Country Case Study 5: Assessment of the MTEF in Rwanda

John Short
Repim, UK

Overseas Development Institute
London

May 2003

This study forms part of a multi-country study assessing the design and application of the medium-term expenditure framework (MTEF) as a tool for poverty reduction in selected African countries.

It was commissioned by the Africa Policy Department of the
Department for International Development (DFID) U.K. in collaboration with the European Commission DG Dev

odi Centre for Aid & Public Expenditure

Contents

1. Background

The Public Expenditure Review of 1997/98 undertaken jointly by the Government of Rwanda (GoR) and the World Bank recognised the potential advantages of introducing a medium term framework for expenditure management. The existing budget was of an incremental nature, focusing on inputs, relying on centralised controls and had a sharp separation in the planning of the recurrent and development budgets. In particular, the PER recognised that converting strategic objectives into concrete expenditure targets would inevitably require large shifts in the allocation of sectoral expenditures, which was urgently required given the aftermath of the 1994 Genocide. Such shifts would be impossible to achieve over the course of one annual budget and would be difficult to manage in the absence of a medium term expenditure framework.

The PER recommended a gradual shift towards an MTEF system, starting initially with steps to:

- decentralise budget authority from the Minister of Finance to the sector Ministers (and thence to section heads within the sector Ministries);
- improve the effectiveness of budget monitoring and expenditure control, particularly with regard to the salaries budget; and
- improve the information base for the evaluation and reform of sector policies and programmes through selective reviews of public expenditure in each sector.

The impetus in implementing the MTEF was twofold. The first centred on the sector reviews supported by the World Bank. The second was the entrance of DFID as a significant bilateral donor when in July 1998 it examined the possibility of providing direct budgetary support to Rwanda. As a result of this examination, DFID supported the sector studies in Education, Health and Water and Sanitation as well as the development of a Position Paper in January 1999 for implementing the MTEF as the focus of budget reform.

Within Government, the Ministry of Finance (MINECOFIN) and the sectoral ministries were involved with the process. Changes in the budget law were introduced to permit decentralisation of budgetary authority. In parallel, measures were taken within the Ministry of Public Service and Labour (MIFOTRAV) to tighten up recruitment procedures, eliminate ghost workers and set realistic targets for the public service establishment and for the aggregate wage bill.

As recommended in the Position Paper, a "Design and Implementation Group" for the MTEF was established in March 1999 to manage the design and implementation of the MTEF reform. Membership of the DIG includes staff, advisers and consultants working in: MINECOFIN (Minister's Cabinet and the Departments of Budget, Macroeconomic Policy, Strategic Planning, Statistics, Public Accounting, and Treasury); CEPEX; NPRP; MINALOC; and MIFOTRA. Day to day management of the MTEF reform is the responsibility of the Budget Preparation Department (BPD) within MINECOFIN, working in conjunction with NPPR, CEPEX and now also MINALOC and MIFOTRAV. In its support to the MTEF, DFID has provided a MTEF Co-ordinator who works with the BPD.

The DIG meets frequently but not always regularly (8 meetings in 2000 falling to 4 in 2001). Attendance varies and has ranged from 6 to 19 people. At the end of each of the last two budget years there has been an annual review workshop/retreat to review the implementation of the MTEF. In 2001, the retreat also addressed the role and functioning of the DIG itself.[1]

[1] Due to reduced frequency of meetings (partly due to the seniority of members), DIG is to be redesigned into a smaller technical group with named membership. The secretariat for the DIG continues to be the Budget Department of MINECOFIN with the Chairmanship rotating between departments in order to encourage greater commitment. Recommendations of this technical group are

During the preparation of the 2000 budget, certain elements of the MTEF were put into practice, notably:

- the use of a medium-term fiscal framework for the definition of expenditure ceilings;
- the development of sector and programme "profiles" which served to sharpen the definition of sector policies and strategies, to improve identification of programme outputs and to strengthen the basis for prioritisation between programmes; and
- the consideration of recurrent and development activities together, evaluating submissions for each budget against the same sector and programme profiles.

In addition, steps were taken to improve information and understanding of the MTEF concept. A workshop was held in August 1999 to explain the MTEF to Secretary-Generals and Directors of Finance and Administration and a briefing note on the MTEF was widely distributed.

During the course of 1999, a second round of Sector Expenditure Reviews was completed in the Health and Education ministries. This permitted closer analysis of the expenditure and output data originally compiled in 1998 and its comparison with new data on development and recurrent expenditures. A more careful analysis of unit costs was undertaken and attention devoted to the policies, which would influence the future pattern of unit costs, as well as the quality and breadth of coverage of services. A first review of public expenditures in the Justice Sector was completed over December 1999 and January 2000 with support from the EU with a more MTEF focused version being produced in August 2000 with DFID support. In May and June 2002, sector reviews of Transport and Agriculture were carried out with support of the World Bank

These various measures have laid the building blocks for the GoR to move towards the implementation of the Medium Term Expenditure Framework. The Government decided to introduce the system during the year 2000 so that it might apply for the three-year period 2001 - 2003. The DIG was responsible for the preparation of the Plan of Action 2000-2002 to implement this policy decision with DFID support in January 2000. DIG manages its implementation. This was followed by DFID providing a full time MTEF co-ordinator over a 2-year period (extended to a third year). Appropriate technical and financial support to implement the Action Plan was also provided.

The introduction of the MTEF encompassed the whole of the Government (central, provincial and districts) through the development of a strategic planning model, which was the basis for training and project development. All elements of Government have now participated in training in the use of the model and its application to budgeting, and budgets have been prepared in this format.

There is a danger that certain aspects of the current budget implementation process, particularly those emanating from adoption of a cash budget, could lead to opposition from Ministries and Agencies to the MTEF as they do not get cash releases in line with the budget. While this is not a fault of the MTEF, the association of the MTEF and the Budget is strong, so budget inadequacies are also attributed to the MTEF. Up to now, this opposition has been relatively muted, but could pose problems if the source is not rectified. Likewise the institutional weakness in CEPEX that has led to the Development Budget not being adequately recorded requires attention not least because of its relative size. The danger of CEPEX not delivering could generate opposition to the MTEF because the demands that the MTEF makes on CEPEX as an institution.

---

then to be presented to the weekly meeting of the Directors of MINECOFIN chaired by the Minister to ensure widespread endorsement.

2. The MTEF Process and Organisational Framework

The MTEF process and calendar, including the points at which the MTEF and annual budget links are presented in the following Figures 1 and 2 and Table 1. The PRSP interprets the long-term goals of the Vision 2020 into a planning framework for the country and defines priority areas and actions. These actions are then implemented, under the framework of the MTEF, in the annual budget at the sector and local levels.

Figure 1: Linkages in the Planning/Budgetary System

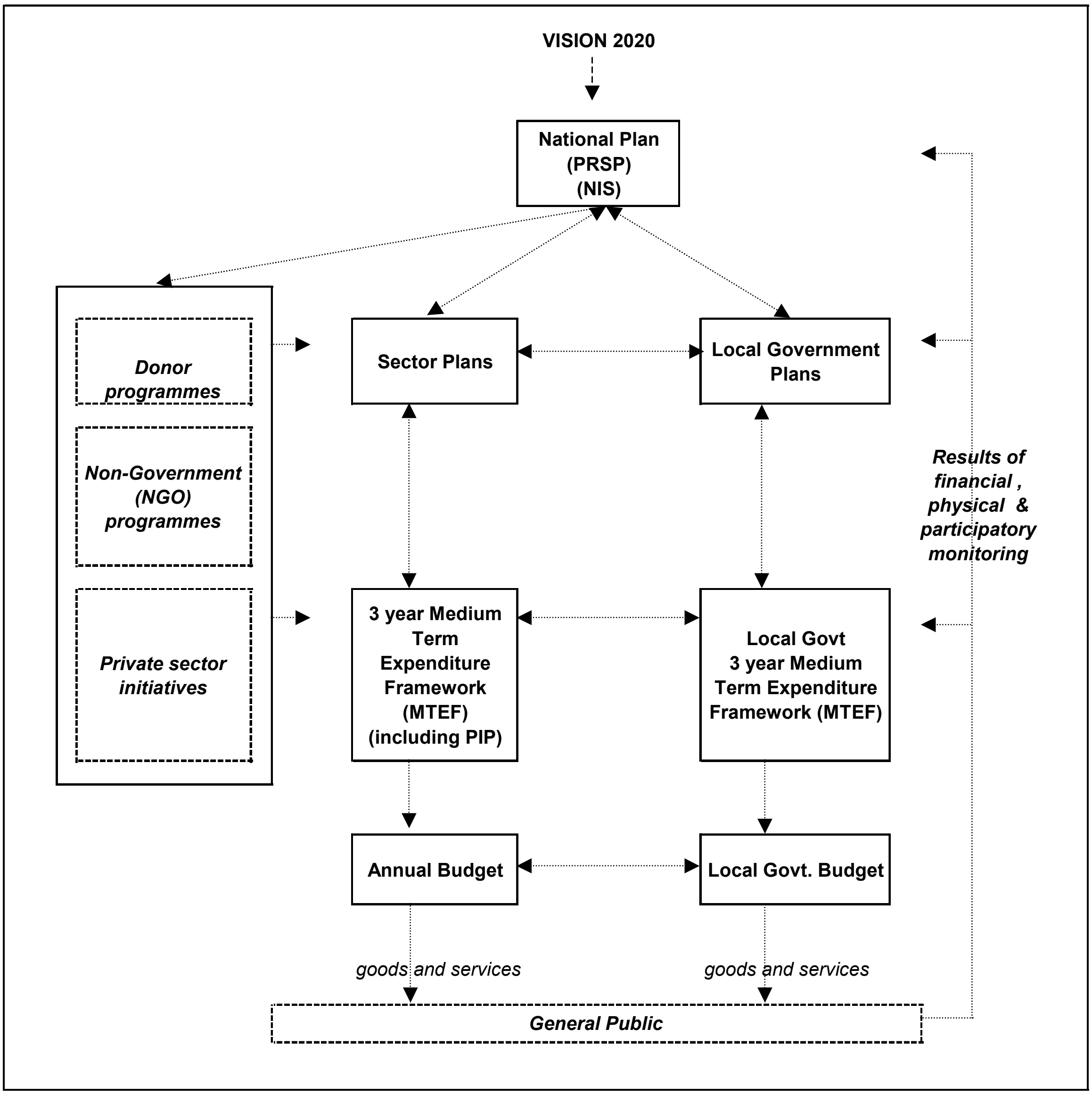

Figure 2: Key Stages of MTEF Preparation

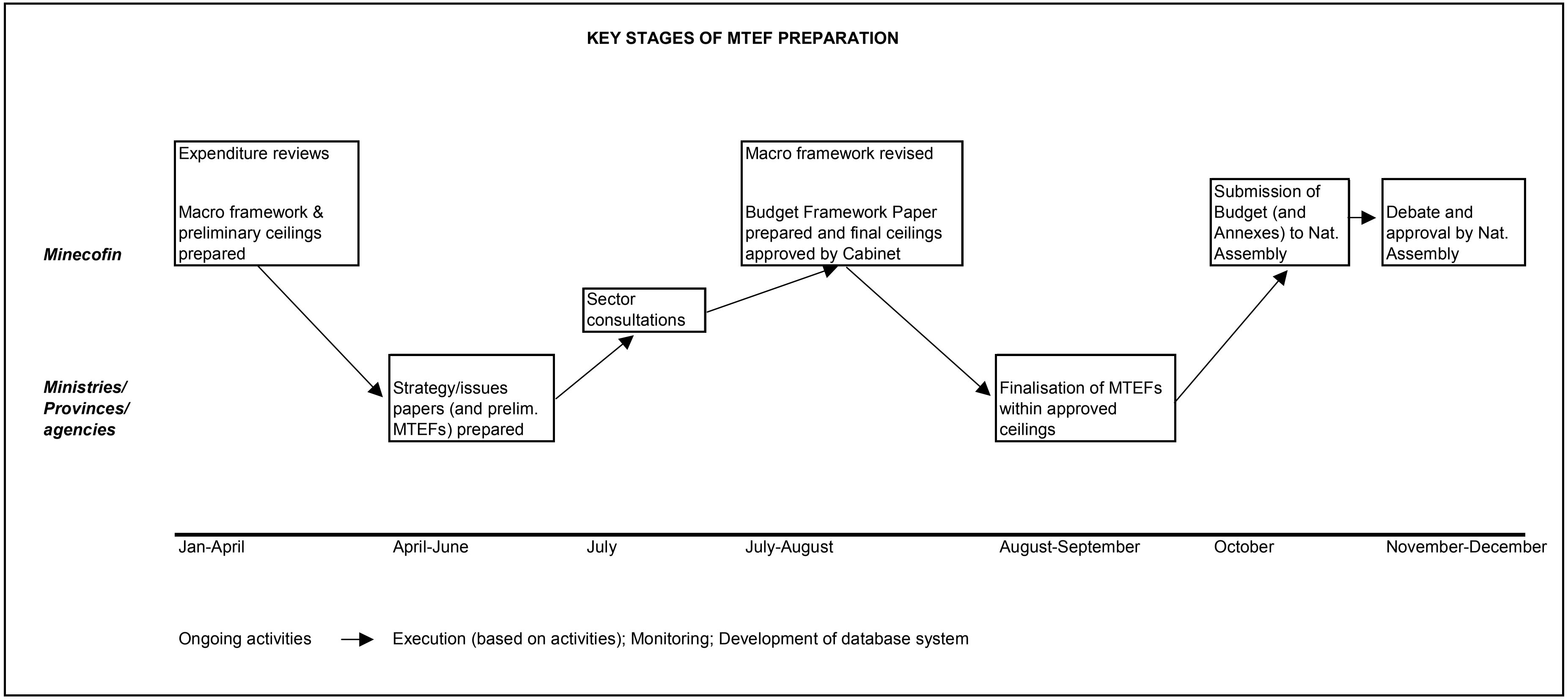

Table 1: Minecofin Calendar for Budget Preparation during 2002

Month	Activity
Jan-Apr	• Review of actual revenue and expenditure outturns against previous year budget, including both domestic and external finances • Prepare preliminary macroeconomic framework and expenditure ceilings
Feb/ March	• Start of NPRP training programme for community level action planning • National Poverty Profile finalised
Apr-May	• Training workshops (run jointly by Budget, Cepex, SP/PR, Minaloc) for Ministries/agencies and Provinces, covering strategic planning, MTEF preparation (including review of existing MTEFs; review of sectoral versions of PRSP) • Facilitate District training (possibly combined with Province training) • Follow up Ministry/Province preparation of preliminary strategic issues papers and MTEFs - to be submitted by early June • Introduction of quarterly performance monitoring system for budget outputs – to be piloted in 3 Ministries and 2 Provinces • Submission of PRSP to World Bank for endorsement
June	• Consultations with Ministries/Provinces (at Minister level) by broad sector groups on medium term priorities and constraints
July/Aug	• Consultations with IMF on finalisation of macroeconomic framework • Preparation of draft Budget Framework Paper (BFP) • Consultation with Ministries/Provinces/donors on draft BFP • Submission of BFP to Cabinet for approval • (consider submission of final BFP to National Assembly)
Aug	• Distribute Budget Call Circular with Ministry/Province draft expenditure ceilings as approved by Cabinet in BFP and timetable for budget hearings • Ministries and Provinces finalise and submit draft MTEFs
Sep	• Budget & PIP analysis and consultation between Ministries, Provinces and Minecofin
Oct	• Consultations with IMF on draft budget estimates • Submission of draft Finance Law to Cabinet for approval • Finalisation and submission of Finance Law and budget documents (Overview Paper, Background to the Budget, Budget Speech) to National Assembly for approval • Draft PIP to be circulated with budget documents
Nov	• Donor conference
Nov-Dec	• Debate and approval of Finance Law by National Assembly • Production of annual Poverty Indicators Table

The main players who take part in MTEF preparation are the Divisions of Budget, Treasury, Macroeconomic Planning and Strategic Planning of MINECOFIN as well as CEPEX. The MTEF unit is a part of the Budget Division. Line Ministries are also involved in the preparation of their individual budgets. MINALOG (Local Government) is responsible for decentralisation aspects. At present the formulation of the budget and the MTEF are one and the same.

The Macro-economic Division prepares the macro framework from which the resource envelope and preliminary sector ceilings are derived by examining the previous allocations, statutory (fixed) expenditures, policy changes etc,. A preliminary Budget Call circular is distributed which is then followed by sectoral consultations. The Budget Division (particularly the MTEF unit) prepares the Budget Framework Paper, which is then approved by Cabinet. Approved ceilings by Cabinet (after internal debate) are transmitted to the Line Ministries for finalisation of budget submissions. CEPEX assists on the preparation of the development budget. Other participants feed into the process as required.

However, due to institutional weaknesses in CEPEX, the capture of data for the development budget is a concern, as it means that a large part of the budget is subject to uncertainty. Donors too are part of the problem because of unwilling/inability to provide information on a timely manner, but it is essential that CEPEX can resolve this issue expeditiously. This has had a knock on effect in that the integration of recurrent and development expenditures into a unified current and capital budget is taking longer than it should. The lack of firm and comprehensive data on the development budget (mainly donor projects) means that it is difficult to formulate strategic discussion on the overall expenditure framework and at the sectoral level.

There is a National Poverty Reduction Programme, which has its own unit within MINECOFIN. It interacts with the other players in the budget and MTEF process so that all are implementing the same priority programmes as developed in the PRSP.

The Minister of Finance presents the Budget Framework Paper, which includes ministerial ceilings (for each of the MTEF years), to Cabinet. The ceilings have to be approved by Cabinet and these form the basis for the annual budget. Any subsequent alterations during the budget process are only made for the budget year and are not carried through to the subsequent MTEF years. This reflects both the early stage of MTEF implementation (only in its third year) and the lack of stability in the resource envelope at present. Although the priorities, as expressed in the budget and the MTEF are respected, the uncertainty over revenue (especially donor funding releases) has meant that changes in allocation may be made to reflect the resource reality. The National Assembly must approve the final budget, but it does not consider the MTEF. If there is any revision to the budget, this is first approved (or further revised by cabinet) and then is approved (or revised) by the National Assembly.

At this stage of its development, the MTEF is not rolled out. The out years are indications of expenditure that would have to be incurred to continue existing policy. The annual budget is still the focus of resource allocation, but the link to the MTEF methodology is considerable as the same resource allocation techniques are employed in both processes.

The IMF plays an important part in the process, which must not be underestimated, as the fiscal deficit (and therefore its two aggregates, expenditure and revenue) has to be agreed with the IMF. Rwanda has an IMF PRGF programme and therefor has to have agreement on key targets contained in the fiscal framework. This guides other bilateral and multilateral donors. While this process of negotiation should take place within the budget cycle, agreement may not be reached. Even though a budget may be passed by Parliament (as in 2002), the IMF did not concur with the fiscal deficit implications. This became the subject of intense negotiations and once agreement was reached, a revised budget, reflecting these, was prepared and presented to Cabinet and subsequently to the National Assembly for approval.

The budget calendar for the 2003 budget has established a time for IMF consultations prior to the formulation of the budget (as an input into the process) and a wider donor conference (dissemination) prior to the debate and approval of the budget by the National Assembly.

While the charts present an ideal, the reality and the ideal are reasonably close in practice. There has been some slippage (by roughly one month) in the timetable due to the time taken to get agreement with the IMF on the macro economic aspects of the 2002 budget. But these negotiations have set the frame for the 2003 budget. While the chart also indicates how external players (donors, NGOs etc.) to Government interact, not all of their activities are captured in the process. Sector reviews attempt to establish what these relationships are and map them out as well as measure them in monetary terms.

3: MTEF Structure and Coverage

The time frame covered by the MTEF is 3 years. The out-year expenditures reflect the indicative expenditure on the policies and programmes in the initial (budget) year. They do not represent a forward budget. There is an attempt to include all expenditure funded by domestic revenue and donors, but donor funded projects are, as yet, still not fully accounted for. Work is on going to rectify this, but the lack of full information on donor funding is a severe hindrance to the implementation of the MTEF.

The resource envelope is made up of domestic taxes, fees and charges, donor grants (programme and project) and domestic and international borrowing.

The budget and the MTEF structure and system have been reformed, revised and developed hand in hand and are fully compatible. The format is based on 4 broad functional groupings (governance and sovereignty; production and environment; infrastructure, and human and social development), within which there are 14 sectors (e.g. health), and 32 Votes (20 ministries/agencies, e.g. Ministry of Health (MINISANTE and 11 Provinces and Ville de Kigali). With each vote there is a multiplicity of programmes (basic health service) and sub-programmes (public hygiene). There are activities within each sub-programme (purchase and use of insecticides), each with its economic classifications (wages and salaries).

Table 2: Programmes and sub-programmes within the MTEF Structure

	Health	Education	Agriculture	Defence
Programme	Specialist interventions for major health problems	Pre-primary and primary teaching	Agriculture Production	Rwanda army
Sub-programme	Fight against HIV/AIDS	Inspection	Protection of vegetables	Equipment Maintenance
Activity	Supply of medicines	Meeting of all inspectors and directors	Inspection of imports and domestic production for disease	Purchase of equipment and spare parts

4. Basis and Process of Setting Resource Projections

The Macroeconomic Division in MINECOFIN prepares a forward fiscal framework based on extrapolation of the past. The IMF prepares its projections on its own assumptions and its model. The two are compared and agreement is reached. MINECOFIN as yet do not have any model of the economy. A consultant is currently assisting with the development of such a model.

The MTEF aggregate fiscal position is determined from the above as is the PRSP resource envelope. The PRSP, however, used three scenarios. The initial one was based on the “agreed” IMF-MINECOFIN fiscal framework. A second, more expansionary, scenario added some RWF 50 billion per annum to the base case, while a third, the unconstrained case, assumed that funding was not a constraining factor in PRSP service delivery. The only constraints that were imposed were of physical and implementation capacity. Which scenario can be implemented will ultimately depend on the fiscal deficit consistent with the IMF programme. In this regard, there is a continuum of scenarios with three being explicitly presented as representatives of differing fiscal positions.

Forward projections are prepared on assumptions made by both IMF and MINECOFIN, feeding in the basic available data on the individual categories. Some data are based on existing agreements (e.g. debt, budget support), agreements under discussion and projections (revenue).

The Overview of the Budget document and Revised Budget documentation, such as the Explanatory Note to the Revised Budget (2001 and 2002) provided detained analysis of deviations to the budget. The reasons are varied based on the actual situation. Shortfalls in domestic revenue and donor receipts, as well as expenditure requirements are cited, as appropriate. The timing of donor budget support has been a problem, which has caused both a downward revision of expenditure in 2000 and an upward shift in 2001 when the 2000 pledges were released. As Rwanda operates a cash budget[2] and cannot borrow to smooth out irregular revenue flows, adjustment to expenditure is the only option.

Table 3: Budget vs Actual Expenditure

Rwf Billions	2000	2001	2002	2003	2004
Total Resources					
Budget Framework 2001	136.40	156.40	142.90	165.90	
Budget Framework 2002		187.44	228.64	207.10	209.71
Domestic Tax and non tax					
Budget Framework 2001	66.70	82.40	96.30	109.70	
Budget Framework 2002		83.93	93.52	107.10	122.10
Actual	68.700	86.20			
Total Expenditure					
Budget Framework 2001	136.40	156.40	167.90	183.80	
Budget Framework 2002		187.44	228.64	237.80	265.30
Recurrent Expenditure					
Budget Framework 2001	84.40	94.20	102.30	110.00	
Budget Framework 2002		104.20	125.85	132.10	150.50
Actual	96.01	126.07			
Development Expenditure					
Budget Framework 2001	46.30	56.80	64.10	73.70	
Budget Framework 2002		56.83	61.89	72.80	80.00
Primary Surplus/Deficit					
Budget Framework 2001	-6.00	-13.20	-32.20	-27.30	
Budget Framework 2002		-2.40	-12.08	-10.30	-13.70
Overall Deficit					
Budget Framework 2001	-6.60	1.10	5.30	8.50	
Budget Framework 2002		-17.79	-42.87	-53.08	-71.80
Financing Gap					
Budget Framework 2001	0.00	0.00	25.00	17.90	
Budget Framework 2002		0.00	0.00	30.70	55.60

For Budget Framework 2001, 2002 and 2003 projections exclude unconfirmed budgetary grants and loans; this distorts figures for the total deficit and the overall deficit compared to 2001. For Budget Framework 2002, 2003 and 2004 projections exclude unconfirmed budgetary grants and loans; this distorts figures for the total deficit and the overall deficit compared to 2002. For both frameworks the initial year's figures are based on best estimates.

[2] Introduced on 1st January 2001 to control the accumulation of arrears and accommodate the uncertainty of donor flows.

5: Basis and Process of Setting Aggregate Limits and Broad Allocations

MTEF sectoral/agency allocations are applied directly in the setting of expenditure limits for the budget year. In past agreements with the IMF, targets were set for some individual aggregates (such as wages and salaries) which had to be included in the sectoral ceilings. This has now been discontinued in the PRGF, although there is a broad poverty programme expenditure target set as a percentage of GDP and also targets for military spending, overall deficit, net credit to government and arrears.

The MTEF ceilings for the budget year and the next two years are set out in the Budget Framework Paper (BFP). This is discussed in Cabinet. During the course of the discussion, changes are made, but only to the budget year. The out years are not subsequently altered to reflect these changes so the process starts with the budget as the base rather than the first of the out years in the following year's BFP.

The key-determining factor in the setting of expenditure limits is the budget deficit. This is the cornerstone of the PRGF agreement with the IMF. In formulating the 2002 Budget the Government linked the PRSP and the available resources to produce a poverty-reducing budget. This resulted in a budget deficit of 13% of GDP. This was much higher than the IMF considered prudent from a consideration of debt sustainability, donor dependency (ratcheting up) and Dutch Disease. Donor resources were held up until an agreement with the IMF was reached.

A new budget deficit target was agreed and a revised budget was formulated based on expenditure cutting and domestic resource augmentation compared to the original budget. Given the estimates for domestic resources and the allowable budget deficit, the overall expenditure ceiling is established. The recurrent expenditure ceiling is set by an examination of the PRSP and a target of 6.1% of GDP to priority anti-poverty programmes (with a 0.1% augmentation annually over the programme). Development expenditure ceilings are set with reference to the PRSP and its anti-poverty projects, committed funding (with a priority to grants) and counterpart fund requirement.

The MTEF limits and the Budget limits are set in the same way. The initial year's (the budget) limit and allocation are debated and reviewed by Cabinet and eventually revised and are issued in the Budget Call Circular and the Background to the Budget. There is a PIP, which covers a three-year period (with annual allocations) and this is translated into the annual development budget as well as the MTEF. Indicative ceilings are given to line Ministries in the Budget Call Circular, which forms the basis for budget negotiations.

Initial budget allocations are generally subject to revision during the budget formulation process, as negotiations takes place. In 2001, there were additions to the President's Office, which reflected the newly created Commissions. There were included in the budget, but not in the out-years of the MTEF.

The overarching policy guideline is the PRSP. However, given Rwanda's past history, there are expenditures such as the Victims of the Genocide Fund that get set allocations (5% of domestic revenue). There are also exceptional expenditures (demobilisation, gacaca (grassroots courts), Kigali Institute of Science and Technology, for example) which are also given priority as well as statutory expenditures such as debt servicing. The newly instituted decentralisation process has a requirement to allocate 10% of domestic revenues to the Community Development Fund and 1.5% to District Transfers. Outside of these allocations, the normal political process determines the shares between ministries. Donor influences do sway the process, but donors support for the PRSP as the Government's policy statement means that there should be agreement subject to meeting the concluded macro framework. This agreement is important as it influences the flow of funds from donors. However there are other conditionally that also bears on releases – the EU for instance, delayed releases due to issues relating to gacaca.

The Budget and the MTEF are strongly linked, with the budget having much more importance. At present the MTEF documentation serves the annual budget process. The MTEF process is only in its infancy. The forthcoming budget will be only the third since the initiation of the MTEF process. The cash budgeting process effectively undermines the MTEF as it generates the element of uncertainty that the MTEF is meant to eliminate. However, the PGRF also provides an opportunity to implement the MTEF as it can create the certainty of a framework within which to operate.

Outputs, but not outcomes, are set in the strategic planning model that underpins the budget and the MTEF. Each sub programme has an output and activities and inputs specified to achieving this output. These outputs are not set, as yet, as performance targets, but are being introduced with this in mind when the MTEF as a process begins to mature. The background documentation for preparing the budget includes output targets, but these are not contained in the published budget, which is the legal document.

Table 4: Output targets

Sector	Output
Education	100 nursery teachers are trained by August each year
Agriculture	Fish production grows from 6,966 tonnes in 2000 to 12,470 tonnes in 2004
Health	90% of the population are sensitised to problems of TB in 2004

Outputs are specified based on the logic of the programme and the targets are set in line with the availability of resources for the programme. The indicators that are used are to be the same for the PRSP, the MTEF and Budget. A monitoring system is being established with joint monitoring between the Budget (outputs), PRSP (quality factors and perceptions) and Office of Statistics (data). Workshops have been devoted to monitoring. The PRSP process itself has been consultative.

6. Policy, Planning, the MTEF and Budgeting

Policy issues related to the budget, MTEF and PRSP are now handled in the same fora. The Minister of Finance has been initiating policy consultations at the sectoral level with Ministers through four groups covering (i) social, (ii) production and infrastructure, (iii) law and order and (iv) administration and governance. The output of these deliberations of this process is included in the Budget Framework Paper. The BFP is considered at Cabinet.

As part of the PRSP and MTEF, issue papers relating to each ministry are being prepared within the annual budget process. Sector reviews have also been carried out to address existing policies and to develop new policies. The Ministry of Finance has been actively involved in these sector reviews with the relevant line ministry. The World Bank has also involved in sectoral policy. SWAPS have not been cultivated for sectoral development; though donor involvement in a sector is a key factor in how planning in a sector evolves. While both DFID and SIDA support the education sector directly, this is not through budget support, but more in line with a project approach. Line Ministry Planning Departments have required strengthening; those with donor support have been strengthened by dint of this involvement. These also tend to be those where sector reviews have taken place. The strengthening the budget process through the MTEF (and PRSP) is likely to mean that the SWAP process will be eschewed.

Policy formulation usually is initiated at the line ministry, which is then forwarded to Cabinet for consideration. The idea will be discussed/debated and modified where appropriate and will be returned to the line ministry for refinement. It will go back to Cabinet for final adoption. If it requires a change in the law, it will have to be passed by the National Assembly, and then to the Constitutional Court. The responsible minister would take the law to the President for assent and then to be gazetted. In fiscal areas, because there is an IMF programme, the IMF must approve of the use of additional revenue raised, and how the programme targets may be affected.

7. Basis and Process of Organisational Expenditure Planning

Sector ministry ceilings are set at the centre by the Ministry of Finance and then are considered at Cabinet. Within sector ministries, the various bureaucratic divisions prepare their budgets, which are then consolidated. These should respect the ministerial ceiling. Budget hearings are held between the Ministry of Finance and the sector ministries individually which generally leads to a revision if the sector ceiling has been exceeded. Recurrent and Development Budgets are prepared separately with CEPEX involvement with the Development Budget. Proposals are guided by the PRSP as applied to that ministry.

The sector planning models developed as part of the MTEF underpins the MTEF and the budget for ministries, provinces and districts. Budget presentation to the Ministry of Finance follows this format: programme; department; sub programme, output; activity and article (economic category) for each agency.

Ceilings are presented by broad groupings for each Ministry and Province: salaries, goods and services (broken into priority programmes and normal programmes), transfers and exceptional expenditure for recurrent spending. Development programme ceilings are presented by external and domestic financing. For the externally financed budget there are no strict ceilings as such. The main constraint is that there is a signed, approved financing agreement with an eternal donor. Parliament votes on the whole budget, which specifies a vote by organisation broken down into programme, sub programme and economic category in the recurrent budget and projects by organisation broken down into external and domestic financing.

The BFP stipulates that "budget submissions by ministries which exceed the ceilings approved by Cabinet will not be accepted by Minecofin during the budget hearings". In reality they do not get rejected, and the line ministry has to resubmit within the ceiling. The budget negotiation is about introducing flexibility and allows the individual case to be presented. Performance indicators have as yet to be introduced.

The PRSP was subjected to a costing exercise based on specifying inputs by activity and applying unit costs to these inputs. These were then aggregated to provide costings for sub programmes and programme at the Ministerial level rather than at the sectoral level. The current round of the budget is extending the same methodology to the whole budget. All of this is submitted to the Ministry of Finance as part of the background documentation for both the budget and the PRSP. This is information sent to the Ministry of Finance is consolidated at the line ministry level within the budget submission avoiding the Ministry of Finance being swamped with data and having to consolidate it itself. The Ministry of Finance can always question the validity of data and assumptions if needs be.

Priority sectors are protected from cuts in the cash budget compared to normal expenditure categories. These are defined in the PRSP and are the basis for the MTEF and the budget. In the IMF programme, the agreed priority programmes have 6.1% of GDP allocated to their recurrent expenditure and this is to increase by 0.1 percentage points annually over the lifetime of the programme.

8. The MTEF and the Budget Execution

In a typical year the budget is revised after six months. The Ministry of Finance will prepare a budget overview paper; this will be submitted to Cabinet and taken to the National Assembly. The alterations are generally related to the revenue situation – either a shortfall or excess, usually concerned with donor releases.

Table 5: MTEF and budget execution

	2001 Budget	2001 Revised Budget	2001 Execution
National Assembly	**906.2**	906.2	857.2
PRESIREP	4049.4	4099.4	4843.9
PRIMATURE	433.0	433.0	422.7
COURS SUP	708.0	1158.1	1430.
MINADEF	25005.7	26005.7	28868.2
MININTER	4554.2	4854.2	4634.5
MINAFFET	2808.5	2808.5	2504.2
MINAGRI	1706.4	2357.5	1747.5
MINICOM	687.4	687.4	692.6
MINECOFIN	28351.4	36651.4	28238.3
MINIJUSTE	1649.4	2649.5	1755.4
MINEDUC	25562.3	27419.2	30442.8
MIJESPOC	935.7	1016.7	983.0
MINISANTE	4147.1	4647.1	5339.4
MINITRACO	2549.5	2549.5	2359.0
MIGEFPOF	451.1	451.1	477.1
MIFOTRA	373.4	373.4	423.9
MINITERE	405.8	555.8	495.2
MINALOG	7794.2	8221.2	9160.8
MINERENA	397.1	497.1	395.9
Total	113475.8	128342.0	126072.3

Source: Revised Budget documentation and MINECOFIN

The reason for supplementing the 2001 budget given in the accompanying letter to Explanatory Note to Supplementary Budget for 2001 is that "some of the expenditure cash ceilings approved under sufficient budget lines have been insufficient. The budget execution for the first half of the year clearly shows that expenditure in some specific areas, including social and priority programme areas, need to be availed more funds if they are to operate with minimum disruption between now and the end of the year. ……We will be able to cover these….from the excess disbursements of external budgetary support obtained in late December 2000, which could not be applied then to meet budget expenditure in 2000 as they were received at the end of last year." Comparison of budget execution with the revised budget indicates some differences. The reasons for this may be further virement during the latter half of the year. However, neither the 2002 Budget Overview nor the 2002 BFP and 2002 background to the Budget allude to such a possibility. However, these documents are prepared before the end of the fiscal year and the actual expenditures are not known. In general the presentation of expenditure tends to be centred on the budget and revised budget by

Vote rather than actuals in the documents. The projected outturn is presented by items (wages, good and service, etc.) rather than by Votes.

The explanatory note to the 2002 revised budget presents much different reasons for the revision, but does not present any tables which shows the revisions that have been made. The text expresses changes by item rather than vote. The reason for the 2002 mid term revision centred on macro economic issues and getting back on track with the IMF and to ensure debt and fiscal sustainability, particularly not being overly dependent on external resources.

While the rules for reallocation are being revised in the development of new Financial Instructions, the Loi du Finance sets out a structure for virement: the Ministry of Finance can authorise virement from the wages to wages category, as well as goods and services to goods and services category. The National Assembly must authorise transfers between the recurrent and development budgets and between wages and other spending categories.

There is a monthly report (the Flash report) on expenditures and revenues as part of the IMF programme. There is no monitoring of physical output. There are quarterly performance targets in the IMF programme that are monitored relating to the augmented current balance. In the course of the year the Parliamentary Commission for Economic and Budget Affairs can summon the Minister of Finance to explain expenditure situation on three occasions. A plenary session of the National Assembly also examines the Finance Law and budget execution on a quarterly basis.

The budget is presently implemented on a cash basis so theoretically (and in practise) ministries cannot exceed the budget allocation. The online SIBET (computerised vote, commitment and expenditure book) should also ensure that over expenditure cannot take place. These have been put in place to avoid the accumulation of arrears that had taken place in the past.

The information generated by SIBET is used by the Government and the IMF to monitor the IMF programme. Decisions on adherence to the programme are made using this data which suggests that both parties are happy with SIBET as a functioning system.

9. The MTEF and the Poverty Reduction Strategy

The chart in Section 2 shows the integration of the PRSP, MTEF and the budget. The fact that both the PRSP and the MTEF commenced at around the same time and are located within the Ministry of Finance has led to their development hand-in-hand. This has allowed priority poverty reductions programme to be identified as part of the process within the MTEF for mainstream funding rather than being ring fenced in a poverty reduction fund. There is an element of ring fencing, as these programmes are protected from potential cuts caused by cash shortages.

PRS priorities were developed through a wide-ranging consultation process. A unit within the Ministry of Finance, the National Programme for Poverty Reduction was established. A Steering Committee chaired by the Secretary General of Finance with members from nine key ministries and agencies at SG level was established. This committee reports to the Prime Minister who then promotes it within Cabinet. The priority programmes were determines after a consultation process with the community and through a national seminar. The outcome was a selection of strategies that lead to growth, but with programmes that do not have unsustainable running costs.

The PRS is presented with three scenarios based on the base case, which is tied into the IMF programme, a constrained scenario, which injects additional donor resources and a financially unconstrained scenario. All of these scenarios are conditioned by what is physically feasible.

Government is currently carrying out a Poverty and Social Impact Assessment (PSIA) to examine the possibility of moving from the base to the unconstrained scenario without jeopardising the objectives of the PRGF macro targets. As the PRSP is to be implemented through sector strategies based on the identified priorities through the MTEF, financing it within the IMF programme is a critical consideration. The PRSP is to be revised in two years and its financing is to be linked to the MTEF cycle.

The linkages between the MTEF (embodied in the budget), the PRSP and the PGRF puts a practical resource constraint to the PRSP, and forces it to be implemented with respect to resource availability. Indeed the debate between the IMF and the Government on the size of the fiscal deficit and the ongoing research in the PSIA suggests that the PRSP is to be implemented with due recognition of a resource constraint.

The MTEF's monitoring is to be as follows:

Table 6: Monitoring indicators for development and poverty-reduction objectives

Problem	**Indicator and target**	**Source and frequency**
Increase incomes and consumption	Prevalence of poverty: Reduce the population below poverty line from 60% to under 30% in 2015	Consumption budget survey, every 5 years
Control population growth	Reduce the population growth rate from 3.2% to 2.5 % in 2010	Demographic and health survey, every five years
Control fertility rate	Reduce the total fertility rate from 6% to 4% by 2010	Demographic and health survey, every five years
Reduce maternal mortality	Reduce the maternal mortality rate from 810/100.000 to 202/100.000 by 2015 Make reproductive health services available to all	Demographic and health survey, every five years
Reduce infant and child mortality	Reduce infant mortality rate from 107 to 35/1000 by 2015. Reduce child mortality	Demographic and health survey, every five years
Increase literacy	Increase net primary enrolment from 72% to 100% by 2015	Consumption budget survey, every 5 years
Economic growth	Achieve real annual GDP growth of 7-8% until 2020	National accounts, annual

The main risk management is the protection of priority programmes in expenditure revisions or cutting exercise necessitated by shortage of funds. The IMF supported programme also has an expenditure to GDP target for poverty focused programme.

The PRSP was subjected to a costing exercise based on specifying inputs by activity and applying unit costs to these inputs. These were then aggregated to provide costings for sub programmes and programme at the Ministerial level rather than at the sectoral level. The current round of the budget is extending the same methodology to the whole budget. All of this is submitted to the Ministry of Finance as part of the background documentation for both the budget and the PRSP. This methodology is to be used in the MTEF.

Rwanda has reached the HIPC decision point. A Special Account will be set up for funds released when the Completion Point is achieved. These will be used through the budget following the PRSP and the MTEF.

The districts and provinces have all received training on the strategic planning model used in the MTEF. The PRSP is to guide the district plans in setting priorities.

10. The MTEF and Local Government

The decentralisation policy and law was published in 2001 setting out clearly the respective functions and services for each level of decentralised government. The main unit of local Government is at the level of the district (formerly called the Commune), with another administrative layer at the level of the province (formerly the Prefecture). There are 106 districts and 11 provinces and the City of Kigali. Elections have been held at the District level, replacing the former system where officials at the District level were centrally appointed.

The Common Development Fund (CDF) has been set up which will eventually commit 10% of government revenue to fund development programmes identified by the districts. The draft law on the operational modalities is being finalised and under this law a portion of government revenue (2.5% in 2002 rising to 5% percent in 2003) will be dedicated to the CDF. In addition districts can levy fees and charges for services as well as collect property taxes. Central Government allocated 1.5% of revenue to local governments for their running costs in the 2002 budget.

The pace of implementation will depend on the availability of fiscal resources and the time required establishing the administrative mechanisms for CDF management. Presently decentralisation of central government ministries is through the deconcentration to the Provinces. In 2001, provinces and districts developed budgets in the MTEF format for the services that they deliver including proposals for the Common Development Fund. The MTEF unit has been responsible for training the districts and the provinces on budgeting and related issues as well as commenting on the development of the law on fiscal decentralisation. It is envisaged that in the future this will be extended to allocating resources to cellule level through the community action planning methodology being developed in the *ubudehe mu kurwanya ubukene* approach (community action planning).

Decentralisation will change, but not reduce, the responsibility of sectoral ministries. Most sectoral ministries will shift from being implementers to providing policy guidance to the provinces and the districts.

Decentralisation is also being pursued below the District level, under the *ubudehe mu kurwanya ubukene* approach, which is currently being developed. *Ubudehe* is the traditional Rwandese practice and cultural value of working together to solve problems, and refers primarily to collective action at the harvest.

The objective of the *ubudehe mu kurwanya ubukene* approach is to revive and foster collective action at community level. This is achieved by developing bottom-up budgeting and planning systems that articulate communities' needs, and by building upon local Government structures of Community Development Committees. This cellule level action planning exercise is seen as becoming the direct basis for decentralised planning and budgeting through the district level Medium Term Expenditure Frameworks. This linkage has already been established with joint budget and poverty assessment training at the District level in 2001.

Each cellule will go through a process of collectively defining and analysing the nature of poverty in their community. This will be done using a number of standard analysis tools including social mapping, seasonality, preference scoring and process techniques, all of which have been tested in Butare province. The first step is to look at local categories of poverty, the characteristics of each category, mobility between categories, the causes and impacts of poverty, the role of security, risk and vulnerability, social cohesion, crime and conflict and social exclusion. The cellule will then go on to identify and analyse the characteristics of the problems that they face. This list of analysed problems is then ranked in terms of priority, and the one that the community wants to spend the most of its own time, effort and resources to resolve selected. From there, they develop action plans to address the problems they have prioritised. This will promote the development of community-led problem solving and rural recapitalisation. A central information centre, in co-operation with sectoral ministries, will develop packages of information for specific problems that the cellules encounter; cellules will be encouraged to contact the information centre. For instance, a cellule facing a problem of soil erosion or fertility decline will be able to access technical information about the best methods to tackle this problem.

This level of decentralisation raises a question that needs to be considered even if an answer may be difficult. What happens where the community involvement in one district identifies something identified by the Centre as a strategic priority whereas in another district priorities are completely different? The answer may lie in setting up the fiscal transfer structure to ensure minimum standards of service delivery through conditional grants along with unconditional grants to provide funding for local priorities (including topping up of minimum standards).

11. Quality of Information

There is now a computerised Vote Book (SIBET) which in on line to the Ministries and linked to the Central Bank. The process of networking SIBET to the Provinces in underway. All government-controlled expenditures (recurrent and development) are channelled through this system. Reporting on a daily basis is possible. The monthly Flash reports (expenditure element) are derived form SIBET. Information on donor development projects that do not go through the budget is week and insufficient.

In budget preparation, expenditure information is at the output – activity – programme - sub programme level. In budget execution through SIBET, output and activity are not included. These could be included but the coding becomes very complex by adding these dimensions.

Presently, there is ad hoc use of sector reviews to aid decision-making. Quarterly monitoring of output indicators is being piloted under the PRSP. The poverty monitoring system will be built mainly on the existing structures of data collection and analysis, and objective and output monitoring. However, additional aspects will be introduced to define quantifiable and realistic objectives for the evaluation of the impact of Government programmes on household living conditions. The Poverty Observatoire acts as the overall co-ordinator of the monitoring system, ensuring that the selection of indicators reflects the direction of the strategy, and developing an agenda of research to examine the causes of poverty. The Observatoire's status as a unit within the NPRP encourages a very close link between the activities of monitoring policy formulation and expenditure allocation, with the same personnel working on both sets of issues. The Observatoire is also responsible for disseminating the results of monitoring. This includes both formal publications, informal exchanges with sectoral ministries and dissemination of information to the public. The monitoring structure is summarised in the following table:

Table 7: Monitoring Structure

Indicator level	Institution responsible
Input indicators	Budget Department/CEPEX
Output indicators	Budget Department/line Ministries/Local administration/CEPEX
Process and impact indicators	National Poverty Reduction Programme/Statistics Department/CEPEX/Line Ministries/Local administration

12. Conclusions

The MTEF process in Rwanda has been operational for just over two years – the 2003 budget will be the third since the MTEF was adopted as the tool for resource allocation. The MTEF in Rwanda is in its infancy. Much has been achieved; in particular the development and dissemination of the strategic planning model to all levels of government, central, provincial and district. Budgets are prepared using this format. The budget timetable has been developed, and the budget documentation covering the Budget Call Circular, Budget Framework Paper, Background to the Budget and Overview of the Budget are all developing well. Given SIBET, it may be possible to provide actual expenditures (eventually a time series) by Vote and Economic Categories for the recurrent budget and this should be included in these documents. Explanations for budget variations tend to be related to budget and the revised budget, whereas SIBET information could be included for actuals.

Indeed budget reform, through the introduction and development of the MTEF, has been progressed by attending to the major components within the same framework – programme format, output orientation, BFP, sector strategies and decentralisation. An element that is still missing is the unification of the budget into current and capital components. This budget unification is in the existing work programme. While the recurrent and development budgets remain separate, and more importantly the development budget remains under-specified, the ability to allocate resources optimally has to be questioned. Linking budgets and expenditure to performance in both the MTEF and PRSP becomes a serious concern.

Nevertheless all of these exiting achievements has been developed under conditions of uncertainly with respect to the resource envelope. While domestic resource mobilisation has been adequately assessed and adjusted, as necessary, external funding has been problematic and uncertain in delivery. This has lead to budget revisions to accommodate the disbursements or non-disbursement of donor flows in different years. The failure of the 2002 Budget to satisfy the IMF meant that it could not be implemented as set out, as donors did not disburse budget support as planned.

As well all of this has been carried out in a country, which suffered a devastating reduction in its human capacity and is being rebuilt steadily but slowly.

The PRSP and the MTEF have been developed at the same time and in the Ministry of Finance. Whether this happened by design or not, the close proximity has been a great strength. As the Linkages Chart in Section 2 shows, the PRSP and the MTEF are inextricably linked, but this has been achieved in reality through the close working relationship developed between the staff and consultants in the MTEF unit in the Budget Department and the NRPP.

The development of an MTEF is impossible if the civil service structure cannot respond to the needs of service delivery. In this regard, civil service reform has been a priority of the Government. Since 1998, the missions of ministries have been revised, new ministerial structures have been developed, and a legal framework for the Public Service has been developed. This aims at: satisfaction of popular needs; management of the productivity of public servants; development of human capacities in the public service; a new salary structure reflecting a new job classification and the creation of the Public Service Commission which will guarantee neutrality in recruitment, performance evaluation, promotion and disciplinary measures.

An important feature of any MTEF is that it is designed to allocate resources to meet priorities. It does not guarantee additional resources as a feature. A major problem in its application in Rwanda is that ministries, having received training in the strategic planning model, have not seen the supply of the financial resources to deliver the outputs. This can generate scepticism of the MTEF as a tool and generate a culture where implementation is resisted, as it can create more work and responsibilities for individuals. Ensuring the delivery of financial resources is critical to the success and development of the MTEF.

Rwanda is currently operating a cash budget, which does not sit comfortably with a MTEF. The cash budgeting process effectively undermines the MTEF as it generates the element of uncertainty that the MTEF is meant to eliminate. Indeed the combination of the cash budgeting system and the lack of cash due to the disagreement with the IMF led to a lack of information flow (due in part to MINECOFIN's uncertainly of the cash flow). This seriously undermined the credibility of the MTEF process. Communication and transparency is vital – even if it is only to explain why the Ministries are not receiving funds.

The conditions are in place for the MTEF to be taken on to the next stage, given that the PRGF is operational (i.e. there is agreement with the IMF). This should ensure that the resource envelope should be guaranteed for the next two budgets, providing it is estimated properly. This should allow the imposition of the cash budget to be removed. The operation of SIBET also means that the cash budget can be removed from the perspective of controlling the accumulation of arrears.

The goal for MTEF (and the budget for the next two years) should be to ensure that the flow-of-funds are timely to allow budgets to be executed. This will require the development of quarterly cash flow requirements for each ministry (which the MTEF team is assisting with as part of the present training). Training in the strategic planning model should also be continued to reinforce what has already been carried out, but also to take account of staff turnover.

During the next two years the sector strategies will be undertaken as part of the PRSP process leading to a revision of the PRSP document itself. The next PRGF agreement with the IMF will also be in place after two years, which could include an extended resource envelope as a result of the PSIA.

The conditions, therefore, should well be in place for the 2005-2008 MTEF to be implemented where the resource envelope can be presented for the three years and allocated to spending units based on the revised PRSP priorities using the strategic planning model. To make the MTEF effective, the Finance Law could be amended to allow carry over from one year to another so that the spending units can plan over the three years. The annual budget would be a confirmation of the three-year MTEF and mid-year revisions should be abolished.