The capabilities of ministries of finance and planning to coordinate capital and recurrent expenditure

Country case study
Rwanda

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Acknowledgments

This case study was put together by Isabel Bucknall from Fiscus Limited, and Clement Ncuti from the Collaborative Africa Budget Reform Initiative (CABRI). Ms. Bucknall and Mr. Ncuti conducted interviews with representatives and officials from Rwanda's Ministry of Finance and Economic Planning, Ministry of Education, and Ministry of Infrastructure.

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Context setting

Question one

How integrated or separate is the management of capital expenditure and recurrent expenditure in the legal, institutional and presentational dimensions (the capital expenditure context frame)? To what degree are expenditure management responsibilities decentralised?

Discussion

Responsibilities for recurrent and capital expenditures are integrated within the Ministry of Finance and Economic Planning (MINECOFIN) of Rwanda. The institutional set-up of the executive in the Government of Rwanda provides for one ministry in charge of finance and economic planning. The ministry was formed in March 1997 when the Ministry of Finance and the Ministry of Planning merged to improve coordination between the functions of finance and planning. While there are two departments within the MINECOFIN – one in charge of the budget (the National Budget Department) and the other in charge of planning (National Development Planning and Research Department) – the coordinative responsibility for the budgeting of recurrent and capital expenditures rests with the National Budget Department.

Previous Public Expenditure and Financial Accountability (PEFA) assessments, in 2007 and 2010, pointed to difficulties with the integration of recurrent and capital expenditures under the performance indicator on multi-year perspectives in fiscal planning (PI 12-IV). In 2007, the PEFA assessment indicated that budgeting for investment and recurrent expenditure were separate processes, and allocated a C score to that indicator. The score improved to C+ in 2010 as a result of reforms that enabled most investments to be selected on the basis of relevant sector strategies, but it still pointed to a lack of capacity to forecast future recurrent expenditure needs stemming from current investments. Results from the 2015 PEFA assessment have not yet been made public, but it is expected that the score will improve owing to recent reforms aimed at improving links between planning and budgeting using a multi-year perspective. Since 2014/15, the MINECOFIN has been issuing planning and budgeting calls for circular guidelines, requesting public entities to provide estimates over the medium term of recurrent expenditures of existing assets. However, findings from this study show that although recurrent and capital budgets were integrated, challenges persist and future recurrent expenditures of capital assets may not always be estimated accurately. The budget process starts with a strategic planning phase, which involves reviewing financial and non-financial performance in previous years and setting priorities to inform budget allocations in the following fiscal year. This allows for a holistic view of aggregate spending that does not distinguish recurrent from capital spending. Distinguishing ceilings for recurrent and capital budgets, while binding at the aggregate level, give entities the flexibility to reallocate within categories to better align spending requests to achieve identified priorities. Ceilings issued to ministries, departments and agencies (MDAs) fall into four main expenditure categories: wages and salaries; recurrent non-wage expenditure; domestically financed capital; and externally financed capital. Ceilings are binding at ministry level but flexible within a ministry: reallocation between agencies that fall under a given ministry is permitted, provided that the aggregate categories ceiling is adhered to. Budget execution, conducted through the integrated financial management system, offers a clear distinction of spending on recurrent and capital budgets, thereby informing monitoring of spending, reporting on expenditure performance and compilation of accounts. However, there are challenges in the execution of externally financed capital spending, reporting and accounting when spending happens outside of the national system. Although the different stages in the budget process are the responsibility of different departments within the MINECOFIN (the strategic planning stage falls under the National Development Planning and Research Department; budget preparation and execution monitoring under the National Budget Department; and budget execution, accounting and reporting is the responsibility of the accountant general's department), recurrent and capital budgets remain integrated.

Although the budget preparation process allows for the integration of recurrent and capital expenditures, the appropriation law distinguishes each for presentational purposes. In Rwanda, a distinction is made between the "capital" budget and the "development" budget. By definition, capital expenditure relates to payments for the acquisition of non-financial assets (fixed assets, inventories, valuables and non-produced assets), while development expenditures, particularly in the case of Rwanda, relate to projects that by design may include both recurrent and capital expenditures. The appropriation law distinguishes recurrent expenditures from development expenditures, with a clear distinction between recurrent and capital expenditures provided in the annexes to the appropriation law. The annexes are not merely for informational purposes but form part of the legal instructions of the appropriation law. Annex II-1 on detailed expenditures by a budget agency clearly distinguishes expenditures by economic category in line with the government's chart of accounts. This annex presents expenditures in compliance with the International Monetary Fund's (IMF) Government Finance Statistics Manual (2014) and distinguishes expenses (current expenditures) from the acquisition of non-financial assets (capital expenditures) by a budget agency. Annex II-4 and Annex II-7 present similar information, summarising expenditures by economic categories and budget agency. Annex II-2 presents recurrent and development expenditures in the programmatic structure of the budget, while Annex II-3 lists all the development projects (forming development expenditures) with their sources of funding.

Public financial management (PFM) is decentralised in Rwanda. Responsibility for expenditure management is decentralised to line ministries and agencies, and is the responsibility of the chief budget manager in the respective public entity as stipulated in the PFM legal framework and in practice (showing strong abidance to laws). The PFM legal framework comprises an Organic Law on State Finances and Property (OBL) and a Ministerial Order on Financial Regulations (hereafter referred to as financial regulations) that both provide for decentralisation of expenditure management. Article 19 of the OBL prescribes the responsibilities of a chief budget manager, which include: preparing medium-term plans, annual action plans and annual budgets for funds provided to the public entity under his/her responsibility; exercising control over the execution of the budget; and managing public funds for the public entity under his/her responsibility effectively, efficiently, and transparently. Expenditure management responsibilities of chief budget managers are detailed in articles 34 to 48 of the OBL. Interviews conducted with officials at two1 of the agencies visited as part of the study – the Workforce Development Authority under the Ministry of Education and the Road and Transport Development Authority under the Ministry of Infrastructure – confirm the decentralisation of the planning and budget processes pertaining to MDAs, with the Ministry of Finance's role limited to technical advice, coordination and consolidation at the national level.

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Research findings

Question two

What do the results of public financial management suggest about the integration of capital and recurrent expenditure?

Part A: Under-integration

Key evidence	Discussion
a. There is some evidence that recurrent costs of capital projects are taken into account in budget submissions, budget allocations and projections. • Budget submissions are provided in a medium-term expenditure framework format, with outer years as indicative estimates for fiscal year FY+1 and FY+2. Submissions are presented by programme and sub-programme, with costs for each activity. The codes for the costs allow for differentiation between capital and recurrent expenditure in the chart of accounts. • The project profile document[2] template, which is completed by MDAs for new and existing projects to be included the budget, requires a subset of cost information, including estimated implementation costs, total investment costs, and annual maintenance and operational costs. • Interviews with staff in the National Investment Planning Unit confirmed that projects will have estimated recurrent costs at the outset of the budget process, during the planning consultations. The costs of capital projects are considered during the planning process, which leads directly to the budgeting process.	As far as possible, capital and recurrent expenditures are not under-integrated. • **Capital expenditure trade-offs are usually based on the policy objectives they contribute to and made in an integrated manner with recurrent expenditure.** There is a highly iterative process for developing and reviewing MDA plans and investments during the planning process. This is characterised by consultations both within MDAs and with local government and the MINECOFIN. During this process, recurrent and capital expenditures are considered side by side. The 2015/16–2017/18 Budget Framework Paper also sheds light on the trade-off process that takes place throughout the planning and budgeting processes. The paper highlights a decrease in recurrent expenditure under the macroeconomic ceilings: "Resources allocated to non-priority programmes and projects were re-evaluated and reallocated where appropriate. In line with this, the Public Investment Committee (PIC) scrutinised areas of duplications and non-performing projects were also identified and measures for improvement taken or budget reallocated to other priorities in some cases." • **The recurrent cost of capital projects is usually factored into capital project assessment and selection.** New and existing projects are submitted to the National Investment Planning Unit in a project profile document. The PIC is a national-level committee that is mandated to endorse new projects for implementation under the annual budget. It reviews each capital project proposed by the MDAs and includes the costs of the project, its desirability and achievability in its criteria for prioritisation and selection. This shows that there is

2 Project profile document templates are included in the first planning and budget call circular issued to MDAs, and require them to provide information on new projects to facilitate the technical assessment of new requests. Information requested in the project profile document includes: a description of the project (title, location); planning documents (feasibility studies, technical design/layout, socioeconomic feasibility, environmental impact assessment); the socioeconomic impact of the project (project beneficiaries, strategic importance, impact on income distribution and on poverty, impact on jobs, skills development, exports, environment); project costs (total project costs, maintenance and operation costs estimates, medium-term estimates); and justification of the link to the national planning framework (links to thematic areas under the Economic Development and Poverty Reduction Strategy, contribution to outcomes and goals defined at sector level).

Key evidence	Discussion
b. **There is limited evidence of thorough and effective centralised mechanisms to estimate the recurrent costs of capital projects.** • Interviews with the MINECOFIN's planning unit and the two agencies – the Workforce Development Authority and the Road and Transport Development Authority – indicated that different sectors, levels of government and organisations have varying methods of estimating recurrent costs of capital projects. For example, recurrent allocations for decentralised capital expenditure implemented by the Local Administrative Entities Development Agency are systematically set at 7–10 percent of the capital cost of a project for the current budget year. • The two agencies as well as the planning and budgeting units highlighted calculating recurrent costs of maintenance as a specific challenge. For externally financed capital projects, the Road and Transport Development Authority emphasised that development partners often suggest a percentage of total cost for recurrent expenditure. The agency plans to carry out a study to develop a formula for calculating the maintenance requirements of roads. • The External Finance Unit highlighted the rule of requiring at least 7–10 percent of the total capital cost of a project to be allocated for recurrent expenditure. c. **There is strong evidence that sector policy objectives drive capital expenditure.** • In the first budget circular for 2016/17, the reference points for prioritisation by MDAs are the seven-year government programmes, the Economic Development and Poverty Reduction Strategy (EDPRS) 2 and sector strategic plans. • Planning consultations are held before budget consultations to ensure the plans are complementary across sectors and to take into account the priorities laid out in EDPRS 2. The outcomes of the planning consultations set the budget ceilings and form the content of the Budget Framework Paper. • Project profile documents require each project to be linked to the EDPRS 2, a specific thematic priority outcome and sector strategies at ministry level. • Both the Workforce Development Authority and the Road and Transport Development Authority emphasised that sector-level strategies (for example, the Transport Master Plan) are the basis for selecting capital projects for the forthcoming budget year.	close monitoring of the benefits and risks of large capital expenditure over the medium term, and its financial sustainability. • **It is unclear whether recurrent cost estimates are realistic and reliable.** For recurrent expenditure related to wages and salaries, the costs are more reliable and realistic (a finding reiterated in the 2010 PEFA report).[3] But this is not the case for maintenance costs. The lack of comprehensive guidelines for provision of future recurrent costs of current capital projects relating to maintenance weakens the extent to which the MINECOFIN is able to integrate capital and recurrent expenditures. It is, however, an area that has been highlighted for improvement

3 Public Expenditure and Financial Accountability Assessment, Rwanda, 2010, PI-12, p.60

Part B: Over-integration

Key evidence

a. Detailed analysis of capital expenditure outturns with budget allocations was not possible, so coming to concrete conclusions about the credibility of capital budget allocations is challenging. However:
   - The 2010 PEFA report contains data on total budgeted and actual expenditure for the 20 largest MDAs in 2007/08, 2008/09 and 2009/10. The Ministry of Infrastructure, which has a sizeable capital budget, reported variances of 3.1 percent in 2008 and 6 percent in 2009 (the ministry was not included in 2009/10), lower than most other ministries. While these figures do not offer a breakdown of capital and recurrent expenditures, the overall low variance from the Ministry of Infrastructure suggests credible planning for capital expenditures.
   - An analysis of aggregate capital expenditure outturns with budget allocations from published budget execution reports for three consecutive years (2012/13, 2013/14 and 2014/15) were posted on the ministry's website. It shows consistent underperformance on domestically financed capital expenditure (performance averaged 90 percent over the three years), while externally financed capital expenditure over-performed in two of the three years (performance averaged 98 percent over the three years). As a result, total capital spending underperformed, averaging 94 percent over the three years. The budget execution reports indicate that underperformance on domestically financed capital expenditure can be attributed to technical and administrative bottlenecks. Over-performance on externally financed projects is attributed to, in the two years it was observed, omissions in the budget or unplanned disbursements.

b. There is evidence of mechanisms to separate capital expenditure from MDA baselines.
   - Ceilings for MDAs with the second planning and budget call circular are provided at ministry level (and indicatively for agencies and departments). Ceilings are presented in the medium-term expenditure framework by recurrent (wages and salaries, recurrent non-wages) and capital (domestically financed, externally financed) budgets.

c. The MINECOFIN and the two agencies offer anecdotal evidence that there are sometimes delays in completing projects.
   - The Programme Management and Monitoring Unit is based in the Budget Unit of the MINECOFIN and is responsible for supporting project implementation, monitoring and evaluation by MDAs, and their Single Project Implementation units. The monitoring unit pointed out that projects are often delayed because of agency capacity, procurement, staffing and external factors related to some development partners.

Discussion

Capital expenditure is not overly integrated. There are specific procedures in place that allow capital expenditures to be managed appropriately, given it is a once-off investment.

- There is a high level of scrutiny and prioritisation of potential capital projects before they are included in the annual budget. The PIC assesses every project against a clear set of criteria according to its desirability, achievability and viability. Any project that requires a loan, involves a public-private partnership or costs more than US$1 million must go through an appraisal using cost-benefit and cost-effectiveness analyses before being sent to the MINECOFIN for financing. The PIC takes decisions on new and ongoing projects to be funded in a given fiscal year. Projects that are not cleared by the committee do not get funding. The committee determines the approval for funding projects, the type of financing for projects, the pipeline of projects and projects that can be undertaken through or with the private sector. MDAs are required to submit, as part of the first budget call circular, project profile documents (for all new projects) as well as project assessment forms (for ongoing projects) for the committee's consideration.
- There are **separate criteria for ongoing projects and new projects** to decide which of them get funding in the following fiscal year or not.

  Ongoing projects that are retained need to have clear output targets for the budget year, appropriate phasing of budget estimates over the medium term and compliance with submission (in line with the ongoing project assessment form). Those that are not retained are recurrent activities (and therefore included in the recurrent budget), closing projects and projects without official extensions or financing agreements.

  Criteria used for the approval of new projects include:
  – **Desirability:** Alignment with EDPRS, sector strategic plans and district development plan priorities; institutional relevance, coordination, complementarity, and sequencing; support for the private sector (impact on export promotion, job and skills development, attraction of foreign direct investment).
  – **Technical feasibility:** Access to basic infrastructure; achievability demonstrated in a feasibility study; environmental impact assessment; project management structure in place; availability of raw materials.
  – **Financial viability:** Value for money; appropriateness of funding; right phasing of investment estimates over the medium term.

Key evidence	Discussion
• Interviews with the Workforce Development Authority indicated that projects can be delayed during implementation due to the availability of funds (both domestic and external). The Road and Transport Development Authority said delays are greater with some development partners than others but that the introduction of the Single Project Implementation units had improved both project design and implementation. This is because responsibilities and lines of communication with development partners and implementers are well defined. d. **While there was reporting of delays, it was not evident that delays in completing projects led to significant cost overruns:** The Workforce Development Authority indicated that delays in projects rarely cause cost overruns because funds can be wired into other projects in the development budget, and flexibility is built into the budget at the planning stage.	**Budget processes treat capital expenditure appropriately, given that it is a once-off investment.** • The presentation of the budget distinguishes between recurrent and capital expenditures, as is the case with the chart of accounts. • Interviews with agencies indicated that delayed disbursements (both external and domestic) **sometimes put capital projects on hold**, but this is not necessarily because of underfunding of projects. An analysis of capital budget allocations and actual expenditure for a domestically financed project (Technical and Vocational Education and Training Schools Infrastructure Development and Equipment Project) and a joint domestic and European Union-funded one (Kigali-Gatuna Road Rehabilitation) in 2013/14 and 2014/15 indicated execution rates of 80 percent or over – apart from domestic funds for the road project in 2013/14, when only 5 percent of the allocated 721 million Rwandan francs was spent. While this is not a representative sample of projects, it suggests that there is room for improvement in the management of capital expenditure.

Question three

What evidence is there of the Ministry of Finance's coordinative capabilities, and what contribution can be made to the integration outcomes observed?

Assessment dimensions

Discussion

See Appendix 1 for a diagram of the capital budget process.

The need for coordination

Recurrent and capital expenditure planning and budgeting are integrated into one process. The following points in the process are significantly affected by coordinative capabilities regarding the integration, and at times separation, of recurrent and capital expenditures.

a. **MDA plans and investment documents.** At the beginning of the budgeting year, following a joint sector review of the previous year, the MDAs start developing their plans and investment for the coming financial year. The preparation of these documents involves a common object dependency, whereby multiple activities carried out by various players result in the MDA plans and their subsequent budgets. These activities include joint sector reviews, consultations internally and with local government and the MINECOFIN, responses from the PIC, planning and budget consultations, and integration with the Imihigo performance contracts. Producing the plans and investment documents is at the core of the planning process, and begins with a first draft in November and the final draft in April the following year.

b. **The PIC.** The PIC's role at this point in the planning and budget preparation process is to rigorously scrutinise investment projects to decide which ones to include in the annual budget. This is a significant point in the cycle because it requires a functional separation of capital and recurrent expenditures to ensure that large investments are fully assessed. The PIC has the authority to drop projects without sufficient justification for continued funding and sequence the adoption of new projects depending on the available resource envelope and the projects' contribution to the delivery of the EDPRS. The PIC also makes trade-offs between capital projects, and its decisions are binding. As part of their budget request, MDAs submit estimates for the lifecycle of the project in project profile documents, outlining the main project cost categories (investment, studies, capacity building, running costs and so on) and allowing for disaggregation of recurrent and capital costs of the projects that are submitted for approval for funding. Nevertheless, incorporation of future recurrent cost information into project profiles and the assessment of these are also important at this stage. Multiple-source dependency is paramount, where several sources of information are required for the PIC to effectively coordinate and prioritise capital investments. These sources include project profile documents, sectoral knowledge, and information on overall ceilings for MDAs and the government as a whole.

The MINECOFIN sets a common goal of integration in the following ways

a. The merging of the Ministry of Finance and Ministry of Planning to form the MINECOFIN was done with the express purpose of improving the coordination of planning and budgeting functions.[4]

b. Planning and budget call circulars emphasise the role of MDAs in providing information that will enable the MINECOFIN to "facilitate timely coordination and effective planning within and across sectors".[5] These circulars are in place to guide and inform decisions about both capital and recurrent expenditures by MDAs.

c. The iterative planning and budgeting process that requires multiple phases of consultation – first within MDAs, then between MDAs and the MINECOFIN – is a solid mechanism for ensuring that integration of capital and recurrent expenditures are taken into account throughout the process. This includes the MINECOFIN's assessment of the terms of reference for joint sector reviews at the beginning of the planning process, which are then used to inform planning and budgeting for the upcoming financial year.

d. The Road and Transport Development Authority emphasised the authority of the ministry in coordinating the planning and budgeting process. It noted the importance of the ministry's timely response to circulars as well as the strong relationship between MINECOFIN "focal points" (individuals in the planning and budget units who act as points of contact) and their corresponding MDA staff in supporting the planning and budgeting process.

There is clear evidence that the MINECOFIN sets a common goal of integration, and other stakeholders recognise and take into account the authority of the ministry in this area. The evidence is not focused predominantly on the institutional and legal structure of the ministry, but on the way it functions. The actions and behaviour of the ministry, and the relationships built with MDAs are significant in demonstrating the MINECOFIN's commitment to integration.

The MINECOFIN uses several mechanisms to manage dependencies at different points in the planning and budgeting process

a. Information is the most important mechanism used by the MINECOFIN to manage dependencies. Information is provided to MDAs through two planning and budget call circulars (one issued in September that focuses on planning and another in January that focuses on budgeting). These documents include a detailed budget calendar broken down by different actors; templates for the MDAs to follow in preparing plans, budget and project document; and key information including budget ceilings. The integrated financial management information system, managed centrally by the MINECOFIN, also serves as a source of information of past and current financial years. Another mechanism for managing the dependencies, particularly those focused on investment prioritisation at the PIC, is the provision of guidelines for the committee to use in assessing projects (for example, desirability, achievability and feasibility). This information gives stakeholders a common and objective basis for decision-making.

b. Human resource support to MDAs is also used by the MINECOFIN to coordinate players and information throughout the planning and budgeting process. This is most evident in the use of focal points in the planning and budgeting units to act as points of contact for MDA staff. The agencies interviewed identified the support of their focal points throughout the planning and budgeting process, not only at critical points. This manages dependencies by ensuring that MDAs are well informed and that the MINECOFIN has a good understanding of the work taking place at sector level throughout the budget year.

Successful integration of capital and recurrent expenditures is largely attributed to the coordinative mechanisms of the MINECOFIN

As identified in question 1, the recurrent costs of capital projects are taken into account in budget submissions, allocations and projections. This is largely due to the clarity of the templates that the MINECOFIN provides MDAs with, which require recurrent costs of capital projects to be included in documentation, including the medium-term expenditure framework and project profile documents. The authority of the ministry to enforce the use of these templates strengthens its influence.

While the strength of national policy objectives (as laid out in the seven-year government programmes and the EDPRS 2) drive capital expenditure, the MINECOFIN's ability to translate high-level objectives into concrete actions at the MDA level is critical to the government's success in this area. For example, holding detailed planning consultations before the budgeting process ensures that plans are complementary across sectors and that they inform budgeting. Also, templates provided by the MINECOFIN, including project profile documents, require specific links to sector and EDPRS 2 priority outcomes.

Conversely, the estimation of recurrent costs of capital expenditure (especially for maintenance) is an area that could be strengthened by improved coordination by the MINECOFIN. There are varying methods for estimating recurrent costs of capital projects in different sectors and at different levels of government. Interviews indicate that a consolidated approach is needed throughout government for the calculation of future recurrent costs as well as guidelines for MDAs, which could be driven by a central, authoritative ministry such as the MINECOFIN.

4 MINECOFIN website http://www.minecofin.gov.rw/index.php?id=37&L=registration.reg (accessed 1 July 2016).

5 First Planning and Budget Call Circular for FY 2016/17, paragraph A.2.

Question four

Which factors – internal or external, technical, or political/institutional incentive factors – determine the Ministry of Finance's ability to coordinate the integration of capital and recurrent expenditure?

Part A: The MINECOFIN has clear identifiable capabilities in analysis, delivery and regulation

Key evidence	Discussion
a. The **MINECOFIN's analytical capabilities** are evident in: • **Its role in reviewing and prioritising** the capital projects put forward by MDAs for the annual budget. This is particularly evident in how it leads the PIC and provides secretariat support to monitor and review feasibility studies and cost-benefit analyses of potential projects. • Its role in discussing the outcomes of project-scoping studies, as pointed out by the Road and Transport Development Authority. MDAs also recognised the ability of the ministry to critically assess and analyse sectoral information. b. The **delivery capabilities of the MINECOFIN** include: • Providing detailed guidance to MDAs to support their sector-level work in planning and budgeting. This is a central role for the MINECOFIN, and its importance was raised both internally and by MDAs. • A detailed budget calendar (with responsibilities delineated for the ministry itself, MDAs and local government), clear guidance and templates in the two annual planning and budget call circulars, and training MDA budget and planning staff for the year's planning and budgeting processes all contribute to the MINECOFIN's coordinative capabilities. • Reviewing and providing feedback and consultations on MDA plans and budgets. c. Agencies recognise the **regulatory capabilities and authority of the MINECOFIN** and its ability to supervise the role of MDAs in the planning and budgeting process. • Road and Transport Development Authority staff noted the importance of the ministry's timely response to requests made in budget call circulars. • While the PIC (which has final authority on deciding which capital projects are incorporated into the annual budget) involves staff from other big-spending ministries, the committee's support function and chair are affiliated with the MINECOFIN. • Recent reforms that have seen the movement of almost all planning functions into the MINECOFIN, from the President and Prime Minister's office, have given the institution greater authority to regulate.	**The analytical, delivery and regulatory capabilities of the MINECOFIN each contribute to the institution's ability to coordinate capital and recurrent expenditures throughout the budget cycle.** • With its high levels of competence in processing and understanding sectoral information, the ministry's analytical capabilities enable it to make better decisions when coordinating capital and recurrent expenditures. • In its role of offering guidance, training and support, the ministry supports coordination efforts by enabling MDAs to introduce better information into the planning process. This in turn improves the quality of information received by the MINECOFIN to coordinate integration at the central level. • The ministry's strengthened regulatory capability, driven by its increased responsibility for planning, gives the institution a level of authority and control over integration that is recognised across the government.

6 The 2010 PEFA report highlights the existence of a well-established budget calendar that provides clear key stages in the budget process, with roles divided among different players (Public Expenditure Financial Assessment, Rwanda, 2010, p.54).

Part B: The integrated financial management information system is an important part of the MINECOFIN's internal capacity, which strengthens coordinative capability

Key evidence	Discussion
• Initially focused only on budgeting, the system has been expanded since it was introduced in 2006 to cover budgeting and accounting. A planning module, which was due to be introduced in 2016/17, will see key planning data entered directly into the system and linked to the budget submission, rather than provided in a separate Excel document. Budget ceilings are also set in the integrated financial management information system. • The system is used by MDAs and local government bodies, with a new module being rolled out to subsidiary entities such as schools and hospitals for their accounting. • Agencies acknowledged the value of the system for their own management and coordination processes, as it helps them manage their financial portfolios and link their plans with funding.	The integrated financial management information system is one of the most significant features of internal capacity that contribute to the MINECOFIN's coordinative capabilities. It acts as a central point for managing information for capital and recurrent expenditures throughout the planning and budgeting cycle, including implementation and accounting. With such a broad reach across government stakeholders, the integrated financial management information system increases the capacity of the MINECOFIN to access up-to-date information that can be used to coordinate the integration of capital and recurrent budgets more effectively. As a data collection tool, the system reduces the amount of time needed by MINECOFIN staff to manually collect and enter data, creating more time for analysis, reviewing information and engagement with MDAs.

Part C: Analytical skills enable staff to follow up on coordinative mechanisms such as the PIC and planning consultations, but there are some key gaps in skills

Key evidence	Discussion
• The success of the MINECOFIN in coordinating MDAs during the planning consultations and the PIC in prioritising and assessing capital expenditures and their recurrent implications is partly driven by the ability of staff to assess and understand the documents and studies provided by sector officials. • Interviews with the Programme Management and Monitoring Unit indicated low internal capacity to monitor and support the implementation of projects. • A monitoring and evaluation handbook is intended to strengthen the capacity of staff in the Programme Management and Monitoring Unit in this area, but the quality of assessments is still quite low.	While it has been suggested that analytical skills were stronger in the MINECOFIN than other MDAs, there are areas where gaps in skills detract from the ministry's coordinative capabilities. Weak project monitoring detracts from the MINECOFIN's ability to coordinate capital and recurrent expenditures further through the budgeting cycle. However, efforts are being made to address such gaps, with MINECOFIN staff receiving training in investment appraisal and the introduction of advisers into the ministry to develop staff capacity in the same area. Proposed restructuring of the ministry, which would see the Programme Management and Monitoring Unit move out of the Budget Directorate and into the Planning Directorate, is seen as a means of boosting the capacity for project management and monitoring.

Part D: Several internal political and institutional structures support the ministry's coordinative capabilities

Key evidence	Discussion
• The structure and responsibilities of planning and budgeting staff are well defined, as emphasised both in interviews and documentation such as the planning and budget call circulars and the detailed budget calendar. • Staff in both the planning and budgeting units acknowledged their participation in and understanding of the other's process, and the clear lines of communication between the two units. For example, budget staff members are often involved in the planning consultations.	A strong institutional culture of management and internally driven reform are as important for supporting coordination as the integrated planning and budgeting structure in the MINECOFIN. • Although integration is not mandated for the MINECOFIN under legislation, leadership shows strong commitment to driving integration. This is clear from interviews and an assessment of the materials MINECOFIN provides MDAs with during the planning process.

Key evidence	Discussion
• While PFM is decentralised in Rwanda, with chief budget managers responsible at MDA level, building strong relationships with other parts of government by providing guidance and training has improved the MINECOFIN's coordinative capabilities. One example of this is the structure of the PIC, which, although led by MINECOFIN, involves strong collaboration with sectors and creates a culture of joint decision-making. • Strengthening the planning functions of the MINECOFIN and introducing a political position attached to it (Minister of State for Planning), which is responsible for planning and capital projects, has strengthened political commitment within the ministry to better integrate planning and budgeting. • Senior planning officials emphasised the level of autonomy given to the MINECOFIN to innovate and carry out changes in the planning and budgeting structure. This means the institution itself has driven reforms. An institutional culture characterised by empowering staff to do their jobs, innovate and manage their units and projects has strengthened coordinative capability through a strong sense of ownership and the ability to drive change.	• Political emphasis on the planning function of the MINECOFIN has steered the focus onto the quality of assessment and prioritisation of capital projects. This has required the MINECOFIN to play a more important role in coordinating the integration of capital and recurrent expenditures, and to ensure that future recurrent needs of capital projects are accounted for in the planning process.

Part E: Capacities and systems of players outside the MINECOFIN, particularly the MDAs, support the success of its coordinative mechanisms

Key evidence	Discussion
• Reforms in 2012 saw the introduction of Single Project Implementation units, which have increased ownership, monitoring and management of projects at MDA level. • These units replaced teams that had previously managed multiple projects, because capacity constraints had resulted in some projects being neglected. • Integration of management and data provision for projects under individual units makes contact with external financers, implementers and the MINECOFIN simpler, with a named contact point for each project. • Over the past few years, MINECOFIN staff noted an increase in the capacity of MDAs to provide project profile documents and other project documentation, partly because advisers with expertise in specific project areas have been placed in ministries.	**Many MDA structures that reinforce the ministry's coordinative capabilities are driven by processes and systems of support that the MINECOFIN put in place.** For example, the MINECOFIN was central to the introduction of the Single Project Implementation units, and the role of the Programme Management and Monitoring Unit is to coordinate and provide guidance and support to the Single Project Implementation units within MDAs. Also, the detailed guidance in planning and budget call circulars, including templates, improves the capacity of MDAs. **However, there are gaps in skills at the MDA level when it comes to producing realistic and well-costed project documents.** MDAs lack the ability to provide realistic cost information and thorough project assessments. This detracts from the MINECOFIN's capacity to coordinate as effectively as it could. An improvement in the quality of project feasibility assessments and the information in documents that are used by the MINECOFIN could strengthen efforts to integrate capital and recurrent expenditures.

Part F: External political factors have contributed to the MINECOFIN’s coordinative capabilities

Key evidence	Discussion
• Political commitment to a stronger link between planning and budgeting has come from the highest levels of government, with the introduction of a Minister of State for Planning and the movement of all planning functions out of the President and Prime Minister’s offices into the MINECOFIN in 2015. • The MINECOFIN’s Macroeconomic Unit highlighted the significance of IMF endorsement of ceilings on aggregate capital and recurrent expenditure, as well as debt. • A culture of “dynamism” across government sectors was identified in several interviews as a major contributor to the success of capital and recurrent expenditure integration. This is driven by a strong commitment to deliver initiatives generated in the top echelons of government and is seen as a cultural factor for driving reform and committing to improving public service, including integrating capital and recurrent expenditure. • The Workforce Development Authority and the Road and Transport Development Authority focal points acknowledged a collaborative relationship between MDA staff and the MINECOFIN, with strong communication throughout the planning and budgeting cycle.	External political factors, including high-level government commitment to planning and budget integration, support from the IMF, a culture of dynamism and internally driven reform, have strengthened the MINECOFIN’s coordinative capabilities. • The role of the IMF supports the coordinative capabilities of the ministry by providing legitimate external support to the analysis of the Macroeconomic Unit. The proposed criteria are developed and put forward by the MINECOFIN for approval by the IMF. However, ministry staff indicated that knowing the IMF was monitoring these ceilings gave them an additional level of authority in maintaining them. • Strong communication enables strong coordinative capabilities in the MINECOFIN, where focal points have relevant and timely information on the work of the sectors and a strong understanding of their work. • There is a culture of dynamism and internally driven reform in the MINECOFIN.

Conclusion and lessons learnt

Question five

How has the Ministry of Finance adjusted factors within its control to boost its ability to coordinate capital and recurrent expenditures under different circumstances? What are the lessons? What policy advice can be derived from the study?

Discussion

Ongoing reforms to improve the link between planning and budgeting have contributed to strong integration of the recurrent and capital budgets. Over the past decade or so, the government has implemented reforms through the MINECOFIN that aim to strengthen the institutional capabilities of the ministry with mergers and rearrangements of functions related to planning and budgeting, and continuous improvement of staff capacity. It also aims to put in place a strong PFM legal framework and ensure it is strictly adhered to. The progress made, as shown by the study, would not have been possible without a strong governance structure; committed, visionary and accountable leadership; and the holistic approach taken in implementing reforms. The following is a summary of some of the reforms implemented over time that have contributed to better links between planning and budgeting, and bolstered the MINECOFIN's capability to integrate recurrent and capital budgets:

a. Institutional reforms. Before 1997, planning and budgeting functions were handled separately, by the Ministry of Planning and the Ministry of Finance respectively. They were merged into the MINECOFIN in 1997. Civil service reforms took place in 2006, which resulted in the government being substantially downsized. Both the planning and budgeting functions were placed under the Directorate General of Economic Planning, although they were handled separately. The Central Projects and External Finance Bureau, an autonomous government entity, was responsible for project monitoring and reporting. More reforms in 2009 led to the Central Projects and External Finance Bureau being absorbed into the MINECOFIN, and the creation of a Directorate General for Planning (National Development Planning and Research) and a Directorate General of Budget (National Budget Directorate General). Single Project Implementation units were introduced in 2012 to address the challenges stemming from multiple-project implementation units across government sectors that were making coordination and project planning and monitoring difficult.

   In a bid to strengthen the planning function, the position of Minister of State that had been removed in 2007 was reinstated and a new Minister of State in Charge of Planning was appointed. The PIC was also set up, bringing together permanent secretaries of the MINECOFIN, big-spending ministries, the justice ministry and directors general from the MINECOFIN. The committee ensures a more rigorous approach to scrutinising potential investment projects. If approved, they are sent to the MINECOFIN for financing. Recently, the MINECOFIN has been looking into ways to move the Project Management and Monitoring Unit, which is under the National Budget Directorate General, into the National Development Planning and Research Directorate General. This would broaden its scope to monitor physical performance, provide feedback on project performance, and inform spending allocations during the planning and budgeting process. This latest institutional reform was due to be implemented in 2016/17, but has experienced delays.

b. Legal reforms. Before 2006, PFM legislation was spread across several laws. The OBL was passed in 2006 and its financial regulations were passed in 2007. The OBL was modified in 2008 and updated into a new law in 2013 to take into account the latest developments in PFM. The financial regulations were also updated in 2016. The promulgation of the OBL resulted in a fundamental change of PFM in Rwanda by introducing broad, shared responsibilities in the management of government finances, and establishing principles and modalities for sound management of state finances and property.

c. Results-based management. In 2006, performance contracts (Imihigo) were introduced at all levels of government, drawing on cultural and historical traditions between monarchs and subjects. A results-based performance management policy for Rwanda's public service has been in place since 2015 to institutionalise performance contracts, and introduce results-based performance management practice in the public service. This is to promote greater efficiency and effectiveness in service delivery, enabling the government to meet timely policy commitments and targets in its national development strategy.

d. Clear policy framework. The overarching policy document in Rwanda is Vision 2020, which has been in place since the late 1990s and aims to transform Rwanda to middle-income status by 2020. All other policy documents draw from Vision 2020. Whereas Vision 2020 is considered a long-term aspirational policy statement, operational tools have been put in place to guide policymaking over the medium term. The EDPRS is in its second generation, from the first poverty-reduction strategy paper (2002–2005) to the first EDPRS (2008-2012). The EDPRS strategy broke away from the poverty-reduction strategy paper, redefining the country's priorities and making the case for consolidating and extending the decentralisation of public spending, accompanied by robust accountability mechanisms. It also recognised the role of the private sector in accelerating growth and reducing poverty. Sector strategies at central government level and district development plans at the decentralised level are drawn from the EDPRS, informing medium-term expenditure frameworks and budget allocations in the annual appropriation law.

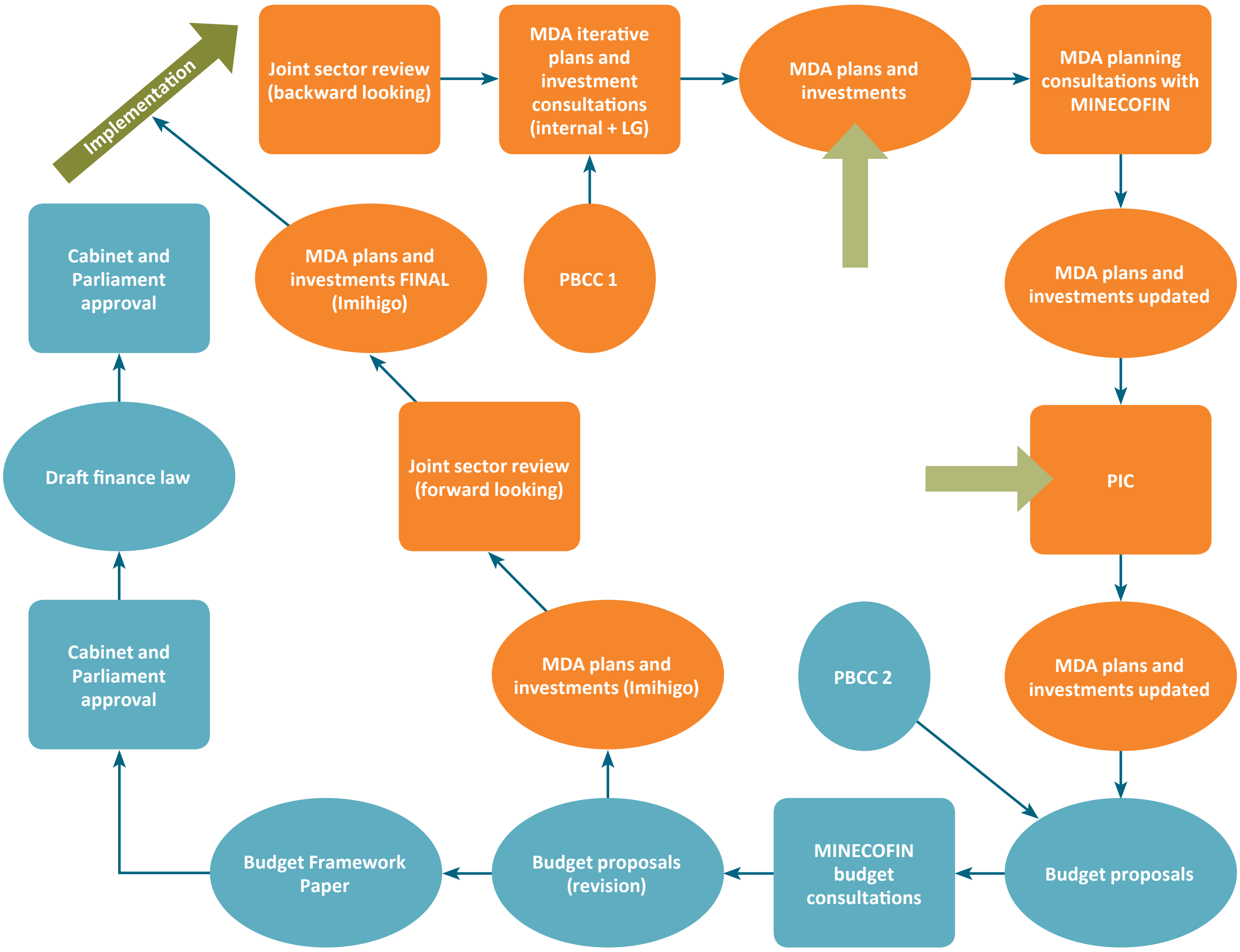
e. Information systems. The MINECOFIN has been developing the integrated financial management information system since 2006 as part of a wider PFM reform initiative. Rwanda's integrated financial management information system has grown from a simple budgeting system to one that incorporates accounting and reporting. The system will also have a planning module, so the full cycle, from planning to budgeting and accounting, will be included. Plans are under way to align the system with the integrated payroll and personnel information system, and the public procurement system. Having an integrated system has greatly contributed to the coordinative capabilities of the MINECOFIN and allowed for better links between planning and budgeting, and better integration of the recurrent and capital budgets. Plans aligned with the EDPRS and sector priorities are prepared within the integrated financial management information system, with the costing of plans forming budget requests that are adjusted to fit expenditure ceilings set by the MINECOFIN. Thereafter, implementation, expenditure control and accounting are processed through the same system.

Much progress has been made but challenges remain. While evidence points to progress in linking planning and budgeting, and integrating the recurrent and capital budgets, challenges remain in the country's multi-year fiscal planning. The MINECOFIN and line ministries still face difficulties in accurately estimating future recurrent expenditures of current capital assets. Two major findings were drawn from the study on why challenges persist. The first relates to the fact that there is no overall guiding policy of maintenance of government capital assets. Guidelines exist for expenditure allocations to maintain some infrastructure, but only for the current year (for example, decentralised capital expenditures systematically allocate between 7 and 10 percent of the total envelope for capital expenditure to recurrent expenditure, but with no explicit allocations for future years). There is no comprehensive government-wide policy on maintenance. The second challenge is operational in nature: while the MINECOFIN has been requesting estimates for future recurrent costs in budget call circular templates since 2014/15, estimates provided by line ministries have not always been accurate, and the MINECOFIN has failed to consistently use the information provided in the templates for allocating current or future expenditure of current capital assets.

Annex

Annex to the reporting matrix

Map of activities and information flows in Rwanda's capital expenditure budgeting process, with key dependencies identified
The capital expenditure budgeting and planning process takes place concurrently with the recurrent process.



Key

- Process (in planning process)
- Output (in planning process)
- Process (in budgeting process)
- Output (in budgeting process)
- Key dependency

PBCC = Planning and budgeting call circular