the WBG in supporting the achievement of national objectives and WBG corporate goals. The CPS has been prepared jointly by a team from IDA, IFC and MIGA and represents a shared view of how resources across the whole WBG can best be leveraged. It draws on considerable background analytical work, which is partially summarized in Annex 3. Mirroring the timeframes of the Government's own strategies, this CPS is presented as a five-year strategy that has room for mid-term adjustment to ensure continued relevance. It reflects input from in-country consultations with Government partners (including representation of local government), the private sector, development partners, civil society, and academia.

Photo: World Bank

II. Rwanda's progress and prospects

A. Economic developments and challenges

9 **Strong policies have helped Rwanda achieve outstanding economic progress from a low starting point.** Prudent fiscal and monetary policies geared towards maintaining macroeconomic stability, coupled with an emphasis on building institutional capacity, on promoting good governance, and on creating a business-friendly environment, contributed to low inflation and average annual economic growth in excess of 8 percent over the last decade. From a regional perspective, Rwanda's macroeconomic performance has generally outperformed its peers and earned the country a spot on the list of the 10 fastest-growing economies in the world. Public debt remained modest and reserve buffers kept the economy resilient to macroeconomic shocks.

10 **The World Bank and IMF share the positive assessment that Rwanda's macroeconomic policy framework is adequate and macroeconomic management is effective.** Quick and appropriate fiscal and monetary responses to the global financial crisis in 2009 and to the short-term aid shortfall in mid-2012/early 2013[3] illustrate the capacity for effective management of macro shocks. Rwanda has been under IMF programs since early 2000s including two Poverty Reduction and Growth Facilities (PRGFs) in 2000s. The IMF successfully concluded the Policy Support Instrument (PSI) at the end of 2013 and embarked on a new PSI program for another 3 years. The new PSI represents a continuation of the authorities' prudent approach to macroeconomic policy. The fiscal framework aims to mobilize domestic revenues and adjust spending to available resources, while protecting priority spending and minimizing domestic financing to leave ample space for private sector 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.

[3] *The aid shortfall created a fiscal gap amounting US$230 million (equivalent to 3 percent of GDP) in the first half of FY2012/13, although more than half US$140 million was disbursed in the second half.*

Real sector developments

11 **Rapid growth over the past decade has seen GNI per capita rise dramatically from US$185 to US$620.**[4] The economy is dominated by the services sector, which accounted for 45 percent in 2013, followed by the agriculture sector (33 percent) and the industry sector (15 percent)[5]. The volume of Official Development Assistance (ODA) increased from US$360 million in 2002 to US$0.9 billion in 2012 (13 percent of GNI) and these substantial inflows of foreign aid have stimulated the services sector through Government expenditures. The services sector, most notably trade, transportation and communications, contributed to more than half of the increase in GDP between 2008 and 2013.

12 **The aid shortfall and resulting delays in budget expenditures in the second half of 2012 resulted in lower credit growth to the private sector and contributed to a deceleration in growth during 2013.** Real growth decelerated from 7.3 percent in 2012 to 4.6 percent in 2013, while growth in the services sector slowed from 10.8 percent in 2012 to 3.6 percent in 2013.

External sector

13 **Rwanda's balance of payments is characterized by negative current account and positive overall balance (at 1.5 percent of GDP), as large trade deficits in the current account are offset by grant aid inflows.** This positive overall balance of payments has enabled Rwanda to increase the level of foreign reserves from US$142 million in 2002 to US$1.1 billion in 2013. As aid flows faltered in the second half of 2012, the current account deficit increased from 7.2 percent in 2011 to 11.4 percent of GDP before settling again at around 7 percent in 2013.

14 **Exports have expanded by 40 percent since 2012, mostly driven by an increase in major export products such as coffee and minerals.** This increase in exports combined with a slow growth in imports has resulted in an export to import ratio of 54 percent. The resumption of aid in the first half of 2013 (including budget support operations totaling US$140 million) and the issuance of Eurobonds amounting to US$400 million in April 2013 have also contributed to the recovery of the external position.

15 **In general, the last decade saw a steady strengthening in the export sector;** exports of goods increased by 24 percent on an annual basis and reliance on traditional exports (coffee, tea and minerals) fell from over 90 percent to 70 percent. Tourism is now the largest export item in Rwanda. Though still just below 5 percent of total exports, the share of manufactured products in the export basket tripled in dollar value between 2007 and 2011 with a particular increase in light manufactured products (milled products, hides and skins, and beverages). Re-exports are also beginning to play a more prominent role in Rwanda's export basket, including petroleum products and vehicles.

Inflation, monetary, exchange rate, and financial sector policies

16 **Rwanda's monetary and exchange rate policy framework is consistent with macroeconomic stability and growth targets.** The National Bank of Rwanda (BNR) has strengthened the liquidity management framework to enhance the effectiveness of monetary policy and improve the monetary policy transmission mechanism. The BNR recently

[4] Between 2002 and 2012, current US$ based on Atlas Method.
[5] The remaining share (6 percent) is due to adjustment items.

introduced a more flexible monetary targeting framework by introducing a reserve money band of ±2 percent around the central reserve money target. In the wake of the aid shortfall, the BNR kept its benchmark policy rate unchanged at 7.5 percent between May 2012 and mid-June 2013 to anchor inflation expectations from substantial Government borrowing on the domestic market. Inflation rates have been stable and reasonable in recent years. In 2013 inflation fell to 4.2 percent from 6.3 percent in 2012.

17 **Exchange rate policies have permitted greater exchange rate flexibility since the introduction of an exchange rate corridor framework in March 2010.** The exchange rate regime is classified as de facto crawl-like and de jure floating. The BNR started to use a market-based exchange rate calculated as a weighted average of foreign exchange interbank rates and intervention transactions rate in December 2010. In 2012, the overall foreign exchange risk exposure for banks was set at ±10 percent of their core capital in line with practice in most of East African Community (EAC) countries.

18 **The financial sector remained stable until the first half of 2013, and appears fairly resilient to shocks.** As of June 2013, the capital adequacy ratio (total capital to risk weighted assets) of the banking sector remained stable at 23.1 percent, well above the 15 percent minimum stipulated by the regulations.

Fiscal policies and developments

19 **Fiscal policy is consistent with a macro framework that is focused on maintaining stability while promoting economic growth.** The composition of public expenditure is well-aligned to the national goals of growth acceleration and poverty reduction identified in the second Economic Development and Poverty Reduction Strategy (EDPRS 2). The medium-term fiscal policy framework aims towards fiscal consolidation through increased revenue mobilization and expenditure prioritization, including infrastructure projects. Actual budget expenditures remain above 90 percent of planned expenditures. Information on the budget and its execution is open to the public. The website of the Ministry of Finance and Economic Planning (MINECOFIN) includes information on Budget Execution Report for the FY2012/13 as well as the 2013/14 Approved Budget.[6]

20 **At 29 percent of GDP, Government expenditures represent a large share in the economy and are underpinned by development assistance.** Tax revenues have increased, from a low base, by more than 2 percent of GDP in the past decade to reach 14 percent in FY2012/13. The introduction of a new Value-Added Tax Law and improvements in taxpayer services such as electronic filling and payments have helped in this regard. Aid accounted for between 40-50 percent of the total revenues over the last decade, and when it fluctuates the Government has taken appropriate measures to protect non-discretionary spending such as wages and social expenditures and maintain a prudent fiscal position.

B. Macroeconomic outlook and debt sustainability

21 **Bank staff estimates that Rwanda's economy will grow at 6 percent in 2014, as the impact of the resumed aid inflows and resulting government expenditures filters through.** The inflation rate is projected to remain moderate, though poor recent harvests will possibly generate some inflationary pressure.

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

22 Rwanda's risk of debt distress rating has improved from moderate to low in the latest Debt Sustainability Analysis (DSA) in response to a broadened export base. The total public debt outstanding at the end of 2013 stood at 21.5 percent of GDP and the DSA shows that Rwanda's external debt remains below the indicative thresholds under all scenarios examined. The DSA further acknowledges that the authorities have made progress on enhancing their debt management capacity. A major development was the preparation and presentation by the authorities of their own DSA in October 2012[2].

23 Balance of payments vulnerability is expected to decline in the medium term, but in the near term the current account balance will depend on aid inflows. The current account is expected to remain in deficit over the medium term, but deficits are expected to narrow as some of the large strategic investment projects come to completion and exports continue to grow. While exports are vulnerable to fluctuations in international commodity prices, the Government expects that the implementation of the recently approved National Export Strategy, which provides a framework for increasing exports, will yield early results in terms of the diversification of exports. To finance the current account deficit, foreign direct investment (FDI) is expected to increase from 2.2 percent in 2012 to 4.7 percent of GDP in 2018. International reserves are projected to exceed 4 months of imports after 2015.

24 The IMF's new 3 year PSI is optimistic on fiscal sustainability issues, projecting the state budget to significantly improve in the medium-term. Under these projections, the domestic revenues to GDP ratio will increase from 16 percent in 2012/13 to 19.2 percent in 2017/18, while the grants to GDP ratio will decrease from 7.9 percent to 5.4 percent during the same period. As such, the share of grants in the revenues will decrease from 33 percent in 2012/13 to 22 percent in 2017/18, indicating reduced aid dependency.

C. Poverty reduction and social development

25 A strong focus on homegrown policies and initiatives contributed to a significant improvement in access to services and in human development indicators. Analysis from the Bank's Rwanda Economic Update shows how the considerable inflows of foreign aid have been effectively used in support of socio-economic development. The strong growth was accompanied by substantial improvements in living standards, evidenced by a two-thirds drop in child mortality and the attainment of near-universal primary school enrolment. There has been impressive progress towards meeting the MDGs (Annex 4).

26 Particularly notable have been the efforts in reducing both poverty and inequality from high starting points. The poverty headcount dropped, with the share of population living below the national poverty line falling from 59 percent in the early 2000s to 45 percent in 2011. In Kigali, home to 10 percent of Rwanda's population, the incidence of poverty decreased by six percentage points, from 22.7 percent in 2001 to 16.8 percent in 2011. Starting from a much higher base, the rest of the country experienced a 15 percentage point drop in poverty. The poverty gap ratio, which takes into account the distance separating the poor from the poverty line, dropped by almost 10 percentage points, from 24.4 percent in

TABLE 1: Key macroeconomic indicators

	2010	2011	2012	2013	2014	2015	2016	2017
Real economy (annual percent changed, unless stated otherwise)								
GDP (nominal, local currency)	11.0	17.0	14.0	10.0	12.1	12.7	13.9	14.3
Real GDP	6.3	7.5	7.3	4.6	6.0	6.7	7.5	7.5
CPI (end of period)	0.2	8.3	3.9	3.6	5.0	5.0	5.0	5.0
Imports of goods	8.5	44.5	25.6	-5.9	16.0	3.6	7.4	2.7
Exports of goods	37.2	44.0	27.3	19.0	6.5	8.0	18.2	9.1
Fiscal accounts [1/] (percent of GDP)								
Expenditures	26.9	26.7	29.0	30.1	29.5	28.4	26.6	26.7
Revenues and grants	23.7	25.5	23.9	25.7	26.6	25.9	24.4	24.6
Revenues (incl. Tax and non-tax)	13.2	14.4	16.0	16.6	17.2	18.5	18.8	19.2
Grants	10.5	11.1	7.9	9.1	9.5	7.4	5.6	5.4
General government balance (w grant)	-3.2	-1.2	-5.1	-4.4	-2.9	-2.5	-2.2	-2.1
General government balance (w/o grant)	-13.7	-12.3	-13.0	-13.5	-12.4	-9.9	-7.8	-7.5
PPG (end of period)	27.5	33.5	25.4	29.7	29.1	28.3	28.4	28.2
Balance of payments (percent of GDP)								
Current account balance	-5.4	-7.2	-11.4	-7.2	-12.1	-12.4	-10.0	-9.3
Excluding official transfers	-17.1	-18.8	-19.0	-16.2	-18.8	-17.1	-15.2	-13.9
Imports	19.2	24.5	27.6	24.8	26.9	25.6	25.0	23.1
Exports	5.7	7.3	8.3	9.4	9.4	9.3	10.0	9.8
Foreign direct investment	0.8	1.7	2.2	2.2	na	na	na	na
Gross reserves (in millions US$, eop)	813	1,050	843	1,135	896	1,021	1,126	1,225
In months of next year's imports	4.5	5.1	4.1	4.8	3.7	4.0	4.1	4.2
Short-term external debt (% of reserves)	1.7	1.6	2.5	2.6	n/a	n/a	n/a	n/a
External debt	14.5	17.8	17.0	21.5	22.7	24.3	24.8	23.9

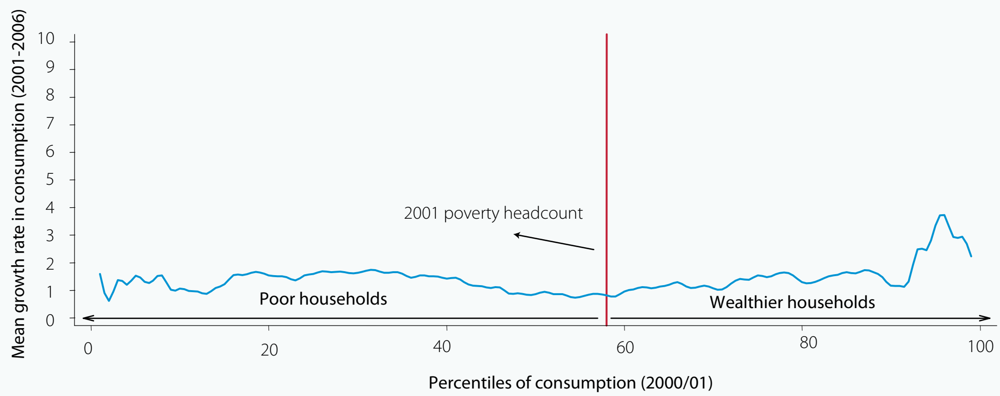
Source: Rwandan Authorities, IMF staff estimates and projection, and World Bank staff estimates
[1/] On a fiscal year basis (July-June), For example column ending in 2012 refers to 2012/13

[7] *A structural benchmark in the current PSI (IMF Country Report no. 13/77).*

2001 to 14.8 percent in 2011. This implies that those who still live below the poverty line are now closer to it than they were in 2001, which bodes well for future poverty reduction. Inequality, as measured by the Gini coefficient, reduced from 0.52 to 0.49. Annex 3 provides a more elaborate analysis.

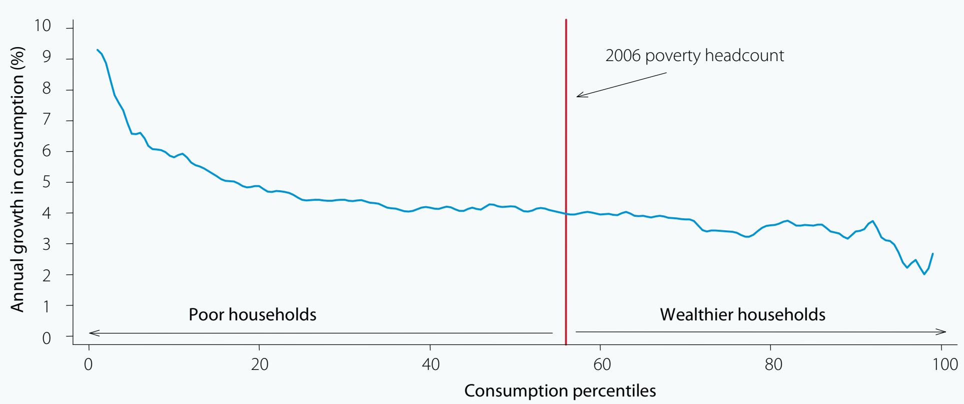
27 There is much to learn from the past growth path regarding the effective transmission of growth into poverty reduction. Though growth was strong throughout the last decade, it is only in the last five years that there has been an effective translation into poverty reduction. Growth incidence curves (Figure 1 and Figure 2) show how different the growth patterns were in the first and second halves of the decade with respect to their capacity to reduce poverty. The different poverty performance between the first and second halves of the decade can largely be explained by differences in the magnitude and nature of growth. The first half of the decade

FIGURE 1: Consumption by the non-poor outpaced that of the poor in early 2000s
(Growth-incidence curve for Rwanda, 2001-2006)



Source: EICV1 and EICV2

FIGURE 2: While consumption of the poor grew outpaced that of the non-poor in late 2000s
(Growth-incidence curve for Rwanda, 2006-2011)



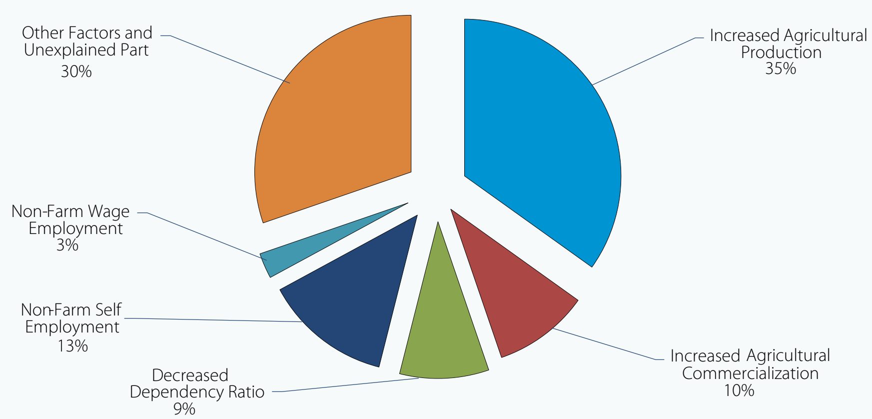
Source: EICV1 and EICV2

(2001-2006) was characterized by high growth in Kigali and low, pro-rich growth in the rest of the country, leading to an increase in inequality and modest poverty reduction. The second half of the decade (2006-2011) experienced higher overall growth, mainly concentrated in rural areas, and recorded an exceptionally strong growth rate for the poor, in particular the extremely poor. The net result is a decade of strong growth and poverty reduction during which welfare gains were realized at each point in the distribution and were relatively higher for the poor.

28 **Poverty reduction over the past decade has mainly been driven by improvements in agriculture and rural development.** Household-level agricultural production more than doubled between 2001 and 2011, accounting for 35 percent of the reduction in poverty (Figure 3). Households also produced progressively for the market, witnessed by an increase of the share of the harvest sold from 13 percent in 2001 to 21 percent in 2011. This increased commercialization of agricultural activity accounts for a further 10 percent of the reduction in poverty. At the same time, households have reduced risk by diversifying in non-farm income activities. The fraction of households with an occupation outside agriculture more than doubled from 30 percent in 2001 to 70 percent 10 years later. This progressive move towards self-employment in small nonfarm businesses has particularly been important, explaining 13 percent of the overall reduction in poverty. The sharp drop in fertility observed over the past five years has led to smaller families and decreased dependency ratios, increasing household disposable income.

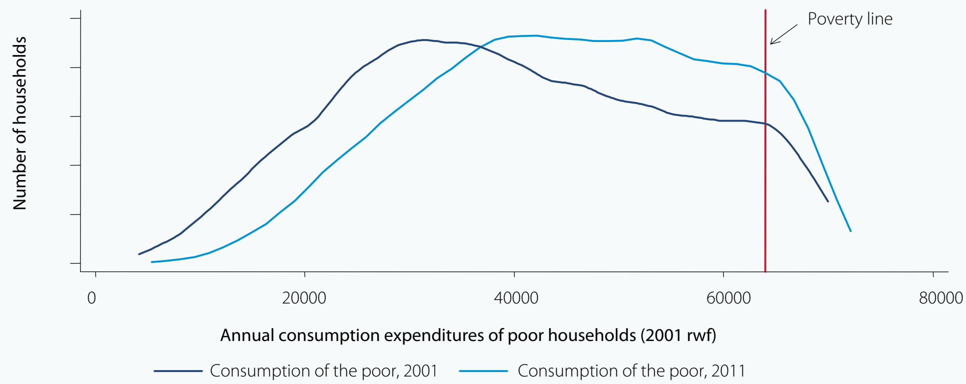
29 **Can these rates of poverty reduction continue or even be accelerated over the next five years and more?** Many of the poor are now clustered just below the poverty line, meaning that a small increase in consumption can push these households over the threshold (Figure 4). This bodes well for the future pace of poverty reduction as the "bulge" approaches and crosses the line. Equally important, the share of poor households located far below the poverty line (with consumption expenditures of less than half the poverty line) has decreased by substantially from 38 percent in 2001 to 22

FIGURE 3: **Agriculture accounted for the bulk of national poverty reduction**
(Contribution of the various factors to poverty reduction between 2001 and 2011, percent)



Source: EICV1 and EICV3 and World Bank staff calculations, 2014

FIGURE 4: The poor have moved closer to the poverty line between 2001 and 2011
(Consumption of the poor, 2001 and 2011)



Source: EICV1 and EICV3 and World Bank staff calculations, 2014

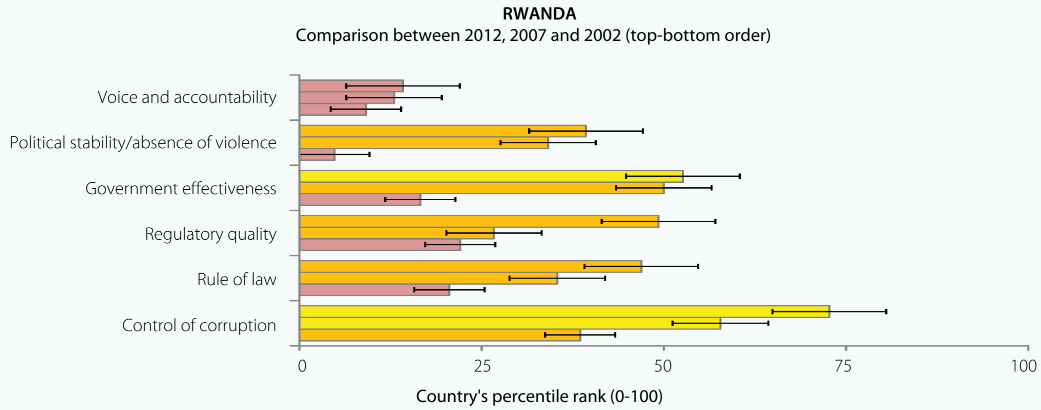
percent in 2011. Although much remains to be done, this means that the poorest of the poor are sharing the benefits of growth.

D. Governance and Institutions

30 **Rwanda has achieved remarkable progress in rebuilding the core institutions of the state over the last two decades.** It has established a political settlement and maintained national security since the Genocide in a very difficult environment. Such a fast progression to peace and security from violence is in stark contrast with many conflict affected countries, which often grapple for some time with the challenge of establishing their legitimacy and authority across their territorial boundaries and protecting citizens' basic security. Evidence suggests a high level of personal security; the homicide rate stands at 5.1 per 100,000 (2009 data) and United Nation Office on Drugs and Crime (UNODC) data indicate that Rwanda's rate is significantly lower than for neighboring countries. At the same time, Rwanda scores well on indicators of government effectiveness and control of corruption (see Figure 5), including in a comparative sense in terms of other countries in the region.

31 **As part of its development vision, the top leadership has pursued vigorously a zero tolerance approach to corruption,** which has been fundamental to the strong growth and service delivery performance recorded over the past decade. Transparency International has ranked Rwanda as the least corrupt country in the East Africa Community (EAC) and among the least corrupt in Africa, a trend also consistently reflected in the Mo Ibrahim Index for the last 10 years. A raft of oversight institutions has been established to control corruption and promote integrity and there is a constitutionally upheld asset declaration process for public officials, although this is not public. Legal and administrative sanctions are imposed to ensure performance and discipline in the system, with several senior officials tried in the courts in recent years and police officers dismissed for soliciting bribes.

FIGURE 5: Effective Government, but low on voice and accountability



Source: Kaufmann D. A Kraav and M. Mastruzzi (2010)
Note: The worldwide governance Indicators (WGI) are a research dataset summarizing the views on the quality of govnernance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathering from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the counties they represent. The WGI are not used by the World Bank Group to allocate resources

32 **The Government has also taken the approach that to deliver results it must drive forward radical and ambitious public sector reform.** It radically restructured the administration early on in the recovery phase in 1998-1999 through a large-scale downsizing with over 6,000 civil servants being dismissed because they were not qualified and over 6,500 being removed from the payroll as 'ghost workers'. Salaries to the much smaller number of staff were increased by 40 percent to eliminate the incentive for supplementing income through petty corruption. From 2000 in tandem with significant fiscal, political and administrative decentralization reforms, central Government ministries were unbundled to create flatter and considerably downsized structures and bring service delivery closer to the grassroots for enhanced performance and accountability.

33 **Rwanda's public administration nevertheless still faces a number of significant institutional capacity challenges that will affect long term resilience and overall governance capacity if left unaddressed.** The skills deficit is still significant and many of the new institutions lack the right staff and coordination mechanisms. The incentives for attraction, promotion and retention of staff require improvement to counter the high (by regional standards) vacancy and turnover rates.

34 **Rwanda scores much lower on voice and accountability governance indicators than on other aspects of governance.** For example the Press Freedom Index of Reporters Without Borders ranks Rwanda 156 out of 178 countries for 2012 and Freedom House ranks Rwanda 178 out of 197 countries in its 2012 World Press Freedom Index. The IREX Media Sustainability Index indicates a downward trend since 2008. The constitution upholds a free press and a number of private radio stations operate in Rwanda, while a set of new laws are making their way through Parliament to take forward a process of media reform including moving

towards self-regulation, which allows journalists to determine what to publish without outside interference. However, international human rights organizations have expressed concern over restrictions on journalists and civil society. National civil society advocacy is relatively underdeveloped in Rwanda, perhaps as a corollary to the firm Government presence.

35 **In regard to the horizontal checks and balances on the exercise of executive power, Rwanda's constitution provides for a robust, autonomous legislative role.** For example, the legislature can override the President's objections to ordinary laws with a two-thirds majority, and the majority of deputies in the Lower Chamber of Deputies are elected by universal suffrage while a certain number have to be women (the upper house, the Senate is composed of indirectly elected members and some presidentially appointed members). A Public Accounts Committee was recently established to improve financial oversight and standing committees are playing a growing role. Nevertheless, Parliament remains a new institution that is still building its capacity and potential to act as a channel for national debate on constituent and party concerns. Its oversight role is strongly determined by the nature of political and civil society.

36 **From a barely functional judiciary in 1994, progress in capacity building has been considerable.** Recent improvements in the formal justice system include an increased presence of defense lawyers at trials, improved training for court staff, enhanced oversight by an inspectorate office in the Supreme Court, and revisions to the legal code. By the end of 2008 there were 266 judges of which 36 percent were women. Bar association membership exceeds 850 advocates (having started with 37 in 1997). A high backlog of cases in ordinary courts has been an ongoing challenge for Rwanda's justice system. For example in 2007 there were 54,409 backlogged cases against 31,126 tried. In addition justice has been decentralized and made more accessible through the *Abunzi* mediators at the lowest local Government 'cell' level. Nevertheless, in terms of fulfilling its potential as an oversight institution, according to Freedom House's 2010 report on Rwanda, the judiciary has yet to secure full independence from the executive.

E. Sustainability

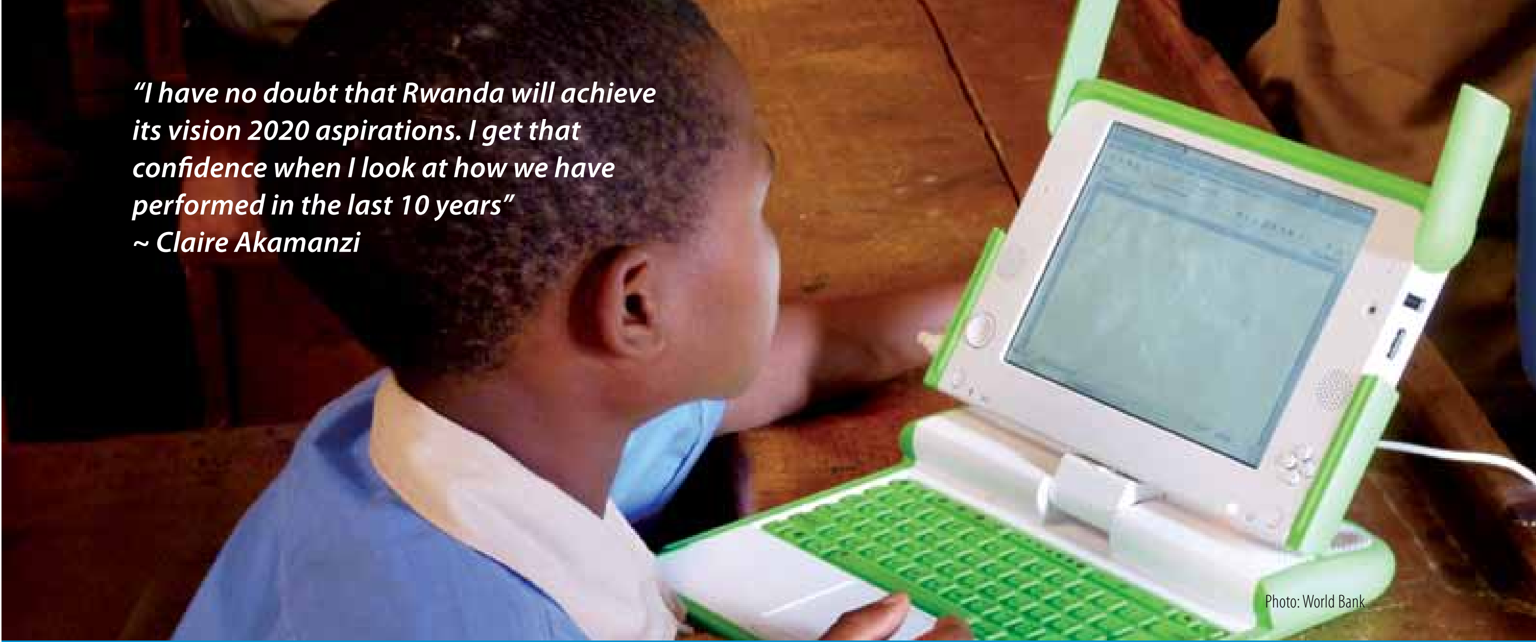
Protecting the environment

37 **The combination of Rwanda's size, topography, population density, and natural resource base suggest that the projected rapid growth rates may present risks for environmental sustainability.** Though direct investment by the WBG in the environment sectors is likely to be limited,[8] the WBG can play a significant role in promoting sustainability along the rapid growth path envisaged in national strategies. A study has been undertaken to explore some of the "big picture" trade-offs that might occur between the pursuit of rapid growth and the imperative for environmental sustainability and sound natural resource management over coming years. It will also explore where resource constraints or negative externalities could potentially hinder growth in key sectors and highlight how we can mainstream climate resilience and environmental sustainability though our sector operations.

[8] The Government has support from other primary development partners in this sector and is unlikely to request IDA resources for this sector.

38 **Changes associated with rapid growth paths are likely to have some consequences for natural resources and the environment.** Sustaining growth of even 7.5 percent per annum implies changes in terms of how land and other natural resources are used. There might be negative pressures on the environment (for example, through increased pollution) or reduced pressures (for example, through efficiency gains, reduced pressure on wood for fuel and through fertility decline). The study undertaken alerts the WBG to the potential implications of the growth path and possible ways that mitigations and sustainability can be built into the sector operations that we will be supporting. Annex 6 provides a preliminary overview of the findings of a rapid environmental review.

39 **Based on the WBG's ongoing engagements, the CPIA and other sources, however, it is clear that the Government of Rwanda takes environmental challenges seriously.** The Government has already developed environmental, climate change and green growth strategies and action plans and is initiating associated reforms and improvements in procedures and practices. Ensuring a "Green Economy" is an explicit part of the growth pillar of the EDPRS 2. A new National Climate and Environment Fund (FONERWA) is being set up to facilitate the mainstreaming of climate change and environment activities, and guidelines have been developed on adaptation for several key sectors. A significant knowledge base is being developed. An environment and climate change atlas has been published in 2011 and another being drafted on ecosystems and climate. These strategies and information base, built on an existing environmental legal/regulatory system, will be important tools to guide proposed WBG sectoral investments in a direction that promotes growth while ensuring environmental sustainability.



III. Government's vision and aspirations

40 **Rwanda's purposeful and practical approach to setting and robustly pursuing a national vision and then aligning resources to it is arguably one of the most distinctive in Africa.** The vision and targets are set out in a series of sectoral, locality-specific, and overarching strategic development plans. The clearest aggregation of medium-term goals is set out in the second Economic Development and Poverty Reduction Strategy (EDPRS 2). The elaboration of the EDPRS 2 involved extensive discussions and consultations with the Rwandan population, including youth, private sector, civil society, and academia. A communications strategy was tailored to solicit feedback and ideas from citizens from every socioeconomic category.[9] To ensure the broadest possible participation, two *Umuganda* days (the last Saturday of each month when all citizens engage in community work) were used to solicit citizens' views and contributions to the EDPRS 2.

41 **The overall objectives of the EDPRS 2 are to accelerate private sector-led growth and further reduce poverty, including extreme poverty.** It seeks to meet these objectives while reducing aid-dependency and thus increasing self-reliance by focusing on 4 thematic areas: (a) economic transformation to achieve high and sustained growth and restructure the economy toward services and industry, (b) rural development to bring the national poverty rate below 30 percent, (c) productivity and youth employment to ensure growth and transformation are supported by appropriate skills, and (d) accountable governance, to improve service delivery and increase citizen participation in and satisfaction with delivery of development. These thematic areas are supported by 8 foundational issues,[10] which are long-term, ongoing priorities for which substantial progress was already achieved during EDPRS 1 and 7 cross-cutting issues.[11]

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[9] *Communications included a customized EDPRS 2 website, a toll-free SMS line, focus group discussions and country-wide road shows with brochures, banners, billboards and radio and TV coverage.*

[10] *The foundational issue areas are macroeconomic stability, demographics, food security, basic education, primary health care, rule of law, PFM, and decentralization.*

[11] *The cross-cutting areas are capacity building, environment, gender, regional integration, HIV/AIDS and non-communicable diseases (NCDs), disaster management, and social inclusion.*

42 **The Government has set demanding targets across the four thematic areas.** These include targets for economic growth, reduction of poverty and extreme poverty, increases in the installed electricity capacity, promotion of exports, shifts towards a more urbanized population, enhancements in access to infrastructure, improvements in the quality of the labor force, creation of jobs and SMEs, and improvements in the quality of public services. Though some targets may not be achieved in absolute levels, the sense of direction established by the results framework of the EDPRS 2 accords strongly with WBG and IMF assessments of the challenges that need to be tackled over the coming period. The approach sets a robust framework that has guided the CPS and results framework.

43 **Strategies and strategic targets are taken seriously in Rwanda, with mechanisms established to convert medium-term goals into annual plans, budgets, and specific performance contracts that hold ministers and their teams accountable for delivery.** The top government leadership takes measures to ensure clear delivery targets and monitoring processes for national strategies. These strategies and targets are effectively communicated to all levels of government, as well as to non-state players and external partners. An annual National Leadership Retreat convenes the entire government to review progress and set clear priorities and targets for the year ahead (refer to Box 1).

44 **Taken together, the targets set in the EDPRS2 represent a highly ambitious agenda for inclusive growth over the coming years.** In order to achieve middle-income status by 2020, Rwanda must achieve a targeted average annual real GDP growth of 11.5 percent between 2012 and 2020. Attainment of the target would require a significant acceleration from the already high growth rates in the last decade. As such, for modeling purposes the WBG and the IMF are using forecasted rates more in line with past trends (as used for example in their Debt Sustainability Analysis and the recent Joint Staff Advisory Note). Together the IMF and the World Bank identify two key challenges to attaining the growth target: (a) the funding and implementation of public and private investment in view of prospects for declining—at least in relative terms—official external financing; and (b) the sustainability of planned policies in light of the compression of public and private consumption that would be consistent with a re-allocation of public and private resources into investment.

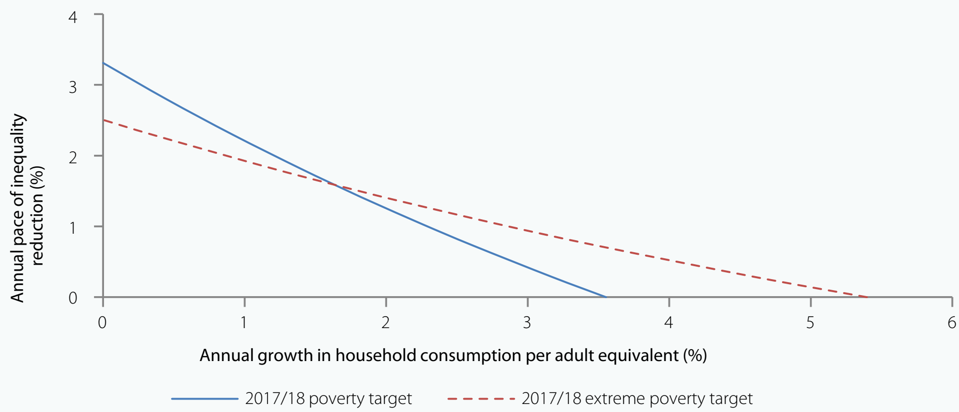
45 **The EDPRS 2 looks to the private sector to drive growth and job creation over the medium term.** Over the past five years, improvements in the investment climate have not unlocked the desired significant increase in private investment. The private sector development strategy acknowledges the challenges involved. The economic transformation theme of the EDPRS 2 aims to drive down the cost of doing business by removing key bottlenecks in infrastructure and energy. While the EDPRS 2 defines the role of the public sector as a catalyst for private sector-led growth, performing this role will require significant financing, including leveraging public-private partnerships (PPPs) where feasible. This suggests a delicate task for Government in prioritizing its investment programs while taking into account proper sequencing and linkages between them, as well as to ensure that adequate financing is available to support private investment.

46 **Meeting export targets will require accelerated regional integration and diversification of both products and markets.** The East African Community countries are at the final stage of adopting an EAC Monetary Union Protocol, which will set macroeconomic convergence criteria, among others, as a precondition for accession to the single currency area. It will also establish a transition period toward the single currency area, during which countries will align their economies to the set criteria and adjust their policies accordingly. The Government, already appreciating some benefits from greater regional integration since entering the common market in 2009, actively pursues implementation of the protocol. Results of a recent "scorecard" show significant achievements so far.

47 **Reproduction of past growth rates alone will not be enough to reach poverty reduction targets—a reproduction of past reductions in inequality is also needed.** Figure 6 shows the combinations of household consumption growth (horizontal axis) and inequality reduction (vertical axis) that are needed to achieve the poverty target (steeper curve) and extreme poverty target (gentler slope) by the end of the second EDPRS 2 in 2018.[12] In the absence of redistribution (no reduction in inequality) household consumption will need to grow by 3.6 percent per year between 2011 and 2018 to reduce poverty to their target level of 30 percent. This is higher than both the growth in consumption observed over the past decade (2.5 percent) and the growth observed between 2006 and 2011 (3 percent). However, if inequality could be reduced at an average rate of 1 percent per year (the annual rate of inequality decline between 2006 and 2011), the poverty target would be attained with consumption growth of less than 2.3 percent. Annex 3 provides a fuller analysis.

48 **Shaping the Post-2015 agenda, the WBG Development Committee has endorsed the global goal of eradicating extreme poverty within a generation.** This

FIGURE 6: Inequality reduction will be key in attaining the EDPRS2 poverty targets
(Combination of growth and redistribution required to meet the 2017/18 targets)



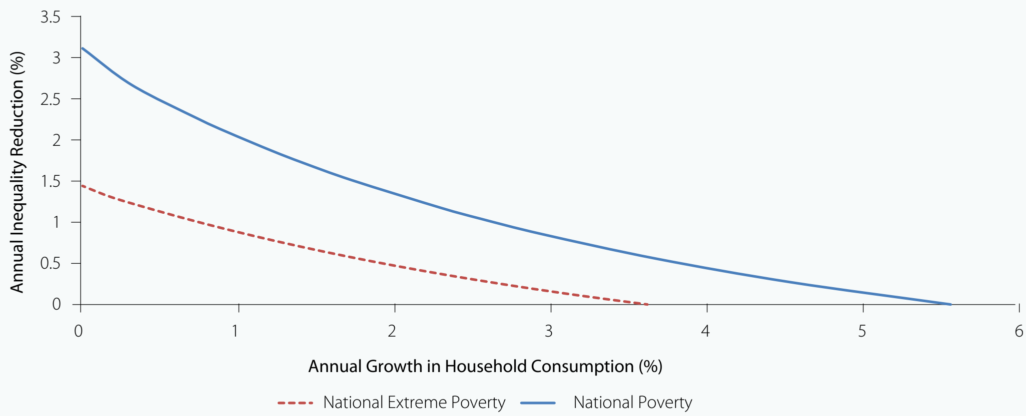
Source: EICV3; World Bank staff calculations, 2014

[12] *These simulations are based on the poverty curves developed by Ferreira and Leite (2003). The simulations are purely mechanical and we present them for illustrative purposes. They should be interpreted with caution.*

targets reducing the proportion of people living below the international poverty line of US$1.25 per day to no more than 3 percent by 2030. Not all countries can be expected to meet this goal, and so it is not a "binding" target in that sense for Rwanda. But still it is illustrative to at least consider—*what will it take for Rwanda to seek to meet the ambitious global goal?* Using poverty lines based on national datasets rather than the international poverty line (US$1.25 per day), projections (see Figure 7) suggest a similar combination of growth in household consumption and inequality reduction will be needed to meet national targets. It will take a reproduction of past rates of growth and inequality reduction in order to meet these global international goals in Rwanda.

49 **Clearly progress on inequality reduction—not just growth—will determine to a large extent whether Rwanda will meet the poverty targets of the Second EDPRS.** While the poverty targets in the EDPRS 2 are ambitious, they can realistically be attained if Rwanda keeps up its strong shared growth performance of the past 6 years. This suggests that investments that actively seek to raise the productivity and incomes of the lowest groups will be needed to approach this target. Emphasis within the EDPRS 2 on scaling up social protection and intensifying the rural transformation are aligned with this challenge. Beyond the need to tackle inter-household inequality, attention to within-household disparities will also be important (including gender inequality, see Box 2).

FIGURE 7: International goals for poverty reduction also demand shared prosperity



Source: EICV3; World Bank staff calculations, 2014

BOX 2: Empowering women

The Government of Rwanda has made significant gains in its commitment to achieving gender equity. The 2003 Rwandan Constitution enshrines the principle of gender equality by providing 30 percent quotas for women's representation in decision-making structures. The Government has also included gender as a cross-cutting theme in their Vision 2020 and EDPRS. The overall goal is that by 2020 "girls and boys will have achieved equity of voice, participation, and access to every area of economic growth and poverty reduction represented in national policy and law". The specific target areas are:

- Gender equity in halving the proportion of people living below the poverty line by 2015;
- Gender equity in a reduced income disparity;
- Gender equity in increased GDP per capita;
- Gender equity within the increased average GDP growth rate; and
- Gender equity in progress toward the MDGs.

There are indications that the status of women is improving in some sectors. Rwanda has a consistently improving score on the UNDP Gender Inequality Index (positioned at 73 out of 167 countries). In 2013 Rwanda had the world's highest women's participation in parliament at 64 percent, up from just 17.1 percent 15 years earlier. The Rwanda National Police Service has achieved 37.5 percent women in leadership positions. In local-level government, women still are under-represented—only 6.7 percent of mayors are women—although 43 percent of local government positions and 30 percent of judgeships are held by women.

Despite successes, women in Rwanda still face challenges. More female-headed households live in poverty than those headed by males (47 percent compared to 44 percent, respectively). Women's literacy rates are lower than men's (60 percent compared to 70 percent, respectively), which further constrains already limited opportunities in terms of accessing resources, creating and managing small businesses, and participating in the overall decision-making processes in the households. And gender-based violence among women and girls remains an area of serious concern. In 2010 at least 56 percent of women aged 15-49 years had experienced physical or sexual violence. This CPS draws upon the findings of the Bank's Gender Assessment (2012) and discusses this and other key analyses to inform the strategy.

IV. Development challenges

50 **The Government uses the ambitious nature of its goals as a driving force for change.** It recognizes that the higher the ambition, the greater the challenges. To a large extent, challenges are well described in the EDPRS 2. During the consultation process for the EDPRS 2 and in sector working groups, many discussions have centered on how best to tackle the challenges.

A. From public-led to private-led growth

51 **Accelerating growth and creating jobs through the intensification and deepening of the private sector lies at the heart of the development challenge and implies significant action at policy and investment levels.** The targets for economic growth, export growth, and enterprise growth suggest a significant restructuring of the economy. Progress in these goals will underpin progress in the poverty targets to an important degree, through their implications for rural development and job creation. The imperative for job creation is extremely strong; the total non-farm labor force increased from 442,000 in 2001 to 1.4 million in 2011. About 100,000 formal and informal jobs are currently created each year, which is only half the annual growth needed to maximize benefits from the demographic dividend.

52 **Despite the strong performance with respect to the investment climate, multiple challenges complicate progress.** The private sector is still relatively small and weak, with a narrow manufacturing base, small financial sector, and an underdeveloped services sector. Local business registrations have increased, but only around 40 percent of these firms are active. Informality prevails as only 13,000 of 123,000 firms operating are in the formal sector. Geography, low productivity, and high energy costs make Rwanda an expensive place for enterprises dependent on seaports or energy-intensive processes. As a small economy, the domestic market is relatively limited; expanding markets on a significant scale beyond borders has been hampered by cross-border tensions and inefficiencies.

53 Enterprise surveys highlight access to finance and availability of land as the most severe constraints followed by infrastructure (electricity and transport) and labor skills. Other issues relate to the arbitrary, uncertain, and unpredictable way in which certain areas of regulation are enforced. Issues that are identified by the private sector (including during the consultations for this CPS) include tax administration, post-implementation problems (e.g. misunderstandings regarding incentives related to energy and land titles) and potential competition issues (real or perceived).

54 It will be particularly important that public investment decisions leverage private investment to the maximum extent possible. Recent research by the World Bank suggests that public investment in Rwanda still "crowds in" private investment, but at ratios that are less favorable than in some other neighboring countries. This indicates that there is room for improvement in the management of public investment, in particular with respect to ensuring robust, independent project selection processes (including thorough appraisal and cost benefit analysis) to ensure that the returns are maximized from scarce investment resources. Poor public investment choices can not only crowd out private investment, but also erode fiscal space and debt sustainability over time. Attention to smooth implementation will also be important.

B. Sharing prosperity

55 Ensuring that growth translates into further poverty reduction will require directed investment, including cash transfers, toward improving the incomes of the poorest. The EDPRS 2 envisages considerable investment in agriculture—focusing on agricultural productivity and rural infrastructure—to drive transformation of livelihoods in rural areas. Despite recent gains, the move from subsistence to commercial agriculture remains a challenge. Food is about 70 percent of output, farm productivity is low, and plot sizes are small (about 0.3 hectare), leaving it hard to make space for mainstream commercial agriculture. Irrigation is not yet widespread; use of improved seed is still constrained; and, though rising, only one-third of farmers are using fertilizers.

56 Generating a serious private agribusiness sector will entail investment in value chains and agro-processing and a shift toward higher-value crops, which require specialized technical know-how and value-chain expertise. The rewards in terms of poverty reduction and boosting exports could be considerable however. Tea and coffee already contribute to half of all exports, involving 500,000 households in coffee production and 60,000 households in tea production. However, only 29 percent of coffee is washed despite the 60 percent price premium accorded to washed coffee. Branding, traceability, and certification are key for developing a viable horticulture export industry, but low-income farmers will find these activities costly and will need support.

57 For the poorest groups, expansion and improvements of the social protection system will remain critical. A thoughtful government roadmap embodied in the EDPRS and National Social Protection Strategy sets out the key steps toward improving the social protection system, including the introduction of stronger targeting mechanisms, a scale-up of coverage, and a determined focus (and EDPRS target) on promoting an exit from the poorest categories.

C. Financing the development effort

58 **At a price tag of Rwanda Francs (RWF) 9.9 trillion (US$15 billion), adequate financing of the development strategy will pose its own challenges of intensifying domestic revenue collection and management of external revenue sources.** Despite an improving trend, Rwanda's tax revenue-to-GDP ratio at 14.2 percent in 2013 was well below the regional average of 25 percent and the Government has embarked on a comprehensive tax reform strategy. Boosting domestic revenue mobilization raises several challenges; broadening the tax base, introducing comprehensive tax regimes for agriculture and mining, and strengthening property taxation and enhancing revenue administration are all prerequisites. Given the intensity of the financing gap and the expected relative decline in external concessional financing, efforts to prioritize and sequence public investments by the Government will be important.

D. Ensuring institutions and capacity keep pace with growth

59 **Managing the wide-ranging consequences of rapid growth will require flexibility, strong feedback loops, and capacity to respond to unforeseen developments.** Rapid economic growth is an overwhelmingly positive force for generating sustainable change for poor populations. Nevertheless, if targets are reached—or even nearly reached—the changes that the Rwandan economy and society will have undergone as part of this process will be significant. People will be earning livelihoods differently from before, living in different places from before, using their assets (especially land and human capital) differently from before, moving around differently, structuring families differently, consuming differently, aspiring differently, and relating to other stakeholders—both non-state and state actors—differently. Natural resources will be used differently as the economy is dominated less by subsistence agriculture and more by commercial agriculture and off-farm activities. As growth becomes driven more by private sector growth, the role of the state in the economy will need to adapt, taking on a role as facilitator more than owner. Institutions will need to respond to these changes. Keeping pace with the changes could be a challenge.

60 **Building the capacity of government staff and institutions will be critical to managing this change process well.** The strength of capacity at the top levels of leadership in central government agencies has not yet cascaded down fully—neither to the lower levels of seniority in the central agencies nor to many of the local agencies that are frontline implementers of policy or deliverers of services. It will be important for the National Capacity Building Secretariat to enhance its facilitation and support to all the priority sectors (energy, agriculture, private sector development, environment and natural resources, urbanization and transport) to undertake capacity-building diagnostics and to design the proposed sector capacity building plans throughout the EDPRS 2 period.

61 **Enhancing district-level capacity will be foundational for achieving goals associated with the "accountable governance" pillar of the EDPRS2.** This is true particularly for those goals that strive for greater citizen participation in the development process and those related to the quality of service delivery. The newly approved decentralization policy is an excellent starting point and implies considerable efforts in strengthening effectiveness at the district level and in reforming the mechanics of center-district relations.

V. Strategic options for the CPS: Leveraging WBG assets

62 **Though Government goals and the associated challenges suggest potential for considerable WBG engagement, maximizing impact with limited WBG resources demands focus and boundaries.** The Government maps the flows of development assistance carefully and is directive in matching donors and sectoral financing needs. The mapping provided by Government provides a useful tool in identifying the comparative advantage for the WBG and in the application of selectivity. In defining the CPS going forward and, in particular, in deciding where the core of IDA will be spent, the principles applied in identifying the most fruitful areas for WBG engagement in Rwanda covered the following:

- *Is there strong alignment with the twin goals and complementary nationally defined goals for poverty reduction? Will engagement in this area unblock major impediments to progress?*
- *Given the flows of other donor resources and WBG skills and experience in Rwanda, does WBG have a comparative advantage in this area that will allow it to make a difference?*
- *Does engagement in this area allow WBG to maximize all three of its institutions in the most synergistic way?*
- *Is there demand from the client for engagement by WBG in this sector?*
- *What are the risk levels of achieving impact in this sector, in particular with respect to capacity constraints on the Government and WBG side?*

63 **Table 2 summarizes the discussions that have taken place within the country team, with the client and with other development partners with respect to WBG's potential role in addressing core development constraints.** The left column lists constraints to achieving key poverty objectives as identified through WBG analytical work and Government strategies. Any sectors that "failed" the first line of screening with respect to alignment to poverty reduction (for example, cultural heritage) are left out of the table. In general, the low scores for comparative advantage reflect the dominance of other donors in these sectors and the expectation that they will continue to finance these sectors at the

same level and same high quality. For example, the combination of global funds and bilateral financing from USAID in the health sector suggests little value added in directing IDA toward the sector. In this respect, a low rating for comparative advantage does not refer to the competencies of the WBG in general. Rather it reflects the contextual, relative advantage of the WBG given the resources that other donors are bringing to Rwanda.

64 **Based on an analysis of needs and comparative advantage, the choices of sector engagement for the WBG align well with the Government requests.** WBG has been asked to lead the development partners in energy and urban development sectors, be actively engaged (but not lead) in the rural development sector, and to operate through low-transaction cost modalities in the social protection sector. The Government also asked that the World Bank work with DFID, KfW and the EU to support progress on public financial management (PFM) and decentralization. IFC believes it will be able to invest primarily in the financial sector, supported by both IFC advisory and World Bank analytical work. Indeed, financing for financial institutions is likely to be IFC's main (but far from only) investment activity in Rwanda in the medium term.

TABLE 2: WBG's potential role in addressing core development constraints criteria for selectivity

Constraints to poverty reduction	Alignment	Comparative advantage	Within-WBG synergies	Client demand	Risk
National Transport	Medium	Low	Medium	Low	Medium
Energy	High	High	High	High	Medium
ICT	High	Low	High	Low	Medium
Rural (agriculture and infra)	High	High	High	High	Low
Environment	High	Low	Low	Low	High
Water	High	Low	Low	Low	High
Urban Development	High	High	High	High	High
Youth/Skills	High	Medium	Low	Low	High
Financial Sector	High	Medium	High	High / Low IFC/IDA	Medium
Private Sector Development	High	Medium	High	Medium	Medium
Health	High	Low	Low	Low	Medium
Education	High	Low	Low	Low	Medium
Social Protection	High	High	Medium	High	Medium
Accountable Governance	High	High	Low	High	Medium

High Medium Low

65 **The analysis suggests the following 3 themes will guide WBG engagement in Rwanda:**

- *Theme 1: Accelerating economic growth that is private-sector driven and job creating,* incorporating WBG investments and analytical work in energy, financial sector development, urban development, regional integration, direct investments in the private sector, public-private partnerships, and investment climate (including export competitiveness and other private sector development policy work);
- *Theme 2: Improving the productivity and incomes of the poor through rural development and social protection,* including investments in the national safety nets and smaller investments in activities that promote social cohesion and peacebuilding, agricultural productivity (including rural roads), and IFC investments in horticulture, agribusiness, and microfinance;
- *Theme 3: Supporting accountable governance through public financial management and decentralization,* including likely IDA investment in fostering stronger results in public financial management, fiscal decentralization, in statistical systems and open data.


Photo: World Bank

A. Theme 1: Accelerating economic growth that is private-sector driven and job creating

66 **Structural transformation is needed to move the economic growth path from one that is dominated by ODA-financed public investment to one that is fully driven by the private sector.** This is an imperative for sustainability of the growth path but is also vital for job creation. With an estimated 200,000 people entering the job market annually, the private sector will be a primary provider of livelihoods and an important driver of poverty reduction. Despite the high scores for a supportive regulatory environment in the Doing Business ranking, the private sector is currently still weak and underdeveloped. The WBG will tackle the

key bottlenecks that have restricted private sector investment through a combination of IDA investments (in energy, urban development, and regional integration), IFC investments (in the financial sector and possibly—crossing over with the second thematic area—in agribusiness) and IFC advisory/World Bank analytical work to strengthen the regulatory framework to increase predictability and reduce regulatory risks.

67 **A propitious investment climate with predictable rules that attract investors and reward them on their own merits is a key component for ensuring healthy, efficient and sustainable private sector development.** Policies that ensure open markets, an environment that reduces entry costs and operational risks, policies that minimize distortions on the level playing field, and rules that prevent anticompetitive business practices are key areas for a growth-enhancing market regulatory framework. The WBG will support the Government of Rwanda to develop an effective institutional and regulatory framework to effectively implement competition and investment policies that foster competitive markets and productivity.

Energy

68 **Why is energy so important for private sector-led growth?** There is significant survey data from enterprises in Rwanda to suggest that the high cost and low reliability of energy is one of the primary bottlenecks to the enterprise development. Likewise, there is ample evidence that rural electrification has benefits in terms of consumption (as small, rural business activity requires electricity) and human capital accumulation. Insufficient generating capacity, limited transmission networks, and high cost of electricity are major constraints on investment. There is a clear sense that overcoming this constraint will bring about a lasting, structural shift in the economy. Power prices are high (despite subsidies) at 22¢ to 24¢ per kilowatt-hour (kWh) relative to neighbors: tariffs in Kenya are 15¢ per kWh; Uganda, 17¢ per kwh; Tanzania, 5¢ per kwh), undermining Rwanda's competitiveness. Electricity consumption is currently about one-tenth of the Sub-Saharan average, with coverage of about 18 percent of population.

69 **Increased access to electricity is key to the countries' poverty reduction and economic growth and broad-based welfare gains.** The plans for expansion require US$3-5 million financing per megawatt (MW), or about US$800 million annually, and will include both experimental (methane) and high-risk (geothermal) energy sources. The current installed electricity generation capacity is about 110MW, with available capacity of about 95MW and peak demand of 90MW. The system is operating without a reserve margin resulting in poor reliability and availability of supply. The Government has ambitious plans to expand the generation capacity to meet the country's projected demand. The plan is to increases total installed capacity over the next 5 years from 110MW in 2013 to about 563MW by 2018, with connections forecast to leap from 200,000 to 1,200,000 and biomass use to drop from 86 percent to 65 percent by 2017. These targets are not beyond reach; a committed capacity of 76.5MW is expected to be commissioned by June 2014. Memoranda of Understanding have been signed for an additional capacity of about 200MW in the next 4-5 years.

70 **To leverage funding for energy generation, the Government proposes mostly private sector-led investment.** This offers the WBG opportunity to leverage funding and enhance collaboration among the WBG in

supporting increased electricity generation. There is also need to balance public investments in the sector without crowding out the private sector. For a number of these investments, discussions are advanced and some projects already under construction. In some instances, the Government may require support to reach financial closure on some of the proposed generation investments, which might include a combination of IDA partial risk guarantees and MIGA guarantees, IFC loans as well as other WBG financial products. In addition, IDA resources may be required to undertake upstream assessments, such as feasibility studies and transaction advisory services, especially geothermal due diligence subject to confirmation of the resource. IFC is tentatively predicting investments in the energy sector of approximately US$30 million over the CPS period. IFC investment climate activities will also support private sector participation in renewable energy, including the Rwanda Development Board (RDB), Rwanda Utility Regulatory Authority (RURA), and Ministry of Infrastructure (MININFRA) to strengthen capacity to deal with investment proposals. It will also expand the work on feed in tariffs currently prevailing for hydro, solar and small-scale biomass in order for more standard power purchases to be developed. MIGA's traditional political risk insurance coverage against transfer and convertibility restrictions, expropriation, breach of contract and war and civil disturbance can help leverage cross-border investment, in particular for critical infrastructure, such as power, water and transportation. During the CPS period, MIGA will actively look for opportunities in these sectors as well as in agribusiness.

71 **In the long-term, the integration of Rwanda's power sector within the East African Power Pool is indispensable.** Rwanda is a member of the Nile Basin Initiative and the East Africa Power Pool. However, apart from its share in existing regional hydro plants,[13] Rwanda is not connected to any regional transmission network apart from the small bilateral power interchanges with Uganda. Rwanda's location would allow it to benefit from the interconnected power network within the proposed East African Power Pool. In light of Rwanda's current high-generation costs and energy resource constraints, regional integration would unlock the benefits of regional hydropower, geothermal, wind and natural gas resources, substantially reducing overall generation investment costs. Several regional interconnection lines are at various stages of development; Rwanda-Uganda and Uganda-Kenya are expected to be commissioned in 2015 while other interconnections between Rwanda-Tanzania, Rwanda-Burundi, and Rwanda-DRC will form part of the Rusumo and Rusizi hydro projects. Rwanda has initiated discussions to import 50MW from Uganda and has made initial contacts with Ethiopia.

72 **With an emphasis on using private sector resources for generation, the comparative advantage of IDA may well be to focus on strengthening the overall performance of the sector and on distribution, areas unlikely to attract the private sector.** Recent changes to the institutional structures—the separation of the former utility into two distinct entities to cover electricity and water separately—suggests the need for considerable

[13] Presently Rwanda purchases power from the Rusizi I plant (with import capacity of 3.5 MW) of SNEL of DRC, and Rusizi II (with import capacity of 12 MW), owned by Sinelac (jointly owned by Rwanda, DRC, and Burundi).

institutional strengthening. A recent grid audit study highlights many important priorities for investment in order to improve the functionality and expand the outreach of the network. It provides a solid starting point for possible IDA investment in this area.

Urban development

73 **Why is urban development a priority for the inclusive growth agenda?** In a region with low levels of urbanization, Rwanda is among the least urbanized countries in Sub-Saharan Africa with an urbanization rate of about 15 percent. Of the roughly 1.6 million urban dwellers, about 1 million live in Kigali. From previously high average annual growth rates of 9 percent (due in large part to the influx of post-genocide returnees), Kigali's growth has decelerated to a still- rapid 4 percent per year. The remainder of the urban population (roughly 600,000) is dispersed across provincial towns in 27 districts. These are small urban centers, and not more than 10 towns have sufficient density to truly reflect urban attributes and functions. The most viable towns are located near borders, at the intersection of national roads leading to borders, or in the vicinity of Kigali. Rubavu, Musanze, Muhanga and Huye are growing rapidly. Despite a current low level of urbanization, the country is poised for an urban transformation.

74 **The Government of Rwanda aims to expand the share of the industrial sector from 16 percent to 26 percent of GDP by 2020 while continuing to improve the productivity and value addition in the agriculture sector.** While agriculture employs 80 percent of the workforce and represents 33 percent of GDP, the Government's industrial policy aims to sustain 8 percent annual growth and to create 1.8 million non-farm jobs by 2020. Given land constraints, this goal must be met through expansion of commerce, industry, construction, and services sectors in urban centers.

75 **The Government is pursuing a policy of more balanced, sustainable urban development.** Kigali has emerged as Rwanda's national business, service, industrial and administrative hub; it accommodates 30 percent of employment and 10 percent of the population. Within this environment, however, the Government is concerned about the potential negative consequences of economic and population concentration in one city, which can lead to economic weaknesses in other regions; regional social imbalances across the country; and congestion, pollution, slums, and other negative externalities—within the primary city—that can become unmanageable. Therefore maintaining the attractiveness of Kigali while developing the economic potential of secondary cities is the Government's central challenge of this policy. The urban strategy is therefore centered on developing six secondary urban centers for a more balanced urban growth. The role and function of these towns will depend on their size, but their development can have a significant impact on developing the economy and reducing migration to Kigali, if managed properly.

76 **The policy to spur urbanization also has the potential to reduce poverty.** Though analytical work on the poverty impacts of urbanization is scarce, ongoing work in the Rwanda Poverty Assessment suggests positive impacts. Between 2006 and 2011, poor households in urban areas were 14 percentage points more likely to exit poverty than poor households in rural areas. The rate of chronic poverty (households who were below the poverty line in both 2006 and 2011) was also

three times lower for urban (14 percent) than for rural households (42 percent).[14] In addition, urbanization is typically linked to lower fertility, higher female labor force participation, and higher investments in children's education.

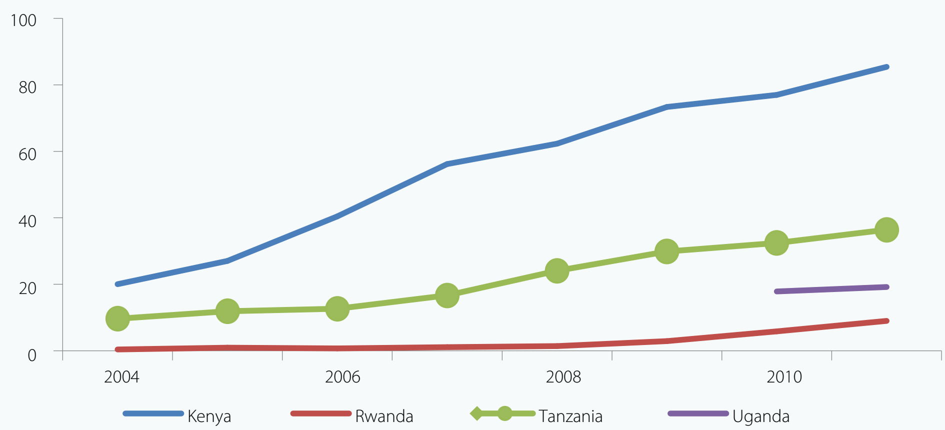
77 **The WBG work in the urban sector in Rwanda is in the earliest stages, making the prediction of future investments imprecise.** The team is exploring the use of IDA in providing the necessary infrastructure for the sustainable development of secondary cities. This would incorporate work that supports the goals set out in the private sector development strategy and would also focus on the governance environment for effective management of secondary cities. IFC is currently considering investments in housing units for Kigali and the possibility of opening a mortgage finance facility. IFC has also been investigating the possibility of a PPP transaction for the bulk water supply for Kigali. Though design of the entry points for the WBG is still preliminary, the opportunities for a strongly collaborative effort between IDA and the IFC are clearly present.

78 **IFC is rolling out some of its IT-based activities to cities across the country as part of its investment climate work.** This will include establishment of on-line construction permit applications at the two or three of the 6 secondary cities with sufficient absorptive capacity. One stop centers for construction permit administration are being established in each location through the Rwanda Housing Authority (RHA) to handle the predicted increased number of applications for construction permits and manage the lack of resources at the district level.

Financial sector

79 **Why the focus on the financial sector?** Insufficient access to affordable credit is listed as the biggest constraint for businesses in the enterprise survey. Figure 8 illustrates how constrained borrowing from commercial banks is relative to other countries in the sub-region. Widespread informality hinders financial sector growth, and only 7 percent of adults are covered by a credit bureau. Bank penetration, saving rates, uptake of microfinance products, and mobile platforms are all low compared to regional peers.

FIGURE 8: Borrowers from Commercial Banks (per 1,000 adults)



Source: BNR; World Bank staff calculations, 2014

[14] *Similar results are found for urbanization in Tanzania: see Luc Christiaensen, Joachim De Weerdt, and Yasuyuki Todo, Urbanization and Poverty Reduction, The Role of Rural Diversification and Secondary Towns (Policy Research Working Paper 6422, World Bank, April 2013).*

80 **The World Bank, IFC, and MIGA have all been active in the financial sector.** The World Bank's role has been more through the provision of technical assistance and analytical work than through investment; the first Financial Sector Development Plan (FSDP) provided extensive guidance to the BNR in many aspects of financial sector development, and about 90 percent of the recommendations (of which there were several hundred) have been implemented. The Cabinet has now approved the second FSDP (FSDP II). Both FSDPs were based on Financial Sector Assessment Programs carried out jointly by the World Bank and the IMF. The World Bank is providing considerable support to FSDP II implementation using programmatic trust funds.

81 **Through a US$2 million FIRST-funded technical assistance program,[15] the legal and regulatory framework and supervisory capacity of the financial sector are being strengthened and Rwanda's crisis preparedness, resilience, and financial stability are being improved.** Financial inclusion for individuals as well as micro, small, and medium-size enterprises (MSMEs) will be supported through technical assistance provided through the Financial Inclusion Support Framework (US$2-3 million). This program will address demand as well as supply-side challenges, stretching from financial education and consumer protection to support for legal and regulatory reforms related to financial inclusion and improving schemes for supporting MSME financing.

82 **For the IFC, the financial sector provides an opportunity for investments in small enterprises.** Opportunities for IFC to invest directly in enterprises that seek to operate in Rwanda have been constrained by the small size of these projects. The bulk of the private sector comprises small firms who are making small investments that are not bankable for IFC participation. IFC anticipates investments in the financial sector in the order of US$20 million a year over the CPS period. The approach would be to deepen the engagement with local banks and micro-finance institutions, leveraging both advisory and investment services to expand finance (both in volume and in range of products) to MSMEs with a full range of trade and supply chains, long-term and local currency products. The Access to Finance engagement will focus on MSME bankability and risk management. IFC will also consider engagement in the housing finance market.

83 **Recognizing that the investment rate is insufficient to drive the rates of growth that are foreseen, IFC also aims to provide support in developing capital markets.** The current reliance on imported capital (government debt, donors, foreign direct investment) implies foreign exchange risk for those seeking finance. Domestic capital markets can provide more reliable financing for the private sector and could be a source of lower-cost, longer-term local currency financing for Rwandan and possibly for regional players too small to issue in Nairobi or Johannesburg. IFC will provide advice on capital market development, with the Access to Finance team providing support to develop capital market infrastructure (including rating agencies, custodians, electronic trading platform, regulatory capacity, corporate governance and brokers). IFC Treasury is in discussion with Government to launch a local currency bond.

[15] *FIRST: Financial Sector Reform and Strengthening Initiative.*

B. Theme 2: Improving the productivity and incomes of the poor through rural development and social protection

84 **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. Activities under this theme are chosen to deliver maximum impact on the incomes of the poorest and most vulnerable groups in Rwanda.

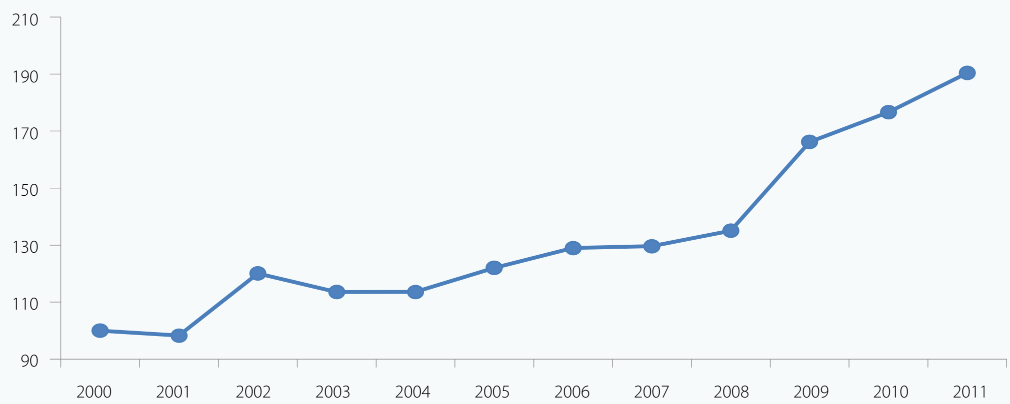
Rural development

85 **Close to 80 percent of the Rwandan labor force depends on agriculture for a living.** The fastest and most effective way to raise the standards of living of the majority of the population is therefore to increase incomes from agriculture. The improvements in agriculture have played a major role in the rapid poverty reduction Rwanda experienced over the past decade. 35 percent of the reduction in poverty in Rwanda can be attributed to increased agricultural production while an extra 10 percent can be explained by increased commercialization of agricultural produce (refer to Figure 3). This makes agriculture the single most important driver of the 14 percentage-point drop in poverty over the past decade.

86 **Between 2000 and 2011, aggregate agricultural production almost doubled, with most of the increase happening since 2008 (Figure 9).** This can be traced back to the Government's renewed focus on agriculture under the first EDPRS (2008-12). Since 2008, the Government has embarked on an ambitious plan to modernize and raise the productivity of agriculture, which has led to significant gains in productivity of the selected priority crops: between 2008 and 2011, yields (production per hectare) of maize increased by 225 percent, rice by 34 percent, wheat by 129 percent, cassava by 90 percent, potatoes by 66 percent, and bananas by 62 percent.[16]

[16] FAOSTAT, 2013.

FIGURE 9: Agricultural production index (2000=100)



Source: MINAGRI; World Bank staff calculations, 2014

87 **Intensifying agricultural productivity will remain central in the IDA program.** Given the limited scope to expand cultivable land area, improved productivity of agricultural land is critical for income generation. IDA will support a whole suite of interventions aimed to boost productivity based around soil conservation and land husbandry. This will include progressive and radical terraces, soil fertility management, and soil erosion control. It will also include measures that reinforce farmer resilience to shocks (irrigation and water management), the expansion of agricultural mechanization (currently stands at 12 percent), and the optimization of inputs to improve soil fertility and seed quality.

88 **Investments will also facilitate a transition from subsistence to more commercial farming practices, tackling under-employment in rural areas and raising rural incomes.** IDA will support strengthening the enabling environment to attract and retain private investment, encourage entrepreneurship, and facilitate market access. This will include modalities to increase production via facilitating contract farming, satellite farming, consolidated land leasing, and cooperatives. Public-private partnerships and risk management in value chains would be supported. Priority value chains, both agricultural food and export crops, will be supported along with strengthening cross-border trade channels. Support will be provided for whole value chains from research, planting material, production, extension, post-harvest, value addition in processing, and market analysis of supply and demand. Support will also be provided to expanding both the provision of and access to agriculture finance. Key market-oriented infrastructure, including irrigation, post-harvest handling and storage, and rural feeder roads will be supported to facilitate greater production and market access.

89 **Nutrition components in WBG agriculture work will remain, given the persistent challenge of child malnutrition in rural areas.** IDA will support food-insecure households in nutritious home garden practices and diversifying food production by scaling-up the current kitchen gardens program, promoting

intercropping, and developing and expanding bio-fortified food crops.

90 **IFC intends to focus advisory services and possible investments on the development of horticulture and other agribusiness ventures.** While IFC is aware of the obstacles, it remains hopeful that potential transactions with sponsors will materialize. MIGA looks to support new projects in the agribusiness sector for which it has an active pipeline. IFC is considering investment in the tea sector and currently providing advisory services. IFC also expects to be involved in the provision of financial services to the rural sector through the financing of a greenfield microfinance institution as well as through conventional financial services.

Social protection

91 **Rwanda has made important gains in protecting the most vulnerable groups by stabilizing their livelihoods and providing many with an exit from poverty.** IDA's support under this 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 support will be fully aligned with Rwanda's 2013 National Social Protection Strategy and the 2013 EDPRS 2, and carried out in close coordination with the other main donors in the social protection sector.

92 **IDA will support expanded coverage of Rwanda's social protection system, notably the flagship Vision 2020 Umurenge Program (VUP).** This program was launched in 2008 as the principal tool for reaching the poor and extreme poor and fostering an exit from poverty. The program has four main components: (a) direct support cash transfer program to support extremely poor labor constrained households; (b) public works component to provide wage-based temporary employment to poor households; (c) financial services for the poor; and (d) community sensitization and capacity building. The VUP direct support cash transfer program is present in 58 percent of sectors and currently serves over 44,000 households; the VUP public works program is present in 43 percent of sectors and currently serves over 89,000 households.

93 **An ambitious, ongoing expansion of VUP program coverage will be a core area of Bank support.** This expansion of coverage will be informed by strengthened poverty targeting to ensure that those most in need are served. Continued reforms to the poverty targeting system will be supported to ensure the prioritization of the poorest households, coupled with a priority expansion to sectors in the poorest 30 percent of districts.

94 **Reforms will also include a focus on early childhood development to help tackle the issue of inter-generational poverty, ensuring a strong base for Rwanda's future development.** Malnutrition affects over 40 percent of children under age 5 in Rwanda, and poverty is disproportionally concentrated among children. Ensuring sustainable graduation from poverty requires investments in productivity, beginning in the earliest years. These reforms will focus on the complements between income support and behavioral changes among parents to ensure that children receive both appropriate protection and are supported to make needed investments in health, nutrition and cognitive stimulation.

95 **Support will also include a continued focus on strengthening core service delivery elements central to the effective management and improved harmonization of Rwanda's social protection system.** This will include a focus on an improved management information system, a strengthened beneficiary registry, and improved payment systems in line with global good practice. It will also include a continued focus on increased harmonization and transparency across the main social protection programs, notably VUP, the Genocide Survivors Support Fund (FARG), the Rwanda Demobilization and Reintegration Program, and the Decentralization Funding Program. An emphasis on performance management, evaluation, and learning will connect support for reforms to analytical work on poverty, and will include work using the Integrated Household Living Condition (EICV) Survey to assess the benefit incidence and contributions of the flagship VUP program to poverty reduction.

96 **Neither IFC nor MIGA are likely to be heavily involved in the social protection sector,** but IFC's engagement in the microfinance sector and support for MSME through conventional bank financing provides part of the support needed as people exit out of social protection.

97 **Beyond the poverty–targeted safety net, smaller amounts of IDA are likely to be targeted towards other vulnerable groups.** This includes work to scale up a successful one-stop shop for victims of gender-based violence across the nation. It also involves a continuation of highly successful work with ex-combatants who had been fighting in eastern DRC against the Rwandan state. The latter provides support to ex-fighters seeking to give up weapons and resume more peaceful livelihoods and ensures that they have the tools and resources to reintegrate effectively into their communities.


Photo: World Bank

C. Theme 3: Supporting accountable governance through public financial management and decentralization

98 **Literature indicates that decentralization, done well, brings benefits to populations in terms of quality of service delivery and a stronger match between services needed and services provided.** Even with a decade of positive developments, the Government recognizes that much remains to be done to reach the country's goals in terms of democratic, participatory, local governance and effective citizen-centered service delivery. One of key priorities in the EDPRS 2 is to further improve the quality of service delivery through improved citizen participation. This will require greater administrative capacity (building skills, planning, M&E and PFM systems) and strengthened accountability for performance at the both central and subnational level. Subnational capacity building and PFM are considered foundational cross-cutting issues that need to be addressed to improve decentralized service delivery.

99 **Low volumes of revenues and a weak link between availability of district-level resources and service delivery indicators are major challenges for fiscal decentralization in Rwanda.** A powerful argument for decentralizing responsibility for service delivery to subnational governments is their proximity to and understanding of local needs. Sufficient fiscal resources and discretion over service delivery responsibilities are core features of effective decentralization, but discretionary revenues (sum of block grants and own revenues) in Rwanda constitute only 30 percent of total revenues. Earmarked transfers, over which subnational governments generally have limited control, account for more than 60 percent of total revenues. Service delivery indicators are only partially taken into account in the current allocation formulas.

100 **Progress on administrative decentralization varies across sectors.** The Government recognizes the need to improve the clarity of roles and responsibilities between national and subnational entities while

deepening the overall devolution of power. Beyond clarifying roles, however, there is an overwhelming need for strengthened capacity at subnational levels; there are challenges in recruiting, attracting, and retaining staff even in central government, but the constraints at subnational level are particularly trenchant.[17] These gaps affect priority sectors for service delivery, such as agriculture.

101 **There is an acknowledged need for further political decentralization, in particular intensifying citizen participation, expanding the role of civil society organizations, and encouraging fiduciary accountability.** The Citizens Report Card exercise (2012) revealed that citizen participation was particularly weak in areas such as participation in the district budgetary process (27 percent). One such participation mechanism, the Joint Action Development Forum through, for example, the broader use of ICT and community radio, could be backed up by stronger efforts to inform citizens on their rights to participate and by a legal framework for access to information. Fiduciary accountability systems at local government level require significant attention; weak internal controls in financial management and reporting are identified by the 2010 PEFA.[18]

102 **The Government has requested inclusion in the Bank's Global Partnership for Social Accountability (GPSA) program.** A call for proposals focused on the promotion of social accountability in service delivery resulted in several applications, though none from Rwanda has yet been successful. Government and Bank-financed investments alike would benefit from increased monitoring and oversight by non-state stakeholders.

103 **There are ongoing discussions with the Government regarding IDA support to Government's efforts to promote accountable governance.** Building on achievements made through the decentralized service delivery policy operation in 2013, a team is preparing a Program for Results (PforR) operation that would drive results in areas of public financial management, fiscal decentralization, statistical capacity, and open data. Government strategies and expenditure programs to promote accountable governance in these areas already exist and the team is currently constructing realistic disbursement-linked indicators from these strategies. IDA's work on accountable governance will be oriented, to a considerable degree, toward improving state effectiveness in local-level government. Synergies emerge in IFC's plans to decentralize its progress in investment climate work to local authorities. While the Government has made impressive strides in passing legislation that improves the investment climate, implementation can be patchy at local government levels (in particular with respect to local tax administration and some elements of investor aftercare). Transparent regulations, firm feedback mechanisms, and capacity building for local offices that deliver services to the private sector will be an important part of the investment climate work going forwards.

D. Across the three themes

104 **The process of preparing this CPS has been a joint one; and, though business plans are not firmed up yet, there are a number of concrete ideas on collaborative work among the WBG institutions.** IFC's likely focus on investments in horticulture/agribusiness, the financial sector and the infrastructure sectors (especially energy) provide a sound

[17] *The National Skills Audit in 2009 identified a 60 percent skills gap in the country and a serious shortage of human capital in the public sector with gaps concentrated in the professional cadre.*
[18] *According to the Auditor General's Report for Districts of 2011, none of 30 districts received a clean audit.*

basis for productive synergies within the WBG. Areas of cooperation include water supply, the power sector and agriculture. Increased use of MIGA guarantees offers reassurance for foreign investors, including investors into public-private partnerships, and thus can support the Government's efforts to attract foreign direct investment into the country. During the CPS period, MIGA will continue to seek opportunities to support private investments into Rwanda, in particular in EDPRS 2 target areas. In addition, MIGA's Small Investment Program offers political risk insurance that would be appealing to smaller and medium-sized investment in the agribusiness and tourism sectors. There are, however, limitations in the extent to which IFC and MIGA can "lead the market" since it is the existence of domestic and international sponsors looking to do specific deals that largely determine how their business volumes develop.

Regional integration: Foundation for future growth

105 **Rwanda's size and location will mean that stronger integration with regional economies will be vital for further growth.** There are two elements to this. The first relates to the need to expand markets for potential investors to turn "land-locked" into "land-linked" in the interests of competitiveness. Countries of the region represent potential markets for exports, managers of transport corridors, and facilitators of cross-border trade. Secondly, regional integration and cross-border investments will hopefully bring with it greater political stability and security in the region.

106 **Rwanda has expressed its interest in a number of cross-border investments in the Great Lakes region to make use of regional IDA resources.** These include the financing of hydropower generation on the borders with DRC and Burundi (Rusizi 1, 2, and 3) and improved transport connections (for example, the rehabilitation of Kamembe airport in the south-west, which serves a largely regional market). IFC and MIGA are also interested in engaging in such projects where a role for the private sector exists (for example, the Rusizi 3 Power Generation Project). Some of IFC's Rwanda-based clients already serve both the domestic market and those of neighboring countries, particularly eastern DRC.

107 **A prerequisite for regional integration and cross-border investment is regional peace and security.** Last year's signing of the Peace, Security and Cooperation Framework for the Great Lakes Region, the historic visit by the UN Secretary General and WBG President, and the recent defeat of one of many rebel groups in eastern DRC all provide a call for more stability in the region. However, an estimated 1,200 members of the *Forces Démocratiques de Libération du Rwanda* (FDLR) remain outside of Rwanda, primarily in eastern DRC. The continued presence in eastern DRC of FDLR and Rwandese associated with the 1994 Genocide is an ongoing destabilizing factor in the region and remains of great concern to the Government of Rwanda. IDA continues support to the Government in demobilizing Rwandan combatants fighting in eastern DRC and providing adequate resources to ensure ex-combatants reintegrate peacefully into their communities.

108 **Looking East, Rwanda has expressed interest in a number of projects that could provide faster access to the sea or more reliable access to affordable energy.** The longer-term health of the energy sector in Rwanda, with some initiatives underway, will require that they are able to purchase power from the sub-region. Likewise, improving

the functionality of transport corridors could enhance the competitiveness of Rwanda-based businesses. A pipeline for possible projects in the EAC is under preparation.

109 **IDA support to regional integration is strongly backed by the work of the wider WBG.** Beyond IFC and MIGA engagement in investments in cross-border, the investment climate work will continue with a tax law compliance project to improve the ease of doing business within the EAC and support on addressing legal inconsistencies with the EAC common market protocol as identified through the Common Market Scorecard.

Maximizing externalities for the development agenda

110 **Selectivity implies limited activity in some sectors that are of priority to reducing poverty** (refer to Table 2). The process of mapping donor financing to sectors results in a careful allocation of external financing across the Government's development goals and objectives. Annex 7 (and associated Tables 15 and 16) demonstrates the division of labor across donors and gives confidence that other sources of funds are being channeled into sectors where IDA is less active. Human development sectors, for example, are well-financed through multiple other sources.

111 **Inclusion of particular lenses across the WBG portfolio may help to maximize externalities for the development agenda and ensure that selectivity does not result in critical omissions from the WBG.** We do not foresee new standalone IDA investments in either skill development, ICT or climate resilience, but recognize the opportunities these sectors offer for a sustainable growth path. As part of the CPS preparation process, environment, education and ICT teams have advised on ways in which operations in priority sectors could seek to mainstream these issues across the portfolio. In the case of climate resilience, a study has been prepared that identifies the specific entry points under each sector for IDA engagement.

"How can you have good results, including sustained economic growth for more than a decade, peace and stability without its software, good governance? How can you have a corruption-free environment and accountability without good governance?"
~ Prof Shyaka Anastase

Photo: World Bank

VI. Implementation for results

112 **The Rwanda country program as a whole has a strong track record (the Completion Report rates achievement of objectives as "satisfactory"), and the portfolio is currently performing well (as it has done in the past).** There are no national IDA projects performing below a "moderately satisfactory" rating. The Government does not appreciate poorly performing projects and, in general, is swift to take action before projects become categorized as problematic. The Government's drive to deliver applies as much to IDA-financed operations as to domestically financed investments and the implementation of the portfolio benefits from the Government's focus on results.

A. Lessons learned

113 **A number of features have underpinned the strong performance of the portfolio and provide positive lessons for the future.** The Completion Report highlights the importance of strong Government engagement in the operations and investments. Operations in Rwanda are strongly directed by client demand, and this serves as a good foundation for solving problems as they arise during implementation. The move in the previous CAS toward fewer larger operations that were highly selective in terms of sectors of engagement allowed WBG to concentrate resources on achieving impact. This is an approach that has been carried through to this CPS. An effective architecture for Government-donor dialogue has assisted donors to avoid some of the pitfalls of duplication that exist in other countries and has actively promoted strong collaborative mechanisms across donors.

114 **The draft Completion Report has captured lessons where projects have not performed so well.** For many projects, procurement processes become a bottleneck. The lack of skills and high turnover in procurement staffing on the government side requires constant hand-holding by Bank staff to avoid delays. On the Bank side, the lack of skills based in the Rwanda office limits participation

by procurement staff in Bank missions and undermines efficient mission planning. The procurement team in the Rwanda office is currently being strengthened to better tackle the workload. Investments managed by country-based task team leaders tend to perform better than those led from a distance. National projects, which tend to perform much better than regional projects, are more likely to be managed from within country and in part because they tend to be simpler in design.

115 **There has been less success than foreseen in mainstreaming capacity building across the portfolio.** In practice the portfolio has tended to deliver on capacity building more with respect to implementing WBG investments than tackling more systemic skill deficits. This CPS is taking a more deliberate approach to integrating skills building across the operational portfolio.

116 **Consistent with their positions on bilateral budget support, some shareholders became less supportive of delivering IDA to Rwanda through budget support.** Until recently, budget support has been a highly effective instrument for the delivery of predictable, flexible financing to a reform-minded government that spent the resources well. This trend changed last year, when several bilateral development partners either suspended or delayed their budget support. This sudden switch in position brought with it delays to delivery of IDA that in turn caused severe fiscal difficulties. Though the revenue shortfalls were well managed by the Government, subsequent budget cuts have taken their toll in the form of depressed growth rates.

117 **Given the change in attitudes towards budget support, the Government has asked the World Bank to consider alternative, more predictable modalities for delivering IDA in the future.** This new partnership strategy anticipates different combinations of instruments that might both protect the Government from volatility in financing flows and, at the same time, still offer some flexibility in the financing that is delivered. While the previous CAS was anchored around budget support, this new CPS proposes less emphasis on development policy instruments. In its place, the Government has requested that WBG disburse part of their IDA17 allocation in the form of program for results (PforR) operations. While the previous CAS disbursed 66 percent in the form of budget support, this CPS is likely to disburse the same proportion as a mix of PforR and development policy operations.

B. WBG portfolio

118 **The current IDA portfolio in Rwanda comprises 8 IDA projects and 3 budget support operations with net commitment of $575 million with undisbursed balance of $328 million, as of mid-April 2014.** With the inclusion of trust funded operations, the number of projects rises to 9, net commitments to US$640 million and the undisbursed balance to US$355 million. Rwanda also participates in 5 regional projects with a national commitment amount of at least US$189 million. Annex 10 provides an overview of the portfolio. IDA16 allocation for Rwanda was SDR400 million which is approximately US$617 million, a 54.7 percent increase from IDA15 (SDR258.5 million).

119 **IFC has 10 deals outstanding in Rwanda with committed volume of US$38.34 million.** IFC envisages that its investments will rise to US$120 million by the end of the CPS period, the bulk of which would be in the financial sector. IFC expects to engage in the financial sector through a local

currency credit line and local currency bond issue and to support the establishment of a microfinance bank. In the infrastructure sector, IFC has identified likely support to the Rusizi 3 power-generation project, Lake Kivu methane extraction projects, and Kigali Bulk Water Supply. With respect to manufacturing, IFC is considering investment for a mix-use commercial building in Kigali. In agribusiness, IFC intends to support the tea sector and horticulture either with direct investments and advice, or indirectly through partner banks. IFC's Advisory Services portfolio has been highly valued; the Rwanda Entrepreneurship Development Program, the Rwanda Investment Climate Program, and the Efficient Security Markets Initiative (ESMID) have been particularly useful.

120 **MIGA currently has two active (KivuWatt and Bakhresa Grain Milling) in Rwanda with total gross exposure of US$110.1 million.** MIGA remains open for business in Rwanda across all of its political risk insurance product lines, including Transfer Restriction, Expropriation, Breach of Contract, and War and Civil Disturbance, as well as the Non-Honoring of Sovereign Obligations.

C. Proposed lending and knowledge work

121 **IDA allocations for the CPS period have not yet been determined and remain indicative.** However, the assumption made during CPS preparation is that allocations going forward will be similar to those in the past. As such, the team is expecting to commit

TABLE 3: Proposed Lending Program

	FY14	FY15
Accelerating economic growth that is private-sector driven and job-creating		
Agriculture	50.9	
Agriculture (P4R)		100.0
Rural Feeder Roads	45.0	-
Energy (Regional)	113.3	90.0
Improving the productivity and incomes of the poor through rural development and social protection		
Support to Social Protection System	70.0	65.0
Demobilization and Reintegration (AF)	8.8	
Women's Health and Empowerment	10.0	
Supporting accountable governance through public-financial management and decentralization		
Public Sector Governance (PFM, Decentralization and Statistics) (P4R)		100.0
Total	**298.0**	**355.0**

Note:
(i) The outer year pipeline will be firmed up during CPS progress report preparation
(ii) Should the commitments proposed in FY15 be high relative to actual allocations, there may be scope to accommodate these higher levels through front-loading from FY16 and FY17

approximately US$200-250 million a year during IDA17[19], likely spread across three investment operations, 2 PforR operations, and 1 series of three development policy operations. Proposed lending for the coming year is presented in Table 3. Actual allocations will depend on (a) total IDA resources available; (b) the country's performance rating, GNI per capita, and population; (c) the terms of IDA assistance (grants/credits) and the allocation deductions associated with Multi-lateral Debt Relief Initiative (MDRI) annual debt service foregone; (d) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (e) the number of IDA-eligible countries.

122 **In Rwanda, with a results-oriented leadership, it seems sensible to re-balance the portfolio to disburse against measurable and verifiable results.** The agriculture sector and decentralization agenda are strong candidates for trying this approach to IDA delivery, which is as yet untested in Rwanda. Two operations are already under preparation. It is hoped that the tighter linkage of financing to results will give all Board members confidence that IDA is being used for delivery of developmental goals.

123 **Tracking results, whether at CPS or project level, requires strong statistical systems which can generate high-quality data in a timely fashion.** The building blocks for a sound statistical system are largely in place in Rwanda, with a strong statistical agency that conducts high-quality household surveys (Box 3). These

BOX 3: If you can't count it, it doesn't count...

The National Institute of Statistics of Rwanda (NISR) was established in 2005. Since its inception, NISR implemented two Integrated Household Living Conditions Surveys (EICV), two Demographic and Health Surveys (DHS) and one interim-DHS, two Comprehensive Food Security and Vulnerability and Nutrition Analysis Surveys, one Population and Housing Census, three National Agricultural Surveys and many smaller surveys covering specific topics. The Institute also produces on a regular basis the Consumer Price Index (CPI) and a host of other routine economic statistics. Together with development partners, the World Bank is supporting the NISR in its rapid development through its contribution to the basket fund for the National Strategy for the Development of Statistics.

NISR produces core economic statistics (national accounts and CPI) on a regular and timely basis. The CPI is published each month on the NISR website. National accounts are on quarterly basis and published on the NISR website by the 15th of the previous month of the subsequent quarter. The National Bank of Rwanda produces monetary statistics on a monthly basis. Monetary statistics are regularly published on the BNR website while trade statistics are available upon request. Fiscal data are produced on quarterly basis by the Ministry of Finance (MINECOFIN). Since 2012, they are unregularly published on the MINECOFIN website

NISR has been remarkably constant in the production of key data. Censuses are implemented every 10 years (last one in 2012) and every five years there has been a large socioeconomic household survey (EICV) with data on poverty (2001, 2006, and 2011). The next poverty survey is scheduled for 2013/14. DHS surveys were implemented in 2000, 2005, and 2010, with an interim one in 2008. The next DHS is planned for 2014/15.

[19] *Should the commitments proposed in FY15 be high relative to actual allocations, there may be scope to accommodate these higher levels through front-loading from FY16 and FY17.*

surveys provide data on many of the results that are important for tracking progress against Government strategies. Most notably, there is a Living Standards Management Study (LSMS)-style survey about to go into the field (the third in its series), and another survey planned for 2016/17. As such, WBG will be well placed to track important social and poverty outcomes over the timeframe of this CPS framework. The WBG will continue to support the development of these systems over the framework period, including improving the quality of administrative data that might be important for measuring results in any PforR operations.

124 **The country team proposes a mid-term review of the five-year CPS after 2.5 years.** This will provide an opportunity to revisit the strategy and propose course adjustments, should they be needed. The team has proposed a results framework for the CPS, which is aligned with the EDPRS2 and has the support of IFC and MIGA. A summary is included in Table 4 and an elaborated version is available in Annex 1.

125 **Analytical work will, for the large part, be used to inform and support the lending program.** Nevertheless the WBG will continue to undertake AAA and knowledge work in other excluded areas outside the core six areas of operation where our engagement is considered to have spillover effects on our current focus areas. As examples, this might include mining, regional integration, ICT and skill development. An indicative program for AAA and knowledge work is presented in Table 5.

Table 4: Summary of CPS 2014-18 results framework

Theme 1: Accelerating economic growth that is private-sector driven and job-creating	Capacity Building, ICT, Gender, and Environment
Outcomes: • Increased generation and access to electricity • Development plans for secondary cities developed • Improved environment for private sector investments • Increased integration into the EAC regional markets	
Theme 2: Improving the productivity and incomes of the poor through rural development and social protection	
Outcomes: • Improved agriculture productivity and sustainability • Improved access of rural/small farmers to inputs, financing and markets • Improved agriculture value chains/linkages • Improved rural roads condition and connectivity to market centers • Enhanced local government tax generation and administration • Enhanced effectiveness and expanded coverage of social protection system	
Theme 3: Supporting accountable governance through public-financial management and decentralization	
Outcomes: • Improved delivery of decentralized services • Strengthened accountability	

TABLE 5: Proposed AAA program

FY2014	FY2015
Theme 1: Accelerating economic growth	
• Rwanda Economic Updates • Joint Staff Assessment Note • FPD Policy Notes	• Urban Sector Note • Energy Sector PER • Rwanda Economic Updates • Investment Climate (includes competition policy and other PSD) • Financial Sector Strengthening and Inclusion
Theme 2: Improving productivity and incomes of the poor	
• Agriculture Policy Note • Land Sector Study • Health Systems Strengthening - IE	• Rwanda Jobs and Employment Study • Agriculture Sector Dialogue • HD Dialogue • Developing a Child Sensitive SP System
Theme 3: Accountable governance	
• Support to Capacity Building	• Public Sector Governance (NLTA) • Rwanda use of country systems
Cross-cutting knowledge work	
• Poverty Assessment • Competition Assessment	• Social and Economic Monitoring • Poverty Assessment • Development of Risk Profiles

126 **Contributing to the broader knowledge about what works to eradicate poverty in Rwanda, impact evaluation has been, and will continue to be, an important element of the portfolio.** Several of the ongoing and planned operations have, or plan to have, gold-standard impact evaluation components, which are being managed in collaboration with DIME (Box 4). This is true of WBG work in agriculture, rural roads, and access to energy, and the work with the Adolescent Girls Initiative. The development policy operation series in the social protection has likewise supported Government-led impact evaluation work.

"We cannot afford to lose our natural heritage through environmental degradation. Our very survival and that of future generations depends on the sustainable use of ourenvironmental resources"
~ Vincent Karega


Photo: World Bank

VII. Managing risks

127 **The main internal risks to growth and poverty reduction arise from variable climatic conditions and the private sector response to government reforms.** Agriculture is the main employer and driver of poverty reduction but remains vulnerable to the vicissitudes of unpredictable weather patterns and regional droughts and floods, which can significantly affect output and progress on poverty reduction. Stepping up measures to make agriculture more climate-resilient, for instance through the construction of irrigation facilities and terracing, will be important for attaining EDPRS 2 targets. More broadly the hope for even more rapid GDP growth rests on the private sector (including external investors) stepping up to the plate, and in recent years the response has been a touch muted.

128 **The main external risks relate to the pace of regional integration and the potential for regional conflict, more-rapid-than-expected tapering of donor inflows, and a prolonged slump in the global economy.** As a landlocked country, Rwanda is critically dependent on closer integration with its neighbors to facilitate imports and exports and drive economic growth. While strong progress on regional integration could drive economic growth across the region and boost regional stability, renewed tensions and conflict could stall integration—adversely affecting Rwanda's plans to become a regional hub—as well as donor flows with adverse implications for growth. Rwanda's high reliance on foreign aid makes its development strategy vulnerable to reductions in aid flows. While Rwanda is fairly insulated from the global economy a prolonged slump would nevertheless have a negative impact on growth prospects through lower demand for goods and services, as well as through more constrained availability of external financing.

We have everything to gain by opening up to new ideas. In our quest to empower our people and enable them to fulfill their potential, we simply need to keep adapting. And, as it is often necessary, we need to do things differently"
~President Kagame

Photo: World Bank

VIII. Conclusions

129 **The resources of the World Bank Group are modest relative to the ambitions and challenges implied in the strategic plans of the Government of Rwanda.** Using these resources to maximum impact demands selectivity and high levels of collaboration between the sister organizations. If WBG is going to maximize efficiency in delivery, resources will have to be delivered through a mix of instruments that balance the need for Government flexibility in the use of financing against the concerns of certain shareholders who believe that tracking of funds is useful.

130 **The proposed WBG strategy to engage in energy, urban, agriculture, financial sector, social protection, and accountable governance optimizes the resources of all WBG elements.** With the possible exception of the accountable governance work, both IFC and IDA resources will be used in all of these areas, and considerable overlap with MIGA's own priorities. The process of preparing this CPS has clarified multiple areas for close collaboration and presents a coherent "One Bank Group" approach to supporting Rwanda's development over the next five years.

Annexes

Available at http://www.worldbank.org/africa/rwanda/cps/annexes

Annex 1: Results matrix
Annex 2: CAS completion report
Annex 3: A diagnostic of growth, poverty, and shared prosperity
Annex 4: Rwanda and the MDGs
Annex 5: Counting Rwanda: the state of statistics and data
Annex 6: Environmental review of challenges and opportunities for Rwanda to grow sustainability
Annex 7: Donor coordination
Annex 8: Client and stakeholder consultations
Annex 9: Selected indicators of bank portfolio performance and management
Annex 10: Operations portfolio (IBRD/IDA and grants)
Annex 11: Statement of IFC's held and disbursed portfolio
Annex 12: Rwanda at a glance
Annex 13: IFC investment operations program

NOTES