



MINALOC



## RWANDA FISCAL DECENTRALIZATION PROJECT

### BUDGET EXECUTION AND FINANCIAL POSITION OF LOCAL GOVERNMENTS IN RWANDA

A Preliminary Analysis

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The USAID/ARD Fiscal Decentralization Project is helping the Government of Rwanda to devolve services to local governments. It provides policy and technical assistance to insure that local governments can raise adequate resources, manage and account for their revenues, and efficiently provide local services that respond to the needs of the community.

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## I. Executive Summary:

The attached report contains the results of an analysis on information produced from the Local Government Accounting System (LGAS) implemented in 2003 and drawing primarily from a sample of 22 districts spread across five provinces in Rwanda. It is the first comprehensive examination of financial performance and conditions in any representative sample of local governments in the country. Key findings follow:

**Financial Management Systems:** The implementation of the new accounting system evidently took hold during 2003. At least 85% of the districts in the country are producing the new accounting reports on a consistent basis. The quality of accounting information that is now produced in a large share of these districts creates a unique opportunity for better management of resources and higher levels of transparency. Meanwhile, budget formulation practices (in the context of the Medium-Term Expenditure Framework) have been in place for several years and have been implemented in almost all districts of the country. Despite this achievement, the budgets formulated in a large share of districts are still not sufficiently realistic to guide management throughout the year, in large part due to a lack of integration with the accounting and treasury management functions. Finally, treasury management is not yet modernized, resulting in significant internal control gaps and lost own-source revenues.

**Adherence to Plans:** It should therefore come as little surprise that actual expenditures bear little relation to their corresponding budgets. While this may partly be due to a unanticipated shortfall in revenues it is likely exacerbated by unrealistic estimates during the budget formulation stage, limited accounting information (particularly up to 2003) and little monitoring/evaluation capability throughout the year. Thus, actual total expenditures in the sample districts during the sample period were incurred at only 20% the rate that was budgeted, and typically ranged from FRW 42 – 91 million per year, with a median of about FRW 63 million per year. Clearly, most program activities that were envisioned at the beginning of 2003 could not be accomplished during the year.

**Programs Squeezed Out:** The apparent result is that important social programs were “squeezed out” in order to accommodate or protect Administration and Political Affairs and Services and Economic Infrastructure activities. Thus, Agriculture/Environment’s actual share in budget execution averaged only 0.1% - 0.5% of total expenditures (across these districts), as opposed to 15% of their total expenditure budgets. Similarly, actual expenditures on Socio-Cultural Development (including Education), were at only 1.8% - 5.1% of total expenditures, as opposed to almost 21% of the budget. This squeezing-out pattern seems to be prevalent across all districts examined. In this context, local governments appear to be falling short of the program management roles that the decentralization reforms envisioned for them, perhaps relying on the corresponding central ministries to continue to fill the gaps.

**Development vs. Recurrent Funds:** The variances between actual and budgeted activity appear to be most pronounced for development (as opposed to recurrent) budgets. It appears that the budgeted Development/Recurrent balance was effectively “turned on its head” during execution: while a developmental expenditure budget for a typical district may be three times the level of the recurrent budget, during execution it is the recurrent fund spending that may be triple the level of the development expenditures.

**Own-Source Revenues vs. Fiscal Transfers:** Own-source revenues received by the districts appear to represent an average of only 37% (median 39%) of total revenues. Property tax collections are, for the most part, still pending implementation and currently represent only 1.4% of total revenues. It would be presently difficult to estimate the share of own-source revenues that is lost due to poor internal controls over tax billing and collections. In any case, inter-governmental transfers received represent about half (46% mean, 51% median) of all revenues received by the typical district while contributions from donors were, on average, about 16% (13% in median terms). Fiscal transfer policies should be revisited in the context of the new revenue information and apparent disparities across designated poverty categories; districts currently designated as most self-sufficient (poverty category “A”), as a group, received almost double the level of transfer revenues per capita than those in poverty category “B” and 20% higher than those in poverty category “C”.

**Objects of Expenditure:** The largest object of expenditure category was naturally compensation (not including contractors / consultants), comprising an average of about 37% of total expenditures for the sample districts over the six months. More surprising is that building structures averaged 15.5% of expenditures, even though the median level of spending was less than 4% and 20% of the districts spent nothing on this category.

**Liabilities:** The estimated average level of debt per district in this sample was FRW 25 million (FRW 26 million in median terms). Much of the debt was incurred prior to the creation of the local governments and was effectively inherited from the central government. Debt levels were, on average, over four times the value of the monthly revenues in the districts reviewed and 40-50% higher than the value of current assets. The largest share (an average of 55%) of the debts resulted from unpaid compensation, such as salaries and benefits; of this, almost 20% is still to be paid to the government pension fund commonly known as the *Caisse Sociale*. Furthermore, debts to suppliers/vendors are such (at 23%) that districts may have difficulty receiving goods and services as and when needed to meet their program objectives.

**Liquidity and Net Worth:** Districts kept enough cash available to sustain an average of 114 days (85 days median) of expenditures at their existing rates. Average liabilities exceeded current assets by FRW 4 million (negative 5.3 million median).

**Conclusion:** There is presently a unique opportunity to enhance financial performance but this largely hinges on continued modernization of financial systems. The LGAS must be implemented in the remaining 15% of districts and its results shared with all stakeholders. Budget procedures must regularly reference the accounting information in formulation and monitoring to be relevant and the treasury / debt management component must be modernized to enhance revenue performance.

## **II. Introduction**

### ***A. Purpose***

This report results from a preliminary analysis of the data that has been produced from the new Local Government Accounting System (LGAS), made official by Local Government Accounting System (LGAS) in September 2002 and implemented in over 85% of the districts<sup>1</sup> in Rwanda during 2003.

The purpose of this preliminary analysis is to provide a first close look at typical financial activity in a broad sample of district local governments. In so doing, it creates a tentative financial profile of local governments (primarily those outside the capital), based on district activities during the first half of 2003. It represents the first time that information from the newly piloted and implemented LGAS will be shared, across districts and provinces. It also represents the first time that completely new types of financial information (e.g., balance sheet items) from the districts are analyzed and presented and the first time that budget execution data can be systematically analyzed against source budgets.

As a by-product, this document provides some input on the types of analysis that can be performed in future months and that can be eventually assumed by the Ministry of Local Government and the Office of Local Government Finance. Most of the technical information presented is limited to descriptive statistics, as opposed to projections. However, it is sufficient to lay the foundation for comparability and benchmarking between the district governments. Additional studies that build on these and related topics are also being prepared by the project's Fiscal Policy team.

It is a general truth that analytical reports sometimes raise more questions than they answer. It is our hope that these findings will at least answer larger questions than those that will naturally emerge.

### ***B. Background***

One of the biggest questions that surrounded the decentralization of local government since the outset of its implementation centers on a simple question: "What exactly is happening financially in the districts?" Reliable information has always been lacking and neither central nor local governmental entities could provide a picture that could be defended. Allocations of resources to the local governments required significant guesswork and donors themselves sometimes shied away from what they viewed as insufficient accountability.

Although district local governments have been submitting budget requests for the past few years, the level of meaningful information to monitor the execution of the budget or even perform any comparisons across districts has been very limited indeed. Reporting from even the best districts would provide detailed transaction reports, basically lists of payments with no summarization, structure or ability to synthesize

the information. Moreover, there was little ability to compare information from one district to another in any systematic way.

Consequently and against this backdrop, the USAID/ARD Fiscal Decentralization Project (FDP) developed an accounting system, which was then piloted with five representative districts during a two-week period in May-June 2002 and tested in twelve additional districts during September 2002. This system helped form the basis for the accounting module of the Financial Management and Accounting Manual for Local Administration, published and disseminated by MINALOC. The system was made official by MINALOC in September 2002 and mandated for country-wide implementation.

During 2003, the system was implemented throughout the country and was maintained in parallel with the more traditional reporting in place since decentralization was started. The accountants have demonstrated a level of motivation in adopting and maintaining the system which would have been unthinkable just two years ago. Although the system is still to be implemented in 15% of the districts (including those in the City of Kigali), it has helped to produce information yielding insights that would have been impossible just two years ago. It has been institutionalized sufficiently to form a foundation upon which significant improvements in other financial components (budgeting, treasury/debt management and auditing) can now be leveraged.

### ***C. Contributions***

This report is, first and foremost, the product of the accountants of the district governments of Rwanda. Hundreds of thousands of accounting entries were recorded by the accountants in almost 100 districts throughout the country, without which, there would simply be nothing to review, analyze and report upon. Their managers and Executive Committees were gracious in lending their efforts to this important initiative and in taking the first bold steps towards greater transparency.

MINALOC helped to create an enabling environment within which the system could be implemented. The Ministry lent inspectors and advisers to the pilot effort and incorporated important parts of the accounting manual into its Financial Management manual described above. It also provided clarification on policies pertaining to the execution of fiscal transfers and shared budget information that was relevant to this report. MINECOFIN provided a framework for sharing of experiences with the central government and establishing a forum for comparability and linkages between the systems. The Office of the Auditor General was most supportive of the project's efforts towards implementing the system and helped lead the path towards future activities in Treasury/Debt Management.

Within the Fiscal Decentralization Project (FDP) team itself, the compilation effort leading to this analysis was spearheaded by Alan Ferguson (ARD/USAID) in September 2003, following a two-year initiative to get the accounting system mandated and implemented. The project compiled summarized financial information reported from dozens of districts around the country resulting in a database exceeding

13,000 records by February 2004. This effort has continued under Henry Kellam, the new Chief of Party. Walter Espinoza carried out a critical review of the district budgets that were published and available, while Claude Rubango performed quality assurance and corrections over the accounting data. The Coaching team, headed by Antoinette Uwimana, reinforced and helped to sustain the implementation of the accounting system in all provinces of the country since its inception. Moreover, the data capture activities have continued and been intensified under the Fiscal Policy team, headed by Ludovick Shirima leading to a database to support broader tax structure and economic development recommendations.

### **III. Caveats and Assertions**

Before proceeding to the findings, it should be noted that the analysis presented in this document is preliminary in nature and several caveats or qualifications should be kept in mind. Specifically:

- Only a sample of districts is included in this analysis. The primary sample consisted of 22 districts. None of these districts are in the City of Kigali (where revenues and expenditures are estimated to be higher than the rest of the country) because none of them employed the new system during 2003. Nonetheless, the district of Butare and various other districts with urban characteristics were included to help make the sample more balanced. The samples employed for budget/variance analysis were smaller still.
- Not all of the year 2003 could be analyzed; at least 22 districts for a continuous 6 months, and an additional nine districts for varying periods.
- The operation of the accounting systems at the district levels has not been subject to any independent audits. Nor is there any other assurance that the financial information provided by any given district is complete (indeed we know that certain omissions exist), that key sources of funds were not missing in their reporting or that all transactions were properly classified.
- Reliable budgetary data was somewhat elusive. Some districts submitted various versions of their budgets to MINALOC (in which case we focused on the originals), in many cases key components (such as development budgets or anticipated revenues) were missing or the budgets were seriously out of balance. The budget/variance sample of districts (a subset of the base sample of 22) consisted of 14 districts<sup>2</sup> while the sample for more detailed comparative analysis included 10 districts<sup>3</sup>. Budgeted revenue information for the sample examined is perhaps too weak and insufficiently reliable for proper analysis.

Nevertheless, as a general statement, *most* of the data presented, in aggregate, provide a more comprehensive and clearer picture of the financial activities and conditions in these districts than that of any reporting provided to date. While information pertaining to a given individual district may be missing or possibly even erroneous, the level of aggregation (across 22 districts and six months) is such that most of the broad conclusions and statements will likely still hold true.

This data is the product of the first implementation of a uniform chart of accounts across all local governments in Rwanda. A certain amount of reliability results from the ability to systematically compare the information from month to month and from district to district. Furthermore, a series of consistency checks were performed on the data that allowed for the selection of districts to be included in the analysis, based largely on the inherent consistency, thoroughness and reasonableness of their data and inter-related accounts. Also, most of the accounts have been subjected to a degree of analysis to gauge how well they fit overall patterns that emerge across districts.

Finally, it should be noted that all information related to revenues and expenditures are presented on a modified accrual basis, and thus may differ somewhat from information presented on a cash basis, particularly in the presentation of expenditures. Specifically, this means that expenditures and resulting liabilities (debts) are reflected when they are *incurred*, as opposed to when payment is effected.

### **A. Districts Included in Sample**

The district governments selected for incorporation in the sample includes 22 districts spread across five provinces. These include districts that are both urban and rural and cut across all three poverty classifications (as assigned by MINALOC). As mentioned above, neither of the districts is within the City of Kigali, however the sample does include Butare and other urban districts.

<b>Province</b>	<b>District</b>	<b>Urb/Rural</b>	<b>Pov.Cat</b>	<b>Population (000's)</b>
Butare	Butare	Urban	A	80.9
	Kiruhura	Rural	B	62.8
	Maraba	Rural	C	61.7
	Save	Rural	C	63.9
Gikongoro	Gikongoro	Urban	A	25.5
	Kaduha	Rural	B	73.3
	Karaba	Rural	B	94.6
	Mudasomv	Rural	A	69.1
	Mushubi	Rural	C	94.8
	Nshili	Rural	C	88.0
Gitarama	Ntongwe	Rural	B	88.9
	Ruyumba	Rural	B	103.3
Kibungo	Cyarubare	Rural	C	62.6
	Kabarando	Rural	A	63.3
	Kibungo	Rural	A	40.7
	Kigarama	Rural	C	60.0
	Nyarubuye	Rural	C	48.4
	Rusumo	Rural	B	151.8
Kibuye	Budaha	Rural	C	87.0
	Gisunzo	Rural	C	75.1
	Itabire	Rural	A	82.1
	Kibuye	Urban	A	36.5

As described further below, the poverty classifications were assigned by the central government, with “A” representing those districts with the highest levels of own-

source revenues. For rough seasonality analysis extending beyond the month of September 2003, data was also brought in from an additional 10 districts<sup>4</sup>.

#### IV. Aggregate Revenues and Expenditures

Monthly revenues in the sample districts ranged widely during the first half of 2003, but the revenue for any given district within the sample in any given month had an almost 80% chance of falling within FRW 10 million<sup>5</sup>. Similarly, district monthly expenditures had an 80% chance of falling within FRW 8 million<sup>6</sup>. A “typical<sup>7</sup>” district within this sample received an average of about FRW 6.3 million<sup>8</sup> in revenues per month and incurred FRW 5.2 million per month in expenditures; 80% of these districts had average monthly revenues falling between FRW 4.0 – 8.9 million<sup>9</sup>. Similarly, 80% of districts had average monthly expenditures between FRW 3.5 and 7.6 million<sup>10</sup>.

An examination of the monthly revenues across all of these districts and months (i.e., without any averaging across the months) suggests a somewhat lower median monthly revenue of about FRW 5.2 million and FRW 4.2 million<sup>11</sup> for expenditures.

Almost 20% of the districts incurred expenditures that exceeded their revenue streams<sup>12</sup>, however, for the sample of 22 districts as a whole, monthly revenues exceeded expenditures by an average of FRW 1 million per district.

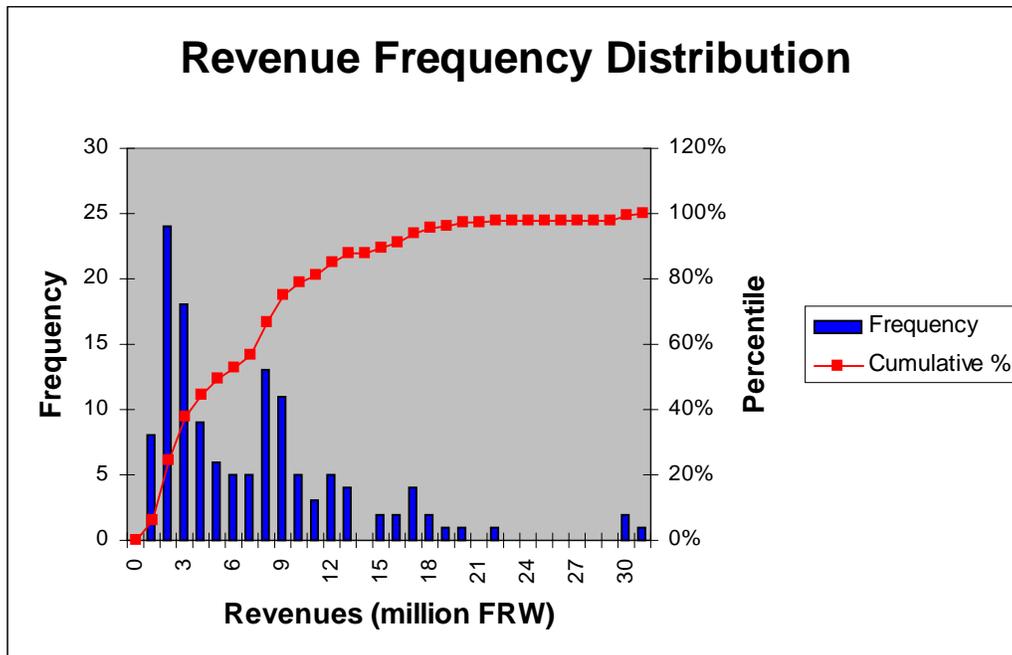


Figure 1 - The above is a frequency distribution diagram for all monthly revenue figures (independent of averages) in the 22 sample districts (i.e., 22 x 6 observations). It describes the concentration of monthly revenue figures, classified by their amounts. Thus, almost no district had any single revenue in any month that exceeded FRW 23 million, and the most common monthly revenue fell between FRW 1 and 2 million.

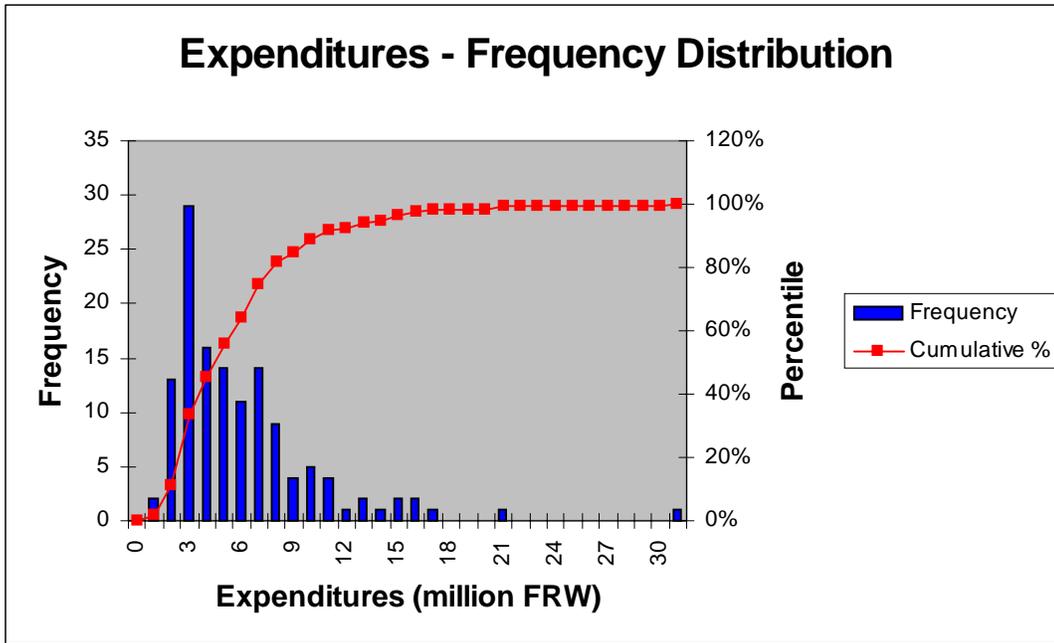


Figure 2 - The above is a frequency distribution diagram for all monthly expenditure figures (independent of averages) in the 22 sample districts (i.e., 22 x 6 observations). It describes the concentration of monthly expenditure figures, classified by their amounts. Thus, almost no district had any single expenditure in any month that exceeded FRW 19 million, and the most common monthly expenditure fell between FRW 2 and 3 million.

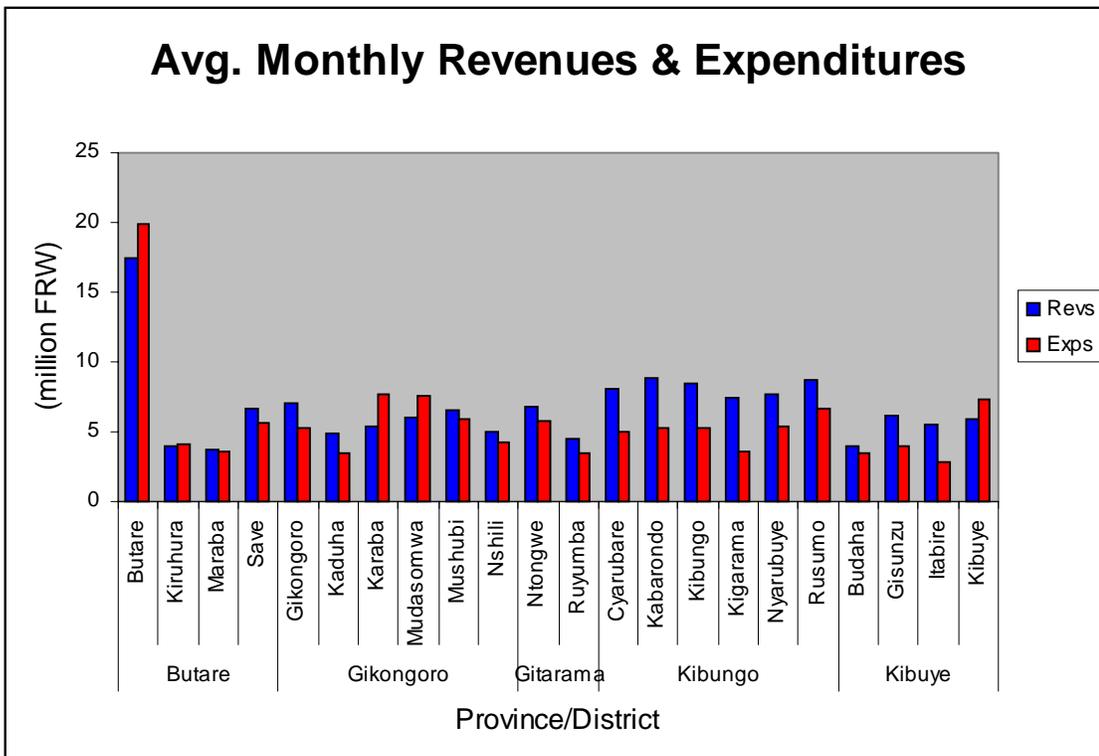


Figure 3 - The above compares aggregate revenues to expenditures, by district. The figures are based on total averages for each of the sample districts across the six months (January – June 2003).

## A. Seasonality - Patterns over Time

It should be noted that the pattern of revenues and expenditures over time was not uniform and that some pronounced seasonality is apparent.

Districts started the year with revenues barely keeping pace with expenditures in January, but with a quick cash infusion during the months of February and March, then followed by a gradual drop in revenues, resulting in an excess of expenditures over receipts during the second quarter.

Data on hand that extends through the month of September (outside our base period of analysis suggests that a one-month jump in median revenues almost as great as that in February also occurred in the month of August. While it is too early to say definitively, there is some indication that the tabulated revenue and expenditure averages from January through June would remain steady the second half of the year.

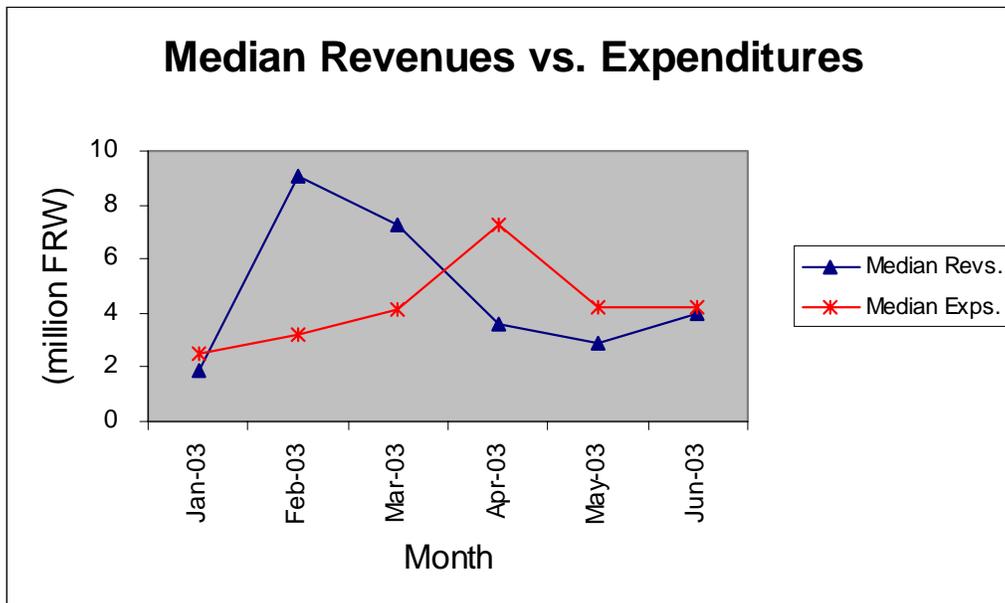
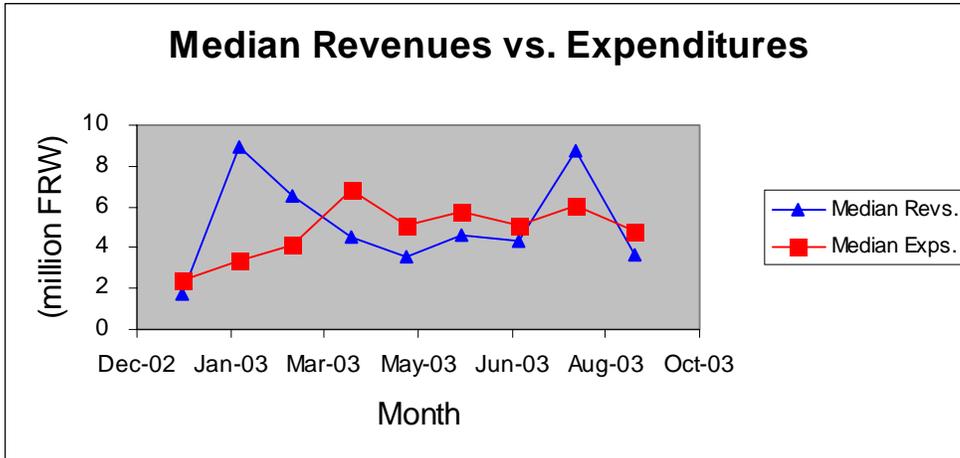


Figure 4 - The above represents the median revenue and expenditure figures for each month across the 22 sample districts. The surpluses that were accumulated during February and March were apparently partly spent during the months of April and May. The graph projecting algebraic means (vs. medians) is very similar in shape.



**Figure 5 - The above represents the median revenue and expenditures for each month through the month of September across a sample of 31 districts (including the base 22). There is an apparent second bounce in revenues during the month of August. The graph projecting algebraic means (vs. medians) is very similar in shape.**

## **V. Budget Management**

Local government budgets are often broken down into two broad categories: recurrent budgets (involving activities that are fairly consistent over time) and development budgets (dealing with project or investment-related initiatives). Funding for local governments is channeled through central government sources, such as the Local Authorities Budget Support Fund (LABSF) and the Community Development Fund (CDF), but is sometimes supplemented directly from donors.

### ***A. Adherence to Formulation Guidelines***

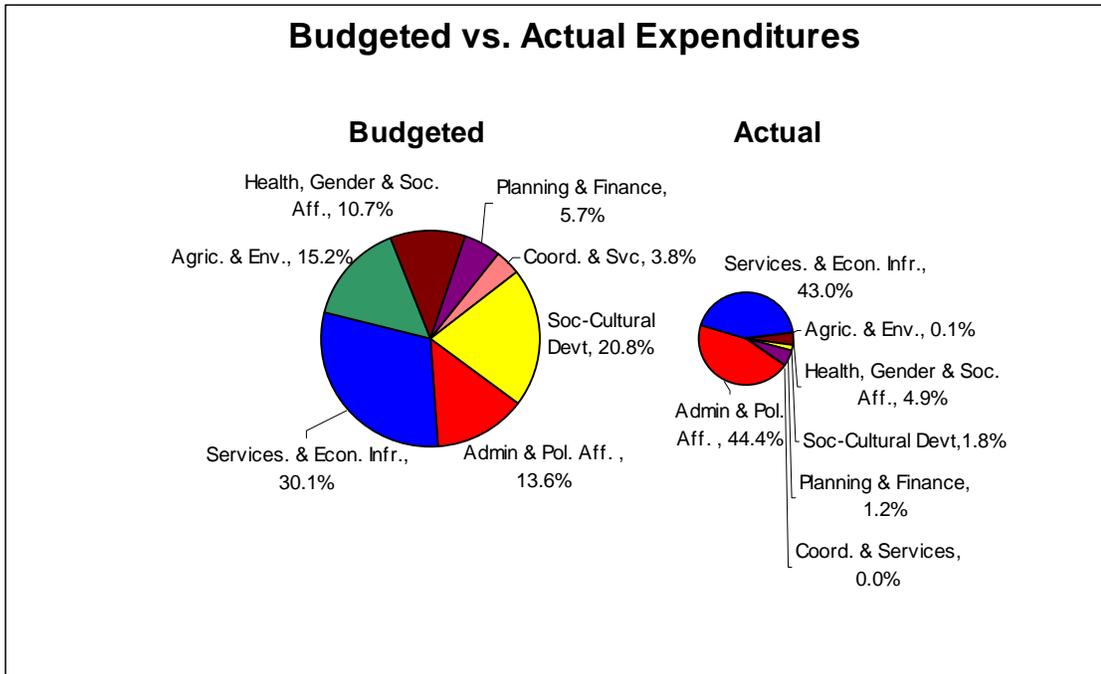
Following an extensive effort by MINALOC over the past several years, budgets are currently formulated in the vast majority of districts of the country. The expenditures of 14 districts<sup>13</sup> were compared to their corresponding budgets.

### ***B. Budget Execution***

A key question that naturally arises is how well local governments adhered to their plans, i.e., the budgets that were appropriated by their district councils and presented to the provincial governments and MINALOC. Differences can highlight areas that can be improved in the planning processes, the execution of the budget, or both.

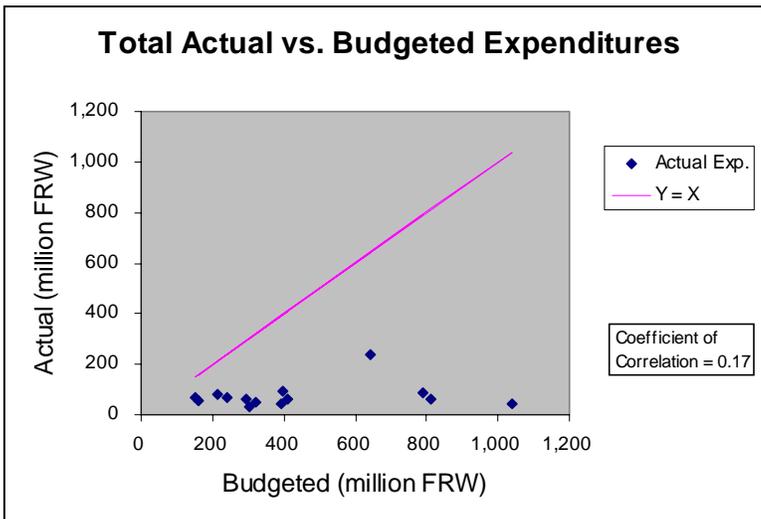
Budgeted expenditures would mostly range between FRW 176 and 807 million, with a median of FRW 425 million. Actual revenue rates fell in a tighter range, i.e., between FRW 48 and 104 million, with a median of FRW 76 million. However, actual total expenditures in these districts during the sample period were incurred at only 20% the rate that was budgeted, and typically ranged from FRW 42 – 91 million per year, with a median of about FRW 63 million per year. Clearly, most program activities that were envisioned at the beginning of 2003 could not be accomplished during the year.

As it happens, actual expenditures were incurred at only 20% the budgeted rate<sup>14</sup>. Broken down by fund, actual recurrent expenditures, in aggregate terms, are about half the corresponding recurrent budgeted levels. However, actual expenditures on developmental budgets may be equivalent to only 10% of the corresponding budgets. While a developmental expenditure budget for a typical district may be three times the level of the recurrent budget, during execution the recurrent budget spending appears to be triple the level of the development expenditures<sup>15</sup>.



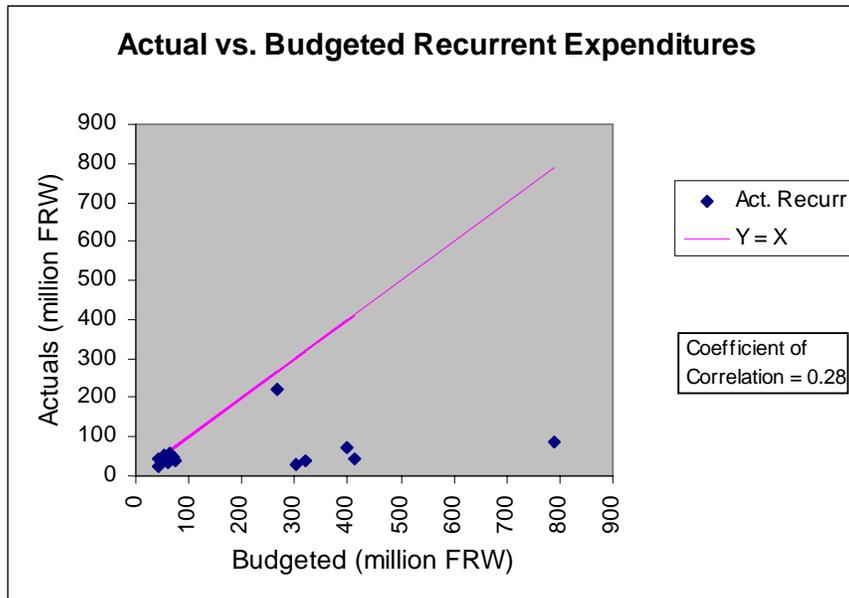
**Figure 6 - Percentages presented in this chart are in relation to their respective items, i.e., either of the budget or of total expenditures. The relative sizes of the budget and actual expenditures are reflected by their respective surface areas; thus, actual expenditures were incurred at about 20% the rate of their corresponding budgets. Aside from the large difference in their respective sizes, what is most striking is how key programs have been almost entirely squeezed out during execution.**

To answer the question in a more macro context, we can simply look at the degree of correspondence between the budgeted and actual revenues and expenditures.



**Figure 7 - The above chart is a comparison of actual total expenditures projected against their corresponding budgets. Each observation represents one district. If total expenditures were executed perfectly in accordance with their corresponding budgets, all of the observations would be lined up on the 45-degree line. The relationship between them is weak, as suggested by a (linear Pearsonian) correlation coefficient of just 0.17 (as compared to a perfect coefficient of 1.00).**

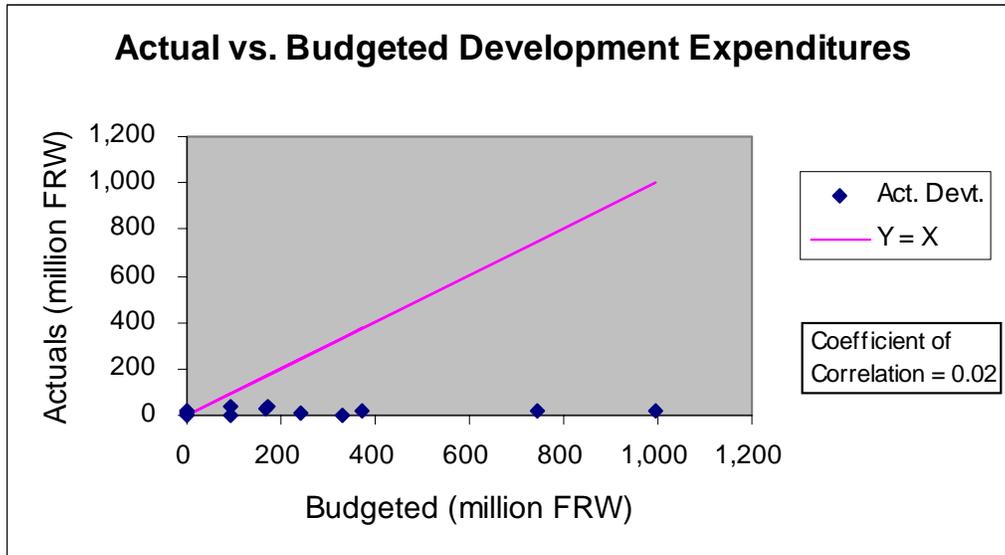
If actual expenditures actually followed the corresponding budgets, the observations above would fall on a 45-degree line. None of the total expenditure figures came close to that which was budgeted. This shortfall set the stage for “squeezing out” certain programs (mentioned above) in the execution of the budgets.



**Figure 8 - Although isolating the recurrent expenditures appears to increase the level of correspondence for some of the districts, overall, the relationship is still loose because of very high budgeted expenditures in the others.**

Fewer than a third of the districts that were subjected to budget analysis had actual expenditure observations that came within 20% of the budgeted figures. A fair number of districts were way off, resulting in a linear (Pearsonian) correlation coefficient of just 0.28<sup>16</sup> (the coefficient for a perfect positive linear relationship would be 1.00).

The situation is more telling when looking at expenditures from development funds. There appears to be virtually no relationship between actual expenditures and the original budgets for this fund category. Perhaps many of the districts were simply too optimistic about the level of funding they would receive and had insufficient historical information to help validate or correct their projections.



**Figure 9 - There is virtually no relationship between the actual and budgeted figures for development budgets, most likely because of the large shortfall in these funds.**

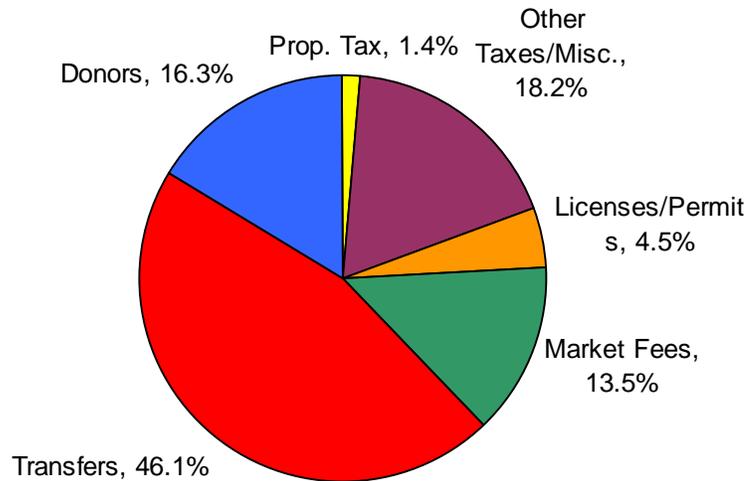
Part of the problem with these budgets may be due to varying levels of scrutiny in the districts during formulation and prior to appropriation. However, one cannot escape the conclusion that much of the difficulty stems from the lack of a feedback system in the districts, with accounting that helps them monitor execution against the budget. It is anticipated that as the financial reporting from the LGAS becomes more institutionalized within the districts, the budgeting process shall also be enhanced.

## VI. Composition of Revenues

Revenues for a typical district within this sample were dominated by seven major categories during the course of the first half of 2003. As detailed below, approximately half of the revenues seem to have been derived from transfers received from the central government (in some cases facilitated by the provinces).

Revenue Category	Median Revenue Share	Avg. Revenue Share
Transfers from Central Government (including those initiated by provincial governments)	51.1%	46.1%
Grants from Donors	10.3%	16.3%
Market Fees	9.6%	13.5%
Licenses & Permits	3.2%	4.5%
Property Taxes	0.2%	1.4%
All Other Revenues	25.6%	18.2%

## Average Revenues by Source



**Figure 10 - Percentages presented in this chart describe revenues received by category, in relation to total revenues in the 22 sample districts, during the six month period analyzed. Note that data was aggregated across all sample districts and algebraic averages (not weighted equally by district) were derived. The median figures for the share of the larger items were generally smaller.**

Local governments appear to still be building their revenue collection capacities. Slightly over one-third of their total revenues is collected from their own sources, while almost two thirds originate from inter-government transfers and donors.

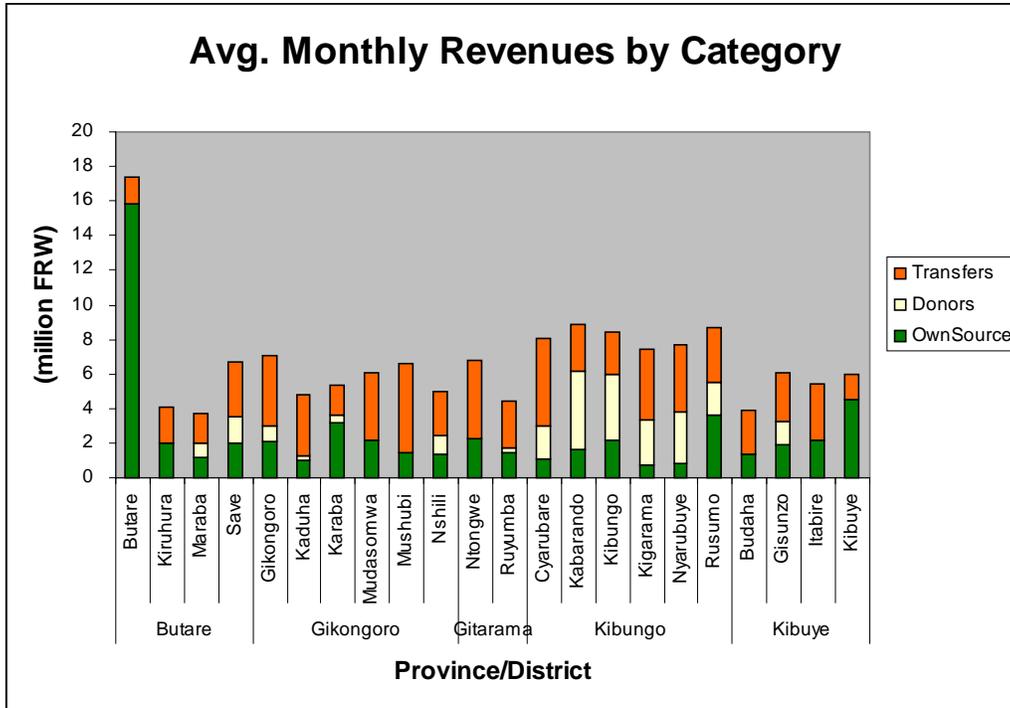


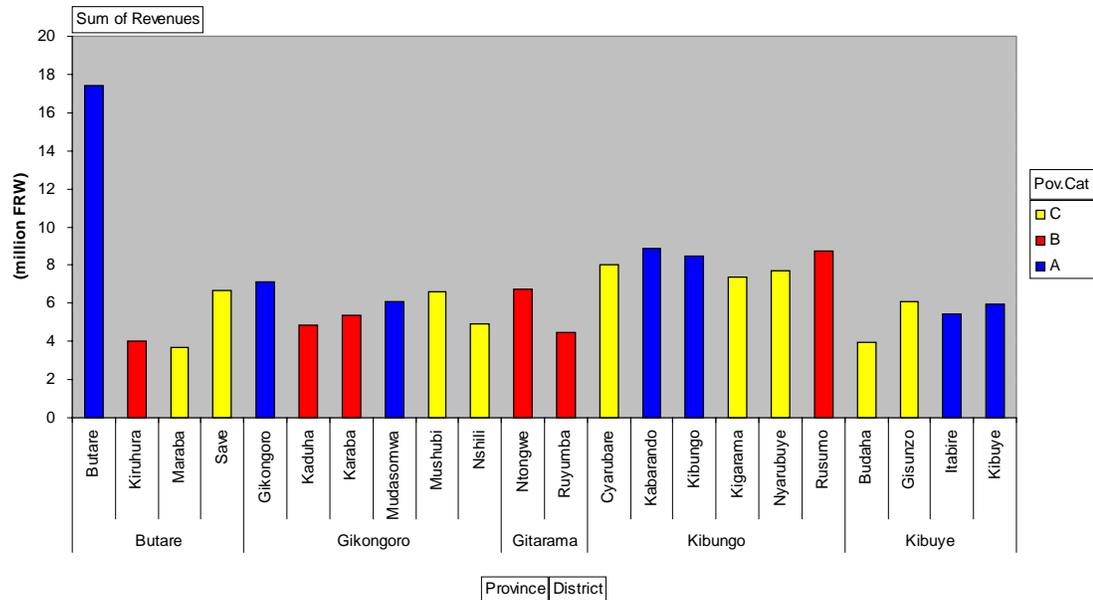
Figure 11 - Average revenues in the 22 sample districts were broken down into three major categories. As a general statement, transfers appear to play a more important role in the non-urban districts, although it they are still a key share revenues in the urban district of Gikongoro.

### Revenue Shares across Districts

	Median (50th Percentile)	Algebraic Average	10th Percentile	20th Percentile	80th Percentile	90th Percentile	Max	Std. Dev.
Fiscal Transfers	51.1%	29.8%	33.5%	63.5%	66.7%	78.4%	50.1%	17.3%
Donors	10.3%	0.0%	0.0%	23.6%	38.3%	50.5%	15.2%	16.1%
Prop. Tax	0.2%	0.0%	0.0%	1.3%	2.0%	10.2%	1.1%	2.3%
Rent Tax	0.0%	0.0%	0.0%	0.6%	0.9%	3.4%	0.4%	1.0%
Bicycle Tax	0.0%	0.0%	0.0%	0.4%	0.9%	2.4%	0.3%	0.7%
Other Tax	4.7%	2.1%	3.0%	7.4%	10.9%	52.1%	7.8%	11.2%
Unclass Services	0.0%	0.0%	0.0%	0.0%	0.0%	0.4%	0.0%	0.1%
Licenses/Permits	3.2%	1.5%	2.0%	6.9%	11.7%	18.5%	5.3%	4.8%
Market Fees	9.6%	5.3%	5.8%	22.2%	25.7%	35.6%	13.7%	9.2%
Pub. Assets	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%	0.0%	0.2%
Occasional	0.0%	0.0%	0.0%	0.7%	1.6%	7.1%	0.6%	1.6%
Special	0.0%	0.0%	0.0%	0.0%	0.4%	1.3%	0.1%	0.3%
Fines/Penalties	0.4%	0.0%	0.1%	0.8%	1.0%	6.4%	0.7%	1.3%
Product Sales	0.0%	0.0%	0.0%	0.9%	1.7%	4.4%	0.6%	1.1%
Gains on Sales	0.0%	0.0%	0.0%	0.0%	0.2%	5.2%	0.4%	1.3%
Miscellaneous	1.8%	0.1%	0.5%	5.1%	8.1%	24.6%	3.6%	5.3%

Figure 12 – Percentages of revenues are broken down across percentiles of districts. As an example, for 80% (the difference between the 90<sup>th</sup> and 10<sup>th</sup> percentiles) of the sample districts, Fiscal Transfers represented between 34 and 78 percent of the respective district revenues.

## Average Monthly Revenues



**Figure 13 - The above reflects average monthly revenues (including transfers) for each of the 22 sample districts, classified by their poverty category. Additional data on actual own-source revenues by poverty category is provided further below.**

### ***A. Fiscal Transfers***

As illustrated below, average monthly fiscal transfer revenues for the sample of 22 districts ranged from FRW 1.4 million to FRW 5.1 million, depending on the district, while a typical district’s transfer revenues would have averaged FRW 3.1 million (FRW 3.0 million median) per month.

The distribution over time clearly varied, however, creating most of the seasonality effect described earlier. In the year through September, data on hand suggests that transfers were much larger in the months of February and August.

Similarly, and as described above, the distribution of the transfers across districts was not equal. For example, Butare, whose revenues far exceeded those of the other sample districts, received a fairly small share in the form of fiscal transfers.

An odd pattern that emerged is that districts in poverty category “A” (those districts deemed the most self-sufficient) received a greater level of per capita transfers – almost double the level of those districts in poverty category “B” and somewhat more than those in poverty category “C”.

### Avg. Monthly Transfers per Capita

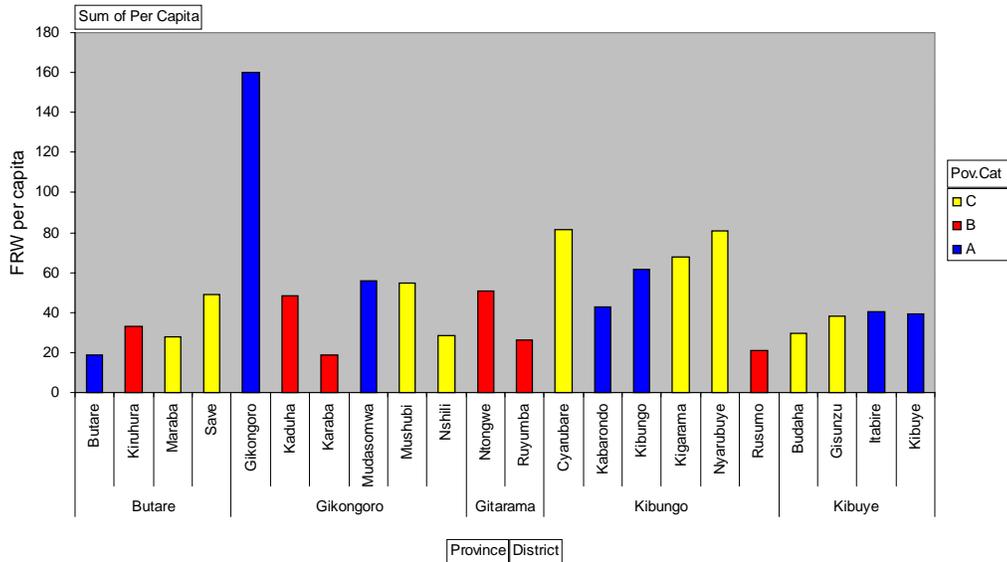


Figure 14 – Transfers per capita take on a more varied pattern than would be anticipated by the formulae employed, as further described below.

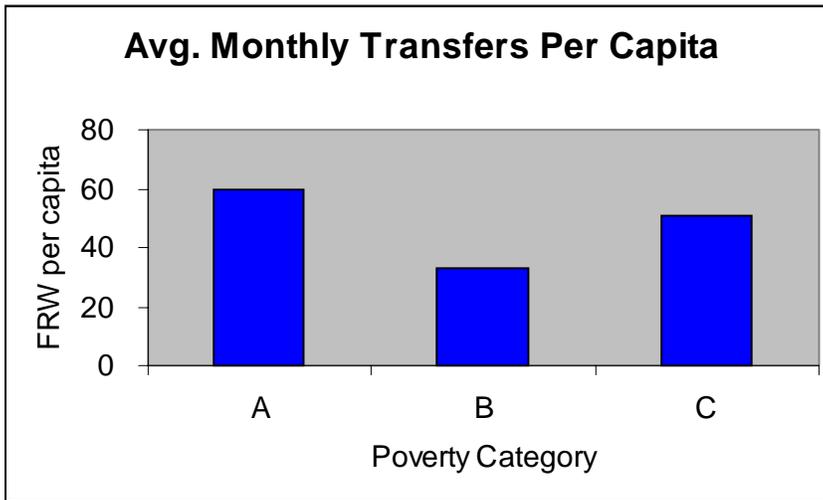


Figure 15 – This U pattern is a surprising. Holding all other factors constant, the pattern should have sloped upwards from the left, with poverty category “C” districts receiving the greatest transfers on a per capita basis. The above suggests that districts in poverty category “A” received significantly more, as a group, than those in poverty category “B”.

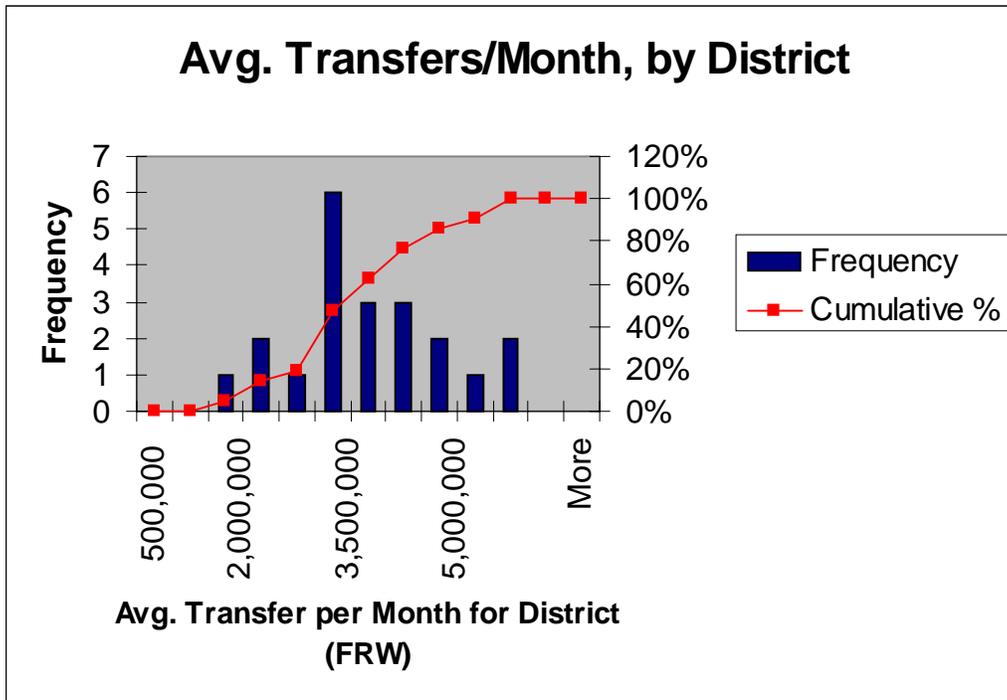


Figure 16 - The above is a frequency distribution diagram. Average monthly transfer revenues per district tend to fall between FRW 1.4 and 5.4 million, with a median (the 50th percentile) of about FRW 3 million.

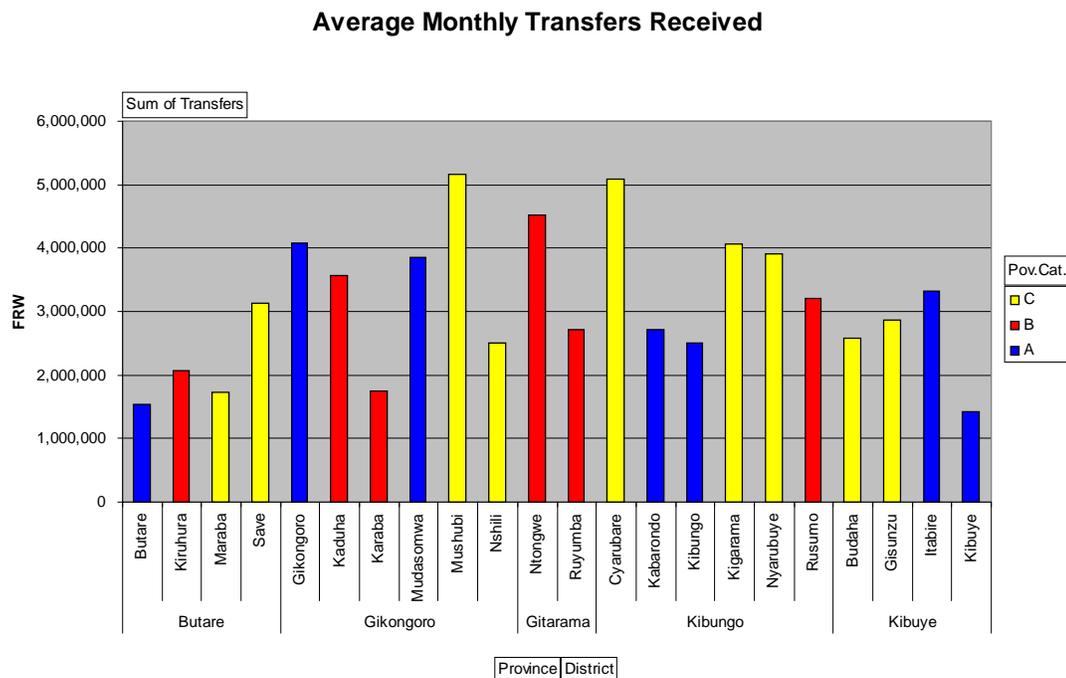
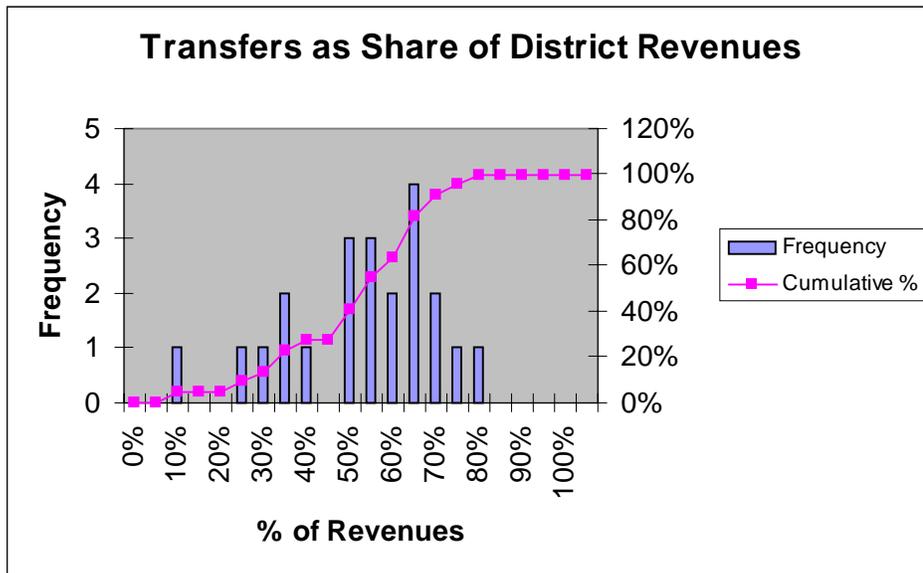


Figure 17 - The above reflects transfer revenues (averaged across the six months) received by the 22 sample districts. The districts are classified by poverty category, as assigned by the central government.



**Figure 18 - This chart describes the extent to which reliance on inter-governmental transfers varies across districts. Although for one of the sample districts, transfers received account for as little as 10%, for almost 90% of the districts analyzed transfers represented at least 35% of revenues received. At the high-end, transfers represented 80% of all revenues.**

### ***B. Donor Funding***

Donors accounted for an average of about 16% (median of 10%) of district revenues in the sample district. As a general statement, they play a larger role in the districts within the province of Kibungo than in the other provinces reviewed.

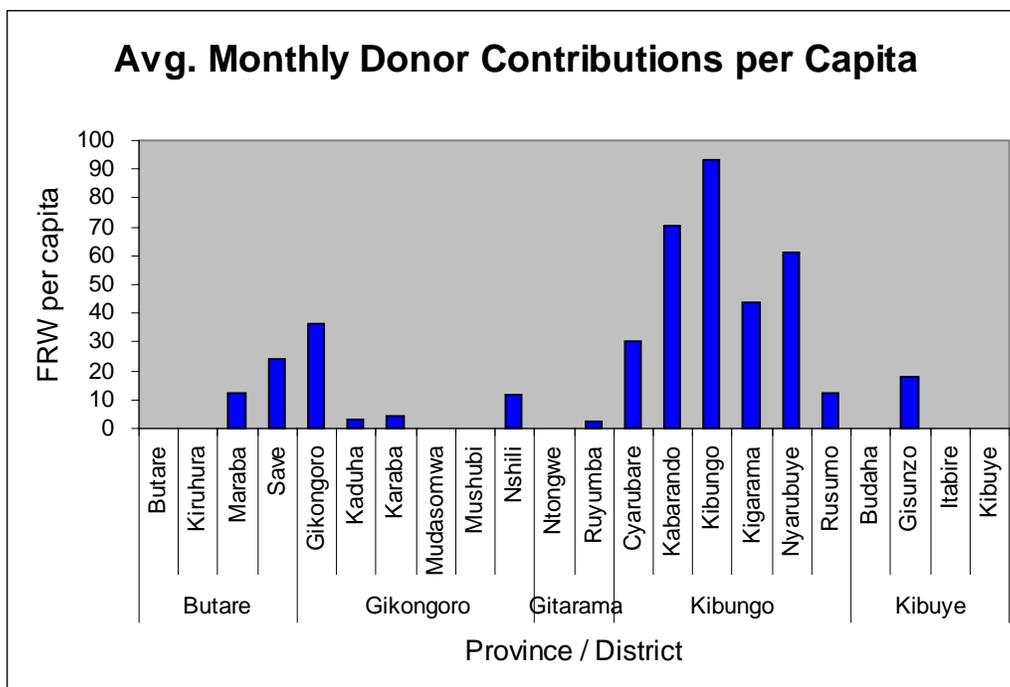


Figure 19 – Per capita donor revenues are particularly variable within the sample of 22 districts examined, and evidently most concentrated in Kibungo province.

### C. Own-Source Revenues

There is no currently reliable way to gauge tax collections that do not translate into district revenues, however the Office of the Auditor General estimates that own-source revenues may double or triple if proper controls were put in place to prevent misappropriation of funds.

Market fee revenues play an important role (as much as 20-30%<sup>17</sup>) in those districts that receive low transfer volumes.

#### 1. Own-Source Revenues vs. Poverty Categories

MINALOC currently employs a three-tier poverty classification system, with those districts deemed most self-sufficient being assigned an “A” label. The breakdown is as follows<sup>18</sup>:

Own-Source Revenues per Quarter	Poverty Category
Above FRW 15 million	A
FRW 8 – 15 million	B
Below FRW 8 million	C

MINALOC made the assignments based on the best information that it had available. Actual own-source quarterly revenue figures (in millions of FRW) for the sample districts in each of the assigned categories follow:

Poverty Category	Average (Algebraic Mean)	Median (50 <sup>th</sup> Percentile)	10 <sup>th</sup> Percentile	90 <sup>th</sup> Percentile
A	13.1	6.5	5.6	27.2
B	6.7	6.3	3.7	10.2
C	3.9	4.0	2.4	5.8

Therefore, only two of the seven districts in the sample that were assigned to the designated “A” poverty category come anywhere close to FRW 15 million in own-source revenues per quarter. Similarly, only a third of the sample districts assigned to poverty category “B” have own-source quarterly revenues in excess of FRW 8 million. This suggests that the official classification system may indeed need to be updated, using the newer and more accurate information. This becomes relevant in that the Poverty Category has a 40% weight<sup>19</sup> in the determination of the calculated transfer to be allocated to each district.

### Own-Source Quarterly Revenues

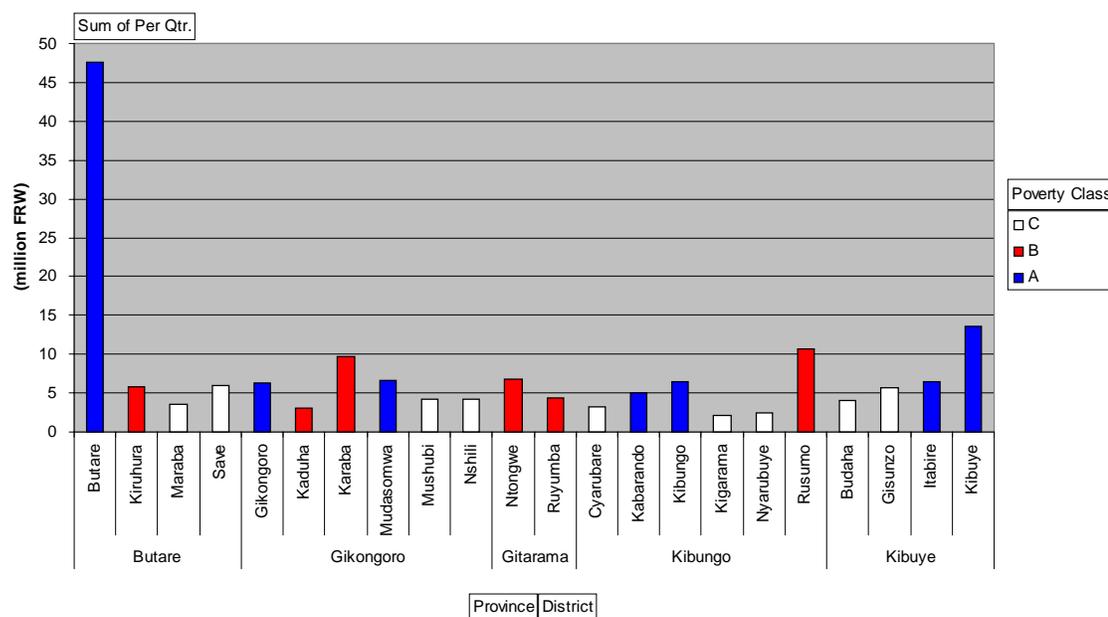


Figure 20 – The above reflects own-source revenues for the 22 sample districts on a quarterly basis.

### Transfers Received, Per Capita

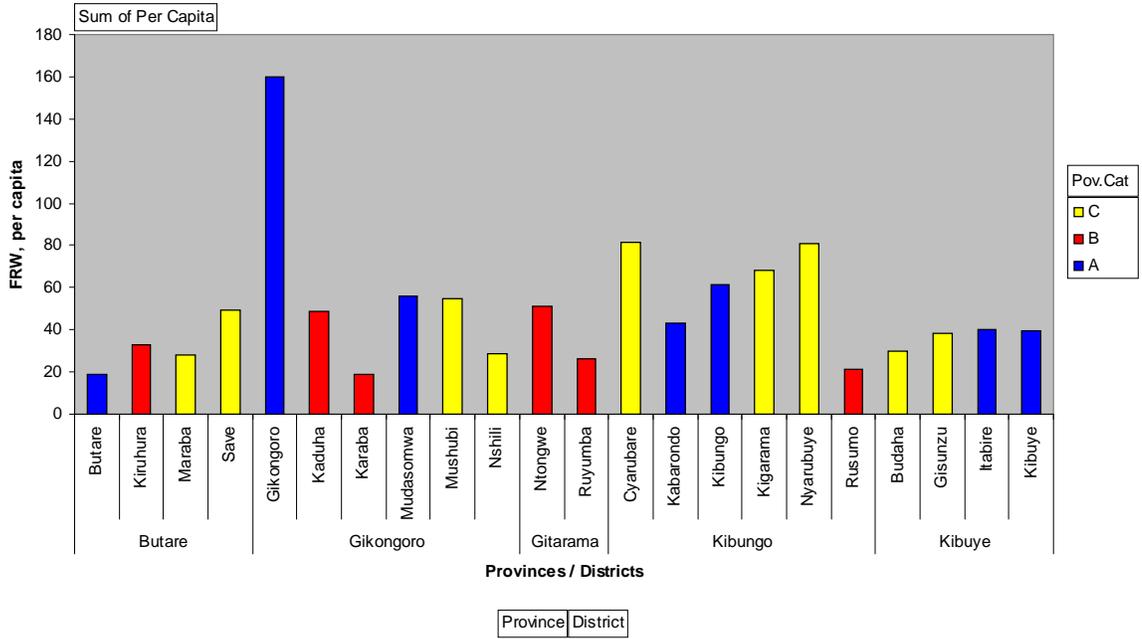


Figure 21 – This chart views fiscal transfers received on a per capita basis. As a Poverty Category “A” district, Gikongoro’s transfer revenues seem to be an anomaly.

### Avg. Monthly Revenues by Type of District

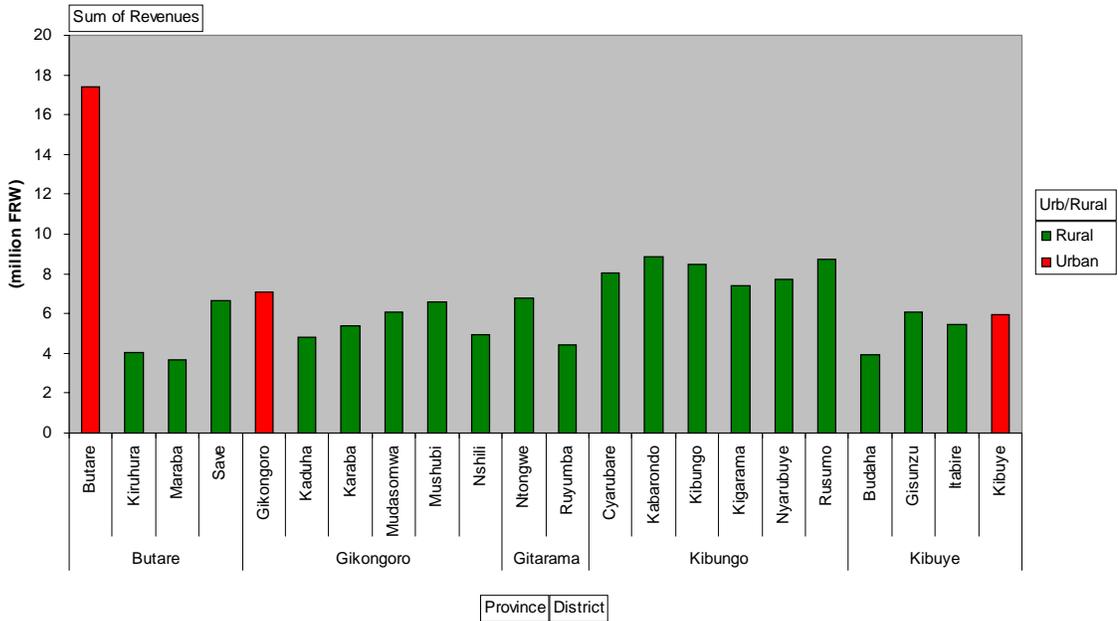


Figure 22 -

## VII. Composition of Expenditures

### A. By Program

The vast majority of actual expenditures in the sample districts were directed at two programs: Administration and Political Affairs (52% of aggregate expenditures), and Services and Economic Infrastructure (30%)<sup>20</sup>. This picture contrasts sharply with the budgets, where the allocation to Administration and Political Affairs is an average of just 14%.

As discussed above, this effectively squeezes the remaining four programs into less than 20% of expenditures. Since one of the key goals of decentralization is to put operational responsibility for program activities in the hands of the local governments, it is clear that there is a long way to go towards its achievement. Indeed, the data on incurred expenditures suggests that Department Heads have not been appointed within the districts to manage their respective programs.

The dominant role of Administration and Political Affairs in the budget execution may have been not only to protect primary administrative staff (staff assigned to the departments are charged under the corresponding programs) but also to support important activities such as election administration.

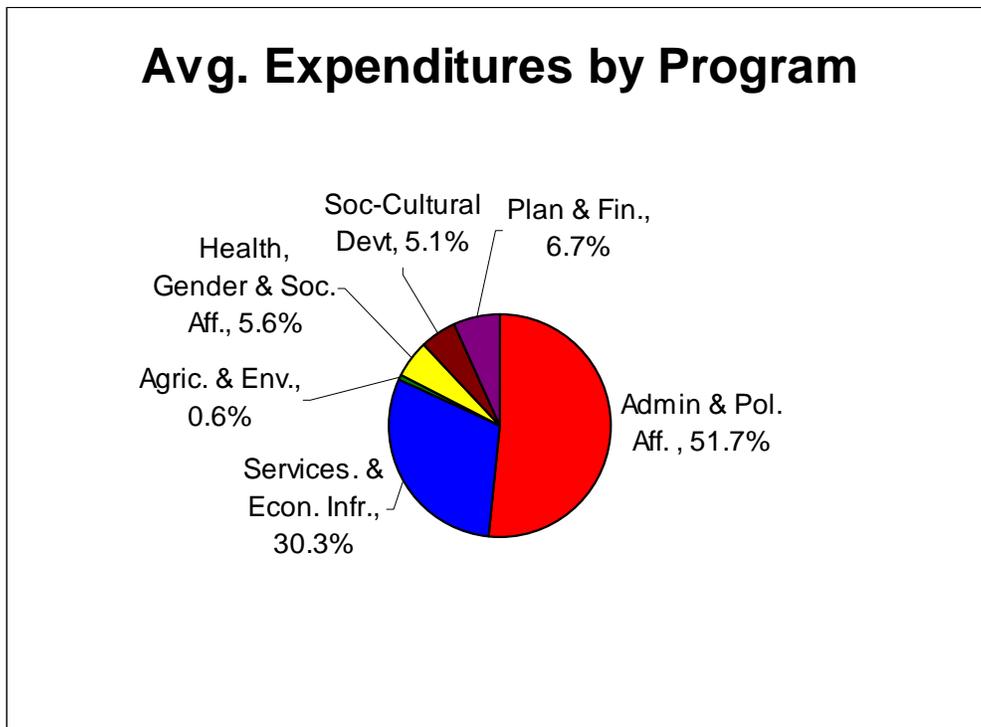
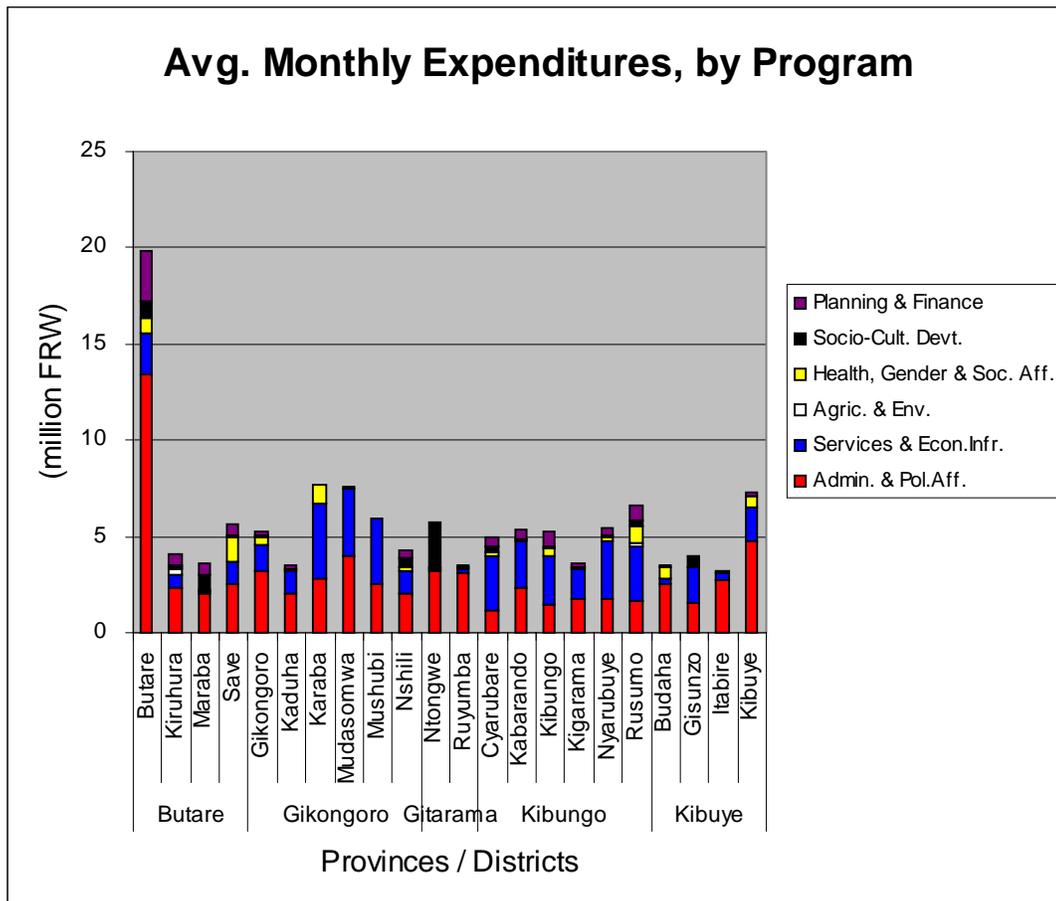


Figure 23 - This chart lays out the expenditures incurred by the sample districts, by program. The figures were tabulated across all districts in the sample. They are somewhat different from the figures in the budget comparison because they represent a higher number of districts.



**Figure 24 - The above decomposes average expenditures on programs for each of the sample districts.**

### % of Total Expenditures, by Program

	Median (50th Percentile)	Algebraic Mean	10th Percentile	20th Percentile	80th Percentile	90th Percentile	Max	Std. Dev.
Admin. & Pol. Aff.	50.7%	51.6%	28.7%	36.7%	64.4%	73.7%	89.2%	17.9%
Services & Econ. Infr.	29.5%	30.8%	5.6%	10.9%	47.6%	55.5%	57.1%	19.3%
Agric. & Env.	0.1%	0.6%	0.0%	0.0%	0.4%	1.4%	7.5%	1.6%
Health, Gender & Soc. Aff.	3.2%	5.5%	1.0%	1.3%	7.4%	13.6%	21.8%	5.8%
Socio-Cult. Devt.	1.9%	5.5%	0.5%	1.2%	4.8%	13.4%	41.3%	9.5%
Planning & Finance	5.0%	6.0%	0.0%	0.0%	12.1%	13.9%	16.3%	5.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	

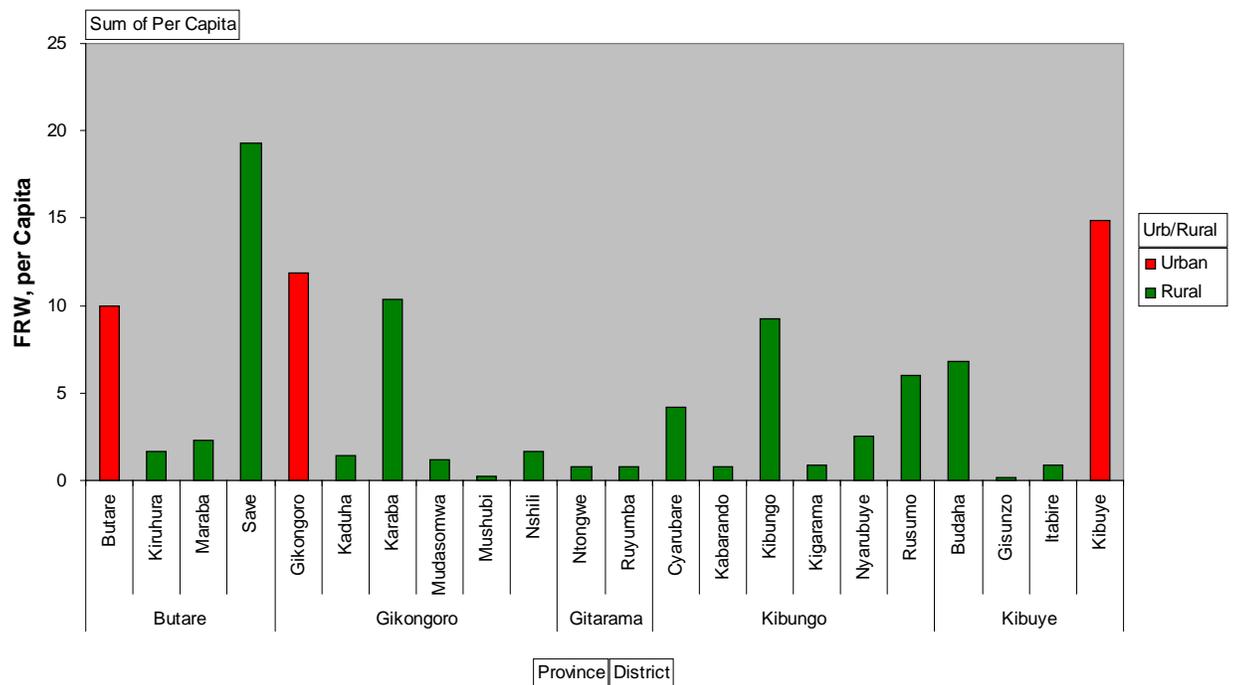
**Figure 25 – Descriptive statistical information on the distribution of percentages of expenditures by program across the 22 sample districts.**

## 1. Health, Gender and Social Affairs

As discussed above, in most districts, limited resources are being directed towards Health, Gender and Social Affairs. The median figure of spending in this area was only about FRW 133,000<sup>21</sup> with a median of about FRW 2 per capita monthly (almost FRW 5 per capita monthly average)<sup>22</sup> during the six months.

Per capital expenditures on Health, Gender and Social affairs is notably greater in urban districts - an average of more than FRW 12.2 monthly per capita, vs. FRW 3.75 monthly per capita in the rural areas.

**Health, Gender & Social Affairs - Monthly Per Capita Expenditures**



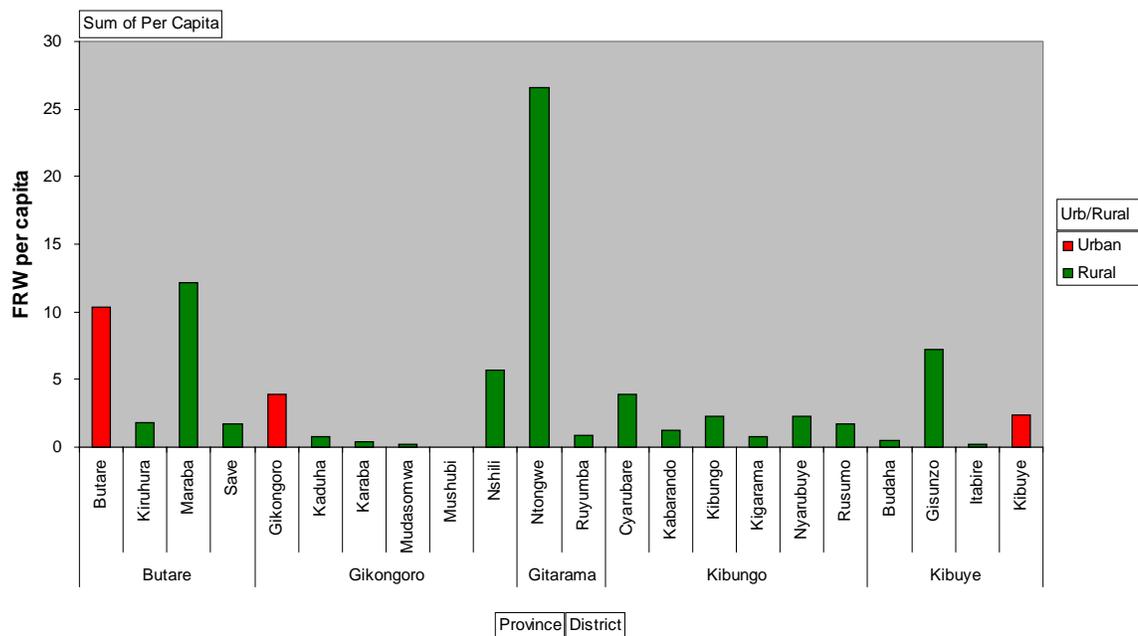
**Figure 26 - Urban districts spend more on Health, Gender and Social Affairs on a per capita basis than most of their rural counterparts.**

## 2. Socio-Cultural Development

The variations are more striking for Socio-Cultural Development. The districts spent an average of just FRW 3.9 per capita (median of FRW 1.7) monthly on this program. One might surmise that local governments are still relying on the Ministry of Education to directly manage the transfers to schools and oversee their Education-related activities.

Taken as a group, urban districts spent somewhat more on this program than their rural counterparts, averaging FRW 5.5 vs. FRW 3.7 per capita, respectively.

**Socio-Cultural Development - Monthly Per Capita Spending**



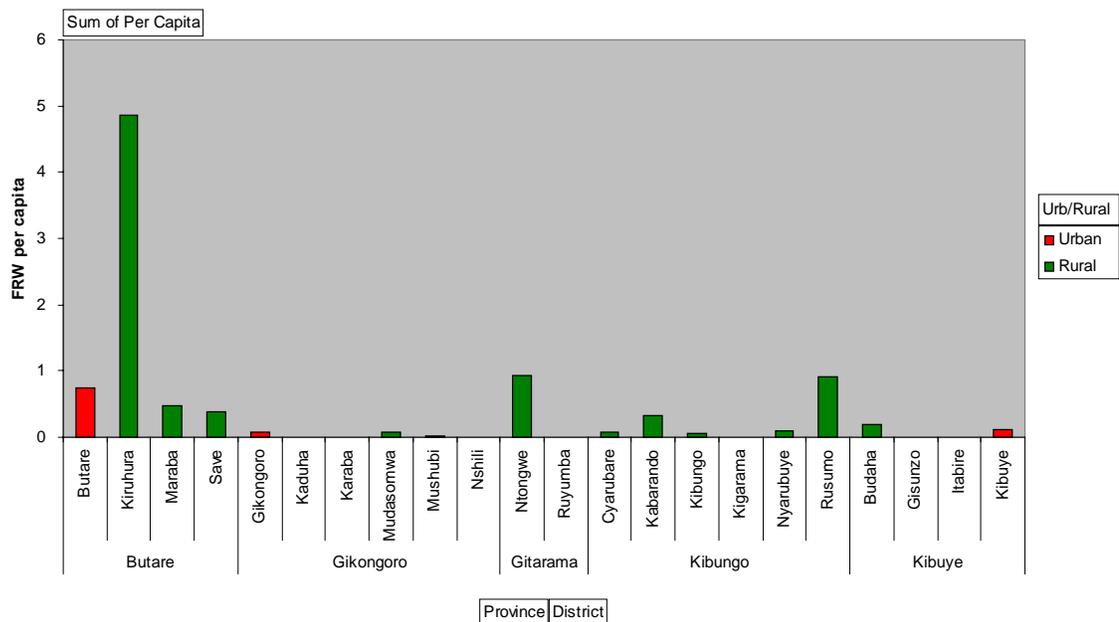
**Figure 27 - According to reporting from the districts, urban districts appear to be investing little more than their rural counterparts on Socio-Cultural Development, which includes Education.**

### 3. Agriculture and Environment

Agriculture and Environment is the program that is perhaps most starved for resources. Local governments spent an abysmally low average of FRW 0.42 monthly per capita (FRW 0.08 median) on Agriculture and Environment. The District of Kiruhura, in nominal terms, spent more than double that of any other district on this program, yet almost a third of the districts spent nothing at all.

As might be expected, the urban districts spent somewhat less in this program (average of 0.31 vs. 0.44 per capita, monthly) than rural districts. The surface area of the districts, however, did little to shed any light on variations in spending patterns.

**Agriculture and Environment - Per Capita Monthly Expenditures**



**Figure 28 - Per capita spending on Agriculture and Environment was exceptionally low, even when compared to the other programs. This was based on the 22 sample districts from Jan – June 2003.**

### Agriculture & Environment - Monthly Spending / Square Kilometer

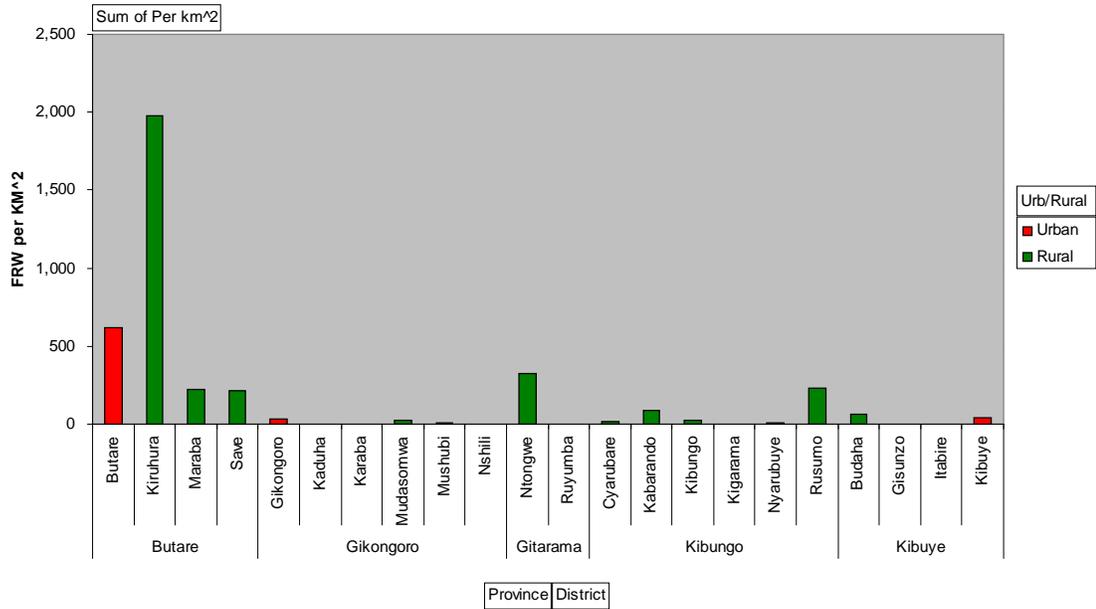


Figure 29 - The picture does not change appreciably when viewing expenditures on a per unit-area basis.

## B. By Object

An overview of the largest categories of expenditure follows. The reader should note that these figures are presented immediately below as algebraic average percentages of aggregate expenditures, across districts.

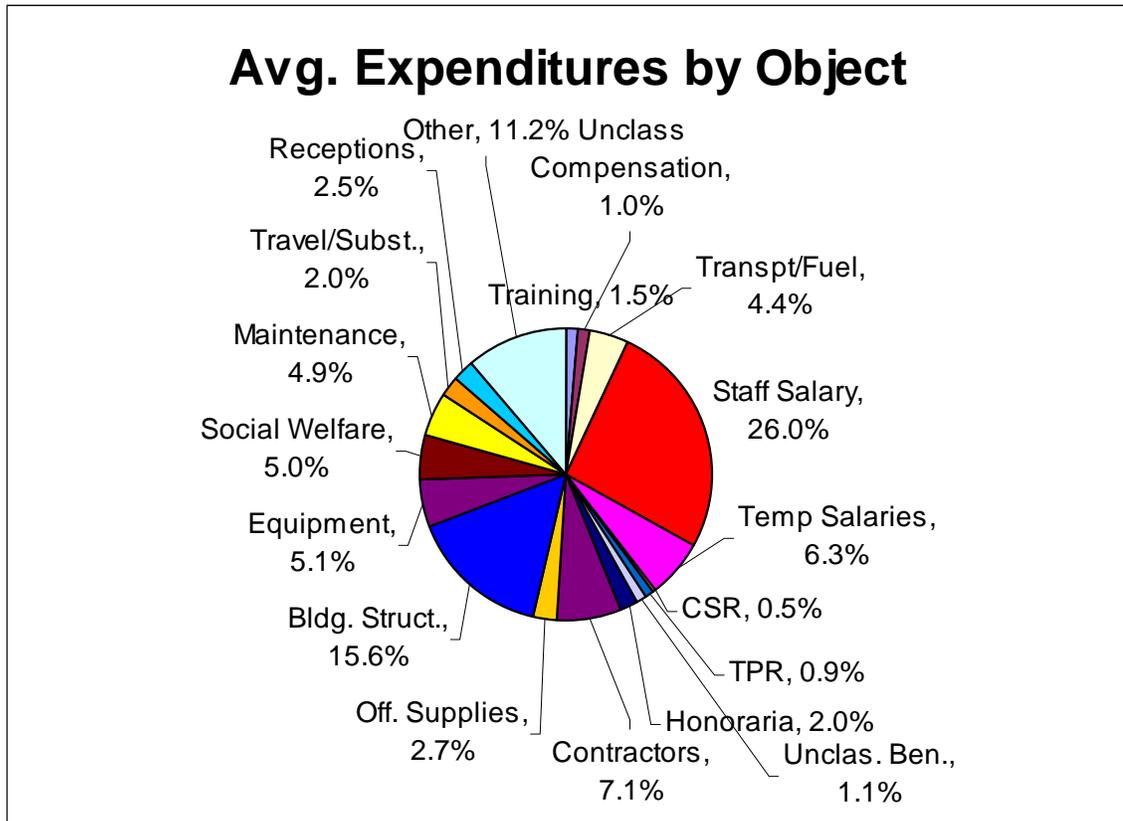


Figure 30 - Percentages presented in this chart describe the share of spending incurred on each object of expenditure, averaged across the 22 sample districts during the six-month period. Data was aggregated, in absolute terms, across all districts. The labeled categories in the chart consist primarily of those exceeding 1% of expenditures; those that were not labeled are included in the category titled "Other."

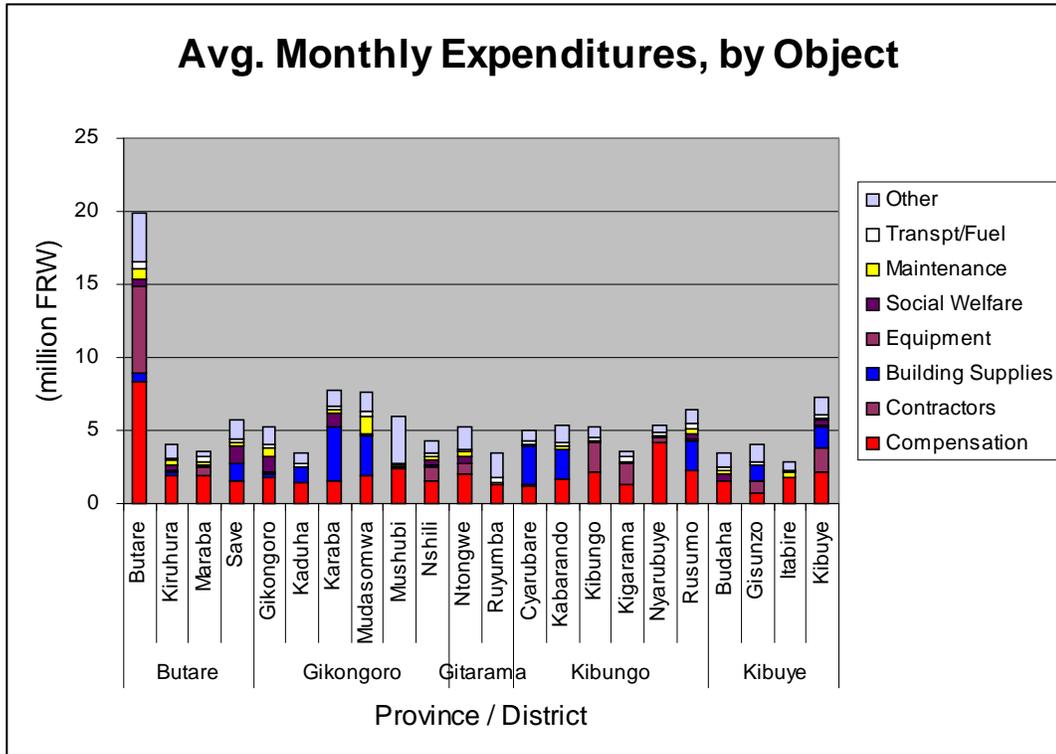


Figure 31 - The above decomposes average monthly expenditures for each district, by object of expenditure or object grouping. Thus, “Compensation” in this chart includes a range of salaries and payments to permanent and temporary staff.

## 1. Salaries

The single largest object of expenditure (in aggregate terms, across districts) was that of compensation, with permanent and temporary salaries and benefits totaling 35%<sup>23</sup> of all expenditures (of which payments to the pension plan represented 0.5%). Salaries to permanent staff for would range between 14 and 41% of expenditures for 80% of the sample districts. Temporary salaries would also represent between 3 and 11% of expenditures.

## 2. Building Structures

More surprising was the magnitude of building structures, which averaged almost 16% of total expenditures. The relatively high level of expenditures in numerous districts provides a misleading picture of its importance in that they heavily distorted the aggregate averages. Although, in aggregate terms, about 15.6%<sup>24</sup> of spending was on building structures, the typical district in the sample (as measured by the median percentage of spending) consumes less than 4% of its expenditures on building structures and over one-fifth of the districts did not spend anything at all on such building structures. About one-third of the districts, however, had levels of spending that were high enough to distort the overall averages.

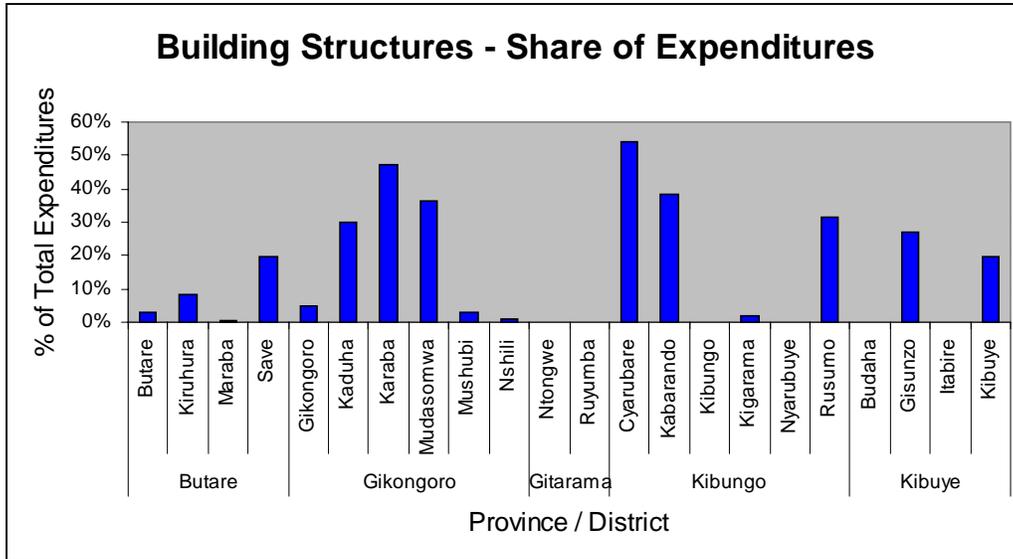


Figure 32 - Percentages presented in this chart above, describe expenditures incurred by each district on Building Structures, in relation to its total expenditures, during the six month period analyzed.

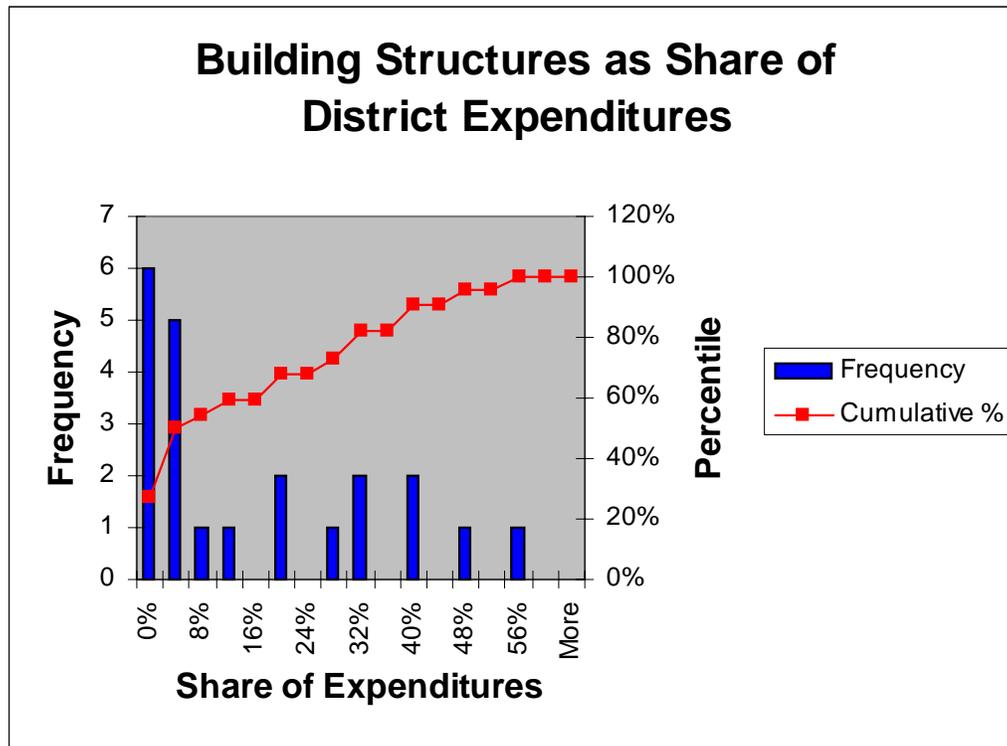
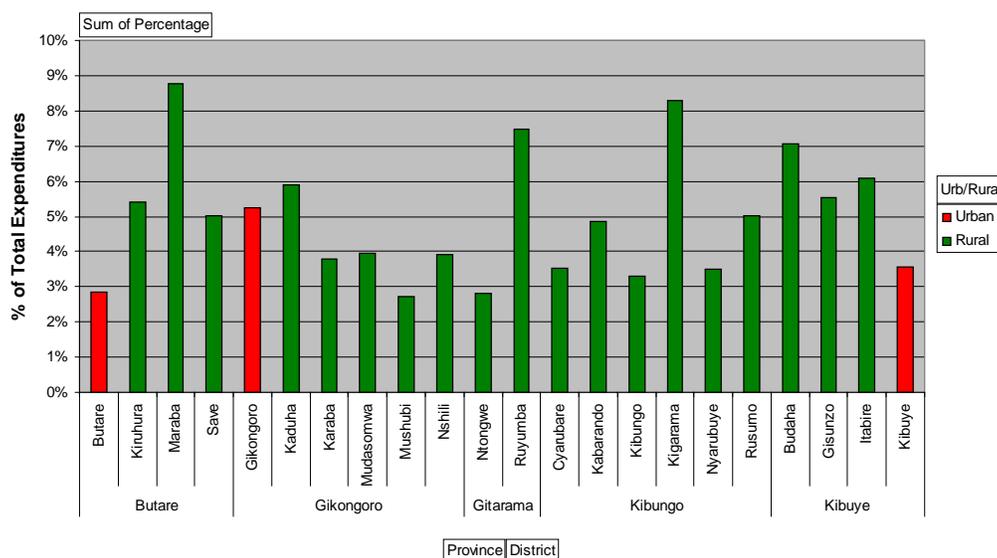


Figure 33 - Although average building expenditures were large, spending was not prevalent across all districts. 20% of the sample districts spent nothing at all on building supplies and the typical (median) percentage of spending on building supplies was less than 4% of total expenditures. Then a second cluster of districts emerges that spent between 20% and 60% of their respective expenditures on this category, completely altering the averages (algebraic means) for the sample as a whole.

### 3. Transportation and Fuel

Transportation and fuel typically falls just under 5% of total expenditures (both average and median) for the districts in the sample and falls within a fairly tight range, with neither reaching 9%. As would be expected, it is a higher share of expenditures for rural as opposed to urban districts.

**Transport & Fuel as % of Expenditures**



**Figure 34 - As might be expected, rural districts tend to allocate a larger share of their expenditures towards Transportation and Fuel. On the whole, this object of expenditure falls within a fairly tight range, with no districts spending more than 9% on Transportation and Fuel.**

### 4. Variations in Spending by Object of Expenditure

A more detailed description of spending variations, by category, is presented in the table further below. They may serve as a basis for analyzing expenditures in certain districts against typical patterns identified in the sample. As an example, one can infer that it would be unusual for a district to spend 7% or more of its total expenditures on office supplies.

The table highlights some unexpected patterns. For example, districts pay a significantly larger share of expenditures on festivities and receptions (median of 2.2%) than they do towards the pension fund for government employees, the Caisse Sociale (median of 0.00%).

## % of Total Expenditure, by Object

Distributed across 22 Districts

	----- Percentiles ----->							Std. Dev.
	Median	Alg. Mean	10th Perci	20th Perci	80th Perci	90th Perci	Max	
Training	0.24%	2.10%	0.00%	0.00%	1.30%	1.64%	32.67%	6.94%
Cost of Goods Sold	0.00%	0.05%	0.00%	0.00%	0.00%	0.00%	1.02%	0.22%
Compensation	0.00%	1.64%	0.00%	0.00%	0.00%	0.00%	35.98%	7.67%
Transportation - Fuel	4.93%	4.93%	2.88%	3.49%	6.05%	7.45%	8.77%	1.77%
Extraordinary Items	0.00%	0.01%	0.00%	0.00%	0.00%	0.04%	0.08%	0.02%
Emergency Relief	0.00%	0.08%	0.00%	0.00%	0.01%	0.04%	1.49%	0.32%
Salaries - Permanent Staf	26.78%	26.58%	14.37%	18.93%	31.57%	40.99%	50.41%	10.47%
Transfers to Public Institut	0.00%	0.36%	0.00%	0.00%	0.00%	0.00%	6.33%	1.37%
Grants	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.09%	0.02%
Grants to Third Parties	0.00%	0.64%	0.00%	0.00%	0.07%	0.49%	11.93%	2.54%
Salaries - Temporary Staff	3.17%	6.28%	0.93%	1.55%	7.77%	10.98%	51.19%	10.55%
Miscellaneous	2.09%	2.99%	0.01%	0.55%	4.11%	6.13%	13.36%	3.43%
Caisse Sociale	0.00%	0.42%	0.00%	0.00%	0.56%	1.30%	3.68%	0.86%
Caisse Sociale	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.16%	0.03%
TPR	0.00%	0.55%	0.00%	0.00%	0.58%	1.67%	4.16%	1.11%
TPR	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.16%	0.03%
Benefits	0.04%	0.83%	0.00%	0.00%	2.03%	2.48%	3.79%	1.26%
Council Honoraria	1.01%	2.01%	0.43%	0.62%	1.85%	2.71%	19.31%	3.94%
Bonus	0.15%	0.29%	0.00%	0.00%	0.36%	1.06%	1.41%	0.44%
Contractors & Consultants	0.34%	8.37%	0.00%	0.00%	19.22%	23.49%	39.70%	12.91%
Supplies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.01%	0.00%
Office Supplies	2.19%	2.68%	0.95%	1.34%	3.69%	5.65%	6.55%	1.82%
School Supplies	0.00%	0.11%	0.00%	0.00%	0.00%	0.00%	2.51%	0.54%
Sports Supplies	0.00%	0.10%	0.00%	0.00%	0.05%	0.20%	1.35%	0.29%
Agricultural Supplies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.03%	0.01%
Building Supplies	0.00%	0.71%	0.00%	0.00%	0.54%	2.39%	6.17%	1.67%
Medical Supplies	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.09%	0.02%
Electricity	0.00%	0.21%	0.00%	0.00%	0.24%	0.35%	2.81%	0.59%
Telephone	0.53%	1.04%	0.18%	0.24%	1.63%	2.97%	3.69%	1.12%
Water	0.00%	0.04%	0.00%	0.00%	0.01%	0.10%	0.44%	0.12%
Sanitation	0.00%	0.07%	0.00%	0.00%	0.09%	0.19%	0.50%	0.13%
Fixed Asset Purchases	0.00%	0.02%	0.00%	0.00%	0.00%	0.00%	0.21%	0.06%
Building Structures	3.96%	14.86%	0.00%	0.00%	31.37%	38.17%	53.97%	17.77%
Land Purchases	0.00%	0.06%	0.00%	0.00%	0.00%	0.00%	0.94%	0.21%
Furniture Purchases	0.00%	0.01%	0.00%	0.00%	0.00%	0.00%	0.13%	0.03%
Equipment Purchases	0.00%	1.74%	0.00%	0.00%	1.35%	2.09%	29.52%	6.26%
Rent	0.01%	0.16%	0.00%	0.00%	0.18%	0.49%	1.28%	0.31%
Insurance	0.18%	0.24%	0.00%	0.06%	0.31%	0.47%	1.29%	0.29%
Social Welfare	1.65%	5.02%	0.10%	0.15%	8.31%	12.77%	21.46%	6.67%
Maintenance-Repairs	3.98%	5.03%	2.03%	2.33%	6.97%	10.37%	15.94%	3.62%
Bank Charges	0.17%	0.29%	0.02%	0.04%	0.41%	0.65%	1.55%	0.35%
Representation	0.44%	0.68%	0.26%	0.31%	0.70%	1.08%	4.29%	0.89%
Travel & Subsistence	1.75%	2.29%	0.63%	0.78%	3.00%	4.76%	7.10%	1.95%
Receptions & Festivities	2.21%	2.67%	1.11%	1.51%	3.48%	5.36%	6.67%	1.58%
Announcements & Publici	0.12%	0.17%	0.06%	0.08%	0.34%	0.38%	0.43%	0.13%
Postage	0.02%	0.03%	0.00%	0.00%	0.06%	0.06%	0.14%	0.04%
Printing & Reproduction	0.28%	0.46%	0.02%	0.07%	0.68%	0.93%	2.54%	0.56%
Security & Information	0.05%	0.57%	0.00%	0.00%	0.42%	1.31%	5.63%	1.37%
(blank)	0.00%	2.02%	0.00%	0.00%	0.00%	0.00%	44.54%	9.50%
Emergency Relief	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.08%	0.02%

**Figure 35 - This table details the expenditure patterns for each object of expenditure recorded in the sample districts. The purpose of the table is to provide an idea of how much weight each expenditure has in relation to (as a percentage of) total expenditures, and across all districts. For example, building structure comprised 17.8% of all expenditures (algebraic mean), but the typical district in the sample (i.e., the median or 50th percentile) spent less than 4% on building structures. In fact, at least 20% of the districts in the sample spent nothing at all on building structures. Some object names appear twice due to sub-categorization.**

### ***C. By Type of Fund (Recurrent vs. Development)***

Local government financial procedures place some emphasis on the classification of the nature of funds received, in terms of whether they are for development purposes or to cover recurrent costs.

As with the debt figures presented in this report, it may be appropriate to hedge somewhat on the reliability of data differentiating recurrent vs. development funds. Not all district accountants were very focused on this distinction, particularly as it relates to revenues; thus, it is possible that development fund activities are somewhat underreported. Nevertheless, the figures presented below, in aggregate, appear to be consistent and balance quite well across revenues and expenditures.

<b>Fund Activity in Budget Execution</b>		
	<b>Development</b>	<b>Recurrent</b>
<b>REVENUES</b>	17.0%	83.0%
<b>EXPENDITURES</b>	18.8%	81.2%

Thus, it appears that development fund activity may be less than one fourth that of recurrent funds<sup>25</sup> This suggests that actual financial activity again contrasts dramatically with, and may indeed be opposite to, that which was budgeted. The budgeted breakdowns include development shares of the budgets which were typically at least double those of the recurrent budgets.

## VIII. Financial Position

### A. Liabilities (Debts)

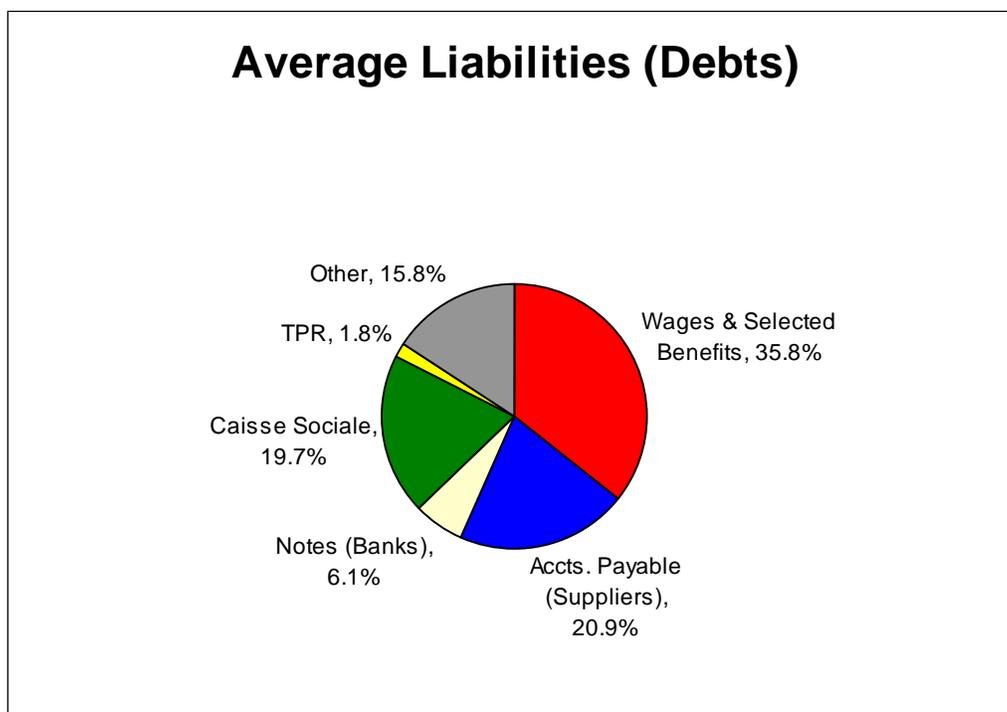
It is possible that liabilities reported by various districts are understated. This is because the reporting of these debts was performed shortly after the initiation of the accounting (set-up of starting account balances) and certain debts may not have yet been identified by the accountants.

The median level of reported debts for the sample districts was FRW 26.0 million<sup>26</sup> (average of FRW 25.0 million), with 80% of the district debt levels<sup>27</sup> falling between FRW 7 and 36 million<sup>28</sup>. Although certain districts either increased or reduced their debts levels during the six month period, taken as a whole, debt levels remained relatively unchanged.

Based on discussions with the districts, many of these debts (e.g., *Caisse Sociale*) were incurred prior to the creation of the local governments as autonomous entities, so that they were effectively inherited from the central government. The debt burden can also be viewed in terms of ratios. Based on reported debts to date, the typical ratio of debts to current assets in this sample was about 1.3 and the typical ratio of debts to monthly revenues was 3.7.

Since not all revenues could realistically be employed to service the debt, some districts, (such as Maraba, Kaduha, Mushubi, Nshili) could conceivably spend many years paying its existing debts or perhaps the debt levels would prove to be altogether unsustainable for them. Indeed, for the most indebted districts, there appears to be the least movement in the debt positions during the six month period, thus the least success in servicing their respective debts.

Regardless of whether these debts were incurred with proper approval, debt levels are now sufficiently material for local governments to specifically allocate a portion of their expenditure budgets to the servicing of their respective debts.



**Figure 36 – This diagram summarizes average debts in the 22 sample districts by their major components.**

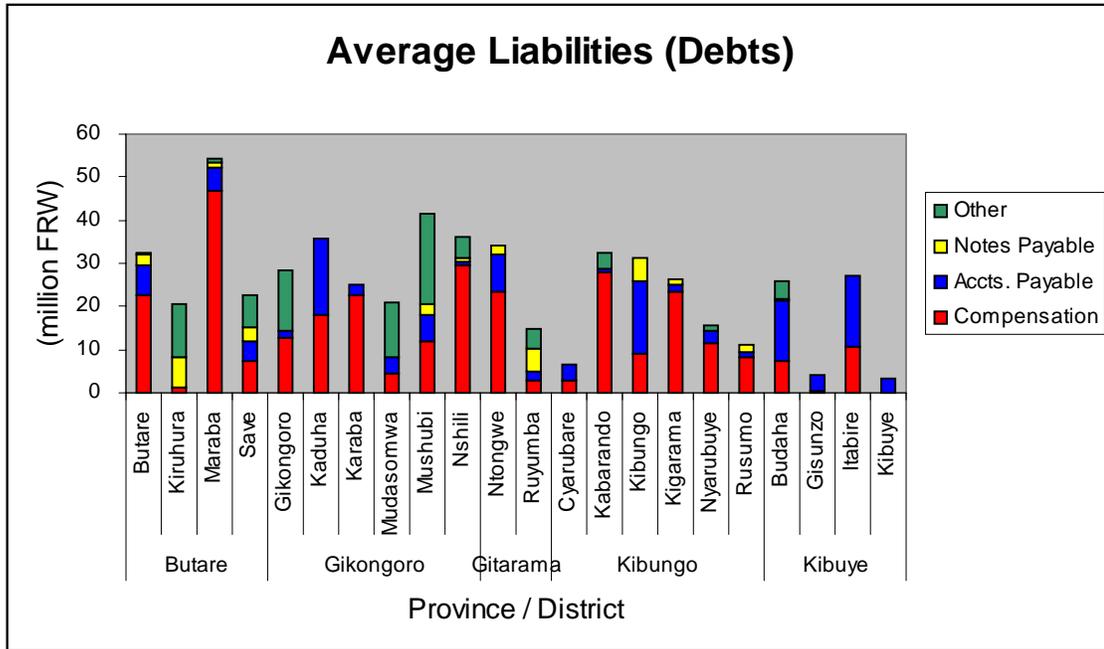
## 1. Compensation

What is clear is that the dominant share of debts (about 55% of average debts, or a median of 66%<sup>29</sup>) resulted from compensation that was not paid when due, including salaries and benefits, such as contributions to the government employee pension fund, commonly known as the *Caisse Sociale*.

It is worth noting that the degree to which local governments have effectively borrowed from their staff (averaging FRW 13.8 million<sup>30</sup> across the sample districts) not only creates a significant fiscal balance burden but poses a serious challenge in the management of the staff while increasing the risk of corruption.

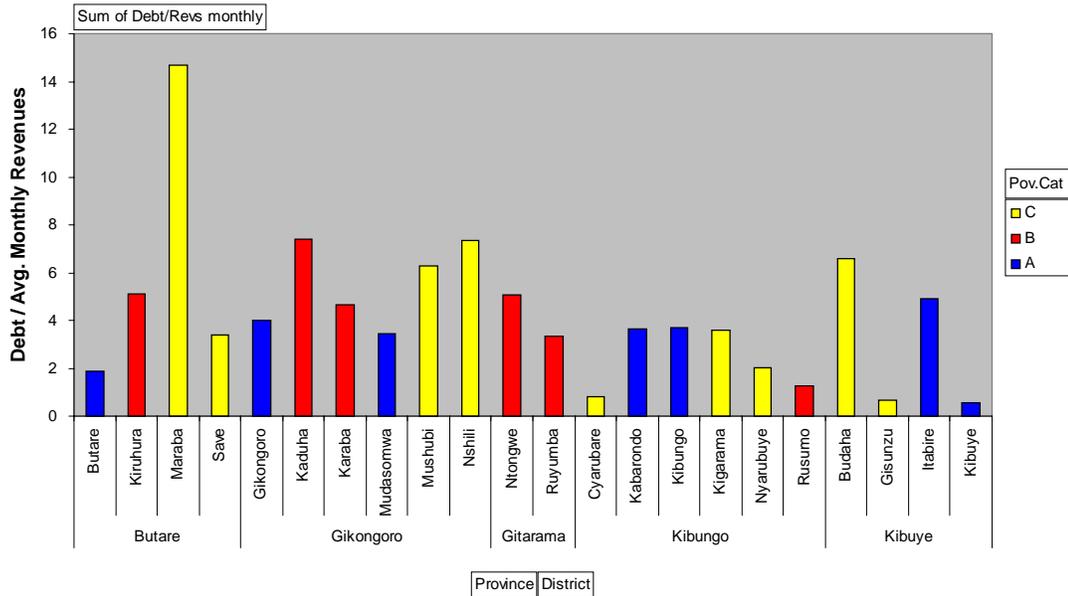
## 2. Accounts Payable to Vendors / Suppliers

Furthermore, amounts due suppliers/vendors (reflected in accounts payable) are large enough (averaging FRW 5.6 million, median FRW 3.6 million) that local governments may be having difficulty receiving adequate credit to purchase the supplies that they need in order to function normally.



**Figure 37 – For many districts, the lion’s share of the debt relates to compensation that had not been paid, such as salaries and benefits (including payments to the Caisse Sociale).**

### Debt Burden (Debt / Avg. Monthly Revenues)



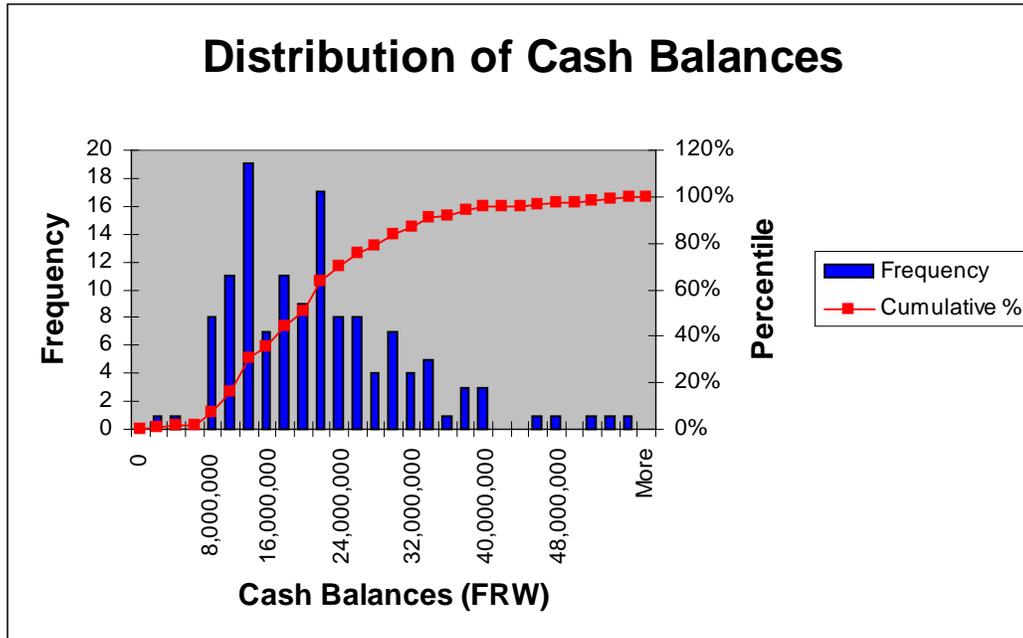
**Figure 38 – This chart seeks to highlight which districts may have the most difficult servicing their debts, given their monthly revenue levels.**

Perhaps they are unable or unwilling to pay these debts given their limited operating surpluses. Alternatively, their management may simply not be focusing on their respective debt positions; a contributing factor to this would be that their financial reporting had previously focused on receipts and disbursements on a cash basis while accumulated debts were not reported on or monitored at all.

### ***B. Liquidity***

Districts in this sample kept enough cash available to sustain an average of 114 days (85 days median) of expenditures at their existing rates. The typical month-end cash balance (across all bank and petty cash accounts) for districts in this sample was just over FRW 17.3 million, with cash balances having an 85% chance of falling within a range of FRW 8 to 35 million.

For day-to-day minor expenses, a typical petty cash balance was about FRW 225,000, with more than 85% of the petty cash balances falling below FRW 800,000.



**Figure 39 – Average cash balances ranged widely, with about 85% falling between FRW 8 and 35 million.**

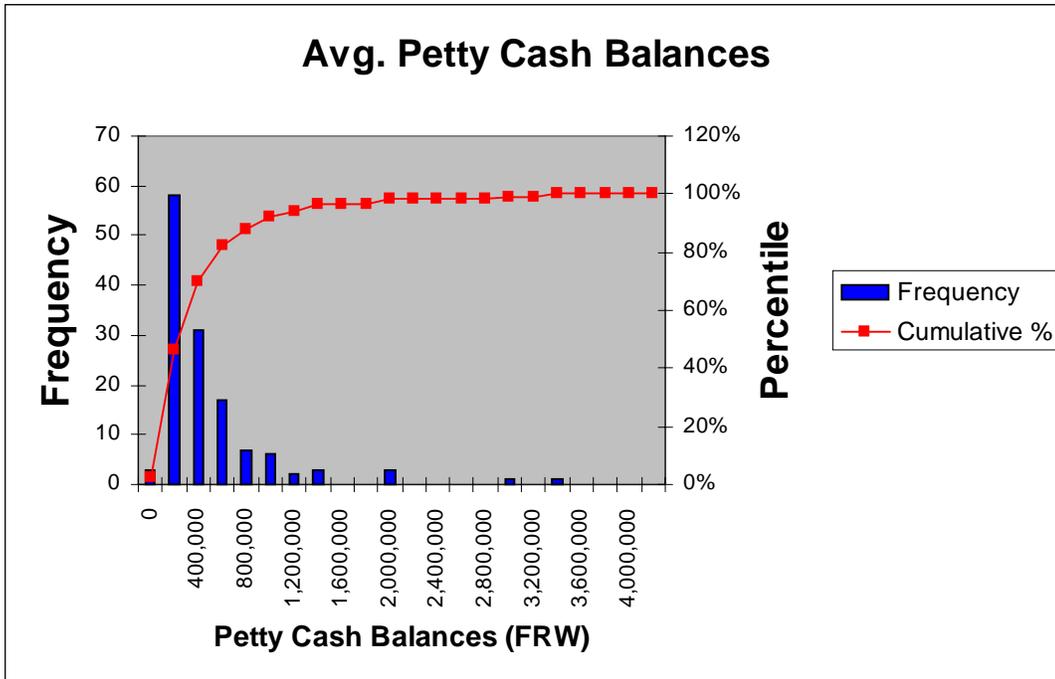


Figure 40 – Petty cash naturally represents only a small percentage of cash balances. Over 85% of the districts maintained average balances less than FRW 800,000.

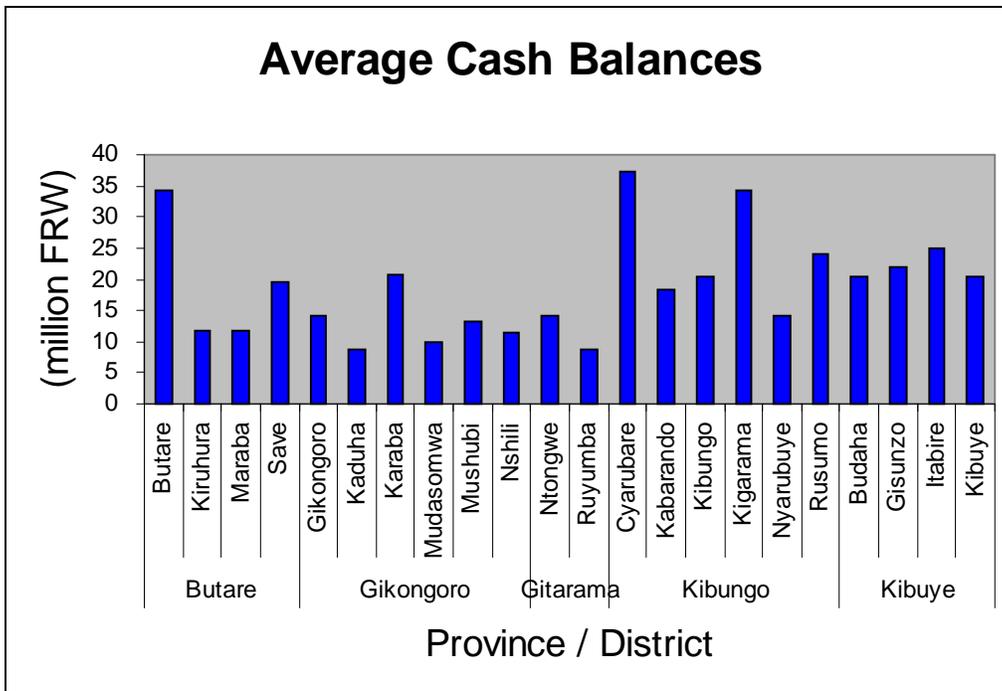


Figure 41 – These figures were drawn from the 22 sample districts during the six-month period.

The cash balances are perhaps more equitably viewed in the context of the expenditure rates in the respective districts.

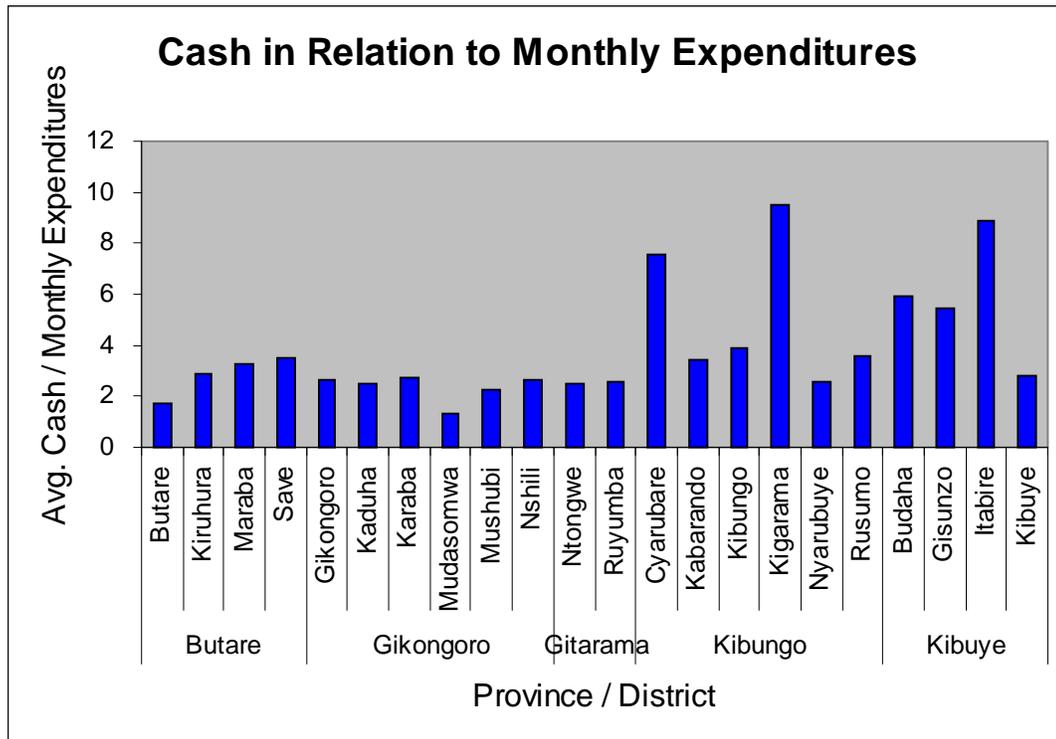
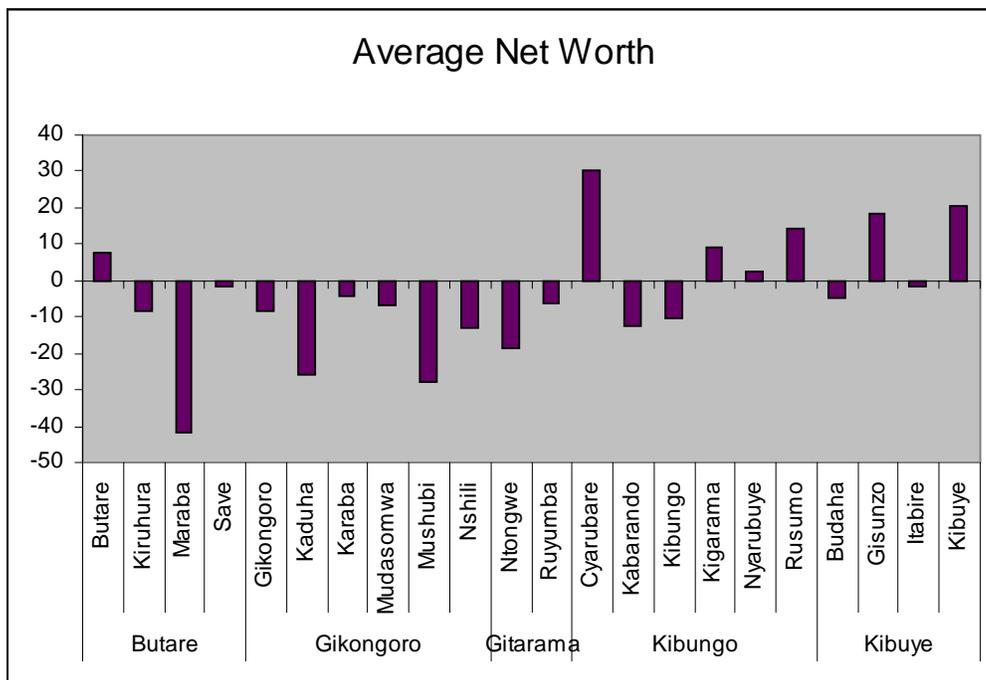


Figure 42 – Note that Cyarubare, Kigarama and Itabire had among the highest levels of average surpluses during the six-month period.

### C. Net Worth

The net worth (accumulated surplus) of a local government is sometimes referred to as net assets or equity and is result of subtracting the value of all liabilities (debts) from its assets. In a modified accrual context, it should be noted that fixed assets are de-emphasized.

The net worth of almost 70% of the sample districts was negative, indicating that the total value of their debts exceeded the total value of their financial assets. Specifically, the average reported net worth (across all districts and months) was negative FRW 4 million (negative 5.3 million in median terms).<sup>31</sup>



**Figure 43 – This Net Worth figures are calculated on a modified accrual basis, i.e., including only financial assets. Maraba stands out as a result of its significant debts.**

## **IX. Conclusion**

This analysis yields numerous insights, summarized in the Executive Summary, based on information that was previously not available. None of the findings above could have been presented without the successful implementation of the Local Government Accounting System (LGAS) and the efforts of dozens of accountants throughout Rwanda. This should provide impetus for extending implementation of the system to the remaining districts in the country and for regular monitoring and analysis by MINALOC and the Office of Local Government Finance.

Most districts are now in a position to capitalize on the information produced from the new accounting system and incorporate this into the formulation of budgets and the monitoring of budget execution. Such information should be regularly shared with all stakeholders, including the district councils and the communities-at-large. Districts can also be able to quickly leverage this information in the management of their treasury and debt functions.

Monthly measurement and reporting of financial performance should result in behavior that improves financial performance. Moreover, the implementation of benchmarks on financial parameters will enhance management and monitoring of the districts and identify exceptions that call for attention.

All these activities center on, and are supported by, the enhancement of core financial systems: budget systems that will be able to more effectively plan and allocate resources, accounting to measure financial activity and maintain transparency, and treasury/debt management to manage cash flow, enhance revenue collections and protect credit.

## **X. Methodology**

Following is a summary of steps taken leading to the analysis and presentation of information in this report:

- 1) Standard monthly financial reports prepared manually in the districts were gathered regularly from districts throughout the country.
- 2) Financial reports were assigned to the ARD staff, by province.
- 3) Summary financial data were captured and compiled electronically using simple electronic spreadsheets by various ARD staff (note that not all information received has been captured)
- 4) The data was electronically integrated in a flat database for quality assurance and analysis purposes
- 5) Quality assurance of data was performed. The data was examined for inherent consistency. For each district and for each month, the data was subjected to consistency tests using five primary accounting equations that accountants were taught during their training.
- 6) Resolution of consistency problems was performed based on the nature of the problem. Obvious data entry errors were corrected right away while a few errors required consultation with the corresponding district accountant.
- 7) Districts were then selected for further analysis based primarily on the degree to which their data seemed sufficiently consistent, continuous and complete through the first six months of 2003. Of all districts whose data had been input by the beginning of February, 22 districts met the criteria sufficiently to warrant incorporation into the analysis.
- 8) Central tendency was estimated, for each district and across the months analyzed. The primary measures of central tendency employed were algebraic averages (means) and medians (50<sup>th</sup> percentiles).
- 9) Basic financial ratios were calculated and frequency distributions were analyzed to identify obvious mistakes or aberrations.
- 10) Budgetary (as available) and reference data (population, nature of district, etc.) were incorporated as supplementary information.
- 11) The data was then summarized and synthesized for the primary analysis reported upon in this document.

## Notes

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<sup>1</sup> Quality assurance efforts to date found that at least half of the reporting districts are producing accounting that is sufficiently comprehensive and reliable for future analysis. The figure may be significantly higher because much of the data for certain districts had still not been compiled by February 2004.

<sup>2</sup> These districts were Butare, Maraba, Save, Gikongoro, Kaduha, Karaba, Mushubi, Nshili, Cyarubare, Kabarando, Kibungo, Kigarama, Rusumo and Kibuye.

<sup>3</sup> These were Rusumo, Kabarando, Kigarama, Itabire, Ruyumba, Gikongoro, Karaba, Cyarubare, Kibungo and Nyarubuye.

<sup>4</sup> In addition to the base 22 districts, for this particular analysis, data was included from Mugombwa, Nyamure, Nyanza, Kabagali, Kamonyi, Kayumbu, Ndiza, Muhanga, Muhazi and Rutsiro.

<sup>5</sup> Worksheet “RevFreq”.

<sup>6</sup> Worksheet “ExpFreq”.

<sup>7</sup> The term “typical” in this report seeks to convey a sense of central tendency, which in turn is measured in this report by both medians and simple averages (algebraic means). Averages are very well understood but can be misrepresentative when the distribution of data is highly skewed. Similarly, a median (which represents that observation at the 50<sup>th</sup> percentile) can be misleading if too many of the observations are valued at zero. Geometric means are useful for dealing with percentage figures but were not employed in this presentation because too many observations had either zeroes or negative values.

<sup>8</sup> Worksheets “Pivot” and “Surplus”

<sup>9</sup> This is based on 80% of the sample, i.e., between the 10<sup>th</sup> and 90<sup>th</sup> percentiles of actual revenues, and extrapolated on a straight-line basis through the rest of the year. Worksheet “Surplus”.

<sup>10</sup> Again, extrapolating across the year on a straight-line basis, based on districts between the 10<sup>th</sup> and 90<sup>th</sup> percentiles. Worksheet “Surplus”.

<sup>11</sup> Worksheet “6FreqData”

<sup>12</sup> Worksheet “Surplus”

<sup>13</sup> These districts were Butare, Maraba, Save, Gikongoro, Kaduha, Karaba, Mushubi, Nshili, Cyarubare, Kabarando, Kibungo, Kigarama, Rusumo and Kibuye.

<sup>14</sup> Worksheet “budsumm”. This assumes an extrapolation across the year on a straight-line basis. Although the revenue and expenditure patterns are clearly not uniform throughout the year, there is some indication that the second half of the year may not be too far off the figures in the first half and that such a straight-line extrapolation would not be unreasonable.

<sup>15</sup> Although it is prudent to hedge somewhat, given less reliability in the accounting data that distinguishes Development from Recurrent funds, it is quite clear that Development activity is significantly smaller than that of Recurrent funds.

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<sup>16</sup> Worksheet “Correls”

<sup>17</sup> Worksheet “revavgs”.

<sup>18</sup> Telephone conference with Sam Rwahama, April 2004.

<sup>19</sup> The weighting system is as follows: 40% is based on the poverty category, 20% is shared equally between the districts, 30% is based on the relative population and 10% based on the surface area. (Source: Sam Rwahama, April 2004).

<sup>20</sup> Worksheet “BrkExps”

<sup>21</sup> Worksheet “Hlthdata”

<sup>22</sup> Worksheet “Hlthdata”.

<sup>23</sup> Worksheet “BrkExps”

<sup>24</sup> Worksheet “BrkExps”

<sup>25</sup> Worksheet RecDevBrk.

<sup>26</sup> Worksheet “debtavgs”.

<sup>27</sup> Debt levels for each district were averaged across the six accounting periods (months).

<sup>28</sup> Worksheet “debtavgs”.

<sup>29</sup> Worksheet “debtavgs”

<sup>30</sup> Worksheet “debtavgs”

<sup>31</sup> Worksheet “debtavgs”