USAID/RWANDA
THE ANALYSIS OF POLICY REFORM:
A Feasibility Study

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ACRONYMS

AEPRP	Africa Economic Policy Reform Program
ASPAP	Agricultural Surveys and Policy Analysis Project
BNR	National Bank of Rwanda
DGEP	Directorate General of Economic Policy
FED	European Development Fund
GOR	Government of Rwanda
MC	Ministerial Commission
MINAGRI	Ministry of Agriculture
MINICOMAR	Ministry of Commerce, Industry and Crafts
MINIFIN	Ministry of Finance
MININTER	Ministry of the Interior
MINIPLAN	Ministry of Planning and Cooperation
MINITRAPE	Ministry of Public Works
NPA	Non-Project Assistance
ONAPO	National Population Bureau (Office Nationale de la Population)
PFP	Policy Framework Paper
PMPR	Production and Marketing Policy Reform Program
PNAS	Social Action Program (Programme National d'Action Social)
PP	Project Paper
SAL	Structural Adjustment Loan
TC	Technical Committee

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EXECUTIVE SUMMARY

Rwanda's possibilities to expand on-farm employment are limited given its high population density and the fact that all agricultural land is already under cultivation. The only possibilities for growth are in the non-farm sector, particularly private sector development. The framework for developing private sector initiatives in the non-farm sector, have, however, been restrained because of the policy and regulatory environment. However, since the GOR launched its comprehensive Structural Adjustment Program (SAP), the prospects for increased development of the private sector have improved. Although no visible signs of improvement have occurred because of the war effort, it is hoped that a solution to the conflict will permit the program to deliver on its objectives.

USAID has supported the goals of the SAP since it signed its first AEPRP in September 1991. The AERP PMPR supports the implementation of sectoral reforms (liberalization of imports and foreign exchange allocation; removal of price controls; and rationalization of tariffs) directed at increasing competition in the short run and subsequently employment and production in the non-farm sector. The need to strengthen the GOR capacities to monitor and assess the impact of the SAP was identified during the assessment of the GOR overall policy reform program. Consequently, USAID included institutional strengthening as a key component of the PMPR. The component was to be implemented by creating a monitoring unit (M.U.) in charge of performing analysis of reforms.

Discussions with various GOR ministries, the BNR and donors confirm the GOR's need to strengthen its capabilities to monitor and assess policy impacts. The Analysis of Reform assistance addresses two weaknesses in the GOR's Structural Adjustment Program: (a) the absence of a vehicle to rapidly assess the evolving impact of policy changes, and (b) the unsatisfactory record of collecting, processing, and analyzing even small sets of survey data on a timely basis.

The team evaluated the PMPR proposals (a) to establish the monitoring unit in the Ministry of Plan under the supervisory direction of the Minister and the Director General of Economic Policy and (b) focussing the scope of work of the M.U. to analyzing the subset of policies sponsored by A.I.D. The first consideration was found less desirable for various reasons, the main one being the lack of absorptive capacity of the Directorate General of Economic Policy, the fact that the GTZ is already assisting that office, and the likely incorporation of an advisor to the D.G. of Economic Policy provided by the French development assistance.

As to the second consideration, the team found that, except for the BNR, there is a widespread low technical capability to do policy analysis which is reflected in monitoring the overall SAP. The evaluations of the SAP lack an in-depth analysis of impacts. The monitoring is done by the members of the Technical Committee without actively involving the technical units responsible for implementation. Furthermore, there are serious data problems. The team concluded that these constraints could be effectively addressed by the M.U. if it were to play a role of secretariat to the Technical Committee.

Taking into account the Government's expressed interest in an assistance to the monitoring effort of the overall SAP rather than a subset of policies, the team considered three alternatives in the structure of the M.U.: (a) the M.U. will respond to the Prime Minister's Office; (2) the M.U. will respond to the Prime Minister's Office while, at the same time, keeping closer working relations with the Technical Committee; and (b) the M.U. will respond to the Technical Committee.

The team recommends keeping the M.U. strictly technical and as independent as possible from political interests. In that sense, the alternative of working in close coordination with the TC and key technicians seems more attractive. In so doing the M.U. could also provide advice to the Prime Minister, the Ministerial Commission, and other government agencies. It will also be a source of information to the donor community and private sector in general.

Aside from playing a role as secretariat to the Technical Committee, the M.U. will execute a scope of work similar to the one proposed in the PMPR. As secretariat, the M.U. will facilitate the work of the TC by providing data and analyses of policies implemented, making recommendations on studies of impacts of policies prior to implementation, and specialized scenario analyses. The M.U. will work in close relation with the members of the TC and key technicians in the various GOR offices involved with the implementation of the SAP policies. The M.U. will produce (1) a table of macroeconomic and sectoral indicators; (2) a table of people-level (private sector and consumers) impact indicators, both of which will be frequently updated; and (3) periodic and special impact studies.

The coordination among the different agencies concerned, and monitoring of the execution of the SAP should be guided by an operating manual or guide. It is recommended that the existing "Guide Pour la Mise en Oeuvre du PAS" be updated to respond to the current needs and organizational structure of the various government agencies. The guide should be further revised if needed at a later stage based on experience. The SAP monitoring guide should clearly specify the tasks assigned to each and every technical unit of the different ministries and BNR, both in what concerns monitoring of the data and, whenever possible, execution of policies and timing.

To the extent possible, USAID should seek co-financing by the donor community. The possibility of gaining some access to the various study funds --by the UNDP, Belgium, the FED, and World Bank-- should be studied. The Unit should, in addition, hold meetings with the donors on a regular basis. Both of these actions should create confidence and cooperation on the part of the donors. It is recommended that consideration be given to providing incentives to the six members of the TC, and key technicians of the various institutions involved in the form of extra benefits for extra work performed, observation trips to other countries where similar technical units exist, etc. The latter is common practice in various countries executing structural adjustment programs. Possible involvement of the UNDP study fund should be considered.

The M.U. should be staffed initially (possibly for six months) by an expatriate highly experienced macroeconomist and a Rwandan economist. His/her initial tasks will include updating the "Guide pour la Mise en Oeuvre du PAS so that it responds to the Rwandan current setting, starting a data bank, establishing methodologies for the analysis of impacts, establishing comprehensive tables of indicators (macroeconomic, sectoral and social), and executing initial impact analyses. One other expatriate and local professional(s) will be phased in later. The PP team should evaluate the need for a third long-term social scientist versus hiring short-term consultants for specific studies and should establish detailed terms of reference for each member of the M.U..

A. Overview of Recent Economic Developments

With a GNP per capita estimated at $300 in 1990, Rwanda is one of the world's poorest countries. It is one of the smallest countries in Africa covering only 26.000 km^2, and one with the highest population densities (280 persons per km^2).[1] These factors have a negative impact on agricultural land availability and the environment, and limit the country's investment capabilities and economic growth. The economy is highly dependent on coffee exports, which in 1988 accounted for 72% of the total. Tea is the second most important export, accounting for 15% of the total.

During the 1970s, the country enjoyed political stability, high coffee prices, prudent economic and fiscal management, and thus high rates of growth (5% on average), together with budget surpluses, large external reserves and a low debt service ratio. As a result, the Government increased public expenditures, especially the wage bill, while, at the same time, the demand for imports of both consumer and capital goods rose rapidly. In the early 1980s the economic situation started to deteriorate because of unfavorable terms of trade and excessive and inefficient public spending. The balance of payments also showed signs of deterioration. In response, the GOR adopted restrictive fiscal and monetary policies in late 1983. In addition to restraining demand, the GOR imposed stricter import licensing requirements, increased import duties on luxury goods, and prohibited imports of certain goods competing with those produced locally. Restrictive import licensing was introduced because of a foreign exchange scarcity. Consequently, the external current account showed large deficits. The economy was hardest hit in 1987 with a sharp drop in world coffee prices. The prices of other exports also tended downward. Real GDP declined sharply in 1989 to a level below that recorded six years earlier. Inflation, however, remained low because of low demand, the appreciation of the Rwandan franc and price controls.

In the early 1990s, the GOR requested the Bretton Woods institutions' support in preparing an adjustment program. As reforms began to be implemented, Rwanda was invaded later in the year by armed rebels tied to the regime based in Uganda. Although the invasion was repelled, clashes with the rebels continue until the present. The armed conflict and adverse international coffee prices has had a severe impact on economic activity. The GOR has increased security-related annual outlays to about 7% of GDP, from an annual average of about 2% in the last decade.

To complement the liberalization process the GOR started a political reform process which has continued despite the clashes with the rebels. A new constitution was adopted in June

1 With an estimated population growth rate of 3.4% during 1985-90 its population of 7.3 million is expected to more than double by the year 2010.

1991 which allowed for multi-party politics and a multi-party government is now in place. The political transition process is under way and a free press has emerged.

Rwanda's economic problems have had negative social impacts. Poverty has increased in recent years, as revealed by a recurrent state of acute food shortages in the southern and western parts of the country. Government expenditures are insufficient to respond adequately to the demand for social services.

B. The Structural Adjustment Program

The Structural Adjustment Program's goals are to make the economy more responsive to market signals and to allow for an increased role of private sector activity, particularly in the non-farm sector, and encourage exports. The objective is to establish a solid basis for increasing overall real per capita income and improving the living conditions of the Rwandan population, while maintaining domestic price stability and a sustainable budgetary and balance of payments situation. Attaining these objectives requires sound macroeconomic policies, and the formulation of a strategy for structural change without neglecting the social impacts of these reforms.

The program aims at reversing the economic decline of recent years in order to restore the growth rate to about 4% and to limit inflation to 5% annually by 1993. The basis for this growth will be concrete actions to rehabilitate the agricultural and industrial sectors in order to increase their competitiveness. Starting in 1992, corrective actions in the rural sector will permit improved yields in agriculture and a growth rate of 3.6% a year. The industrial sector is expected to grow at an average annual rate of 4.5% because of improved incentives.

The main thrust of the package of reforms focusses on the fiscal area. The main objective is to reduce the fiscal deficit, excluding grants, from 11.7% of GDP in 1990 to 5.2% in 1993. Achieving these objective requires the adoption of austerity measures to reduce the growth of government expenditures, e.g., military outlays, and the wage bill. To increase revenues specific measures are aimed at increasing tax receipts; improving the management of public enterprises; reducing direct and indirect subsidies; and eliminating transfers to the coffee stabilization fund.

The program is financed by a World Bank Structural Adjustment Credit (US$90 million) co-financed by other donors (US$131 million) and IMF financing of approximately US$45 million from the Structural Adjustment Facility.

1. Progress to Date

The main limiting factor in evaluating the SAP is the ongoing war which continues to have an overwhelmingly negative effect on the Rwandan Economy. The heavy military expenditures have prevented attaining the programmed budgetary targets. The ability of the SAP to deliver on its objectives depends on the ability of the GOR, opposition leaders, rebels, and international donors to find a lasting solution to the conflict. Political stability, through the democratic process which has been initiated, is also essential to restore investor confidence.

The total number and depth of structural reforms committed to by the government is quite ambitious compared with programs in other African countries. In late 1990 (literally in the midst of the invasion) the GOR implemented some of the most important and politically difficult reform measures. These reforms included:

- Devaluation of the Rwandan Franc by 40%;
- Increase of the interest rate on one year deposits from 6 to 12%;
- Increase of the maximum lending interest rate from 12 to 19%;
- Establishment of minimum and maximum import duties of 10% and 100%, respectively; and
- The approximate doubling of the sales tax rate.

In 1991, despite the continuing war in the north, the GOR implemented additional key measures:

- Liberalization of the foreign exchange allocation system;
- Elimination of all export taxes except coffee;
- Elimination of import prohibitions designed to protect local industry;
- Elimination of import quotas;
- Adoption of a simplified tariff structure;
- Virtual abolition of controls on profit margins and prices;
- Elimination of legislation requiring government approval to start a private business;
- 50% increase in water and electricity rates; and
- Increase in petroleum products prices by 79% on average.

The economy has not responded to these dramatic steps aimed at encouraging private investment. The war and internal political stresses have lowered investor confidence and led to a "wait and see" attitude. Internal transport has been disrupted by security measures and roadblocks, and external trade has been routed away from the less costly and most convenient northern corridor.

Furthermore, the cost of increasing the military forces at least four fold since 1990 has drained the government coffers and led to increasing budget deficits. Military outlays, which had averaged 2% of GDP during the decade prior to the invasion, reached 7% in 1991. These expenditures amount to over one third of the government budget and, as a result, development spending, outside of external grant funds, has declined significantly, with the social programs being particularly hard hit.

2. Remaining Policy Actions

While the first tranche conditions of the Structural Adjustment credit (SAL) have been met, release of the resources of the second tranche depends on the implementation of various policy actions:

- Establishment of an open general licensing system;

- Implementation of the second phase of the tariff reform;
- Elimination of subsidies to the coffee sector and adoption of an export reference pricing system that allows for repatriation of export savings;
- Adoption of a three-year rolling public investment program for 1992-94 and a budget for 1992;
- Implementation of action plans in the labor market and civil service;
- Improved financial performance of Electrogaz and a calendar of rate increases.

The policy actions for 1992-93 are specified in Annex I. The policy matrix is likely to be redefined, however, in view of the inability of the GOR to attain agreed upon fiscal benchmarks. The program is currently being evaluated by the IMF and the World Bank.

3. The Food Security and Social Action Project

The Food Security and Social Action Project constitutes an essential complement to the structural adjustment process. The objectives of the PNAS are to: reduce food insecurity, malnutrition, and other effects of poverty; involve the communes in efficient poverty alleviation strategies; and improve the poverty monitoring and social policy development. These objectives involve targeted food aid; labor-based civil works; microenterprise development at the communal level; and establishment of poverty monitoring systems through MINIPLAN's Directorate General of Statistics. The latter component is necessary to help monitor the impact of the various programs and will be the basis for better targeted social actions.

C. The USAID Production and Marketing Policy Reform Program (PMPR)

1. Rationale

USAID's PMPR program focusses on correcting policy and regulatory distortions affecting Rwanda's formal and informal manufacturing and commerce sectors. These policies have led the government to control imports, exports, investment, profit margins, prices, movement of labor, and entry into business. This structure has had adverse effects on output, prices, employment, and on the efficient use of local and imported inputs. Such policies have made a large part of the formal manufacturing and commerce sectors increasingly inefficient, dependent on government fiats for survival, and unsustainable in that they are neither generating sufficient export earnings to finance their own needs nor contributing to the larger needs of the country. The informal manufacturing sector and off-farm employment have also been affected by these policies.

The major policy constraints affecting the manufacturing and commerce sectors have been (a) restrictive import and foreign exchange allocation policies; (b) unfavorable fiscal and monetary policies; and (c) government direct controls on prices, profit margins, business entry, and labor practices. The PMPR policy reforms are directed at helping to mitigate the above mentioned distortions. The PMPR together with the institutional strengthening and complementary measures identified in the Structural Adjustment Program and the Policy Framework Paper should begin to restructure Rwanda's non-farm sector. These measures are expected to result in increased investment, employment, and a greater supply of goods and services, and to have spill-over effects into the agricultural sector as well.

Addressing the manufacturing and commerce sectors' constraints directly supports the GOR and USAID goal of establishing the foundation for sustainable participatory economic growth. Restructuring the incentives facing the manufacturing and commerce sectors, both formal and informal, is necessary for diversifying the economy away from its dependence on one export crop, increasing the sector's contribution to economic growth, and generating new off-farm employment.

2. Program Description

The goal of the PMPR program is to contribute to growth, employment and production in the medium term. To that end, the purpose is to increase competition and employment in the manufacturing and related sectors.

The Program consists of four components (1) policy reform; (2) resource transfer in the form of cash transfer; (3) local currency generated from the resource transfer; and (4) technical assistance for program monitoring and institutional strengthening.

Policy Reform

The policy reform component addresses three critical areas affecting the manufacturing and commerce sectors:

- the restrictive foreign exchange allocation and import system;
- the restrictive trade regime; and
- the number of prices under government control.

The program supports a less restrictive foreign exchange allocation and import licensing system. The purpose is to smooth the transition from the present system to an open general licensing system. The interim system has been designed to allocate foreign exchange indiscriminately. Although the reforms were introduced in June 1991, to date the demand for foreign exchange has been lower than expected. This situation is attributed to the newness of the system; the economic recession resulting from a lower purchasing power; and the political instability.

Regarding the import quota controls (quantitative restrictions), the program supports GOR efforts to reduce the number and range of customs duties and import surcharges. During the initial phase of this liberalized import regime, a limited number of "essential" imported good (petroleum products, pharmaceuticals) continue to be subject to import programming in order to ensure an uninterrupted supply of those goods in an amount not to exceed 30% of total the foreign exchange available for imports.

Thus far, the GOR has already eliminated most price and profit margin controls of goods and services. These changes will help liberalize internal and external trade.

Resource Transfer

A resource transfer of $25 million is provided to reduce real and perceived risks and uncertainties associated with the change from the administratively allocated import system to a market system. The cash transfer mechanism permits rapid disbursement at a time when Rwanda is critically short of funds to support the implementation of the reforms. The monies were to be released in two tranches with $15 million for the first tranche and $10 million for the second tranche.

Local Currency

The Local currency is to be used to reduce GOR arrears to private domestic creditors. Such arrears totalled close to $42 million in 1991. Most of these are to the country's registered manufacturing and commercial businesses. Local currency generated by this program is to be used first to help reduce arrears to private suppliers (no government participation), then mixed companies. Domestic arrears exceed the value of this program nearly three-fold. Several other donors are supporting the reduction of arrears.

Institutional Assistance for Program Monitoring

This component supplements the GOR and other donor efforts to ensure that there is an on-going and timely monitoring and analysis capability for "assessing the impact of the A.I.D.-supported reforms and associated parts of the larger SAP on competition, production and employment." In order to accomplish this, this component proposes the creation of a monitoring unit in the Ministry of Plan.

D. Agencies Responsible for Monitoring the SAP

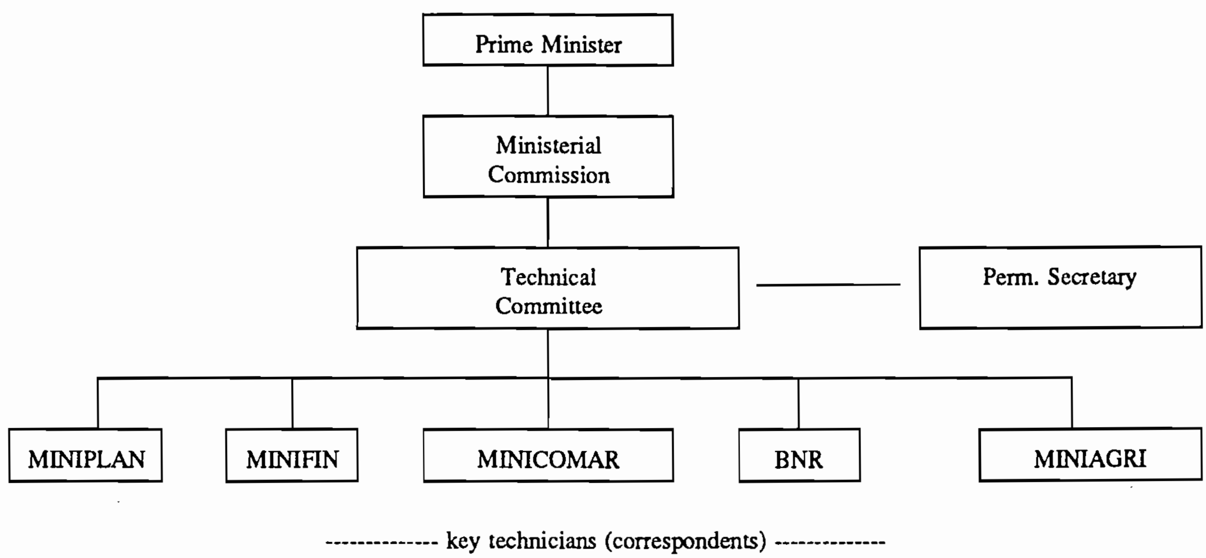
On November 9, 1990 the Government Council created (by ministerial ordinance) the Technical Committee of the Structural Adjustment Program composed of four members, two from MINIPLAN, one from MINIFIN and one from the National Bank of Rwanda. A Ministerial Commission was appointed by the President of the Republic to oversee the implementation of the SAP. The Commission, however has played a marginal role in evaluating the program and influencing the policy decision making. The main reasons for this have to do with the priorities of the GOR with respect to the war effort, unclear responsibilities assigned to its members, incomplete understanding of the overriding implications of the program, and insufficient coordination with the Technical Committee.

The Technical Committee thus far has functioned without a clear definition of the roles and responsibilities of each of the members and coordination of activities has been poor. The Ministerial Commission has not met on a regular basis. Comprehensive evaluations of the SAP are only done in preparation for the arrival of the IMF/World Bank missions rather than on an ongoing basis. They are a recount of the evolution of indicators with insufficient analysis of the implications of the measures undertaken. In-depth impact analysis is not done. Furthermore, the evaluations concentrate on the major macroeconomic indicators and do not include a clear analysis of sectoral policies and trends, nor developments in other areas of the SAP. Some of the estimates of the table of indicators are very rough, especially in the area of public finance (see table 1). The basic problems preventing proper analysis are the generally low technical level of the TC members and the technical units in charge of supplying data, the multiple activities of the TC President, and the lack of good data.

In August 1991, a seminar on the impact of the program was given by the World Bank with the presence of all the ministries, and a guide[2] for monitoring the SAP was prepared. Although little use has been made of the guide, the recent restructuring of the monitoring agents follows the recommendation of the guide and may indicate the seriousness of the Government to improve the monitoring system.

Given the need for an efficient monitoring of the SAP adjustment policies, the GOR recently gave a legal status to the Ministerial Commission and restructured the Technical Committee by ministerial ordinance (Arrêté Ministériel 04/02 of 4/9/92). The ordinance also establishes the post of Permanent Secretary (to be appointed by the President of the MC[3]) and recommends appointment of key technicians (correspondents) in various technical government agencies. The functions of the MC and TC are described below and Figure 1 shows the organization of the monitoring agents.

Figure 1. SAP Monitoring Agents



2 Hoang Dam Van. "Guide Pour la Mise en Oeuvre du PAS," Ministry of Planning, July 15, 1991.

3 The Director of Economic Studies of the DGEP of MINIPLAN has been appointed Permanent Secretary.

1. The Ministerial Commission

The Ministerial Commission includes the Ministers of Planning (President), Finance and the Governor of the National Bank of Rwanda (BNR). The MC is in charge of coordinating the negotiations of the SAP; regularly evaluating the state of execution and results of the program; and proposing the necessary adjustments. The MC reports to the Prime Minister's office. In so doing, it must submit to the Prime Minister (with a copy to the President of the Republic) minutes of its meetings; a quarterly report of program activities, and a bi-annual in-depth evaluation of the program. The Commission will meet at least once a month and as often as necessary.

2. The Technical Committee

The Ministerial Commission is assisted by a technical monitoring committee whose members are:

- the Director General of Economic Policy of MINIPLAN (President);
- the Director General of Statistics of MINIPLAN;
- the Director General of Investments of MINIPLAN;
- the Director General of the Budget of MINIFIN (Vice President);
- the Director of Studies and Planning of MINIFIN; and
- the Director of Studies and Statistics of BNR

The Technical Committee will meet at least once a month, and reports of its meetings will be transmitted to the MC. The President of the TC will be in charge of preparing the documentation pertinent to specific subjects of discussion by the MC.

The Secretariat of the monitoring bodies of the SAP is assured by a Permanent Secretary appointed by the President of the MC. The Secretary will be in charge of preparing the working documents for the meetings of the TC.

To facilitate the work of the monitoring agents of the SAP, a key technician (correspondent) from each of the different ministries and public agencies is to be appointed to provide all the information necessary for the use of the monitoring agents. In regard to the evaluation, each ministerial department concerned must transmit a report to the President of the MC.

The above structure seems adequate, however, proper monitoring will depend on the ability of the president of the TC to coordinate well the activities of the Committee and on the Committee's relations with the key technicians. This demands a greater commitment than the TC members are able to provide. The TC would be expected to prepare the quarterly reports of the Program's activities and bi-annual evaluations.

Annex 1 gives an overview of the SAP objectives and policy actions involved, the government agencies in charge of implementation, and a cursory evaluation of the their performance. The PP team should look closer into the problems confronted by the various government agencies with a view to identifying precise areas of intervention of the monitoring unit (discussed in section G). The following section describes the main technical agencies in charge of supplying the TC with data and reports related to the performance of various components of the SAP.

3. Technical Agencies

a. The Directorate General of Economic Policy (MINIPLAN)

The MINIPLAN Directorate General of Economic Policy presides over the SAP. According to a recent organizational description of the responsibilities of the Ministry, the Directorate General is responsible for policy analysis and evaluation of policy reform impacts; analysis of economic situation; monitoring of policy reforms and recommending policy changes. The team was not able to verify that any of these activities are currently being carried out by the DGEP, except for limited analysis of the current economic situation. Furthermore, no analysis of the economic and social effects of the SAP is carried out by the DGPE. The reports on the state of execution of the SAP are done solely by the members of the TC without engaging the staff of the various offices concerned.

The DGEP produces a table of main economic indicators (although not on a regular basis), with the assistance of the German Cooperation, who also manage the macroeconomic model UMUGANDA. The latter model, however, is not being used as widely as it should. It is very complex (over 1,400 equations) and lacks sufficient information to feed it. The behavioral relations do not seem to be well represented, and therefore, it is not very practical in the decision making. However, simplification of the model is underway with assistance of the GTZ.

The DGEP is understaffed and overburdened with work. Aside from the D.G., there are nine professionals, two of which are temporary and engaged full time with the GTZ project, two are mid-level staff (two-years of college) and the rest are graduates from the local university with little experience. Some of the activities currently underway are the analysis of impact of the SAP on rural areas, and a study on the competitiveness of Rwanda within the East African region. The level of competence for adequate economic analysis is weak. The DGEP does little analysis of economic conditions and no analysis of forecasts.

b. The Directorate General of Statistics (MINIPLAN)

The DGS is in charge of producing economic statistics from specific surveys: prices of enterprises, household budgets and employment. In addition, it is responsible for the execution of the population census, the preparation of the national accounts, price statistics, and the publication of a yearly statistical report containing sectoral statistics (trade, industry, agriculture, finance) from secondary sources. However, the publication of these statistics is irregular and incomplete. The last national accounts available (for 1988) were only published in 1990. The price index is only produced since January 1991. A population census was done in 1978 and a demographic survey in 1981 and published in 1986.

The DGS conducted rural and urban household consumption and budget surveys (1983-85) and employment surveys (1989 and 1991) which permitted the availability of various statistics on households and employment. USAID and the World Bank have provided technical assistance in the analysis of results of the household surveys.

The DGS faces several problems related to the lack of sufficiently trained personnel as well as insufficient equipment to handle the data. However, the latter problem will be improved with the installation of an information systems network and UNDP's project "Assistance à la Planification." The analysis of data is hindered by a number of methodological problems, notably sample size and adequacy of survey questionnaires.

The DGS consists of the Directorates of General Statistics, National Accounts and of Statistical Surveys. The latter will be in charge of executing the "Living Standards and Poverty Monitoring Component of the PNAS. The welfare monitoring system proposed under the PNAS would consist of one Integrated Survey (similar to the consumption and household surveys) to be carried out in 1994-95 and two Priority Surveys (for rapid identification and monitoring of policy target groups, covering a range of welfare aspects). Various studies using these data will be conducted.

c. The Directorate General of the Budget (MINIFIN)

The Directorate General of the Budget is in charge of the execution, and monitoring of budgetary operations. However, these operations suffer from insufficient legislation (the Decree-Law on public accounting is undergoing reforms) and obsolete accounting procedures. There is a lack of qualified personnel. Its twelve technicians are of a college graduate level. However, three agents were recently replaced by graduates from the Institut Supérieur des Finances Publiques.

The preparation of the budget does not seem to be linked to macroeconomic constraints in spite of the existence in MINIPLAN of the macroeconomic model UMUGANDA, which permits forecasting of major economic aggregates. Forecasting of revenues and expenditures is essentially based on an evaluation of prior situations. Forecasts of revenues are often overestimated, among other reasons, because of the lack of in-depth simulations and the constitutional obligation to present a balanced budget. There does not exist a multi-annual programming of the budget which results in the omission of recurrent costs of some development projects. Efforts are underway to institute a Public Expenditure Program and the Public Investment Program in the context of the SAP, specifically for the health and education sectors. The preparation of the PIP also has certain weaknesses related to the preparation of feasibility studies, and coordination with the Directorate General of Investments of MINIPLAN.

d. The National Bank of Rwanda (BNR)

The National Bank of Rwanda is well equipped to produce various statistics on exchange rate, money, credit and balance of payments. In addition, the BNR produces a consumer price index for the city of Kigali only. The BNR has its own monitoring unit of the SAP policies of their competence. This unit is made up of representatives of various department, the BNR secretariat and a permanent advisor provided by the IMF. The Director of Monetary Policy is the President/Secretary of the unit. The unit meets regularly once a week to review the state of execution of the various policies. The Department of Studies and Statistics is in charge of doing policy analysis, however the analysis team is weak.

e. The Division of Agricultural Statistics (DSA)

With AID's assistance (under the ASPAP project), the first agricultural census for Rwanda was produced. The current phase of the project, which began in 1986, seeks to strengthen the ability of the Agricultural Statistics Division of the Ministry of Agriculture and the Directorate General of Economic Policy of MINIPLAN to collect and analyze rural and agricultural data for policy formulation. Over 40 studies and reports have been published to date. Studies currently underway include: crop cultivation in the wetlands; land tenure in Rwanda; the use of fertilizer; off-farm employment; sorghum marketing; commune-level recurrent costs; parallel market exchange rates in Kigali and border towns; the role of women in Rwandan agriculture; and a study on the coffee sector. The DSA also collects annual agricultural production statistics for policy planners and conducts special studies for donors.

The project receives substantial technical assistance from Development Alternatives (DAI), a U.S.-based consulting firm, and Michigan State University. The Division has also benefitted from training of its personnel overseas and information systems.

MINIAGRI is expected to play a key role in the execution of the agricultural sector Structural Adjustment Program. The SAP contemplates various policy actions to rehabilitate the sector and important reforms in the coffee and tea sectors.

E. Other Donor Assistance

<u>Current and Planned Assistance to MINIPLAN</u>:

Germany: The German Cooperation, GTZ has been providing technical assistance to the D.G. of Economic Policy since the early 1980s with the preparation of the macroeconomic model UMUGANDA. The project is expected to continue for another three years. One expert is permanently placed at the DGEP.

FED: The European Development Fund planned assistance to MINIPLAN responds to their interest for an improved monitoring of their aid programs. For this purpose, FED is hiring 5 (maybe 6) experts for various ministries, three of which will be placed at MINIPLAN.[4] The MINIPLAN experts consist of one economist advisor to the Minister; one information systems specialist to assist the D.G. of Statistics; and a social scientist in charge of developing micro social programs (worth between $13 and $19.5 million). The advisor to the Minister of Plan will

[4] Two other experts will be placed at MINIAGRI and MINITRAP, and the (probable) sixth may be a fiscal expert for MINIFIN.

evaluate impacts on the FED-financed private sector programs and advise on the implementation of the SAP.

France: The French Cooperation has been requested by MINIPLAN to provide an expert for the Director General of Economic Policy to advise on matters related to the monitoring of the SAP. The French appear committed to this request and are currently searching for the candidate.

UNDP/World Bank: The UNDP/World Bank finance an expert for the Directorate of Investments to prepare the sliding three-year budgets and implement reforms to the project analysis and monitoring systems.

Current Assistance to MINICOMAR:

Belgium: Belgium provides technical assistance to evaluate the Commerce Code which is expected to take one year.

World Bank: The World Bank finances the Private Sector Promotion project which aims at creating a favorable environment for private sector development. Among other components, it considers the implementation of reforms of a legal and fiscal nature.

Current Assistance to MINIFIN:

World Bank: The World Bank finances a long-term expert to assist the Directorate of the Budget introduce a system of budgetary accounts and a system of account for government operations. A second expert studies the rehabilitation and/or privatization of public enterprises.

IMF: The IMF finances an expert for the Customs Directorate to implement a system of foreign trade statistics. A second expert assists the Directorate of Taxes under a joint UNDP/IMF project to reorganize the fiscal administration and introduce fiscal reforms, including legislation and various tax reforms.

Various Study Funds

World Bank	US$10 million (credit 1796).
Caisse Centrale	Fr. 3 million and an additional Fr. 8 million coming.
Belgian	FrB. 50 million
UNDP	US$450,000

The Caisse Centrale finances preinvestment studies for its projects.
Belgium finances the study of the Commerce Code.
The World Bank finances simplification of administrative procedures in the private sector, and public expenditures system reform.
The UNDP funds the "Program d'Appui au PAS"

For 1992 there are FRW 400 million in study funds.

F. Rationale for the Project

Since the GOR launched its Structural Adjustment Program and its sweeping economic and regulatory reforms, real possibilities have been created for private enterprise development, especially in Rwanda's non-farm sectors. Building on the 1990 reforms, USAID/R signed an AERP in September 1991 whose purpose is to increase competition in the short run, and subsequently production and employment in the non-farm sector, particularly the manufacturing and related sectors. To this end, the AEPRP, supports several policy reforms (discussed in section C). The Analysis of Reform monitoring unit will provide the analytical capacity, presently absent in the GOR, to closely monitor the effects of these and other SAP policies and recommend modification to those measures.

Discussions with various GOR ministries, the BNR and donors confirm the GOR's need to strengthen its capabilities to monitor and assess, on an on-going basis, the impact of its SAP and the PMPR reforms. This need was identified by USAID during its assessment of the GOR overall reform program. Consequently, USAID made the institutional strengthening component a key element of the PMPR. This component addresses two weaknesses in the GOR's SAP: (a) the absence of a vehicle to rapidly assess the evolving impact of policy changes, and (b) the unsatisfactory record of collecting, processing, and analyzing even small sets of survey data on a timely basis.

The Analysis of Reform project seeks to enhance the capability of the GOR to continuously monitor and assess the impact of the overall SAP program, and particularly the A.I.D. program. Monitoring and analysis of impact activities on formal and informal businesses, consumers and, employment was initiated through the PRIME project.

1. The Analysis of Reform Component of the PMPR

The PMPR proposes to establish a Monitoring Unit in the Ministry of Plan by establishing a system that collects, and analyses selected data to evaluate the impact of structural adjustment measures. This analysis will help identify where the program is and is not achieving the desired impact by focusing on what groups of people are winning and losing as a result of the program. The purpose is to keep the GOR, donors, and the private sector abreast of those impacts.

According to the PMPR, the M.U. will work under the supervisory direction of the Minister and the Director General of Economic Policy. The Unit will be comprised of four contract staff, two long-term expatriates and two long-term Rwandans. The Unit's work plan is to be supervised by a Project Coordinating Committee, comprised of:

- MINIPLAN: the D.G. of Economic Policy and D. G. of Statistics;
- Private Sector: 1 or 2 representatives;
- USAID: one representative; and
- M.U.: 1 expatriate advisor and counterpart.

One expatriate advisor and Rwandan counterpart will work closely with the D.G. of Economic Policy and report frequently to the minister. They will be responsible for developing and coordinating the production of monthly briefing/status of people-level impact reports; drafting the terms of reference for the periodic and other special studies to assess impact; and overseeing the execution of the contracts.

The second long-term expatriate advisor and Rwandan counterpart will work in close contact with the Chief of the Economic Policy Division. They will oversee and help manage, and further adapt, as necessary, the quarterly survey of economic and social indicators, which is carried out by MINIPLAN's Directorate of Statistics.

The M.U. will gather information from existing sources; by contracting with private firms (local and international); and by small, direct surveys by M.U. staff. Available data consists of macroeconomic data, sector studies, employment and enterprise costs surveys, prices, and various publications from NGOs and donors.

Rapid appraisals of 10-20 interviewees of about a week's duration will serve to provide a rapid overview of impacts of specific SAP policies on businesses, employees, and consumers, and also identify issues requiring additional follow-up, either as part of the quarterly survey or as a special study. The expatriate advisor and counterpart would be responsible for the brief report are responsible for these appraisals.

The M.U. will work with Rwandan firms, NGOs, and U.S.-based firms to undertake specific periodic and special studies. Results from the on-going monitoring of key indicators and rapid appraisals will serve as a guide as to which in-depth studies are needed.

Advantages

The advantage of the M.U. working directly through the Ministry of Plan under the supervision of the D.G. of Economic Policy is that it could get the full support of the Ministry. This could facilitate an easy flow of information from various government sources to the Unit.

Disadvantages

Working directly under the supervision of the D.G. of Economic Policy could turn the M.U. too dependent on the decisions of the D.G. This would interfere with the work of the Unit and prevent achieving the objectives of the project. Prior experience with A.I.D.'s PRIME and ASPAP projects have shown that this could occur.

Furthermore, the DGEP is understaffed, overburdened with work, and already receiving technical assistance of the GTZ. The absorption capacity of the Direction for more expatriate assistance is extremely limited. The DGEP will, in addition, receive one long-term advisor to the D.G. of Economic Policy himself from the French Cooperation.

Finally, the objectives of the M.U. to assist in the analysis of impacts of the SAP are less likely to occur if the Unit responds to the Ministry of Plan rather than to the TC and key technical units.

2. Other Alternatives

According to the PMPR "the A.R. component seeks to enhance the capability of the GOR to continuously monitor and assess the impact of the A.I.D. PMPR program during implementation, as well as policy issues in other CPSP-approved sectors." The issue confronted by the team was whether the A.R. component should monitor and evaluate the subset of economic policies (foreign exchange allocation and import system, trade regime, and price controls) of the components of the SAP supported by USAID or the entire SAP. The former address key constraints facing the manufacturing and commerce sectors.

Discussion with various government agencies confirmed the low technical level of their staff (except for the BNR). As to the analysis of the SAP, there is an insufficient knowledge of the parameters implicit in an analysis of the measures implemented and an inventory of policies executed and still to be executed is not readily available. The evaluations of the SAP are not produced on a regular basis and lack an in-depth analysis of policy impacts. The analysis is prepared by the four members of the TC without involving the government offices concerned with the execution of the various policies.

For these reasons, the team believes that the monitoring unit should assist the GOR in helping resolve these problems. Aside from performing the tasks originally envisaged, the M.U. could, in addition, play the role of secretariat to the Technical Committee. Thus its scope of work would be broadened to include monitoring the overall SAP. The interest and cooperation by the GOR will be enhanced if the M.U. assumes the overall monitoring responsibilities than if it were to concern itself with monitoring A.I.D.'s program alone. Based on these premises the next section considers some alternatives for implementing of the Analysis of Policy Reform project through the M.U.

a. Alternative 1.

GOR Office M.U. responds to: Office of the Prime Minister.

Coordinating Group:
- Economic Advisor to the Prime Minister (Coordinator)
- President of the SAP Technical Committee and D.G. of Economic Policy of MINIPLAN
- Representative from USAID
- Representative from the World Bank
- Representative from the IMF (IMF Consultant to BNR)
- Representative from the FED
- M.U. expatriate advisor (Secretary)

The M.U. will be located at the recently created Prime Minister's office and work in close contact with the Economic Advisor to the Prime Minister. As such it will act as an advisory body to the Prime Minister.

The Unit will work in collaboration with each of the members of the SAP Technical Committee as well as the key technicians from the various ministries and BNR concerned with executing policy reforms. The work of the Unit will be supervised by a coordinating group composed of the Economic Advisor to the P.M. (Coordinator), the president of the SAP TC, representatives of USAID, three main donors, and the M.U. main advisor (Secretary). The M.U. would work with the staff of the two Divisions (Economic and Financial Affairs and Planning and Technical Affairs). Depending on their qualifications, the four technicians currently working at the Office could be contracted under the project.

Advantages

There is express interest by the Prime Minister for this technical assistance.

The Prime Minister's Office is expected to be the most important policy decision-making body in Rwanda. The M.U. would thus have an opportunity to build the institutional capacity where it is most needed. Currently, the staff of the "Primature" seems to have a higher level of competence than elsewhere, however, the technical orientation of the two Divisions needs to be further evaluated.

The decision-making process would be simplified if the M.U. provides direct advise to the P.M. on economic policy matters. At present, the decisions or evaluations of economic policies by the SAP TC are transmitted to the Ministerial Commission before reaching the P.M. Office.

Disadvantages

Political tensions are likely to arise between the Economic Advisor to the P.M. and the President of the SAP TC. This situation could jeopardize the work of the M.U. if cooperation from the MINIPLAN is diminished. Cooperation between these two offices depend, to a large extent, on the persons in charge, as well as the political leverage of the MINIPLAN and the Primature.

Acting as advisor to the P.M. the M.U. could provoke a conflicting situation with the MC. Normally, the Ministerial Commission advises the Prime Minister.

b. Alternative 2.

GOR Office M.U. Responds to: Office of the Prime Minister.

Coordinating Group:
- President of the SAP Technical Committee and D.G. of - Economic Policy of MINIPLAN (President)
- Director of Economic Policy of MINIPLAN
- Vice President of the SAP Technical Committee and D. G. of the Budget of MINIFIN
- Representative from USAID
- Representative from the World Bank
- Representative from the IMF (IMF Consultant to BNR)
- Representative from the FED

- M.U. expatriate advisor (Secretary)
- Economic Advisor to the P.M.

Advantages

The M.U. will still play the role of advisor to the Prime Minister's Office while working closer with the SAP TC. Potential political tension between the President of the TC and the P.M.'s Economic Advisor may be diminished. The latter would only sit in the meetings of the Coordinating Group without playing an active role.

c. Alternative 3.

GOR Office M.U. Responds to: SAP Technical Committee and Technical Offices

Supervisory Group:
- President of the SAP Technical Committee and D.G. of Economic Policy of MINIPLAN (President)
- Director of Economic Policy of MINIPLAN
- Vice President of the SAP Technical Committee and D. G. of the Budget of MINIFIN
- Representative from USAID
- Representative from the World Bank
- Representative from the IMF (IMF Consultant to BNR)
- Representative from the FED
- M.U. expatriate advisor (Secretary)
- Economic Adviser to the P.M.

Advantages

The M.U. will be located physically outside of the P.M.'s Office. While it could still play an advisory role to the P.M. MC and other government agencies, it would have relatively more freedom to decide its work agenda and not be subject to possible demands by the P.M. outside its competence, e.g., coordination of bilateral and multilateral aid. Political conflicts will be considerably diminished if the M.U. maintains its independence.

G. Responsibilities of the Monitoring Agents

The execution of the SAP, the coordination among the different agencies concerned, and monitoring should be guided by an operating manual or guide. It is recommended that the existing "Guide Pour la Mise en Oeuvre du PAS" be updated to respond to the current needs and organizational structure of the various government agencies. The Manual should be further revised at a later stage if the need for changes should arise based on experience. A preliminary suggested set of responsibilities and tasks of the various monitoring agents is given below.

The SAP monitoring guide should clearly specify the tasks assigned to each and every technical unit of the different ministries and BNR, both in what concerns monitoring of the data and, whenever possible, execution of policies.

Ministerial Commission

The MC should define internal methods of work and of monitoring of decisions, in coordination with the Technical Committee and Monitoring Unit. This includes a system of communication with the Government. The MC should be responsible for submitting specific reports to the President for transmission to the CND; hold discussions with the Government on a regular basis; and give regular press conferences to inform economic actors and the public in general.

The Technical Committee

The TC should be in charge of the preparation of documents and technical studies to be submitted to the Government for discussion, and which could serve as a basis for negotiations with donors. All the relevant information to the decision makers should be channeled by the TC. This task requires a high degree of coordination and close cooperation with all other technical units within each of the ministries and the central bank. The assistance of foreign consultants currently in the different ministries and the Central Bank should be used in order to ensure the good quality of the analysis tools (e.g., national budget, investment program, various tables of indicators). The views and situational evaluations by the different ministerial offices and the Central Bank should be made explicit to the TC. In this sense, the TC should be viewed as a body for discussion and problem solving.

The TC should be responsible for supervising the execution of the structural adjustment credits, the preparation of regular reports on the state of execution of the SAP, and the overall economic situation.

It will be necessary to define the working relations of the TC with the ministries, Central Bank, the MC and M.U. To facilitate this process, another seminar (along the lines of that of August 1991) would be called for involving all relevant monitoring agencies.

Secretariat (Monitoring Unit)

The execution of the SAP relies on the actions of different ministries, and the Central Bank, each concerned with a specific part, and the orchestration of this execution lies with the MC and the TC. The role of the Secretariat should be one of coordination and administration. It is necessary that the responsibilities of each of the monitoring agencies be clearly stated and known by each and every participant in the monitoring process. The Secretariat should see to it that the TC adheres to rigorous methods of work:

- Ensure that the TC meets periodically;
- Keep an agenda of matters to be discussed by the TC;

- Produce summary notes and minutes of the meetings and circulate them to the MC and key technicians in the ministries;

- Monitor the decisions of the MC.

- Monitor with the TC the execution of decisions taken by the Government;

- Maintain active contact with the key technicians in the different ministerial offices, who are responsible for producing data, evaluations, and studies pertinent to the execution of the SAP, and collect those data and studies;

- Evaluate the data, update the table of indicators, detect data or analysis deficiencies and recommend the TC which studies are to be undertaken to help better evaluate policies;

- Give instructions to the TC and key technicians on the steps to be taken with respect to the PFP, but to the extent these steps are not executed, give a clear justification.

The work of the TC will be made more efficient because of the M.U. assistance. The M.U. is a body of highly qualified technicians. As such the M.U. will carry out analysis of forecasts, impact analysis of the major macroeconomic policies and various peoples level impact studies. To facilitate this work, it is necessary to create a data bank where all information relevant to the SAP is collected. The various analysis must not overlap with the work currently under the mandate of Ministry of Plan or other government agencies. The M.U., however, should make an effort to assist those agencies in improving the quality of their analyses. In addition, the M.U. should advise on the elaboration of the various tables of indicators. In consultation with government agencies, it should advise on the definition of macroeconomic and sectoral policies. Finally, the M.U. should also play an active role in coordinating the preparatory work for the various round tables with the donors.

H. Scope of Work of the Monitoring Unit

The M.U. will produce (1) a table of macroeconomic and sectoral indicators; (2) a table of people-level (private sector and consumers) impact indicators, both of which will be frequently updated; and (3) periodic and special impact studies.

1. Socio-economic Indicators

Table of Macroeconomic and Sectoral Indicators

The table of indicators is an instrument that permits an evaluation of the results observed with respect to the policy matrix. It consists of actual figures and estimates. The periodicity of the table will vary depending on the nature of the data, e.g., monthly for financial and monetary indicators, quarterly or semi-annual for others. Frequent analyses of the state of execution with respect to set benchmarks are necessary to identify various constraints. In-depth evaluations should be done regularly in order to permit an appreciation of macroeconomic and sectoral perspectives.

The objectives of the SAP presuppose a series of economic policy reforms: (a) an adequate exchange rate policy to improve the competitiveness of the economy; (b) a restrictive budgetary policy based on a profound fiscal reform (broader tax base, improvements in the fiscal administration and in tax collection) and a rigorous control of public expenditures; (c) a restrictive monetary and credit policies; and (d) structural reforms, e.g., elimination of restrictions on imports and allocation of foreign exchange, the adoption of an open generalized licensing system, price liberalization, restructuring of public enterprises. A series of measures will be taken to lessen the negative social impacts of certain adjustment measures and to protect vulnerable groups. One of the elements of the SAP is the elaboration of the Public Investment Program, the Public Expenditure Program, and an annual consolidated budget. The table of indicators should be a tool for monitoring those objectives, and should reflect the main elements of the latter programs and the budget. The SAP emphasizes a number of sectorial policies. Indicators of sectoral performance, however, need to be developed and the PP team should look into this.

A summary table should facilitate a rapid overview of performance. This table should be supported by various detailed tables, e.g., fiscal, balance of payments tables, etc. The table of macroeconomic and sectoral indicators should consider the following areas:

<u>Main Annual Macro-economic Indicators</u>: Main aggregates of the national accounts; consumer price index; exchange rate and foreign exchange position.

<u>Public Finance</u>: The evolution of budgetary income and expenditures for the past year and last semester and comparison with the forecasts (estimates) of the program. On the expenditures side, keep track of salary expenditures; expenditures related to subsidies and transfers; detailed data on the use of the different grants and funds. Various ratios with respect to GNP.

<u>Investment</u>: It is important to have the figures for 3-4 years of the level of public and private investment as well as the structure of investments by sector. Rate of execution of the investments.

<u>Money and Credit</u>: The evolution of money supply and credit to the Government and private sector on a bi-annual and on a yearly basis. Statistical tables on the monetary situation, BNR, and commercial banks. Evolution of interest rates.

<u>External Sector</u>: Data on volume, value and unit prices of imports and exports for the last semester and year and comparison with projections for current year. The balance of payments for the past year and projections for the following year. The commercial balance for the last semester and year. Status of current account. External reserves (gross and net) and various ratios with respect to GDP.

Evolution of the debt service in the last semester and year, and update the estimates for the current year. Data on foreign debt service (interest and principal) for the last year and comparison with estimates of past year and current year.

Foreign Trade and Exchange System: Main changes of the exchange system and import regime in the past two years.

Sectoral Indicators: Sectoral GDP; production of major crops in agriculture; value of exports; sectoral balance of trade; sectoral wages.

In addition to this information, an analysis of the data should be done, including analysis of the overall economy and sectoral behavior. An analysis of the measures taken to encourage exports; and perspectives, for instance, for exports of coffee, tea, and other products such as pyrethrum, quinquina.

Table of People-Level Impact Indicators

The primary emphasis of the USAID-supported program is on the effects of reforms on manufacturing and commercial sectors in terms of competition, business development, production, consumer issues, and employment. Most of these indicators are at the micro and sectoral level. An initial suggested table of indicators appears in the PMPR section VID (Annex II in this report). To help determine these indicators, the potential effects of policies on the groups of interest to USAID was identified.

2. Studies

In the process of monitoring the SAP, the M.U. will identify specific analyses or studies aimed at understanding the likely impact of various policies prior to implementation. Examples of this type of studies are:

- Study on the parallel exchange rate market in view of low inflation, an excess supply of foreign exchange in the banking system, and a relaxation of foreign exchange controls.
- Impact of a possible increase in the producer prices of tea, wheat, rice, and pyrethrum.
- Impact of reducing interest rates to a level compatible with inflation.
- Impact of the increase in sales taxes.

These studies should be coordinated with the TC and key technicians, and should be defined as the program develops.

Rapid appraisals of 10-20 interviewees of about a weeks duration will serve to provide a rapid overview of impacts of specific SAP policies on businesses, employees, and consumers, and also identify issues requiring additional follow-up, either as part of the quarterly survey or as a special study. The "people-level" impact, particularly on employment and output, can be more clearly seen by detailing the linkages between the ultimate and intermediate beneficiaries. Additional detail of the linkages is well described in the PMPR Annex G. Intermediate beneficiaries include currently efficient manufacturers and commercial concerns, importers, shopkeepers, and transporters.

A series of special studies will also be conducted. Examples of these include:

- Export policy review;
- Import needs of small enterprises;
- Impact of policies on rural/urban consumers;
- Credit sector study for small and microbusinesses, including the capability of commercial banks to expand into this area of lending;
- Demand and potential for non-traditional exports;
- Change in formal sector working conditions as a result of the SAP;
- Follow-up on the study of women's formal and informal employment as initiated in the "Profil Socio-economique dela Femme Rwandaise".

3. Seminars and Publications

It is important that policy makers be provided with adequate tools to facilitate their decision making process. Many government agencies do not seem well aware of the importance of their responsibility within the SAP implementation process. There is a lack of clear understanding of the implications of the overriding measures undertaken.

At the level of the population in general, three rapid appraisals, conducted by USAID in 1990, of various segments of the business community suggested that many segments of the population felt that they were not sufficiently informed on the structural adjustment program. The consequences of these measures are being felt, however, by the population.

To improve the level of understanding and confidence in the program, the M.U. should conduct a series of seminars on the need and implications of the SAP reforms for high level officials and the private sector as well. Publications should be made available to government offices and interested groups of the private sector.

4. Suggested NPA Linked to Other Policy and Regulatory Reforms

While the ongoing reforms focus primarily on formal private sector, promotion of the informal sector (the majority of the private sector) is of interest in establishing an on-going policy agenda. More direct stimulation will be needed to small and micro-enterprises through continued liberalization of the regulatory environment. The ILO[5] completed a study on the constraints for micro-enterprise development, and various other studies on the subject, some under PRIME, point out the necessity to eliminate or reform them. A recent symposium between the private sector and the GOR also focussed on major impediments to conducting business[6]. Some of the constraints--of a legal and fiscal nature--will be addressed by the World Bank Private Sector Promotion project. It is in this area where USAID seeks to identify conditionality for NPA.

I. Staffing Needs

The M.U. will be staffed initially (possibly for six months) by an expatriate highly experienced macroeconomist and a Rwandan economist. His/her initial tasks will include updating the "Guide pour la Mise en Oeuvre du PAS so that it responds to the Rwandan current setting, starting a data bank and establishing methodologies for the analysis of impacts, establishing a comprehensive table of socioeconomic indicators, and executing initial impact analyses. One other expatriate and local professional(s) (if necessary) will be phased in later. The PP team should evaluate the need for a third long-term social scientist versus hiring short-term consultants for specific studies and establish detailed terms of reference for each member of the M.U.

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[5] PNUD. "Un Cadre Incitatif pour les Micro-entreprises Rurales Non Agricoles au Rwanda." Project RWA/90/008 d'Appui aux Micro-Realisations Non Agricoles en Milieu Rural. Février 1992.

[6] "Forum de Concertation sur les Problemes Souleves par les Operateurs des Secteurs de l"Industrie et du Transport Routier International a la Suite de la Mise en Oeuvre des Mesures d'Ajustement Structurel." April 1992.

ANNEX I

POLICY IMPLEMENTATION AND PERFORMANCE

Objectives and Policy Actions	Government Office in Charge	Performance
O: Achieve real GNP growth of 4% as of 1992.	National accounts data: MINIPLAN Directorate General of Statistics.	Readily available. One year lag.
PA: Accelerated agricultural sector growth (see below); and private sector growth through elimination of price controls, simplification of administrative procedures for enterprise creation; review of labor legislation to increase labor mobility.	Implementation: Private sector policies: MINICOMAR Directorate of Industry. Ministry of Labor on labor legislation.	
O: Increase the share of savings in GDP to 6% in 1993, and investment growth rate to 6% per year in 1992-93.	National accounts data: MINIPLAN Directorate General of Statistics.	Readily available. One year lag.
O: Reduce the inflation rate from 28% in 1992 to around 5% by 1993.	National accounts data: MINIPLAN Directorate General of Statistics, and BNR.	Readily available. One month lag from 1991.
O: Restore external competitiveness and attain equilibrium of the supply and demand for foreign exchange.		
PA: Correct overvaluation of the Rwandan franc. Keep rate under regular review.	Implementation: BNR Governor and Minister of Plan. Data: BNR Foreign Exchange Department.	Reliable data on foreign exchange operations; impact not properly evaluated.
PA: Adopt an open general license system to cover all import categories by 6/92. In the interim, adopt a partial liberalization of imports and foreign exchange allocation.	Implementation: MINIFIN Customs Directorate and BNR Foreign Exchange Department.	The Customs Directorate lacks an adequate statistical base.
PA: Reduce tariff protection level and exemptions. Revision of the customs tariff to be completed by 12/92.		
O: Strengthen monetary policy in support of exchange rate, price level, and balance of payments. PA: Money supply growth to be kept lower than nominal GDP growth. Net bank credit to GOR to be progressively reduced; limit growth of net domestic credit; controls on bank credit; and simplify and maintain positive interest rates and simplify their structure.	Implementation: BNR Governor and Monetary Policy, Studies and Statistics, and Banking Operations Departments. Data from BNR: -Money supply -Domestic credit -Credit to government -Credit to private sector -Interest rates	BNR has good technical staff for routine operations, but the Studies and Statistics Department has a weak economic policy team. Not enough analysis of the impacts of these policies has been performed.
O: Reduce the budget deficit excluding grants from 11.9% in 1990 to 9.3% of GDP (5.7% including grants) in 1991 to 5% in 1993 (2% including grants).	Implementation: Directors General of the Budget, Treasury, and Studies and Planning of MINIFIN. Data: above offices and Directorate of Taxes:	Major data deficiencies; absence of internal controls in tax administration; absence of procedures in public accounting; weak legislation. However, IMF technical assistance is being provided in these areas.

Objectives and Policy Actions	Government Office in Charge	Performance
PA: Increase revenues through adoption of discretionary tax measures, reductions in exemptions, and improvement in tax administration and collection. Quarterly targets for tax revenue. Move from taxes on production and international trade toward those on consumption and income. Revise user charges for commercial utilities periodically.	-Total Revenues -Total Expenditures: of which salaries and goods and services. -Current deficit -Development budget -Overall fiscal deficit (including and excluding grants) -Financing (grants and loans)	
PA: Deceleration of growth in GOR expenditures; reduce indebtedness to the banking system: Contain the growth of the wage bill; eliminate domestic payments arrear; remove indirect transfers and eliminate direct subsidies to public enterprises; eliminate transfers to the coffee sector as of 1991.	-Arrears -Detail of current expenditures	
O: Reform the Public Sector Management. PA: Prepare a three-year public investment program (PIP) and an annual public expenditure program (initially by sectors); comprehensive reform of the public enterprise sector.	Implementation: MINIPLAN Directorate of Investments and MINIFIN Directorate of the Budget.	Little or no connection between national and sectoral priorities and between investments and budget constraints. Absence of procedures for project evaluation and follow-up.
O: Balance of payments. Reduce the current account deficit (excluding grants) from 15.2% of GDP in 1991 to 11% (6% including grants) in 1993 and 10% in 1995. PA: Increase official reserves to the equivalent of 1.5 months of imports by end-1991, 3 months of imports by 1993; eliminate external payments arrears; prudent external debt management (28% of GDP in 1990) by relying on concessional loans.	Implementation: BNR Departments of Fg. Exchange, Fg. Trade, and Studies and Statistics. Data: -Exports, value and growth rate -Imports, value and growth rate -Current account deficit (with and without grants) -Gross official reserves in months of imports -Net official reserves -Foreign arrears.	Adequate data for follow-up of major balance of payments aggregates.
O: Long-term structural issues: Population and environmental policies: Reduce population growth to 2.7% by 2000; reforestation, soil preservation.	Implementation: ONAPO and MINAGRI.	ONAPO completed an enviornmental plan. No further information obtained.
O: Social Action Program to protect vulnerable groups from the financial austerity measures. PA: Food security; labor intensive work program; fund for small enterprises; and socio-economic surveys to monitor changing situations at the household level (employment, income, health, and education expenses); assistance to women in appropriate technologies, training and producers associations.	Implementation: MINAGRI, MINIPLAN (Directorate of Surveys), MINITRAPE, and MININTER.	Project negotiated with the IBRD in May 1992.

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Objectives and Policy Actions	Government Office in Charge	Performance
O: Ensure Food Security		
PA: Increase yields through improved technologies; improvements in marketing and processing; promotion of nontraditional exports and agroindustry; improve sectoral planning and management; improved bank financing of agriculture.	Implementation: MINAGRI Data: -Time series on production statistics -Various on fertilizers, marketing and agroindustry -Coffee sector study	Good time series data on agricultural production and good quality studies. Deficiencies present in marketing and trade statistics. World Bank agricultural sector Structural Adjustment Loan contemplates developing analysis capability of MINAGRI.
PA: Improvements in the coffee sector: improve yields; eliminate GOR subsidies; liberalize domestic marketing; lift export restrictions; review export reference price; and possible production of fully washed high-quality coffee, and export taxation methods.	Implementation: BNR, MINAGRI and MINIFIN Customs Directorate	
PA: Possible privatization of OCIR-thé, action plan for the sector after study is completed in March 1992.	MINAGRI	

Rwanda: Execution of the SAP during 1990-91 and Policy Action for 1992-93

Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
FOREIGN TRADE AND EXCHANGE RATE				
1. External sector				
a. Exchange rate	Attain an exchange rate that balance supply and demand for foreign currency.	An initial devaluation. The exchange rate policy will be kept under regular review, and the rate will be adjusted if necessary.		Initial devaluation on November 9, 1990.
b. Import regime	Progressively liberalize imports.		Implement an open general licensing system, the formalities of which will have been agreed between the Rwandese Government and the Bretton Woods institutions. This system will cover all imported products expect for a restricted list of products requiring special licenses for security or health reasons.	Before end-June 1992.
		In the meantime, replace the existing import progressing system by a more liberal import licensing and foreign exchange allocation system. This system will ensure the regular supply of essential goods for which a restricted list, not exceeding 30 percent of the value of total imports, has been established. This list will be abolished once sufficient resources become available.		Announced on November 9, 1990, to be applied before end-April 1991. (Effective since 6/91.)
		Replace quantitative restrictions protecting local industries by customs duties or import surcharges.		Before end-April 1991.

Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
c. Customs legislation and import duties	Rationalize the tariff structure and revise customs legislation.	First phase of the tariff reform incorporated in the 1991 budget: Minimum Tariff: 10% Maximum Tariff: 100% Reduce the number of rates. Convert all specific taxes to ad valorem taxes for all products except petroleum products, beverages, and cigarettes.		Law of December 14, 1990. Before end-April 1991 (effective June 1991). Implemented (law of December 14, 1990).
		Adoption of the new customs law by CND.		August 1991
		Second phase of the tariff reform incorporated in the 1992 budget.		Before Mid-June 1991 (effective August 1991).
d. Services	Eliminate restrictions on payments for services.	Eliminate delays on transfers of profits and income of foreign investors.		As from June 1991.
			Gradually reduce restrictions on payments for services.	Throughout the program.
e. Exports	Expand and diversify exports.	Elimination of taxes on non-coffee exports.		Implemented (law of December 14, 1991).
			Review export promotion policies.	Before June 1991.
PUBLIC SECTOR				
2. Fiscal Policy	Reduce the consolidated deficit of the Government.		Policy of budgetary austerity.	Throughout the program.
			Reduce government net indebtedness to domestic banks and nonbanks.	Throughout the program.
			Elimination of all existing domestic arrears.	December 1991
			Elimination of all existing External arrears.	December 1991
			No new domestic or external arrears.	Throughout the program.
			Gradual removal of indirect subsidies to public enterprises.	As from January 1991.
			Elimination of budgetary transfers to the coffee sector.	As from 1991.
				Implemented (law of December 14, 1991).

Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
	Improve the efficiency and administration of the taxation system, increase the share of income and consumption taxes in government revenue, and encourage private sector investment.	Increase sales tax: - from 2 percent to 5 percent for essential goods; - from 5 percent to 10 percent for services and entertainment; - from 6 percent to 10 percent for other goods.		Implemented (law of December 14, 1991), and throughout the program.
		Increase specific import taxes on petroleum products in line with adjustment of the exchange rate.		
			Review entire taxation system and its administration, and gradually introduce measures to be agreed within the framework of IMF technical assistance.	1991, 1992, and 1993 budgets
	Full cost recovery for commercial activities of the Government.		Periodic review of charges, to allow reasonable profits.	As from January 1991 and throughout the program.
	Increase cost recovery for non-commercial public services.		Period review of user charges.	Throughout the program.
	Reduce tax exemptions.	Moratorium on new tax exemptions accorded under the 1987 Investment Code.		November 1990
			Review tax exemptions accorded under Investment Code.	Before June 1991. (Underway)
	Civil service reform.		Review all relevant policies.	Recommendations to be implemented beginning January 1992.
	Improve planning and management of operation and investment expenditures, while ensuring adequate protection for social sector programs.	Preparation of a rolling three year public investment program (PIP).		Finalize the 1991-93 PIP before March 1, 1991, for incorporation of the first year in the 1991 Budget, and repeat the exercise each year (1992-94) PIP completed 3/92).

Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
			Preparation of annual public expenditure programs for specific sectors.	September 1991 for agriculture, health, education, public works, and transport (for inclusion in the 1992 budget). September 1992 for other sectors (for inclusion in the 1991 budget).
3. Public enterprises	Rehabilitation and restructuring of public enterprises.		Adoption by the Government of a general privatization strategy.	Before September 1991.
			Presentation of public enterprise legislation to Parliament.	Before December 1991.
		Phased execution of public enterprise rehabilitation, privatization, and liquidation programs, according to the timetable for the IDA-supported program for reforming public enterprises.		As from June 1991.
MONETARY POLICY				
4. Money, credit, and interest rates	Tight credit policies designated to contain inflation and case pressures on the balance of payments.		Quarterly ceilings for net domestic assets and net credit to the Government.	Throughout the program.
			Gradual adoption of indirect instruments for controlling and allocating domestic credit.	1993 or sooner if conditions permit.
	Improve mobilization and allocation of financial resources, by maintaining positive real interest rates.		Implement a flexible interest rate policy and simplify the interest rate structure.	Throughout the program.
		Increase and impose a single rediscount rate. Increase the minimum deposit rate. Increase the maximum lending rate. Abolish all preferential rates.		November 21, 1990
			Abolish control of interest rates after elimination of direct credit control.	During the last year of the program or sooner.
PRIVATE SECTOR				
5. Pricing policy	Avoid distortions in price formation.	Eliminate all controls on profit margins, except for monopolies.		Announced November 1990. Repeal of Law before end-April 1991. (Effective 2/91)

Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
		Abolish fixed prices for all products except for a small number of goods and services.		Announced November 1990. Cabinet decision before end-March 1991. (Effective 2/91)
		For those goods and services whose prices remain fixed, the full impact of the exchange rate adjustment will be passed through to these prices.		November 1990 to April 1991. (Effective 1/91)
		Elimination of prior authorization from the Ministry of Commerce for License Registration.		June 1991
6. Regulatory Environment	Liberalize and simplify procedures for the creation of enterprises.		Publish the Law of commercial registry in the Official Journal.	August 1991
		Prepare an Action Plan for the reform of the regulatory environment.		September 1991
			Technical discussions on the conclusions of a seminar institutional setting.	January 1992
	Promote labor force mobility.	Prepare terms of reference for a study labor-market.		June 1991
			Prepare action plan for the implementation of the recommendations made of the study.	Mid-1992
	Improve the efficiency of the industrial sector and promote the private sector.		Simplify administrative procedures.	Throughout the program.
			Review the 1987 Investment Code.	Before June 1991. (Still underway)
			Promote small enterprises.	Throughout the program.
			Liberalize recruitment of personnel in private sector.	June 1991
			Prepare an action plan to review labor legislation.	June 1992
			Facilitate access to small and medium-size enterprises to public contracts.	1992

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Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
SECTOR POLICIES				
7. Agriculture and food security	Institutional strengthening of the Ministry of Agriculture.		Strengthen the planning unit in the Ministry of Agriculture in order to make it fully operational.	Beginning in 1991
	Boost agricultural production by increasing yields, improving soil fertility, and expanding cultivable land.		Development of natural resources for use in the production of mineral fertilizer.	Throughout the program.
			Increased and more efficient use of inputs.	Throughout the program.
			Strengthening of the land rehabilitation program.	Throughout the program.
			Effect reclamation of certain swamps and underutilized mountainous lands for farming.	Throughout the program.
	Improve processing and marketing of agricultural products, services to stockbreeders, and encourage the development of private marketing of agricultural inputs.		Disseminate information on prices.	Throughout the program.
			Define a national policy for agricultural services that is applicable uniformly for all projects.	Throughout the program.
			Reorganize agricultural extension services through the integration of projects into a national structure.	Throughout the program.
	Promote bank financing of the agricultural sector.		Assist farmers to identify projects and obtain bank credit.	Throughout the program.
	Ensure food security for the population	Finalize a food security action plan geared toward: - setting up an earlier warning system to prevent food shortages; - achieving optimal organization of emergency food aid; - increasing the role of NGOs in food security programs;		June 1991

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Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
		- establishing of a food security stock		
8. Industry	Rehabilitate the mining sector.	Evaluate the performance of the new mining units (COOPIMAR and REDEMI).		June 1991
		Establish a five-year work plan for REDEMI.		Mid-1991
	Diversify the exploitation of mineral resources.		Develop the use of lime as an agricultural fertilizer.	Throughout the program.
			Encourage the use of mineral substances in industry and construction.	Throughout the program.
9. Energy	Improve sector efficiency.	Increase electricity rates by 50%.		Effective July 1991.
			Establish financial objectives for ELECTROGAZ and calendar for review of electricity rates. Establishment of a contract plan for ELECTROGAZ.	Before April 1992.
			Completion of electricity guidance plan.	End 1992
10. Transport	Revise transport regulations in order to eliminate obstacles in the good operation of the sector.	Preparation of an audit for STIR in order to prepare a strategy for its privatization.		Mid-1991
		Review of the legislation related to transport sector.		Mid-1991
SOCIAL ASPECTS				
11. Social development and environment				
a. Population and women in development	Lessen demographic pressure by reducing the number of children per women		Pursue the national population policy and implement the action plan adopted in July 1990 by Parliament and the Government with particular emphasis on:	Throughout the program.
			- integrated of population policies in the formulation of sectoral strategies;	Throughout the program.

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Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
			- making the entire population aware of the need to introduce family planning;	Throughout the program.
			- extending family panning services to all health centers;	End-1992
			- the development of decentralized family planning programs to reach all strata of society;	Throughout the program.
	Promote the rule of women in socioeconomic development		Improving dissemination of the most appropriate technologies to lighten women's workloads.	Throughout the program.
			Improving access of women to education.	Throughout the program.
			Improving access of women to credit.	Throughout the program.
			Increase the number of female counselors in agriculture.	Throughout the program.
			Encourage greater female participation in training sessions of CCDFT.	Throughout the program.
			Extending family planning and primary health to care toward women and children.	Throughout the program.
			Provision of assistance to women's associations involved in production and marketing.	Throughout the program.
b. Education	Improve quality of education by using available financial resources as efficiently as possible.		Allocate additional resources for primary education with a view to increasing the enrollment rate and improving the quality of education.	Throughout the program.
			Reduce the duration of primary education from 8 to 6 years.	For the beginning of the 1992/93 school year.
			Finalize sectoral strategies for secondary and higher education in order to:	December 1992.
			- continue the day-school policy, in order to increase the students/ teacher ratio;	

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Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
			- gradually reduce students' scholarship, so that in the longer term only scholarships for excellence are maintained; - devise and implement financial arrangements allowing students to gradually provide for their minimum needs; - provide incentives to increase local private investment in education; - increase the number of privately supported students in higher education.	
c. Health	Improve quality and efficiency of health services.	Finalize the financing strategy of the health sector, focusing on the supply of essential medicines, cost recovery, and the development of a medical insurance systems.		December 1991.
			Implement the above financing strategy.	Throughout the program.
			Improve the quality and quantity of health service personnel.	Throughout the program.
d. Social dimension of adjustment and development	Protect vulnerable population group.	Prepare a social action plan targeted at vulnerable population groups, assuring particularly that: - poor people retain access to basic services during the stabilization period; - the necessary resources will be made available to deal with the principal causes of death (AIDS, malnutrition, local endemic diseases); - programs for promoting gainful employment in rural areas are strengthened.		June 1991
e. Environment	Ensure a balance between the environment and rational exploitation of resources.		Finalize the national environmental action plan in order to:	

Sector	Objectives and Targets	Measures Taken	Strategies and Measures 1992-93	Timing
			- undertake information and training programs to make all levels of the population aware of the necessity to protect the environment.	Throughout the program.
			- organize a legal and institutional framework to ensure the coherence of actions protecting the environment and the follow-up of announced environmental policies;	1991
			- devise a land-use program;	December 1992
			- improve soil conservation and strengthen reforestation;	Throughout the program.
			- allow efficient use of natural resources;	Throughout the program.
			- implement pollution control programs.	Throughout the program.
			Adopt measures to ensure the appropriate disposal of waste.	Throughout the program.
			Introduce environmental protection procedures and objectives in all projects.	1992
			Create an appropriate information system that would coordinate the dissemination of knowledge of the environment in Rwanda.	1991

ANNEX III

PRIVATE SECTOR & CONSUMER LEVEL IMPACT INDICATORS

DATA		FREQUENCY OF COLLECTION	SOURCE
Business Development			
1.	No. of registered firms (Existing # and # of new approvals)	quarterly	Ministry of Commerce
2.	New investment; foreign and national	annually	Ministry of Industry; Central Bank
3.	Number and value of SOE divestitures	bi-annually	Ministry of Finance
Formal Manufacturing Sector			
1.	Employment sector and firm level	quarterly	Ministry of Industry; rapid appraisals; MINIPLAN Trimestral
2.	Imported vs. local raw material use	quarterly	rapid appraisals; MU focused study; MINIPLAN Trimestral
3.	Level of sales[a]	quarterly	rapid appraisals; MINIPLAN Trimestral
4.	Capacity utilization	quarterly	rapid appraisals; MINIPLAN Trimestral
5.	Value added	quarterly	rapid appraisal
6.	Efficiency analyses (DRCs, etc.)	annually	contract study
7.	Business expectations	quarterly or as demanded	rapid appraisal; MINIPLAN Trimestral

[a] information will be disaggregated to identify exports or export-related services (transport).

DATA	FREQUENCY OF COLLECTION	SOURCE
Small Scale Industry		
1. Employment	quarterly	rapid appraisal; contract studies
2. Imported vs. local raw material use	quarterly	rapid appraisal; contract studies
3. Capacity utilization	quarterly	rapid appraisal
4. Sales[(a)]	quarterly	rapid appraisal; contract studies
5. Business expectations	quarterly or as demanded	rapid appraisal; MINIPLAN Trimestral
Commercial Sector		
1. Employment sector and firm level	quarterly	Ministry of Commerce; rapid appraisal; contract studies; MINIPLAN Trimestral
2. Sales[(a)]	quarterly	rapid appraisal; MINIPLAN Trimestral
3. Prices	quarterly	rapid appraisal; MINIPLAN Trimestral
4. Business expectations	quarterly or as demanded	rapid appraisal; MINIPLAN Trimestral
Consumers		
1. Urban experiences and expectataions[(b)]	quarterly or as demanded	rapid appraisal; contract studies
2. Rural experiences and expectations[(b)]	quarterly or as demanded	rapid appraisal; contract studies

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[(b)] in all cases, data on employment and management, experience with reform and expectations, will be disaggregated by gender.

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ANNEX IV

PERSONS VISITED

Government

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