DEval

GERMAN INSTITUTE FOR DEVELOPMENT EVALUATION

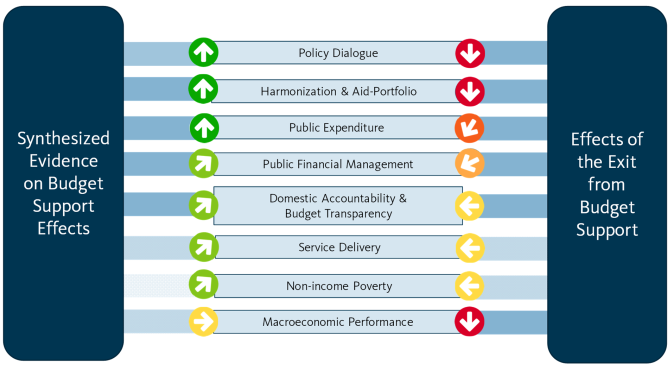
DEval Country Sheet 2/2018

THE EFFECTS OF THE EXIT FROM BUDGET SUPPORT IN RWANDA

This ‘country sheet’ is a summary of findings on Rwanda from the evaluation on the future of integrated policy-based development: lessons from the exit from general budget support (GBS). The larger evaluation analyses the exit from GBS in the country cases of Malawi, Rwanda, Uganda and Zambia, and compares the effects observed post-exit to effects during the budget support (BS) period examined in previous evaluations and lately corroborated in DEval’s evaluation synthesis on the effectiveness of BS (Orth et al., 2017).

Evaluations across many countries during the GBS period found mostly positive effects (see figure below). These positive effects stand in contrast to the negative developments found after exit. The effects for Rwanda are mostly negative too (see right part of figure below). While the effect was negative on public expenditure, policy dialogue and harmonization, the effect on domestic accountability and service delivery is positive and constant for non-income poverty and public financial management (PFM) (see figure below on left).

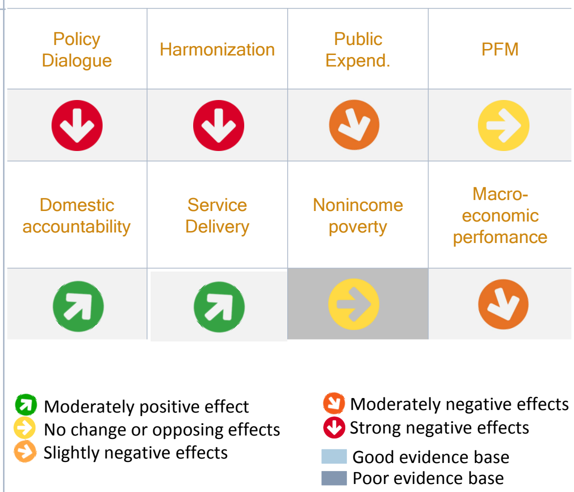
General results of budget support and the exit from budget support



Source: own figure, icons provided by Dave Gandy from www.flaticon.com.

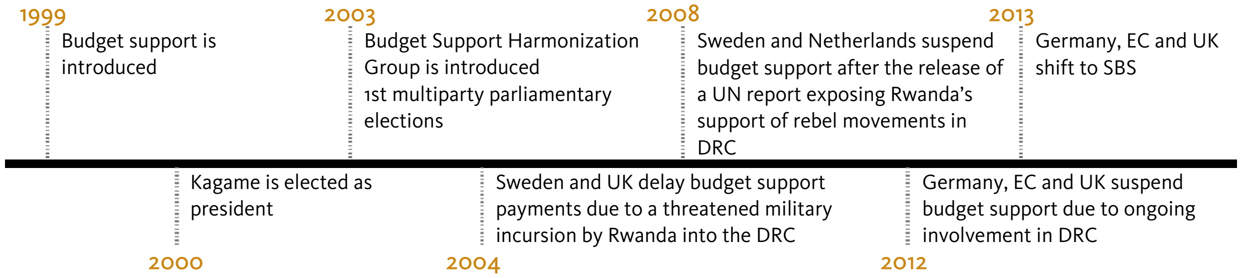
Note: The arrows indicate the effect direction and effect magnitude. Arrows facing vertically up/down indicate a strong positive/negative effect. Diagonal arrows indicate that the effect is predominantly positive/negative. Horizontal arrows indicate that there were no or contradictory effects. The shading of the bars indicated the quality of the evidence base from good (solid), medium (darker shade) to weak (lighter shade).

Results for Rwanda



Rwanda started to receive GBS in 1999 from a total of nine donors. GBS contributed on average 12% of the government's budget between 2002 and 2014. The year before the exit this value rose to 18%. As early as 2004, Rwanda’s threat to intervene in the Democratic Republic of Congo (DRC) became an issue for donors, which induced delays of budget support payments and ultimately led to its withdrawal. Regardless of these early interruptions in disbursements, Rwanda received a total of USD 823 million in GBS and over USD 1 billion in sector budget support (SBS) between 2000 and 2013.

After allegations of Rwanda’s involvement in human rights violations in the DRC, GBS donors gradually suspended their activities between 2008 and 2013. Sweden and the Netherlands were the first to suspend their GBS payments in 2008, with the EC, Germany and the UK following suit by suspending their payments for the same reason in 2012. The donor community considered budget support to be instrumental to foster political stability in post-genocide Rwanda in order to prevent the country from slipping back into conflict. Rwanda’s involvement in DRC was seen as a source of further destabilization in the region. Its involvement there stood in stark contrast to the positive efforts and developments in terms of poverty reduction and economic growth in Rwanda.

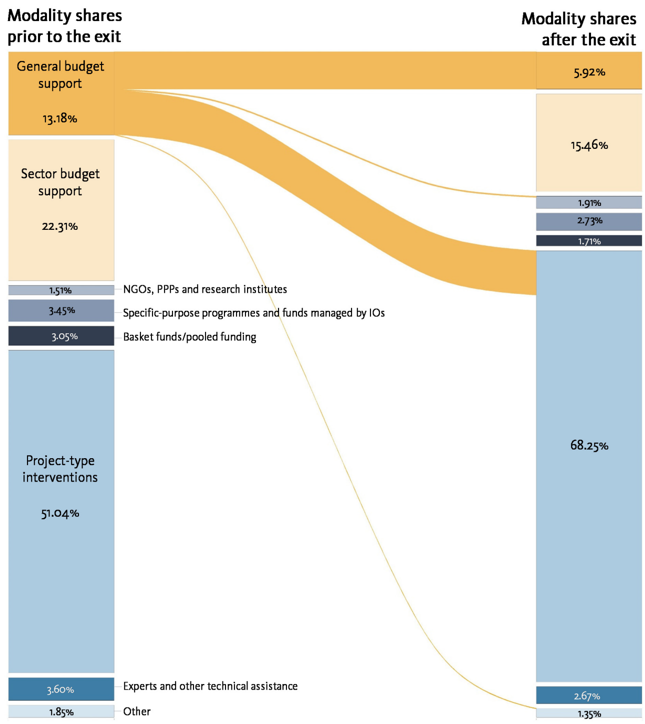


Source: own figure.

Changes in aid portfolio, policy dialogue and harmonization

After donors' exit from budget support, Rwanda was temporarily facing a lower level of donor financing as both the Rwandan government and donors took some time to adjust to the suspension of budget support. Since 2013, the total amount of donor financing reached levels similar to the GBS period, although the majority of funding was provided in the form of project funding (see figure below). In 2013, budget support by the EC, Germany and the UK was reinstated, but shifted to SBS. Since the exit from GBS, SBS disbursements in fact increased and remained at more or less constant levels. However, only a single or very few donors per sector provided SBS in accordance with the government's 'division of labour' plan.

Shares of aid modalities before and after the exit



Source: own figure, based on OECD Creditor Reporting System

Overall, the aid portfolio became much more fragmented and joint programming occurred only in a few sectors and programmes. The figure below shows that since the exit from GBS, the distribution of aid modalities shifted towards more project-type interventions.

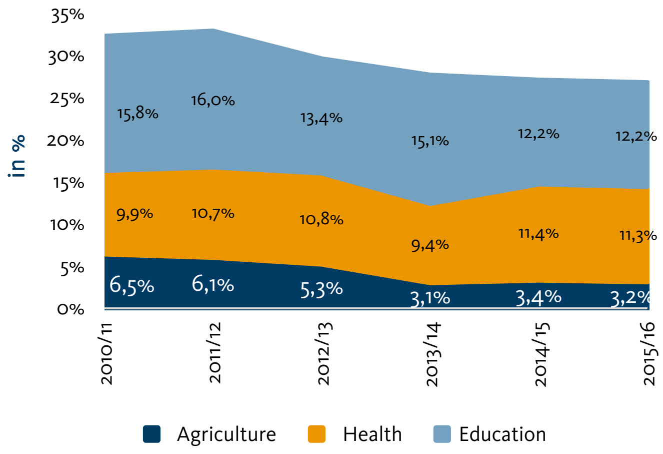
This fragmentation also led to a decline of harmonization among donors after the exit. The fragmentation already began when donors took individual, uncoordinated decisions to either suspend or stop budget support programmes. After the exit, the 'division of labour' plan for donor support helped increase harmonization at the sector level but hampered overall harmonization among donors.

The high-level political dialogue was discarded after the exit from GBS, and the dialogue shifted to a technical dialogue within Sector Working Groups (SWG). The already existing SWG continued and provided a forum for sector-oriented discussion, although with high variance in performance, depending on the sector. However, the high-level dialogue forum, known as the budget support harmonization group, did not meet again after the exit and was replaced by the development partners' cooperation group (DPCG). In this new dialogue forum, issues at national level (such as budget planning and management, questions of allocation and PFM) are not addressed to the same extent as before, even though the DPCG has almost the same composition as the previous budget support dialogue forum. Donors perceive the quality of the meetings as lower, the agenda seems to be overloaded, and the rather formal style of the meetings is not considered conducive to an open policy dialogue.

In some sectors, only a single donor is active in SBS (e.g. Belgium in health). The division of labour forced some donors to change their sector portfolios (e.g. Germany had to leave the health sector). However, the division of labour helped to avoid the problem of overcrowding some sectors while simultaneously under-funding others.

Public expenditure

Budget allocation as a percentage of total budget



Source: own figure, based on MINECOFIN data.

Rwanda's budget after the exit has lower budget allocation for agriculture and education, while the health budget remained more or less constant. Agriculture, education and health received around 30% of the total budget over the period 2010/11 to 2016/17). The Government of Rwanda's focus has shifted towards fostering economic growth as evidenced by the Second Economic Development and Poverty Reduction Strategy (EDPRS II). This strategy defines as core objectives the acceleration of gross domestic product (GDP) growth and becoming a middle-income status country. Poverty alleviation is also part of the strategy, but seems to be a lower priority than economic growth. Health and education are, for example, only part of a cross-cutting focus area and not a single thematic area. The level of public expenditure in general has been steadily declining since the exit.

Public finance management

The momentum in the PFM reforms process has been sustained after the exit and continues to improve. The PFM Strategy 2013–18 was introduced after the exit. This strategic plan is supported by a basket fund, which includes policy dialogue that was probably a key to the continued success. Examples of improvements after the exit are the alignment of the budget classification with the Chart of Accounts or the establishment of a new computer-based accounting system (IFMIS). **The Rwandan government considers good PFM as important for a solid budgeting process and public funds management, as well as a means to increase the confidence of the donor community.**

Domestic accountability

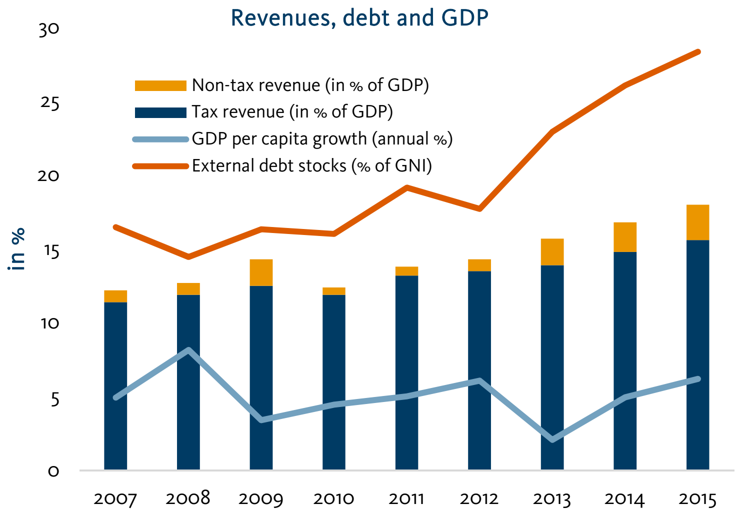
The supply-side and demand-side of domestic accountability in Rwanda have not been negatively affected by the exit and show an improving tendency. Mechanisms to fight corruption seem to be functioning well and the accountability systems created during budget support are still in place. The setup of the reporting of the Auditor General is satisfying as well. However, according to the open budget index, budget oversight by audit institutions might have declined after the exit (Mugisha, 2017)[1] due to a lack of independence (the Auditor General can be removed without legislative or judicial approval) and missing external oversight (audit processes are not reviewed). After the exit, an access to information law was passed and a web portal to facilitate access to government documents was launched, which show that the demand-side of domestic accountability is improving. However, the implementation of both has been weak (Freedom House, 2017). Similarly, some CSOs are invited to the parliamentary debate on the budget proposal, but their proposals rarely translate into the budget planning. Budget transparency seems to be robust to the exit seeing that the publication of important budget documents did not decline after the exit according to the Open Budget Survey (Mugisha, 2017). From the donor perspective and our own online assessment, it appears that not just the availability of the information is an issue, but also the quality.

Service delivery and non-income poverty

In Rwanda, the level of service delivery has improved slightly since the exit. For example, the student-teacher ratio for primary schools improved from 59 to 58 between 2012 and 2016. Explanations for the slightly improved service delivery output might be government programmes such as the service charter for citizens or the free basic education programme. Non-income poverty in Rwanda seems to be stable in the health sector and slightly declining in the education sector.

[1] Because of changing survey questions, these results do not necessarily mean that the oversight function of the supreme audit institutions has declined.

Macroeconomic performance



Source: Rwanda Economic Update and World Development Indicators.

The repercussions of the exit on Rwanda's GDP growth have been limited; the shortfall in aid has been offset by extensive (external) debt accumulation. Between 2013 and 2016, the Rwandan economy grew by only 6.8% on average. This value is somewhat lower than for the preceding four-year period, where the average GDP growth rate was 7.6% (2008–12). The data confirms that this decline is not a global or regional economic cycle, but due unusually to low GDP growth in the year following the exit.

To fill the financial gap created by the GBS exit, the government promoted fiscal consolidation, domestic resource mobilization and issued more debt. Rwanda reformed its tax policy and revenue administrative measures to boost domestic revenues, so that revenues increased by 4 percentage points of GDP from 2012 to 2015. The increased issuance of debt on the other hand increased the financing costs for the treasury bills and crowded out domestic borrowing. As a result, credit growth rates in the economy (in real values) plummeted after the exit, but quickly recovered to previous levels. This quick recovery was probably fast enough to prevent more severe consequences.

Based on

Orth, M., Birsan, M. and Gotz, G. (2018), *The Future of Integrated Policy-Based Development Cooperation. Lessons from the Exit from General Budget Support in Malawi, Rwanda, Uganda and Zambia,* German Institute for Development Evaluation (DEval), Bonn.

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