

## Improving aid on budget in Rwanda

The consolidated public accounts for Rwanda 2007 showed that 39%<sup>1</sup> of resources used by general government was provided by donors. Aid is therefore a substantial share of public resources and how well aid is managed in the budget process is important in effective management of the public finances overall.

Yet, aside from budget support, aid is not consistently included on budget and when it is, the quality of the information is poor. The joint CABRI/Government of Rwanda research undertaken in 2008 showed that in money terms, Government used 99.8% of the total amount of aid flows for which it had budgeted in 2007. Yet, this is misleading since only 61% of projects appear on both the consolidated accounts and the budget (and of these only 51% also appeared in the Development Assistance Database [DAD]). In addition for the projects that appeared on both budget and account, there were big discrepancies between resource projection and actual use of resources. This pointed towards projects and programmes being integrated poorly into planning and budgeting processes, at great cost to both aid and budget effectiveness.

In recognition of these weaknesses the Government of Rwanda was the first CABRI member country to make use of CABRI to address operational issues in the country with regard to bringing more aid on budget. This Brief provides a summary of the Rwanda research results and the outcomes of the subsequent process to develop relevant reform strategies. It draws on the original documentation prepared for the joint country workshop and a paper prepared for the 2008/9 CABRI Annual Seminar.<sup>2</sup>

### The CABRI approach

The CABRI 'aid on budget' analytical framework was developed during 2007 through joint cross-country research with the Strategic Partnership for Africa, which culminated in a Synthesis Report and Good Practice Note.<sup>3</sup> Rwanda was one of the ten case studies undertaken for the project.

The framework breaks down 'aid on budget' – or the use of country systems – into different phases of the budget, noting that whereas it may be possible to bring aid on budget in some respects, other respects might be more difficult and, for some donors or some countries in the short term, even impossible. Bringing aid on to the budget therefore can refer to any, any combination of, or all of the following: aid on plan, budget, parliament, treasury, procurement, account, audit and report. The value of breaking down 'aid on budget' in this manner is that it becomes possible to see where progress can be made

towards achieving transparent, accountable and comprehensive integration of aid on to the budget, without treating the problem as being in need of an 'all or nothing' solution.

The subsequent CABRI support programme for member countries therefore involves the joint identification of the most critical issues or phase for progress, research to determine and present key problems with regard to the issue or phase objectively to all stakeholders, and working sessions with all stakeholders to agree to concrete steps to address the problems. In the process CABRI utilises insights, expertise and solutions from other countries in the network. It may also involve countries that face similar issues in the process for their learning.

### The Rwanda process

The Rwanda process commenced in June 2008 with a joint scoping exercise which identified the lack of clarity on how to treat different sources, types and uses of aid on budget as a key obstacle to bringing more aid on budget. It also highlighted that process weaknesses in the management of aid information prevented not only its reflection in key budget documents but also – and importantly – its proper integration into planning and budgeting processes.

The objectives of the CABRI/ Rwanda Ministry of Economy and Finance (MINECOFIN) intervention therefore were to resolve

- **what** the rules will be in Rwanda for integrating aid on budget: under which circumstances Rwanda will include external assistance (i) in its Finance Law or 'on parliament', (ii) in its budget documentation (or 'on budget') but not in the Finance Law and (iii) in neither its Finance Law nor its Budget Documentation; and
- **how** quality integration of aid on budget can be achieved. At issue was how the existing fragmented and complex processes for managing aid information could be streamlined to ensure the capture of sufficient, useful and quality external assistance information at relevant points throughout the budget cycle.

The work was to be focused on how non-budget support aid flows are managed in the planning and budgeting phases of the budget cycle.

The research was undertaken between July and September 2008 by a team comprising an external researcher from the original CABRI/SPA research team and a senior official from MINECOFIN. The team compared aid projects and programmes

that appeared on the consolidated accounts, on budget and on the DAD to identify which types, sources and uses of aid were reported inconsistently. Interviews and further research followed, specifically to track problematic aid projects and programmes.

## What prevents aid from being on budget in Rwanda?

The research highlighted several obstacles to improving how Rwanda budgets for aid. These can roughly be grouped into issues resulting from a lack of clear rules or definitions, and those resulting from poor process co-ordination.

### *Rules and definitions*

- The research confirmed the scoping exercise hypothesis that the criteria for what should be on parliament, what should be on budget but not on parliament and what should be on account were not well defined and widely understood. Too much discretion on how aid was handled in the budget cycle led to inconsistent reporting of aid on budget.
- Externally-financed projects and programmes that are not investment-driven have no clear place on the budget. While Rwanda has in principle integrated the development and recurrent budget in a single chart of accounts, in practice a development budget is still prepared on a separate track driven by the Public Investment Plan and still aggregated separately in the Finance Law annexes. However, the development budget in the past not only included investment projects, but also included externally financed recurrent flows. Confusion during budget preparation about how and when to report externally financed recurrent flows results in some of these flows not being reported and the remaining flows being reported inconsistently.
- Lack of clarity on how an aid project or programme should be defined for budgeting purposes leads to some groups of projects/programmes being reported in one document as one entity, while in another document each sub-component is recorded separately. An important consequence of this is that it is difficult to track how well aid interventions are implemented.
- It is not clear when aid to public entities and districts should be reported in the Finance Law (on parliament) and when in the annexes (on budget). A key determinant is whether the central government ministry is the primary partner to the aid agreement, but this is not clarified in the budgeting rules.
- How the timing of project/programme start-up influences whether the project or programme is included on budget is not clear, resulting in differences between the accounts and the budget.
- Cutting within MINECOFIN of the aid use estimates provided by ministries in the budget process contributes significantly to under-budgeting. The reasons provided for this practice relate amongst others to the expectation that projects habitually overestimate their ability to spend. However, there are no clear rules for when and why which projects should be cut, and what the consequences for project implementation would be.

### *Process issues*

- Lack of MINECOFIN involvement and poor information sharing in MINECOFIN lead to aid flows remaining off budget. Many projects that were not on budget were negotiated directly with the beneficiary entity without clear and systematic MINECOFIN involvement. Even when the aid and project management MINECOFIN units were aware of aid flows, the information was not consistently shared with the National Budget Unit, which relied on ministries providing information in their budget submissions.
- The multiplicity of data collection exercises, databases and definitions leads to incomplete data collection for any one exercise or database as well as differences between the amounts provided in different bases. Ministries assumed that if they reported aid flows and use to one unit for one purpose in MINECOFIN, the information would get to all units for all purposes.
- Given multiple databases, the lack of a unique project identification number leads to opaque aid flows. Tracking aid flows is made very difficult because projects/programmes are not given a unique identification number which will ensure that they are reported consistently.
- Small projects are left out of budget information too easily.
- Lack of validation procedures on data provided by donors on the DAD results in incomplete and unreliable information on aid projects and disbursements.

The issues listed above are more or less within the capability of the Government of Rwanda to address, although often with co-operation from its development partners. There are also issues which are outside the control of Rwanda. It was evident in the tracking exercise that there are some donors whose own requirements and procedures make inclusion in budget processes and appropriate reflection on budget and on parliament difficult. For these 'difficult donors' the issues can only be addressed through reforms by donors alone.

## Concrete steps towards improving aid management in the budget process

The research provided an important input into the CABRI / Government of Rwanda / Donor workshop held in October 2008. Senior budget and aid management officials from Mozambique, Ghana, Tanzania and Uganda also attended in order to bring their experience relating to some of the key issues identified in Rwanda to the discussion.

### *Criteria for managing aid flows on budget*

The workshop focused on the following factors as important to decide how aid should be treated in the budget process:

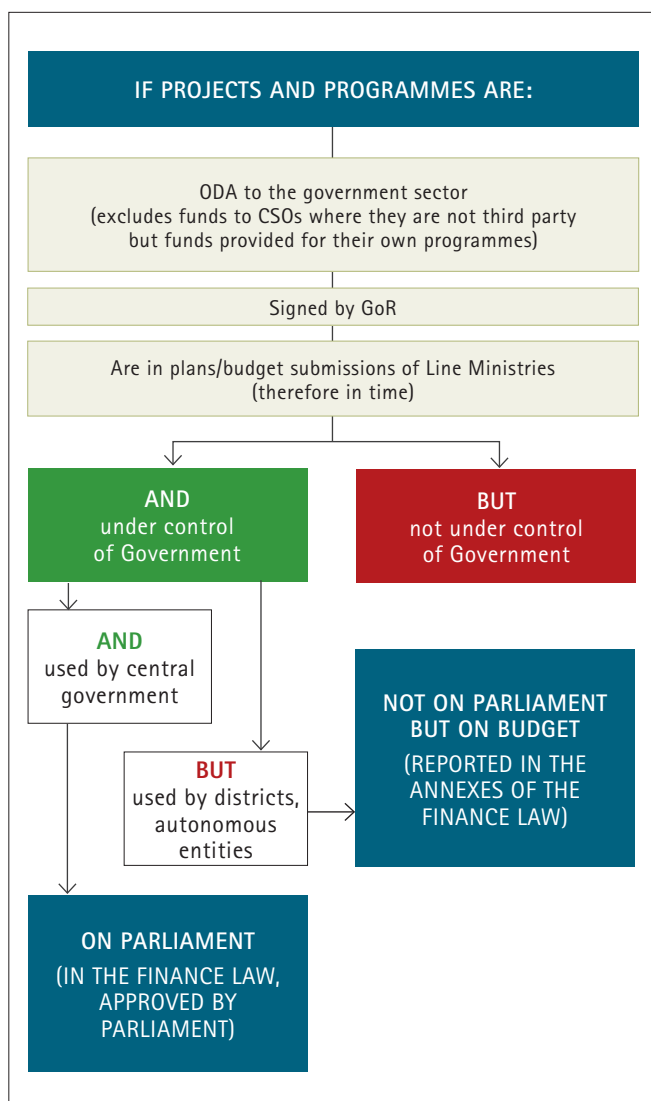
- The purpose for which the aid is used
- The recipient of the aid
- The timeliness of the information as well as its integration in the planning/budgeting process
- The degree of government control in planning, using and accounting for aid funds

An important distinction in the Rwanda context is between aid that is 'on budget' but not 'on parliament', and aid that is 'on parliament' (and therefore automatically on budget). Government defined that it would only include aid on parliament when it has sufficient control over the use of the aid to be held to account. Where that control is lacking, aid to the government sector should, however, still be on budget to ensure its inclusion on plan and to make its flow transparent to parliament. Figure 3 below demonstrates how these factors are sequenced to categorise different projects and programmes.

In short where aid flows

- are to the government sector,
  - are as a result of a signed agreement,
  - are reported on time for inclusion in line ministry budget submissions,
  - satisfy the five criteria of 'under control of government' and
  - are aid to the central government
- the flows would be approved by parliament as part of the Finance Law (or be 'on parliament').

**Figure 3: Criteria to determine treatment of aid in Rwanda's budget process**



If any one of these conditions is breached, aid would be either not on budget at all (when one or more of the first three conditions are not satisfied) or only reflected in the annexes to the Finance Law, but not the Law itself. If the first three conditions are satisfied, two key questions will determine whether aid is in the Finance Law itself or only in the annexes: is aid under control of government and is a central government ministry the primary partner.

The workshop defined 'under control of government' to mean that *all* of the following five conditions must be satisfied

1. The responsible budget agency is active in decisions on the allocation of funds for the project
2. Disbursement of the funds is approved by the budget agency's Chief Budget Manager
3. The project submits its accounts to the responsible budget agency
4. Supporting documents for financial transactions are kept by the responsible budget agency
5. If there is a third party as implementing partner (NGO, consulting firm, etc.), a contract must be signed between the budget agency, the implementing partner and MINECOFIN.

All aid flows to central government which satisfy the first three criteria above but do not satisfy one or more of the five second-tier criteria would be reported to Parliament in supplementary budget documentation but not be approved by Parliament in the Finance Law.

*Streamlining aid information management for budgeting purposes*

The workshop agreed unanimously that data collection and management should be streamlined as a matter of urgency, implying that co-ordination of aid information on MINECOFIN should be addressed. More specifically, this entails:

- Designating an unique entry point in MINECOFIN for all aid information
- Co-ordinating / streamlining databases and assigning unique project identification numbers
- MINECOFIN being involved in signing off on all aid projects
- MINECOFIN undertaking to triangulate aid information in the budget
- MINECOFIN resolving unrealistic 'cutting' of aid projects and amounts
- Donors providing aid information in chart of accounts formats.

Besides these government-centred recommendations, the workshop also resolved that donors will provide comprehensive information on time and in the right formats. This includes information on direct payments and technical assistance. The MINECOFIN senior management approved the recommendations in November 2008. The National Budget Unit was tasked to prepare the roadmap for further discussion of the recommendations with stakeholders and their subsequent implementation. A four-step process was agreed to in this regard:

1. To upgrade Smartgov as a central database and pilot the proposed changes on a sample of selected projects to test the feasibility of the reform. The pilot has been done and tested, and the reform will be implemented in the new financial year.
2. To hold a meeting with Chief Budget Managers and agree on the implementation of the recommendations before the commencement of the new financial year (July 2009/10). This meeting was held in March 2009.
3. To discuss the recommendations at the broader meeting of Joint Budget Support Donors in April 2009 and agree on the concrete steps on the way forward.
4. To undertake an internal process review at MINECOFIN to streamline management of project information.

The work during 2008 by CABRI and MINECOFIN was instrumental in setting a government-driven reform agenda for aid management. The process – a first for CABRI in country-level support – was also a valuable learning ground for the network on how to optimally use network expertise to support individual countries in key CABRI themes.

#### *Endnotes*

- 1 External financing of general government expenditure, including loan and aid components.
- 2 See Chiche, M and Ncuti, C. 2008. *Aid on Budget in Rwanda: A way forward*. CABRI, Pretoria.
- 3 See Mokoro Limited, 2008. *Putting Aid on Budget: A study for the Collaborative African Budget Reform Initiative (CABRI) and the Strategic Partnership for Africa (SPA)*, CABRI, Pretoria.



Collaborative Africa Budget Reform Initiative

For information on the Collaborative Africa Budget Reform Initiative, or to obtain copies of this publication, please contact:

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#### **Acknowledgement**

This publication has been produced with the kind assistance of the German Federal Ministry for Economic Cooperation and Development (BMZ) through the German Technical Cooperation (GTZ).

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