

REPUBLIC OF RWANDA



IKIGEGA RUSANGE CYA LETA GITSURA AMAJYAMBERE Y'UTURERE
N'UMUJYI WA KIGALI

RWANDA LOCAL DEVELOPMENT SUPPORT FUND

B.P. 7305 KIGALI E-mail: cdf@rwanda1.com Website: www.cdf.gov.rw

Belgian Programme in the Decentralization sector for the period 2013-2017

IDENTIFICATION PHASE

December 2012

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1. Title: Financial Support to the District Development Plans and fiscal decentralization through the Rwanda Local Development Support Fund (RLDSF).

1.1. Short description of the intervention including its major characteristics and data.

The Indicative Cooperation Program (ICP) retained Decentralization as a sector of concentration. The Decentralization Strategic Plan (DSP) being in the process of elaboration within the framework of the preparation of the second Economic Development and Poverty Reduction Strategy (EDPRS 2), identification of future interventions in this sector is based on the existing Decentralization Implementation Plan 2011-2015 (DIP).

The ICP retained support to the financing of the District Development Plans through the Rwanda Local Development Support Fund (RLDSF), and thus to the Area 4 "Fiscal Decentralization" and Area 6 "Local Economic Development" of the DIP 2011-2015.

This Intervention will be complementary to a first Intervention of the ICP for the decentralization sector, with supports to Capacity Building (Area 5), to Local economic Development (Area 6), to Volunteerism, Participation, Accountability and Democratization (Area 7) and to Monitoring and Evaluation of the processes for an evidence-based management of the reform (Area 8).

Both Interventions are integrated in a unique systemic and program approach, centred on the institutional reinforcement of main stakeholders, and on ownership of the decentralization reform, both at central and district level. They share the same general objective. Thus this Intervention will contribute also to these areas of the DIP by giving to districts adequate financial resources to own and implement their development plans (DDP), and to be trained on the job.

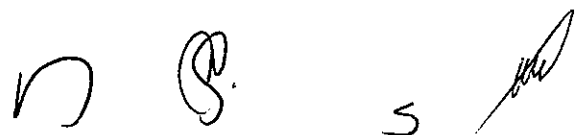
Specific and common indicators will be established for these Interventions in line with the national monitoring and evaluation frameworks to be consolidated.

Need for harmonized and coordinated support to the financing of Districts Development Plans will be addressed during the formulation process.

The formulation will define if technical assistance is necessary, complementarily with assistance given in the first Intervention of the ICP in the decentralization sector, and the one given by other partners. It will also take also into account of the possibility given by national execution support Intervention of the ICP.

Role of RLDSF

In the framework of implementing government policy of merging institutions with similar areas of interventions and missions, the Government of Rwanda established early in 2009 the Rwanda Local

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Development Support Fund (RLDSF). It merged activities of the Common Development Fund (CDF) established since 2002 to enhance the fiscal and financial decentralization and to finance development projects of districts, the Vision 2020 Umurenge Program (VUP) and the Ubudehe Program. The Law n°41/2010 of November 25th, 2010, published on February 28th, 2011, gives the RLDSF legal personality, administrative and financial autonomy.

In line with the present Intervention, it assigns to RLDSF the following main responsibilities:

- to support development activities in local administrative entities;
- to serve as an intermediary between local administrative entities with legal personality and donors especially those involved in financing development activities in those entities;
- to put in place mechanisms of distributing financial support in local administrative entities;
- to monitor the use of funds allocated by RLDSF to development activities in the local administrative entities;
- to mobilize and collect funds.

Since FY 2011-2012, Government of Rwanda budget allocated to districts to finance development projects are transferred directly to Districts accounts whereas in the past RLDSF was transferring the funds. For these GoR transfers, RLDSF will concentrate on its revised mandate organized around four principal pillars: Planning, Projects implementation, Monitoring and Evaluation, and Operation and Maintenance plan. From fiscal year 2012-2013, RLDSF will get similarly responsibilities for all development projects undertaken at local level. Role of RLDSF for Development Partners is not changed.

Since FY 2011-2012 RLDSF has one "earmarked" program "Community Development" and two sub-programs which started in 2006 :

- Sub-Program 1: "Coordination of Projects and Public Investment Plan". Its objective is to support socioeconomic development activities in the decentralized budget agencies through the implementation of capital projects. **This Intervention will contribute to this objective.** In general, Districts' investments financed through RLDSF earmarked transfers are basic infrastructures or equipments for transport, school, water and sanitation, and health access, for agriculture and livestock, and income generating promotion, and for environment protection. Studies and control activities related to the preparation and implementation of these kinds of projects are also financed.
- Sub-program 2 : "Community Mobilization and Agglomeration". Its objective is more related to the social protection policy implementation. It aims to eradicate extreme poverty by 2020 through some specified activities. Cash transfers to the poorest households, access to credit for small enterprises, creation of employment through labour intensive capital projects are related to the VUP program. Implementation of local community projects as well as household projects at village level formed the core of the previous Ubudehe program.

Contribution to the Fiscal and Financial Decentralization Policy

These changes are in line with the new Fiscal Decentralization Strategy (FDS) adopted in May 2011 to guide the implementation of the Fiscal and Financial Decentralization Policy (FFDP).

The objective of the FFDP is to provide local Administrations with adequate resources and the necessary resource mobilization powers to implement their decentralized functions.

The FFDP highlights three key specific objectives as follows:

- **Developing efficient and sustainable resource mobilization base for local communities**
- **Providing resources for equitable development at the local level**
- **Strengthening planning and management at local level using a participative approach**

The Fiscal Decentralization strategy defines an implementation plan to achieve the above objectives, including strategies and activities, with timeframes and ministries responsible, and the Fiscal Decentralization Unit of MINECOFIN as coordinating institution.

A new legal framework for fiscal decentralization articulating clearly rights and obligations of CG and LG has been developed. Revenue and expenditures will be clearly assigned. A new law N° 59/2011 of 31/12/2011 establishing the sources of revenues for decentralized entities and determining their management is expected to address the major loopholes in the local government revenue mobilization. The main challenge, however, remains in ensuring effective tax administration especially given that local Governments' capacity in tax administration is very low, and Local Governments generally tend to be inefficient in tax administration. In December 2012 a revenue potential study for districts had to be completed after which baselines will be determined and targets set for revenue improvement. This should form the basis for supporting Local Governments to improve their internal revenue generation and management.

Inter-entity transfers will progressively be no more allowed and all funds for activities to be spent in districts will be transferred directly to districts. This decision is already helping to streamline inter-governmental relations and bring local governments and line ministries to the same planning and budgeting table.

Enlisting the good experience of the Rwanda Local Development Support Fund (RLDSF), fiscal transfer mechanisms will be evolved and developed. New earmarked guidelines have already been developed in 2011-2012 and once again in 2012-2013 by MINECOFIN with RLDSF and line ministries. Specific purpose of these earmarked transfers guidelines is to provide terms under which the earmarked funds are allocated, transferred, spent and accounted for between the parties involved. The guidelines provide to districts funds utilization requirements such as objectives of transfers, transferred function/activities, performance indicators, disbursement modalities, reporting obligations, monitoring and evaluation mechanisms.

Aside putting stress on earmarked transfers and own revenue generation, the FFDP does not contradict legal objective to transfer 10% of the previous year's domestic revenue for capital expenditures through RLDSF guidelines. In March 2012, it was decided to allocate 60% of GoR contribution to RLDSF for the "Coordination of Projects and Public Investment Plan" program and 40% for the "Community Mobilization and Agglomeration". According to budget law determining the state finances for the FYI 2012/2013, total contribution of GoR to RLDSF transfers to local governments is 59,310,285,574 Rwf.

The Intervention will contribute directly to provide local Administrations with adequate resources by supporting through RLDSF the financing of Districts Development Plans, capital expenditures, and in particular public infrastructures and equipments. **Main objective is to enhance non-earmarked transfers for capital expenditures.**

As a contribution to a still pilot approach in the framework of RLDSF, linked to the monitoring and evaluation framework developed by RLDSF, **it will also contribute to evidence-based piloting and possible further enhanced non-earmarked transfers.**

Possible financing contribution to more specific projects developed by Districts in line with Social protection directives will be assessed, taking also the necessity to give financial resources to accompany inclusive and sustainable Local Economic Development strategy implementation.

As for the last specific objective of the FDS it is principally linked to the implementation of the PFM reform agenda at decentralized entities level. For this FY2012-13, RLDSF projects supported by DPs will be provided under districts budgets. Smart Information and Finance Monitoring System (IFMS) will be now used by all LG Budget agencies to prepare, execute and produce the financial statement for their respective budget. A mechanism for earmarking capital grants from RLDSF under Local Government budgets has been completed for FY2012-13.

In line with a Local Economic Development Approach

Elaboration of local economic growth plans incorporated in the District Development Plans as a mean to accelerate a virtuous circle between increased Local Government expenses and resources is also a component of the Fiscal and Financial Decentralization Policy.

The Intervention will also contribute financially to the implementation by Districts of their Local Economic Development strategies.

RLDSF contributed in the past to establish basic infrastructure public projects in local governments and to implement the community policy and social protection programs, in charge notably to support economic development of local administrative entities and strategies for job creation. It is now in charge to develop, harmonize, coordinate and monitor a more integrated, inclusive and sustainable LED strategy.

LED approach based on common analysis and identification of opportunities, increase effectiveness, efficiency, synergies and partnerships, engagements and local resources mobilization is a good way to develop a sustainable management of investments in infrastructures and equipment but also in a more progressive way of its financing.

Based on LED participation and planning tools and abilities at local level to be developed along a LED strategy with support of RLDSF and of the CB Intervention in the decentralization component of the ICP, **the Intervention will contribute to enhance further a sustainable resource mobilization base in facilitating and promoting the implementation of LED approaches at district level.**

Non-earmarked contributions for DDP implementation will permit districts to experiment, develop and own this virtuous approach in a monitored way. They are in particular adequate means to respond to specific local demands and initiatives and to develop local partnerships with private sector and civil society organizations in their diversity of interests and state of development around a shared local economic development strategy.

By this it will contribute to develop sustainably districts' own revenues but also to mobilize additional investments for their local economic development.

In this framework, it could also be progressively taken into account financial incentive mechanisms for districts to own this new approach for more integrated, inclusive and sustainable LED investments, still to be developed, for example by enhancement of the existing Monitoring and Evolution Mechanism of RLDSF and related performance-based criteria in the allocation formula.

1.2. Explain if it is a new intervention or the next phase of an existing one. In such case, the on-going phase must have been evaluated.

The Intervention contributes to the first clearly Belgian devoted support to the decentralization process in Rwanda, in a holistic and systemic approach, in the framework of an ICP.

Nonetheless, targeted financial supports have already been brought to the process through past and present BTC interventions :

- In the framework of the Belgian Survival Fund, dedicated to fight against food insecurity in an integrated approach, a focused support to the District of Gakenke has been provided through the Programme d'Appui au Développement Local de Gakenke from 2005 to 2010, with a financial contribution to RLDSF for an amount of around 2.700.000 Euros.
- In the framework of the past ICP, 2.520.000 Euros have been allowed to RLDSF for income-generating projects introduced by non-state actors and for social cultural and economic development projects introduced by sectors in 5 districts by the 'Projet d'appui au développement socio-économique et culturel de la Province du Nord' (PADSEC-PN) (2009-2013).

It seems also important to refer here to the "Projet d'appui au développement communautaire de Gicumbi et Rulindo" (PADC-GR) developed and implemented by UNDP-UNCDF and financed by the Belgium Survival Fund from 2005 to 2010 for an amount of 4.369.311 Euros.

Related to the reduction of poverty and often to instruments elaborated by MINALOC and CDF/RLDSF in the framework of the Social Protection sector and the Community policy, these projects have not been clearly linked to the fiscal decentralization management and its dialogue forums.

It was the same for even more focused interventions, like these related to forestry with the Support Program to the Development of the Forestry Sector in Rwanda (PAREF1 and 2) whose contributions don't transit through RLDSF.

2. Ministry in charge of preparing and implementing the intervention.

The intervention will be prepared and implemented under the supervision of the **Ministry of Local Government**, whose mandate is mainly in the development of decentralization policies and strategies, overall supervision of its implementation at central level, and organization of dialogue for ownership and coordinated approach for this cross-sector reform.

The agency in charge of direct preparation, coordination and implementation of this Intervention is the **Rwanda Local Development Support Fund**.

Due to its leading role in planning and budgeting, economic development and in the management of the Fiscal Decentralization policy and of the Public Finance Management reform, the **Ministry of Finance and Economic Planning**, in particular its **Fiscal Decentralization Unit** also in charge of PFM reform implementation at district level, will be also associated to the preparation, implementation and monitoring of this Intervention.

3. General and specific objectives of the intervention.

The **general objective** of the Intervention is to sustainably enhance the capacities of the Districts to deliver services and to implement their local economic development in respect of best governance practices.

The **specific objective** of the Intervention is:

“The Districts’ ownership on and the share of their non-earmarked resources to implement their Development Plans and to facilitate integrated, inclusive and sustainable local economic development is sustainably enhanced.”

Financing capital expenditures principally local infrastructures and equipments through RLDSF will contribute to this objective in two ways:

- Increasing the share of non-earmarked transfers for investments to the districts directly and indirectly through evidence-based demonstration effects
- Adequate financing for the conduct of progressively more integrated, inclusive and sustainable local economic development, and for enhancement of efficient and sustainable resources mobilization base for Districts.

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4. Target group, beneficiaries, topical areas of the intervention, and justification.

Direct targets

At central level: Rwanda Local Development Support Fund which will be given adequate financial resources to transfer to districts in a monitored way, with a particular focus on the implementation of the new Local economic development approach.

At district level: All 30 districts covered by the RLDSF following its distribution formula and along its guidelines, for non-earmarked transfers, through the financing of their DDP and their LED component, and along their specific trajectory for their own resources development.

Beneficiaries

Population of these districts:

- as final beneficiaries of the infrastructures development and of better services access in their localities, and
- as actors of their local economic development through increased job opportunities, revenues and profits.

5. Relation of the intervention with EDPRS and MDGs

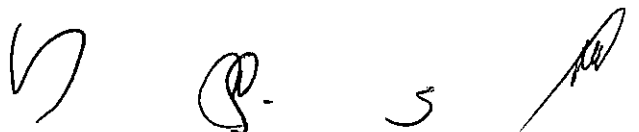
Decentralization is important in many regards since it plays a crucial role to ensure political, economic, social, managerial, administrative and technical empowerment of local populations to fight poverty by participating in the planning and management of their development process.

As a cross-cutting reform, it affects implementation of all development policies. The decentralization process has been thus considered by the Government of Rwanda as an important mechanism to achieve Economic Development Poverty Reduction Strategy 1 (EDPRS) targets and all Millennium Development Goals (MDG).

Financial capacities of Districts to implement their DDP are an important condition to permit Districts to really contribute to the EDPRS achievements. During implementation of EDPRS1, earmarked transfers play an important role in this contribution, also related to the performance contracts named Imihigo.

Nonetheless, new progress are still needed to achieve more inclusiveness and engagement, more innovation with increase adaptive and evidence-based management, district led development and sustainability (by enhanced ownership and grass-root anchoring of the decision-making), all guiding principles of the new EDPRS 2, still in preparation. Increased non-earmarked financial resources are thus needed at District level.

This Intervention will contribute to this objective by giving Districts enough financial room to confront themselves to these new challenges and by giving them opportunity to be trained on the job for more strategic management.



If all infrastructure projects contribute more or less to LED, the Intervention, by putting progressively stress on a local economic development approach, will contribute better to what was already a priority for the EDPRS 1, and is still more one in line with new thematic areas of the EDPRS 2 in preparation: economic transformation, rural development, productivity and youth employment and accountable governance.

By addressing these needs the intervention will clearly contribute to the new EDPRS 2 priorities. It will also contribute specifically to increase effectiveness and efficiency in the attainment of MDG1.

6. Synergy with other bilateral and multilateral development partners, with the Indicative program of the European commission, as well as with Belgium's national agenda for harmonization and alignment. Analysis of the intervention's degree of coherence with other interventions in the same sector, in the same region, and/or having the same beneficiaries.

The intervention will be designed has a financial contribution to support national strategies of fiscal and financial decentralization and of Local economic development.

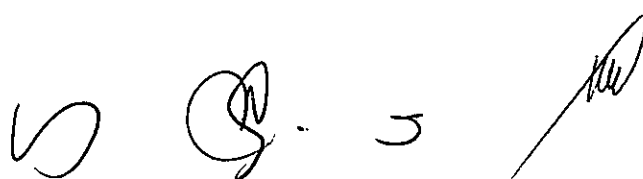
It will also contribute to enhance ownership of District on their development and facilitate articulation between national and local priorities.

Synergy with other interventions by Development Partners in financial support to Districts will be ensured through the anchoring of this intervention at RLDSF and through specific existing or to be created frameworks and institutional arrangements, in particular for this intervention:

- The Decentralization Sector Working Group chaired by the Permanent Secretary, Ministry of Local Government;
- The Joint Budget Support Review
- The Technical Working Groups for Evidence based planning and for Local Economic Development, and the Fiscal Decentralization Strategy Steering Committee
- Specific Memorandum of Understandings around support to RLDSF to be reactivated or to be constructed on a broader basis

The aforementioned institutional arrangements shall enhance synergies and coordination in financing District Development Plans and shall facilitate harmonization in the support to implement sustainable financing and fiscal strategy, and the strategy for an integrated, inclusive and sustainable LED.

One of these instruments, the Fiscal Decentralization Strategy Steering Committee has been created as a sub-group of the Public Finance Management Sector Working Group. It is chaired by MINECOFIN and co-chaired by KfW, which is the main technical support to the FDS. It is relatively new and still need a better anchoring to the decentralization dialogue framework. The other instruments will be supported in a common approach by the Local Government Capacity building Intervention of the ICP facilitating effective coordination and harmonization in the Decentralization sector.

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Their effectiveness will be crucial to permit not only coordination and harmonization with few direct partners in the sector, but also with GoR non-earmarked contributions for investments and with other larger financial contributors to District budgets (all earmarked funds and still existing other channels), and with actual evolution in LG own resources.

Currently direct supports for increased non-earmarked resources to District budgets are:

- GoR annual ordinary budget through contribution to Districts' budgets, stamped "RLDSF", and contribution to RLDSF current budget. According to the budget law determining the state finances for the FY 2012/13 states that the contribution of "non-earmarked" component to local government projects is 22,195,077,949 RWF.
- From 2009 to 2015, support to RLDSF by KfW for a total amount of 12,261,291 Euros, to support the Districts Development Plans, by which 3,761,291 Euros was allocated to DDPS for the years 2009-2012, 3,500,000 Euros for 2009-2013 and 5,000,000 Euros for 2011-2015. A new KfW contribution has been foreseen from 2012 to 2014 for a total amount of 8 Million Euros to support the fiscal decentralization and the investment in Infrastructure Projects of Districts. From FY 2014/15, the financial contribution to DDP could take the form of sector budget support.
- From 2007 to 2011, support to RLDSF by the Government of Netherlands, for a total amount of 14 Million Euros, with 1 Million Euros to strengthen the RLDSF capacity building. A new contribution has been foreseen from 2012 to 2015 for a total amount of 40 M Euros to support the Districts Development Plans. The way a new focus on LED to be managed has still to be clarified.

Last Financial DP contributions in RWF to development budget of RLDSF not related to social protection

<i>Development Partner</i>	<i>Area of intervention</i>	<i>Financial Contribution in fiscal year 2012-2013</i>
Government of the Netherlands	Decentralization	4,620,000,000
Germany/KfW	Decentralization	6,160,000,000
AfDB/PNEAR	Water	2,814,364,236

GoR and DP earmarked contributions to Districts' budgets were and still will be numerous. Inter-agencies transfers would have to disappear according to the FDS, and go directly to districts. DP contributions other than budget supports would go through RLDSF. Inter-agencies transfers, specific funds and project modalities still exist until now. If it's not possible to mention all those supports, it seems interesting to mention supports to the RLDSF from DP in social protection:

- from 2010 to 2013, support by Swedish International Development Agency (SIDA) with a total amount of 132,000,000 SEK

- from 2009 to 2013, support by United Kingdom (DFID) with a total amount of 19,778,000 Euros
- for the FY 2011/2012 support to the Capacity Building of RLDSF by World Bank for a total amount of 1,450,000 USD.

7. Maximum total amount of the Belgian contribution and indicative duration of the intervention

A maximum total amount of 11.5 Million Euros has been foreseen for this intervention for a period of 3 years from FY2014/2015 until FY2016/17.

8. Measures to ensure the sustainability of the interventions after its closure

Institutional measures

The proposed intervention is consistent with the overall policies of the GoR. Within a quickly changing policy and legal environment, it tries to align on existing documents within an open format to accompany a complex reform and necessary adaptive strategies.

Enhanced ownership of Districts on non-earmarked revenues and expenses is at the heart of this component of the ICP for the decentralization sector what is the best way to deal with the long term sustainability of Districts' budget financing.

At central level, recent developments have change the role of RLDSF for GoR contributions and further developments are waited for development partners to ease and give more efficiency in transfer's management. This question will be assessed.

This Intervention will need to take into account these evolutions also by clear linkage with the Fiscal Decentralization Unit at MINECOFIN and sub-sector coordination mechanism with the Fiscal Decentralization Steering Committee.

Monitoring and evaluation mechanisms developed by RLDSF are complementary with those developed in the Public Financial Management reform and are strong basis for a more evidence-based management of the fiscal and financial decentralization reform. They can contribute to reinforce GoR commitment to the fiscal decentralization reform and give chance to more devolution.

Human resources

The proposed intervention, by its nature is principally directed on financial resources. More than for sustainability, adequate human resources are needed to address the absorption capacity both at districts and RLDSF level.