I. Country and Sector Background

1. The social protection (SP) sector in Rwanda has evolved in recent years, with the Vision 2020 Umurenge Program (VUP) being one of the three flagship programs under the government’s Economic Development and Poverty Reduction Strategy (EDPRS-1, 2008-2012). During the implementation of the EDPRS-1, the Government has shown its enhanced commitment to pro-poor reforms and has been supported by the increased involvement of the World Bank and other development partners in the SP sector. The next strategy (EDPRS-2, 2013-2017), which is currently being developed, continues to emphasize SP, particularly contributing in the rural development pillar. The strategy also regards SP as an important vehicle for sustaining the positive human development outcomes achieved under the first Poverty Reduction Strategic Paper (PRSP 2002-2005) and the EDPRS-1.

2. In January 2011, the Government approved a comprehensive National Social Protection Strategy (NSPS) that aims to establish a comprehensive and integrated SP system for existing and future SP programs. The overall objective of the NSPS is to “build a social protection system that tackles poverty and inequality, enables the poor to move out of poverty, helps reduce vulnerability and protect people from shocks, helps improve health and education among all Rwandans, and contributes to economic growth.”

3. SP spending adjusted for inflation increased more than 13 times in real terms between 2004 and 2010/22, and spending on cash transfers alone has expanded more than 14 times, which is a reflection of the higher priority that has been given to the sector in terms of government spending. Total public expenditure on the SP sector reached 2.8 percent (social safety nets) and 8 percent (broader social

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protection programs) of total expenditures in the 2009-10 budget. The Government remains committed to the sector and has developed a financing strategy that includes a medium-term expenditure framework (MTEF), incorporates both on-budget and program financing, and features renewed donor commitments.

4. While Rwanda has made serious steps towards addressing its development challenges in recent years by significantly reducing poverty (with a notable acceleration over the last five years), 44.9 percent of the population still lives below the poverty line. According to the results of the Third Household and Living Conditions Survey (EICV3, 2012), poverty decreased by 11.8 percent between 2005/06 and 2010/11, from 56.7 down to 44.9 percent. Extreme poverty also declined from 40 percent in 2000/01 to 35.8 percent in 2005/06 and then fell considerably to 24.1 percent in 2010/11. The provision of social services and public goods is steadily increasing, which is reflected in the country’s laudable progress towards achieving related Millennium Development Goals (MDGs), with expanding the delivery of health and education services being only one example.

5. While these improvements are widely acknowledged as remarkable, poverty remains high, particularly among households with many children, and child malnutrition continues to affect a significant number of Rwandans. The EICV3 found that households in the poorest quintile are on average larger by one person than those in the highest quintile, and contain more dependents (infants, children, and elderly people). Households that rely on farm wage labor continue to be among the poorest and have largely missed out on the benefits arising from the poverty reduction trend over the last 10 years. In addition, climate-related risks exacerbate the problems faced by the extreme poor who rely primarily on rain-fed agriculture for their subsistence. Many households also face considerable health risks despite the fact that mutual health insurance covered over 68 percent of the population in 2010/11. While climate-related risks are expected to increase over time and to particularly affect the poor and vulnerable population, the government is committed to mitigating these risks, through policies like the ones supported by this loan that involve early warning systems and a disaster response framework.

II. Operation Objectives

6. The Second Support to Social Protection System (SSPS-2) is the second of a three programmatic development policy operation. The Program Development Objective (PDO) is to support the GoR’s efforts to enhance the effectiveness and expand coverage of its social protection system. The SSPS series supports the establishment of an integrated social protection system that will harmonize and expand selected safety net programs, improve their targeting and evaluation, and increase their links with other services, all designed to reduce extreme poverty and increase equitable growth.

7. The proposed SSPS operation will support four main thematic policy areas in the SP sector: (i) strengthening policy development and management capacity of the SP sector; (ii) integrate SP management information systems (MIS) for main SP program; (iii) establishing operational links between SP and early warning systems; and (iv) expanding the coverage and enhancing the harmonization of SP interventions in the country. It supports more equitable and effective sharing of resources among the population and different programs respectively and seeks to reduce the number of shocks experienced by the poor. Additionally, it seeks to enhance poor people’s capacity to cope with shocks when they occur.

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3 Rwanda is one of Africa’s most densely populated countries with an estimated population of 10.1 million. The population density was estimated in mid-2008 at 364 persons per square kilometer, the highest in the Africa Region (with the exception of one island in the Comoros). “Demographic Growth and Development Prospects in Rwanda: Implications for the World Bank”, June 2009.
and it aims to deal preemptively with the effects of climate change by strengthening public agencies and establishing an overarching social protection system (SPS).

8. **Under the first SSPS (SSPS-I), approved on March 29, 212, specific policy actions included:** (a) the establishment by Cabinet of the Rwanda Local Development Support Fund (RLDSF); (b) the finalization of policy guidelines for MINALOC’s two-tier Social Protection Sector Working Groups; (c) deciding on a policy framework for institutionalizing an electronic, national Social Protection Management Information System, (d) the roll-out of the already piloted VUP appeals and complaints mechanism to all operational VUP sectors; (e) the approval of a roadmap and estimated budget for the full coverage of the VUP Direct Supports and Public Works components, which will be scaled up to 60 Sectors and 30 Sectors in 2012, respectively; and (f) the establishment of an institutional framework for sharing of data, dialogue and implementation of linking early warning systems to the SP programs. The SSPS-2 was fully disbursed on June 26, 2012.

9. **Building on the SSPS-I, the SSPS-2 proposes the following policy actions:** (i) adoption of a strategic plan for strengthening capacity at central and local government levels – to improve policy development, program design and implementation of social protection interventions; (ii) adoption of policy guidelines to mainstream SP into broader development dialogue through Joint Action Development Forums (JADF) at districts – to enhance management capacity at district and sector levels and facilitate more effective implementation; (iii) introduction of a district poverty ranking in select number of sectors in each district for VUP scale-up from FY12/13 based on the latest household and living condition survey (EICV03) – to strengthen effectiveness in reaching extremely poor geographical areas; (iv) approval of the MIS electronic platform following a detailed MIS requirement assessment – to facilitate monitoring and evaluation of main SP programs; (v) revision of the VUP appeals and complaints mechanism and extension of their implementation to the Genocide Survivors Support Fund (FARG) and Rwanda Demobilization and Reintegration Program (RDRP) SP programs – to enhance their effectiveness and governance; (vi) development of policy guidelines on how SP programs should respond to disaster risks in the context of the National Disaster Management System; (vii) approval and commencement of implementation of policy guidelines to harmonize cash transfer interventions of the RLDSF, FARG, and the RDRC to promote efficiency and coherence in the sector; and (viii) approval of a revised labor-intensive public works strategy that will increase uptake of beneficiaries by widening the scope of public works coverage and introducing flexible work opportunities for women.

10. **A total of 12 indicators have been identified to measure the progress of the NSPS policy reforms supported under the three-year programmatic SSPS operation.** Baseline and target values for each year have been established, against which annual actual values will be measured.

### III. Rationale for Bank Involvement

11. **The World Bank has been supporting the social protection sector in Rwanda over the last six years.** The SSPS-I provided US$40 million in support. The earlier US$30 million Community Living Standards Grant/Credit series supported policy reform in the two areas of social protection and health. In social protection, the program supported the introduction of an integrated social protection program under its VUP program that includes provision of public works opportunities, cash transfer (direct support) and financial services to poor citizens in the poorest areas of the country, covering 120 Sectors by July, 2011. Additionally, the US$20 million Decentralization and Community Development Project (DCDP) supported the Government’s decentralization strategy and helped build-up local capacity to identify community priorities, develop and plan local programs, and contribute to their implementation and operation. Also, the proposed SSPS series complements Rwanda’s Eight Poverty Reduction Support
Financing that supports Rwanda’s policies and institutions aimed at attaining the sustainable growth needed to become a middle-income country by 2020.

12. The proposed Rwanda SSPS series forms an integral part of the Government’s NSPS. It seeks to consolidate the existing programs into a social protection system that tackles poverty and inequality, enables the poor to move out of poverty, helps build human capital, improve health and education among all Rwandans, and contributes to economic growth.

13. The proposed operation contributes to the strategic outcomes of the Bank’s Country Assistance Strategy (CAS) for Rwanda. As its second strategic theme, seeks to reduce social vulnerability by ensuring that the most vulnerable Rwandans also benefit from growth and by helping Rwanda make further progress in building a more stable society.\(^4\)

14. The SSPS series’ policy support is aligned with the Government’s EDPRS-1, under which VUP is a flagship program, and the forthcoming EDPRS-2 that emphasizes SP contributions to rural development. It is also paralleled with Technical Assistance (TA) support provided by other development partners (DPs) and the Bank (presently through the Rapid Social Response Trust Fund). The two series complement each other in a structural and collaborative way, and are fully coordinated with the core development partners in Rwanda.

15. The proposed SSPS program is fully aligned with the World Bank’s Africa Strategy\(^5\) (supporting its second pillar on vulnerability and resilience) and with its global\(^6\) and Africa Social Protection Strategies.\(^7\) Consistent with the two latter strategies, the program aims to consolidate policy reforms and enhance the performance of the SP programs in Rwanda in line with the three main principles of prevention, protection, and promotion.

**IV. Tentative financing**

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**Total** 50

**V. Tranches (not applicable)**

16. The SSPS is a three-year, programmatic Development Policy Operation. The disbursement of SSPS-2 will be made in a single tranche.

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VI. Institutional and Implementation Arrangements

17. Ministry of Finance and Economic Planning (MINECOFIN) and the Ministry of Local Government (MINALOC) implement the SSPS-2 operation. MINECOFIN has overall responsibility for coordinating the completion of policy actions and thus final responsibility for progress in implementing the proposed SSPS operation and coordinating the completion of actions. MINECOFIN’s Development Planning Unit is responsible for overall monitoring and evaluation (M&E) of the Government’s poverty reduction programs. Its Budget Monitoring and Reporting Team ensures that component sector spending plans developed with general budget support are incorporated into the national MTEF and subsequent budget.

18. MINALOC is responsible for the implementation of the NSSP. The recently established Rwanda Local Development Supports Fund (RLDSF) under MINALOC oversees activities and manages the VUP program. Two other key programs, Genocide Survivors Assistance Fund (FARG) and Rwanda Demobilization and Reintegration Program (RDRP), are also under MINALOC. Additionally, District governments are responsible for implementation of SP programs at local government level and perform important roles related to program finance and information flow. The Sector-tier (Umurenge) of local government has responsibility for the implementation and coordination of VUP as one of its major activities; and liaises and cooperates with the cell tier of local government in planning and implementing public works activities and in managing and oversight of direct support. The village (Umudugudu) tier of local government plays important roles in beneficiary and sub-project selection to be financed by VUP. Financial management and reporting responsibilities are distributed across these tiers of government.

VII. Risks and Risk Mitigation

19. Key risks that could jeopardize the expected program’s outcomes and benefits are: (i) Country-specific risks, (ii) vulnerability to external shocks; (iii) fiduciary risks; and (iv) program-specific risks.

20. Country risks: Despite Rwanda’s stable internal security and political situation, the perceived state of political governance and human rights in Rwanda could have an adverse impact on macroeconomic stability, including through a reduction in aid flows. Success in mitigating this risk will partly depend on Rwanda’s continued strong engagement with the international community. The Bank will continue to support the strengthening of governance within the parameters laid down in its Updated Strategy and Implementation Plan for strengthening governance and tackling corruption (March, 2012). The Bank’s engagement in Rwanda will also include ongoing participation in the Joint Governance Assessment (JGA) process and its support for strengthening the capacity of civil society and private sector actors.

21. External shocks: Rwanda’s short- to medium-term outlook is vulnerable to external shocks as large trade imbalances and a heavy reliance on donor assistance persist. The government recently developed a National Export Strategy to address its trade imbalances and is committed to protecting priority spending from any potential reductions in overall spending by increasing its revenue mobilization efforts. However, it appears that heightened uncertainty in the global economy, including volatile commodity prices and export demand, and the potential adverse impact of the sovereign debt crises in Europe will persist. The proposed SSPS-2 operation will contribute to the mitigation of external shocks in the SP sector by supporting the momentum of key reforms in the sector. In the context of the Low-Income Country (LIC) Debt Sustainability Analysis (DSA) framework, the Bank will continue to monitor the evolution of Rwanda’s debt indicators, which are currently below the thresholds.

22. Fiduciary risks: Fiduciary risks are deemed to be low, given that Rwanda has established a very good track record of reforms. These risks are further mitigated through the second phase of the Public
Financial Management reforms, which is part of the Government’s second Economic Development and Poverty Reduction Strategy (EDPRS-2) reform program.

23. **Program-specific risks include:** (i) the country’s limited capacity, especially for implementing interventions in a decentralized environment; (ii) the potential for the program’s benefits to be received by non-eligible recipients as the program expands; (iii) a lack of data on the program’s outcomes and performance and a lack of funding for a robust impact evaluation to inform future policy development; and (iv) unpredictable financing, especially from external sources. To mitigate these risks, MINALOC is taking multiple steps, some supported under the SSPS-2 reform program and by other development partners. These steps are: (i) the development of a strategy to build capacity at all levels including staffing and skills development among staff; (ii) the design of an integrated MIS for the main SP programs, which is an integral part of the NSPS to underpin and strengthen monitoring and evaluation (M&E) and facilitate targeting; (iii) the development of a new communication strategy to disseminate information about the program to policymakers, implementers, and beneficiaries and to strengthen communication of results both locally and internationally; and (iv) the revision of guidelines for both geographical and household targeting to reach the poor more efficiently, and the definition of broad parameters for starting an impact evaluation starting with a baseline survey next financial year. Additionally, the sector is working to finalize a long-term financing strategy for the sector that will include a rolling medium-term expenditure framework to be updated annually during the period of the EDPRS-2, which will minimize the risk of unpredictable financial commitments for the sector in the medium term.

**VIII. Poverty and Social Impacts and Environment Aspects**

**Poverty and Social Impacts**

24. *The proposed policy reforms are expected to contribute to the overall objective of the NSPS to reduce poverty, vulnerability, and severity of shocks.* They will do so by supporting the government’s efforts to build SP systems that will allow the efficient and predictable delivery of transfers to the extremely poor segments of its population while contributing to equitable growth and a reduction in extreme poverty. The proposed policy reforms also build on the existing government commitment under the VUP “to eradicate extreme poverty by 2020 through [the] acceleration of poverty reduction.”

25. *The EICV3 Thematic Report on Social Protection*\(^8\) *affirmed that the Ubudehe community targeting mechanism is effective in reaching poor households in the VUP participating sectors, although there is still room for improvement.* World Bank field trips confirm that local citizens deem the *Ubudehe* credible. While the EICV3 data collection took place three years after the VUP had started, thus making it difficult to gauge the program’s impact with certainty, the impact of the program on the population seems to be positive, with strong results being visible at the grass roots level. A monitoring and evaluation survey\(^9\) indicated that the *Ubudehe* system is identifying poor households well. However, there is scope for strengthening the system to avoid any potential exclusion.

26. *Analysis of the 2009 VUP survey data showed that extreme income poverty had fallen by 3.9 percent since 2006 from 39.0 percent to 35.1 percent across all VUP sectors.* This reduction was much greater in the more dynamic first cohort of pilot sectors, for which the extreme poverty rate fell from 35.7 to 25.6 percent. This reduction of 10.1 percent was twice the reduction in the two other cohort sectors.

27. *Another analysis of the data revealed that direct support is having a significant and pronounced impact in increasing the food consumption of poor households, which may also be having positive effects*

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\(^9\) October-December 2009 in 90 sectors (30 sectors from each cohort of VUP sectors).
on the nutritional status of beneficiary households. On the other hand, public works are not having the same significant impact on the food consumption of beneficiary households. While there is no clear explanation of why this is happening, it might be due to the limited coverage of the public works program and/or the few days of work provided due to the relatively low labor-intensity of some projects.

28. A 2010 qualitative assessment conducted by UNICEF revealed that the perception of the VUP program is consistently positive among beneficiaries. UNICEF found that the VUP had helped households to become eligible for other government programs, such as the Savings and Credit Cooperative (SACCO) and the health scheme. Fifty-four percent of VUP beneficiaries reported spending their benefit (or their intention to spend it) on food commodities. Beneficiaries also reported using these funds to purchase productive assets such as livestock (24.5 percent), health products (19.9 percent), farm inputs (18.3 percent), and education (13.1 percent).

29. The establishment of an integrated national MIS will accelerate the harmonization, alignment, and consolidation of separate MISs and will establish a strong evidence base for regular M&E. This MIS will also be the underpinning for the impact evaluations that are now envisioned to be conducted regularly while also facilitating the creation of links between SP programs and early warning systems, enhancing timely responses to social and disaster risks and climate change adaptation, and enabling better management of shock-induced and poverty-related vulnerability.

Environment Aspects

30. Specific policies supported by the SSPS-2 are not likely to cause significant effects on Rwanda’s environment, forests and other natural resources if adequately managed. Any likely adverse effects are expected to be minor and manageable through the existing Government framework in place for the SSPS-I areas of support.

31. Additionally, the SSPS operation relies on: (i) an extensive Environmental Assessment and Social Analysis that was undertaken during the first Poverty Reduction Support Grant (PRSG-1) and remains relevant; (ii) continued strengthening of the overall framework for environmental management in Rwanda; and (iii) environmental management assessments undertaken in the context of other Bank projects to address potential environmental concerns.

32. The proposed operation is therefore not expected to have significant adverse effects on the environment. As such, the operation complies fully with the requirements of OP 8.60.

IX. Contact point

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10 Under Operational Policy 8.60, on Development Policy Lending, the Bank is required to determine whether specific country policies supported under the operation are likely to cause significant effects on the country’s environment, and, in the event of such likely effects, assess country systems for reducing any such adverse effects and enhancing such positive effects. In the event of significant gaps in the analysis, or shortcomings in the country systems, the Bank is required to identify how such gaps or shortcomings would be addressed before or during program implementation, as appropriate.
**Borrower**
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