

JAR 2006 Version 2.1
May 2007



EUROPEAN UNION – RWANDA CO-OPERATION

FINAL (V 2.2)

JOINT ANNUAL REPORT 2006

Prepared by The Delegation of the European Commission in Kigali and The Ministry of Finance and Economic Planning of Rwanda

1.	Executive Summary	1
2.	Update of the current Political, Economic and Social Situation.....	2
2.1	Update of the Political Situation	2
2.1.1	Institutional Developments and Human Rights	2
2.1.2	Regional Policy, Integration and Conflict Prevention	3
2.1.3	EU-Rwanda Political Dialogue.....	4
2.2	Update of the Economic Situation	5
2.2.1.	Domestic Economic Performance: Growth, Fiscal and Monetary	5
2.2.2.	External Balance, Trade and Debt	6
2.2.3.	Structural.....	7
2.3	Update of the Social Situation	7
2.3.1	Education	8
2.3.2	Health.....	9
2.3.3	Rural Development and Food Security.....	9
2.3.4	Cross-cutting issues	10
2.4	Update of the Environmental Situation.....	11
3.	Overview of Past and Ongoing Co-operation.....	12
3.1	Focal Sectors and Macro-Economic Support	12
3.1.1	Rural Development	12
3.1.2	Infrastructure.....	14
3.1.3	Macro-economic and Social Sector Support.....	15
3.2	Projects and programmes outside focal sectors	17
3.2.1	Governance, Justice and Rule of Law.....	17
3.2.2	Trade, Private Sector and Institutional Support.....	18
3.3	Use of resources for non-State actors	18
3.4	Use of B-Envelope.....	19
3.5	Use of other Instruments.....	19
3.5.1	Stabex Interventions.....	19
3.5.2	EIB Interventions	20
3.5.3	Regional Co-operation	20
3.5.4	Intra-ACP Cooperation	20
3.5.5	EC Budget Lines.....	20
4.	Evaluation of Performance Indicators	21
5.	Coordination and Harmonisation of Donors.....	22
6.	Dialogue with the NAO and the NSAs	24
7.	Conclusions.....	25
	ANNEXES.....	26

Acronyms

AEP	Alimentation en Eau Potable (réseau d')
AT	Assistance Technique (TA)
AfDB	African Development Bank (BAD)
AIDS	Acquired Immunodeficiency Syndrome (SIDA)
ANT	Assemblée Nationale de Transition
APER	Accord de Partenariat Economique Régional
APRM	Africa Peer Review Mechanism
BAD	Banque Africaine de Développement (AfDB)
BEI	Banque Européenne d'Investissement (EIB)
BNR	Banque Nationale du Rwanda
BSPR	Budget Support for Poverty Reduction
CBI	Cross Border Initiative
CDC	Comités de Développement Communautaire/Community Development Committees
CDF	Community Development Fund (FDC)
CDMT	Cadre des Dépenses Budgétaires à Moyen Terme (MTEF)
CE	Commission Européenne
CEEAC	Communauté Economique des Etats d'Afrique Centrale
CEPGL	Communauté Economique des Pays des Grands Lacs
CHK	Central Hospital of Kigali
CNDH	Commission Nationale des Droits de l'Homme
CNUR	Commission Nationale pour l'Unité et la Réconciliation
COMESA	Common Market of Eastern and Southern Africa
CSP	Cooperation Strategy Paper
CUNR	Commission d'Unité Nationale et de Réconciliation (NURC)
CWIQ	Core Welfare Indicators Questionnaire
DAO	Dossier d'Appel d'Offres
DHS	Demographic and Health Survey
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
EIB	European Investment Bank (BEI)
ECHO	European Commission Humanitarian Office
EDF	European Development Fund (FED)
EICV	Enquête Intégrale sur les Conditions de Vie des Ménages (Integrated Household Survey)
EMIS	Education Management Information System
EPA	Economic Partnership Agreement
ESA	Eastern and Southern Africa
ESSP	Education Sector Strategy Paper
FARAP	Financial Accountability Review and Action Plan
FARG	Fonds d'Aide aux Rescapés du Génocide
FBCF	Formation Brute de Capital Fixe
FDC	Fonds de Développement Communautaire
FED	Fonds Européen de Développement (EDF)
FER	Fonds d'Entretien Routier
FMI	Fonds Monétaire International (IMF)
FPR	Fonds Patriotique Rwandais
FRPC	Facilité pour la Réduction de la Pauvreté et pour la Croissance (PRGF)
FRW	Franc Rwandais
FTA	Free Trade Area
Gacaca	Tribunal Populaire traditionnel (jugera les personnes accusées de génocide)
GDP	Gross Domestic Product (PIB)
HIMO	Haute Intensité de Main d'Oeuvre
HIPC	Highly Indebted Poor Country (PPTE)
HIS	Health Information System
HIV	Human Immunodeficiency Virus (VIH)
ICTR	International Criminal Tribunal for Rwanda (TPI)
IDA	International Development Association
IF	Integrated Framework (for Trade Related Assistance)
IFAD	International Fund for Agricultural Development
IMF	International Monetary Fund (FMI)

INP	Indicative National Programme (PIN)
MDTF	Multilateral Debt Trust Fund
ME	Million d'Euros
MINECOFIN	Ministry of Finance and Economic Planning
MINEDUC	Ministry of Education
MINISANTE	Ministry of Health
MTEF	Medium Term Expenditure Framework (CDMT)
NAO	National Authorising Officer (ON)
NCFHE	National Council for Higher Education
NEPAD	New Partnership for African Development
NGO	Non-Governmental Organisation (ONG)
NHRC	National Human Rights Commission
NPRP	National Poverty Reduction Programme
NPV	Net Present Value
NURC	National Unity and Reconciliation Commission
OBK	Organisation pour l'Amélioration et le Développement du Bassin de la Kagera
OMC	Organisation Mondiale du Commerce (WTO)
ON	Ordonnateur National
ONG	Organisation Non-Gouvernementale (NGO)
ORPI	Office Rwandais de Promotion des Investissements (RIPA)
PDRR	Programme de Démobilisation, Réintégration, Réinstallation
PEPFAR	President's Emergency Plan for AIDS Relief
PFM	Public Financial Management
PIB	Produit Intérieur Brut (GDP)
PIN	Programme Indicatif National (NIP)
PMIP	Poverty Monitoring and Information Plan
PNB	Produit National Brut (GNP)
PPGE	Programme Prioritaire de Génération d'Emplois
PSTE	Pays Pauvre Très Endetté
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PRS-PR	Poverty Reduction Strategy Progress Report
RES	Rural Economy Strategy
RIFF	Regional Integration Facilitation Forum
SAP	Structural Adjustment Programme (Appui budgétaire/Budget support)
SFAR	Student Financing Agency of Rwanda
SIBET	Système du budget de l'Etat
SPA	Strategic Partnership with Africa
SPPMD	Strategic Planning and Poverty Monitoring Department (MINECOFIN)
STABEX	Stabilisation of Export Earnings
SWAp	Sector Wide Approach
TA	Technical Assistance
TPI	Tribunal Pénal International (Arusha) (ICTR)
UNDAF	United Nations Development Assistance Framework
VAT	Value Added Tax
WTO	World Trade Organisation (OMC)

1. EXECUTIVE SUMMARY

2006 saw continuing reform in Rwanda, accompanied by good progress with disbursement for EC-Rwanda cooperation. The Government remains committed to poverty reduction and national unity and reconciliation, and has kept to its vision of economic modernisation and improved governance. The Economic Development for Poverty Reduction Strategy (EDPRS) was developed in 2006 to guide the implementation of this vision. In the meantime, implementation of the PRSP continued, and progress was made against key indicators, particularly in health and education. However, the Millennium Development Goals remain distant.

On a domestic level, 2006 saw further consolidation of the constitutional and judicial reforms introduced in 2004. The Gacaca system for Genocide related justice was rolled-out nationally and 40 000 judgements were passed, with repercussions across Rwandan society. Reform of public administration continued, including through a reform of local government structures. Dialogue under Article 8 of the Cotonou Agreement continued, focussed on justice related issues. Rwanda's evaluation under the Africa Peer Review Mechanism was completed.

Regionally, the political and security situation remained fairly stable as relations between Rwanda and DRC improved. Unfortunately limited progress only was made in disarming and repatriating the ex-FAR/Interahamwe in Eastern DRC. Forced repatriation of Rwandan residents in Tanzania created a flow of returnees at the South-Eastern border of the country, but the situation remains under control.

Macroeconomic performance in 2006 was reasonably good with 6.3% growth, in spite of bad harvests, destructive rains and high energy prices. Inflation was under control at 7.7% and the balance of payments situation improved marginally, while the national currency remained very stable against the Euro. Poverty, particularly in rural areas, remains widespread in Rwanda, and a vast majority of the population remains dependent on subsistence agriculture. The Integrated Household Survey conducted in 2006 showed that the progress made in poverty reduction was largely offset by demographic factors, a result that will influence the evolution of Rwanda's poverty reduction strategy.

2006 was a strong year for EC-Rwanda cooperation with €52.8M disbursements, without reaching the record year of 2005 but paving the way for the future through primary and secondary commitments. The Thematic Budget Lines, managed by the Delegation, play an increasing role with €4.6M disbursements in 2006 and plans for sustained levels of disbursements in the forthcoming years.

Expenditure is due to increase to levels above €60M in 2007 and 2008 as the remaining funds of the 9th EDF are spent over these two years and the 10th EDF begins in 2008. The End Term review at the end of 2006 has allocated Rwanda an extra €19.3M while transferring the residual envelope B to the EDF long term development reserve. This, as well as the intensive decommitment campaign led in 2006, brings the total 9th EDF NIP and the balance of funds remaining from earlier EDFs to €218,507,915 as compared with the initial 9th EDF allocation of 176,000,000.

2. UPDATE OF THE CURRENT POLITICAL, ECONOMIC AND SOCIAL SITUATION

2.1 Update of the Political Situation

The year 2006 saw further consolidation of democracy and good governance, and of the rule of law. The sweeping administrative reform implemented in 2005 was brought to a further step early 2006 with the reduction of the number of cells from roughly 10,000 to 2,148. Further measures were taken to restructure central Government in response to the local Government reforms and the shift of responsibilities in terms of implementation to districts and sectors. The structure of many of the technical ministries was rationalised so as to limit their role to policy formulation, coordination and monitoring. The first assessment of district performance contracts was made over the summer.

Preparations for the Economic Development and Poverty Reduction Strategy were initiated, building on the high-quality evaluation of the Poverty Reduction Strategy Programme (PRSP). Work progressed in each sector with the development of logical frameworks linking high-level objectives with day-to-day activities. The parallel drafting process of the new Country Strategy Paper and the National Indicative Programme for the 10th EDF was completed in September.

Whereas classical justice was slowed down pending the redefinition of local courts' competence as a consequence of the administrative reform, the Gacaca jurisdictions made dramatic progress in 2006. The information collection phase ended, enabling the judgement phase to start all over the country in July with a view to completing the whole process by the end of 2007. More than 800,000 persons stand accused of genocide-related crimes. As a consequence of the judgement phase, the prison population increased by 23% during the second half of the year to reach a total number of 87,000 inmates at year end. Implementation of the "Travaux d'intérêt general" (TIG) has started as an alternative to prison sentences with some 1,200 active "tigistes" at year end.

Former President Bizimungu's sentence of 15 years in jail was confirmed by the Supreme Court, but he was later granted a pardon by President Kagame and released in April 2007.

The recently created mediators, called Abunzi, were elected in August. There are 15 Abunzis per cell, in charge of solving land conflicts, neighbourhood conflicts, thefts through mediation with a view to encouraging reconciliation at local level and to preventing an overload of ordinary courts which can be seized in case the mediation fails.

As of end of 2006, the ICTR had concluded 28 cases while 23 cases were on-going and 15 pending. Some 18 fugitives remained at large. A total of 84 cases were being dealt with against the objective of 90 that the ICTR had previously set as a target. Responding to a call by the RPF party in October to abolish the death penalty, the Government launched a national debate that paved the way to possibly banning the death penalty in Rwanda. Preparations to make the transfer of cases possible from the ICTR to Rwandan justice were initiated.

Rwanda created a commission of inquiry, headed by the former Prosecutor General, Jean de Dieu Mucyo, to examine the alleged role of France in the genocide. Further to the publication of a report by French Judge Jean-Louis Bruguière, Rwanda severed its diplomatic relations with France end of November. The Judge claimed the RPF responsible in the shooting down of President Habyarimana's plane in April 1994. He called for the ICTR to try President Kagame and requested Paris Prosecutor's Office to authorise the issuance of 9 international arrest warrants targeting top Rwandan officials.

Rwanda has adopted a zero-tolerance policy on corruption and a few high-profile cases being brought to light in 2006.

Relations with China deepened in the course of 2006 with bilateral visits to Rwanda and the participation of President Kagame in an Africa-wide meeting of heads of state in Beijing.

2.1.1 Institutional Developments and Human Rights

For the second time since the entry into force of the 2003 Constitution, local elections were organised to elect Councils and Executive Committees at *imidugudu* (village), cell, sector and district level all over the country. These elections, that took place in February, March and August 2006, were

May 2007

organised in the framework of the new administrative boundaries designed by the administrative reform of 2005/2006. The reform reduced the number of provinces, districts (106 to 30), sectors (1,500 to 416) and cells (9,165 to 2,148). Slightly more than 4 million voters were registered on the electoral list. Observers from local NSAs and diplomatic missions in Rwanda followed the elections that were observed to be well organised and procedure to be correctly followed. The population participated massively in the elections.

The issue of "political space" in Rwanda was commented upon by President Kagame who warned against importing ready-made concepts in Rwanda and against divisionism.

The number of media regularly increased to reach 39 print media, 15 local radios and 3 international radios by the end of 2006. Two draft laws on, respectively, the press and the High Council of the Press were adopted by the Cabinet. It is foreseen that, in order to be able to exercise the profession of journalist, minimum qualifications should be met. It is also proposed that the HCP receive attributions formerly in the hands of the Minister for Information concerning accreditation of journalists and temporary suspension of media. Incidents targeting journalists were reported in the course of the year with telephone threats in particular on the editor of the Umuvuguzi newspaper.

2.1.2 Regional Policy, Integration and Conflict Prevention

Regional Integration.

On the 30th November 2006, the 8th EAC Heads of State Summit admitted Rwanda and Burundi to the EAC. This admission will be effective from 1st July 2007 after Rwanda has concluded an Accession Treaty. Rwanda is already a member of COMESA, ECCAS and CEPGL and applied to join SADC in 2001. The Rwanda Regional Integration Committee aims at rationalizing overlapping memberships. The approach to EAC integration is a step by step one (customs union, common market, monetary union and finally political federation). In the short term the following steps are foreseen:

- Rwanda has up to July 2007 to complete accession procedures;
- Within 3 months Rwanda will agree with the EAC on implementation schedules and modalities for protocols and programmes;
- Moreover the Government of Rwanda needs to prepare its participation in the institutions of the Community¹ ;
- EAC Head of States have to meet urgently to amend the Treaty and derived protocols (e.g. Customs Union).

Expected benefits of this membership are a wider market (110 million people); the removal of tariff and non tariff barriers; a stronger voice in global trade negotiations; common positions in the field of foreign policy and security; key infrastructure through EAC Partner States; and cooperation on cross-border issues (tourism, environment, health, ...)

However Rwanda will have to face challenges, namely a difficult regional environment; effect on household expenses; creative destruction of production structures; and a weak industrial base and skills base caused by the genocide.

Accession of Rwanda to the EAC Customs Union (CU) implies adoption of EAC CU legal instruments and its uniform application. More specifically the following legal frameworks and administrative provisions will be affected:

- Alignment of the customs law and the tariff code,
- Amendment of special tax laws, the investment code and the industrial input law to EAC laws;
- Computation of duties and taxes shall be based on CIF port of 1st entry into the Community,
- Freight costs shall not be the basis for computation of value for duty purposes on imports by air,

¹ Summit, Council of Ministers, (Sectoral) Coordination Committee(s), Secretariat, East African Legislative Assembly, East African Court of Justice, East African Development Bank, Inter University Council of East Africa, Lake Victoria Basin Organisation, East African Centers of excellence (Dar es Salaam Maritime Institute, Utali College, Soroti Flying Academy).

May 2007

-3 band duty rate structure for the Common External Tariff (CET) (0% - 10% - 25%) with some exceptions on sensitive goods, power of granting remissions vested in the Council of Ministers

- Exchange of information and joint border controls is an obligation for Partner States,
- Creation of a tax appeals tribunal which eliminates the existing levels of appeal in Rwanda,
- COMESA rules of origin are similar to the EAC ones, therefore Rwanda is already ready to apply the EAC rules of origin, however the issuing authority of the certificate of origin must be harmonised within the EAC Member States.

Revenue losses due to Rwanda's participation in the EAC are anticipated due to tariff changes, especially for petroleum products (tariff going from 30% to 0%), wheat flour (15% to 0%), tyres (30% to 25%) and vehicles (from 30% to 25%). In order to cover anticipated revenue loss, Rwanda will put in place compensation mechanisms by increasing excise duties on some products, expanding the excise tax base and preparing a list of sensitive goods.

It should be noted that the revival of the institutions of the CEPGL (Democratic Republic of Congo, Burundi and Rwanda) is financially supported by the European Commission.

Regional Security

The regional situation further improved in 2006, with the calming of regional tensions, progress in the transition processes in Burundi and successful elections in the DRC.

Nevertheless, significant underlying tensions remain. The key source of tension remains the presence of Rwandan armed groups (in many cases implicated in the Genocide) in Eastern DRC. Pressure continued to be placed on these groups to disarm and repatriate throughout the year, both regionally and internationally. Hopes raised by the so-called San Egidio Declaration have proven unfounded. The DRC Government still undertakes limited (and so far rather unsuccessful) military operations against armed groups, with support from MONUC whose mandate remains Chapter 6 only.

Nevertheless, voluntary disarmament / repatriation of armed groups continued at a slow pace in 2006 with roughly 1,200 members of these militia reintegrated in the Rwandan society by the Rwandan Demobilisation Commission, funded by an international basket fund (MDRP) led by the World Bank with EC support.

Other refugee / repatriation issues include the successful repatriation of the 6,000 Rwandan refugees who had fled the Butare province in 2005 as well as the forced repatriation of Rwandan long-term residents in Tanzania. 15,000 returnees have already entered Rwandan territory and the total number of forced repatriations is expected to reach 70,000. Rwanda is handling the situation with support from the Red Cross and other donors, and ECHO's Goma office is monitoring the situation.

Rwanda remains a major contributor in troops to the AU Peacekeeping mission in Darfur and Khartoum in Sudan. . In order to help peace establishment in Somalia, Rwanda also offered to train Somali police and military forces.

2.1.3 *EU-Rwanda Political Dialogue*

Dialogue with the Government based on Article 8 of the Cotonou Agreement continued in 2006. High level discussions between EU Ambassadors and Government Ministers took place on freedom of expression, development and responsibilities of the media. An open discussion occurred on the various issues raised by the EU Heads of Mission: perceived self-censorship of journalists, lack of professionalism of Rwandan media, and the proposed new laws on, respectively, the press and the High Council of the press

2.2 Update of the Economic Situation

Rwanda experienced good macroeconomic performance in 2006 in spite of the effects of the poor harvests in agriculture, the rising cost of oil and the bad rains.

Key economic trends are shown in table 2.1 below, and explored in the following paragraphs.

Table 2.1 – Key Economic Indicators

	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	Source
		Actual	Actual	Actual	Actual	Actual	Actual	Actual	Target	
Demographic	Population (m)			8.10	8.30	8.51	8.72	8.94		Census
	Population growth (%)			2.5%						Census
Economic	GDP Growth Rate	6.9%	5.9%	11%	0.3%	5.3%	7.2%	6.3%		MINECOFIN(AER)
	Broad money supply growth (%)	14.3%	9.2%	11.4%	5.8%	12.1%	17.2%	14.5%		BNR
	Inflation (annual average)	3.9%	3.4%	2.0%	7.4%	12.0%	9.3%	7.7%	5%	MINECOFIN
	Inflation (end year)			6.2%	7.7%	10.2	5.6%	8.9%		MINECOFIN
	Imports as % GDP			12%	13.6%	15.1%	16.9%	17.9%	15.9%	BNR
	Exports as % GDP			3.9%	3.7%	5.3%	5.9%	5.8%	7.1%	BNR
	Current account balance (as % GDP, excluding official transfers)	-18.3%	-15.9%	-16.5%	-19.2%	-19.0%	-20.4%	-18.8%	-21.6%	BNR
	Exchange rate (RWF per € annual average)	358.2	396.8	449.7	603.0	717.7	691.32	692.53		BNR
	Domestic fiscal balance (as % GDP)		-2.7%	-4.2%	-5.5%	-6.1%	-6.0%	-6.8%	-7.9%	IMF/MINECOFIN
	NPV Debt:Export ratio	220.5	236.2	270.3	297.9	319.8	173.3	65.6*	85.9*	IMF
Public Expenditure	Total expenditure ² as % GDP	20.0%	25.1%	20.4%	24.0%	24.1%	28.8%	28.6%*	29.7%*	IMF
	Domestic revenue as % GDP	9.8%	11.3%	12.0%	13.4%	14.0%	15.5%	15%*	15%*	IMF
	Aid revenue as % GDP (grants & loans)			12.2%	10.4%	18.0%	17.7%	13.4%*	12.6%*	MINECOFIN
	Priority expenditure as % GDP	4.0%	5.3%	6.2%	6.9%	8.1%	10.2%	10.9%*	12.5%*	MINECOFIN/IMF
	Military expenditure as % GDP	3.4%	3.3%	2.9%	2.7%	2.3%	2.2%	2.3%*	2.2%*	MINECOFIN
	Recurrent education expenditure (% GDP)			3.4%	3.2%	3.4%	4.0%	4.2%*	4.6%*	Budget documents
	Recurrent health expenditure (% GDP)			0.4%	0.8%	0.8%	1.3%	1.2%*	1.6%*	Budget documents

*These figures are 2006 targets. Actuals will be available after the ongoing IMF assessment.

2.2.1. Domestic Economic Performance: Growth, Fiscal and Monetary

Real GDP growth in 2006 was around 6.3 percent. This represents a slight decrease from a strong growth of 7.2 percent in 2005, mainly due to the effects of the poor harvests in agriculture, the rising cost of oil and the bad rains. Agriculture performed badly in 2006 with food crop production declining. This has a severe implication for poverty reduction in Rwanda since close to 90 percent of the population depend on agriculture. Also, poor performance of agriculture sector has increased market prices in food and yet the Rwandan authorities have managed to maintain a stable macroeconomy keeping core inflation low.

Overall growth was driven by the industry sector in particular the buoyant construction activity and strong receipts from export sector.

Fiscal policy in Rwanda has been geared towards stabilisation and launching the country on a growth path. Fiscal performance was mixed. On one hand revenue collections were buoyant and exceeded budgetary targets, and on the other hand expenditures also expanded as Government had to provide funding for some unanticipated priority and sovereign expenditures during the year. However, because the excess revenue collection was higher than the increase in spending, the domestic revenue deficit though higher than in 2005, was slightly lower than originally projected for 2006. Despite the challenge in 2006, budget implementation was satisfactory.

² Current + Capital + net lending

2006 saw a great improvement in the monetary sector, with an accumulation of external reserves and rapid increase of the private sector credit at 23.8% hence meeting all the monetary targets in December 2006. Broad money in Dec.2006 grew by 32.8 compared to 16.3% at end 2005. This increase was associated by a 15.1% increase in currency in circulation. The big increase in broad money was driven by Government expenses and credit to the private sector. Inflation declined throughout the year, ending the year at 3.8 percent (averaging 7.7 percent over the year). The net foreign assets of NBR registered an increase of 24% in 2006 due to the disbursement made during that period for budget and project. Net foreign assets of the Commercial banks indicated an increase of 46.1% in 2006 compared to an 18.1% decrease in the same period 2005.

Rwanda's reform and stabilization efforts are supported by a fund through financial and technical assistance. This includes support under a three-year Poverty Reduction and Growth Facility (PRGF) arrangement during 2002-06 and a new three-year PRGF arrangement, which was approved by the Executive Board in June 2006. Rwanda reached the completion point under the enhanced HIPC Initiative in April 2005 and received US\$76 million in debt relief under the Multilateral Debt Relief Initiative (MDRI) from the Fund in early January 2006. A recent mission concluded *ad referendum* discussions on the first review under the current PRGF arrangement and the 2006 Article IV consultation, with the Board date in January 2007. Policy implementation under the PRGF has been broadly satisfactory.

The Government further elaborated and began implementation of strategies to overcome its key economic constraints and to address rural poverty. The Diagnostic Trade Integration Study (DTIS) under the Integrated Framework (IF) process was completed in 2005. This study identified the key constraints to trade and strategies to overcome them. Many of the recommendations have been implemented in 2006 and are taking forward in 2007 through a variety of agencies and a wide ranging funding sources. The different areas are such as, the develop of an export promotion action plan, the support to Rwanda Revenue Authority to increase its capacity to collect revenue efficiently and effectively, (through trainings, improvement of the customs valuation procedures..), the support to the creation of a national network of business development service centres. Findings have been integrated into the upcoming Economic Development and Poverty Reduction Strategy (EDPRS) but in small scale.

2.2.2. External Balance, Trade and Debt

Rwanda continues to rely on a narrow range of commodities with tea and coffee accounting for over 50 percent of export earnings. The exports have increased in 2006 (exports were USD 125M in 2005 to USD 142 M in 2006) not only in quantity but also in quality due to value addition.

The main source of the growth in imports was energy and lubricants which grew by 36.5% in value terms and 25.2% in volumes. Intermediate products registered a strong growth of 28.4%. Rwanda balance of payment position continues to deteriorate. The 2006 annual data indicates a decline in both the trade and current account balance as a percentage of GDP. In 2005 the trade balance was 11% compared to the 2006 trade balance which declines to 12%, while the current account balance decline from 2% in 2005 to 9% in 2006. This is because while exports grew by 14.2%, imports growth was stronger at 23.8%(in USD value).³

Rwanda is already a member of the Common Market for Eastern and Southern Africa (COMESA) and its free trade area and able to access the whole market without any barriers to trade, has been admitted to East African Community (EAC) and still work on the accession procedures until July 2007. Rwanda is also ready to benefit from various blocks like Economic Community for Central African States (ECCAS), African Growth Opportunity Act (AGOA), African Union (AU), World Trade Organisation (WTO), European Union (EU) and bilateral trade arrangements. All these arrangements offers Rwanda an opportunity for easy access to foreign markets.

³ MINECOFIN, Annual Economic Report Draft, March 2006, p 20

Rwanda's external debt has reduced substantially in 2006 due to the Highly Indebted Poor Countries (HIPC) Initiatives and Multilateral Debt Relief Initiatives (MDRI) debt forgiveness attained in addition to Rwanda receiving topping up. Thus Rwanda is in a more sustainable position in terms of external debt in 2006. Debt stock has been reduced and now stands at 15.7% of GDP (down from 72.6% in 2005). Debt sustainability has been continuously improved over 2006 via a multitude of policies and institutional improvements. A new debt policy and strategy to ensure no future unsustainable debt will be formulated and adopted in 2007.

2.2.3. Structural

Structural reforms advanced adequately in 2006. The finalisation of the Public Financial Management (PFM) action plan and its adoption by the Cabinet on September 6th 2007 was a significant step in the Government of Rwanda's commitment to undertake profound reforms in PFM.⁴

Moreover with the multitude of reforms to strengthen the financial sectors, enhance public sector management and promote investment the business climate and growth potential has benefited through the strong growth, in ICT and construction sectors.

The action plan specifies how PFM reforms are to be implemented by drawing a clear roadmap. The PFM Steering Committee, re-established in June 2006 is composed of representatives of relevant institutions who supervise the implementation of the action plan.

The Organic Budget Law also known as the Organic Law on state Property and Finance was published in the Official Government Gazette in September 2006, and its supporting financial regulations were approved by Cabinet in October 2006.

Rwanda is deeply involved in the process of restructuring its procurement system. A new procurement code issued by the Government has been approved and a roadmap has been agreed upon.

2.3 Update of the Social Situation

Rwanda recently published the preliminary results from its household living conditions survey (EICV2). The earlier survey was carried out in 2001. It is therefore possible to assess progress made in the field of reduction of poverty between 2001 and 2005. The EICV2 results come at a crucial time when Rwanda is preparing its second Poverty Reduction Strategy (PRS). The Government of Rwanda intends to reflect the survey results in identifying the priorities in the new PRS. The survey also looks at links with economic growth and population changes during the period.

- Headcount: Poverty headcount⁵ figures have fallen from 60.4% to 56.9% in the last five years (2000-01 to 2005-06) – a 3.5% reduction over five years. But given that population growth has averaged 3.5% per annum the total number of people living in poverty has increased from 4.8 million to 5.4 million during the same period.

- Regional distribution: Almost 92% of the poor in Rwanda live in rural areas. Poverty headcount has fallen in most urban and rural areas during the period, except in the Southern province, where it has risen marginally.

- Depth of poverty: Extreme poverty (the line below which household's total consumption expenditure falls below the cost of the minimum food basket) fell from 41.3% to 36.9%. That is about 2/3rd of the population below poverty line are living in extreme poverty.

- Inequality: Inequality has risen during the period (increase in Gini coefficient from 0.47 to 0.50). Inequality decreased in the urban areas while it increased in the rural areas. As growth over the period was accompanied by increasing inequality, this reduced its impact on poverty reduction.

⁴ MINECOFIN Development Partners, Aid Effectiveness report, Nov 2006, p 12

⁵ National poverty line of Rwf 250/day is equal to about \$0.45/day. It is not possible from the report to get the poverty figure against the \$1/day international comparison.

-Vulnerability: There was a 6% decline in the poverty figures for female and widow headed households – better than the national average of 3.5%.

- Net enrolment: Net enrolment at primary school has increased from 73.7% to 85.9%. Interestingly enrolment of girls (86.9%) is better than that for boys (84.8%). Net enrolment at secondary school has increased from 6.9% to 10%. Even in the city of Kigali this figure is only 29%.

- Health: Women receiving antenatal care during last pregnancy has increased from 82% to 95%. Malaria accounts for one-third of the total burden of disease.

- Drinking water and sanitation: No progress on drinking water between the two surveys, with 35% of the population depending on ‘unprotected’ sources. Interestingly among the population using protected sources there has been a decline in the use of free public standpipe and increase in the share of people buying water from a vendor. Proportion using safe sanitation has increased from 50.4% to 57.7%.

- Employment: Proportion of the working population falling into the category of ‘agricultural and fishery workers’ has declined from 88.6% to 79.6%. Most other categories have seen marginal changes.

Table 2.2 below presents basic poverty indicators, based on the Government’s PRS Annual Progress Report published in September 2005, and data made available since then. Government has adopted a system of proxies that can be measured on an annual basis where data on the MDGs themselves are available at less regular intervals. For most sectors, at the time of drafting it was too early to obtain final data for 2006.

Table 2.2 – Key Poverty Indicators

	Indicator	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Actual	2005 Actuals	2006 Estimates	2007 Target	2015 Target	Source	
Impact	Poverty Headcount	60.29%					56.9%			23.8%	EICV	
	% of underweight children (under 5)	24%					23	23		14.5%	DHS	
	Under-five mortality rate (per 1000 live births)	198				196	152	152		47	DHS	
	Maternal Mortality rate (per 10,000 births)	1071					846	750		625	DHS	
Outcome	Net primary enrolment rate	72.2	73.3	74.5	91.2	93.0 ⁶	93.5	95	96.3	100	EMIS	
	Boys	72.5	72.9	74.0	90.1	91.5	92.2%	92.9%			EMIS	
	Girls	71.8	74.9	74.9	92.4	94.5	94.7%	97%	97.1	100	EMIS	
	Primary drop out rate	12.6%	14.2%	16.6%	15.2%	14%	14.6%	14.6%*	9%	0%	EMIS	
	Primary completion rate		24.2%	29.6%	38.1%	44.9%	46.7%	51.7%	56%	70%	EMIS	
	Primary repetition rate	37.6%	31.8%	17.2%	20.6%	19.2%	15.8%	15.8%*	14%		EMIS	
	Ratio of girls to boys in:											
	* Primary education	0.98	1.00	1.01	1.02	1.03	1.04	1.5			1	EMIS
	*Secondary education (all schools)	1.04	1.01	0.98	0.92	0.91	0.89				1	EMIS
	*Tertiary education (public and private)	0.58	0.51	0.52	0.58							EMIS
	Births attended by skilled health personnel (%)		30.5	38.8	34.2%	39.8%		39				SIS
	Utilisation of curative services			0.28	0.33	0.38		0.42	0.47			
	Proportion of 1 year old children immunised against measles		77%	82%	89%	84%	75%	75%				SIS
HIV Prevalence among 15-49 year old pregnant women	13.7	11.2	13.5	10.5	9.5 ⁷	3	3				Sentinel Site survey	
% population with sustainable access to an improved water source			67.2%								Census	

* Figures are targets, actuals not available yet.

2.3.1 Education

Access to education has improved at all levels of the system. With reference to the MDG’s, net enrolment rate in primary schools has now reached 95% and the percentage of girls students is over

⁶ The figures for 2003 and 2004 are based on a new methodology taking into account the results of the 2002 Census. Using the old methodology, net primary enrolment was at 78.4 in 2003 and 83.8 in 2004.

⁷ UNAIDS 2004 report estimates HIV prevalence in Rwanda at 5.1%

50%.⁸ Enrolment continued to increase at primary level by 5.8%. Primary net enrolment rate for girls reached 97% in 2006 compared to 94.6% in 2005. Important pro-poor measures have been introduced that are enabling a greater number of children to attend primary schools. But the costs of schooling are still too high for poor families, and the percentage of children who actually complete a full cycle of primary school is below the Sub-Saharan average.

The introduction of fee-free primary education in 2003, plus the direct transfer of capitation grant funds to primary schools has enabled greater access to primary school and relieved part (but not all) of the financial burden felt by poor families. The pupil to qualified teacher ratio has been reduced (from 73.6% in 2005 to 72.7% in 2006). As a result, completion rates are increasing (from 46.7% in 2005 to 51.7% in 2006) whilst repetition and drop out rates are falling.

Following the adoption by Parliament of the Higher Education Law in 2005, which provides the legal basis for the creation of the National Council for Higher Education (NCHE) and the Student Financing Agency for Rwanda (SFAR), financial sustainability have been ensured at the same time with reduction of public subsidy of higher education. Regarding education, the cluster move towards a joint Education Support Strategy based on Education Sector Strategic Plan.

2.3.2 Health

The evolution of health indicators confirms the cautious optimism expressed after the 2005 survey. Child mortality is down to 152 ‰ and maternal mortality is down to 750 per 100,000, although the data collection methodology leaves space for a substantial error margin.

The national HIV/AIDS prevalence rate remains at 3% and specialists agree this new figure, backed by a UNAIDS survey on 15,000 people, is a solid one. Nevertheless, Rwanda's health indicators (particularly maternal and child mortality) remain poor, and the MDG targets are still distant.

The Health Sector Strategic Plan (HSSP) identifies two key issues that need to be addressed in strengthening healthcare: human resources and financial access.

The human resources shortage is being addressed as the Government carries on the roll-out of performance based contracting schemes and implements its plan to train, attract and retain health personnel

Promotion of community based healthcare initiatives (mutuelles) goes on as well. Utilisation of primary healthcare, through the mutuelles de santé, has reached 47% and keeps increasing

The HSSP will be subject to a mid-term review in 2007 and is likely to increase its emphasis on nutrition, sanitation and family planning.

2.3.3 Rural Development and Food Security

Poverty continues to be a largely rural phenomenon in a country where 83 percent of the population lives in rural areas and 87 percent are farmers.

2006 was a fair to good year for rural development and food security as poor rains at the end of 2005 combined with livestock disease related quarantines put the Eastern and Southern Provinces in severely food condition until June /July 2006. The rest of the year experienced normal to near-normal harvests⁹. The food production is equivalent to 1,734 kilocalories (Kcal) per person per day, which is 83 percent of the globally recommended daily requirements of 2,100 Kcal/person. All provinces have produced less than the equivalent of the recommended level of caloric consumption per person per day. The most affected area are the zones of Bugesera, Congo – Nile Ridge and the Southern Plateau, characterized by high population densities, small plots with poor fertility, and lack of agricultural inputs¹⁰.

⁸ MINEDUC, EDPRS Education sector self-evaluation, June 2006,p3

⁹ FewNet, October 2006. Rwanda Food Security Update.

¹⁰ FewNet, Janvier 2007. Rwanda Food Security Update.

Food security remains therefore a concern for policy makers. Fueled by high population growth veraging 2.9 percent per year and modest income gains, demand for food has outstripped food production gains. Rwanda remains a structurally food-deficit country that imports annually at least 130,000 tons of food, mainly items for which it has an insufficient production (edible oil, wheat, sugar, rice, beans, maize, cooking banana and dairy products).

The Agriculture and Animals resources have evolved due to the development of the Sector Strategic Plan (PSTA) in 2005. The strategy aims to increase the incomes of the rural population by improving agricultural productivity and facilitating transformation from a subsistence economy to one that is geared to production for both domestic and export markets. It is based on participatory analysis and includes cross cutting issues, donor alignment towards the PSTA is improving¹¹.

The process of decentralisation progressed in 2006, a lot of achievements have been made, especially in the area of policy, legal and institutional framework. Institutionally, administrative and financial management structures and procedures are in place and operational, albeit not yet efficiently¹². Fiscal decentralisation is moving more slowly, due to the limited planning and absorption capacities of the districts, than the institutional framework. The reform of local Government, election of mayors and staffing of districts in 2006 are expected to lead to more effective rural development from 2007. Districts and sectors will establish their development plans and benefit from increased capacity, responsibility and resources to provide services to rural populations. In addition, funding of the CDF and disbursements from the CDF accelerated and the Ubudehe initiative started providing resources to community level.

The Government has also allocated increased resources to water and energy in 2006, including through micro-schemes to serve rural areas.

2.3.4 *Cross-cutting issues*

Rwanda continues to perform well as regards gender issues, with the highest proportion of female parliamentarians in the world and strong Government commitment on gender issues. However, gender disparities remain a serious problem, with men benefiting more than women, girls and boys from public expenditure, credit and employment

At the same time, cross cutting issue were not properly addressed by sector strategies with too little systematic targeting or reporting. Issues such as gender, HIV/AIDS, environment and protection of vulnerable groups have received only limited attention in most sector strategies¹³. Though, in education sector, there are good examples of results with gender (ex: more than 50% of girls in primary school, scholarships for women with FAWE¹⁴), HIV/AIDS, with the "fight against aids programme in the schools" initiated by the Ministry of Education in Rwanda¹⁵ and integration of environmental programmes in schools.

In the Rural Development area the cross cutting issues addressed the environment, gender, and capacity building for the youth. The strategy for agriculture transformation mentioned a strong gender issues support to be integrated in the strategy. The environmental aspect is taken into consideration, as the PSTA plan to implement ambitious programs such as irrigation projects, one cow per family project and to increase the use of fertilizers¹⁶.

¹¹ MINAGRI: Sector Working Group. Agriculture and Animal Resources. 2006 Joint Sector Review/EDPRS Self Evaluation : First Draft. Pg4

¹² MINECOFIN, August 2006. Rwanda Poverty Reduction Strategy : Evaluation Report (2002–2005)

¹³ MINECOFIN, Novembre 2006. AID effectiveness REPORT RWANDA. Development Partners. Annual Report.pg10

¹⁴ Forum for African Women Educationalists

¹⁵ UNESCO, July 2006. Rapport sur la situation du progres fait par les pays vers la realisation des buts de l'EPT Dakars (2000).

¹⁶ MINAGRI: Sector Working Group. Agriculture and Animal Resources. 2006 Joint Sector Review/EDPRS

2.4 Update of the Environmental Situation

Rwanda's key environmental challenges concern deforestation, soil erosion, over grazing, misuse of wetlands and poor waste management associated with negative impacts on human health thus a hindrance to sustainable development of the country¹⁷.

Rwanda's target is set to reduce the proportion of the population engaged in agriculture from 91% in 2000 to 50% in 2020, necessitating the rapid development of alternative livelihood opportunities, which may in turn present their own pressures on the environment. Land use management is addressed in the context of new legislation, and issues of environmental health, energy production, urbanisation, and industrial development – all of which could have environmental implications towards achievement of targets¹⁸.

The Decentralised programme took into account the environment in the reform. Capacity building in all districts regarding the environmental issues have been made, which will ensure a positive impact on the management of the environment and natural resources¹⁹. The practice of Umuganda – compulsory community service to plant trees and clear refuse – continued in 2006, with visible effects.

As part of the Government's agriculture policies, increased resources were allocated to improving soil erosion (through terracing, agro forestry, etc). At the end of 2006, MINITERE, Rema, GEF and numerous Ngos involved in biodiversity conservation and protection (Care, IGCP, WCS, MGVP, the Gorilla organization) co-launched a USD 13.43 millions co-financed project on strengthening biodiversity management capacity in the Rwandese forest protected area system (mainly Nyungwe and Virunga). At the same time, revenues from ecotourism (mainly from visits to the gorillas) sensibly increased in 2006. The Government implanted also several measures decided in 2005 to improve environmental management, such as banning the use of polythene bags and the dumping of used motor oil, and limiting the use of wood for charcoal and construction.

Use of fossil fuels increased in 2006, due to the shortage of hydroelectric power generation and the construction of diesel generators. Consequently, the price of electricity in Rwanda rose significantly along with the price of charcoal and firewood (a result of the policies outlined above) and is now one the most expensive worldwide (0.18 Eur/kwh). However, in order to address this problem in the medium-long term, the Government started in 2006 a very important investment programme in the energy sector in order to produce cheaper electricity in the future.

A *Country Environmental Profile* (CEP) for Rwanda was finalised in June 2006. This study, funded by the European Commission, builds on Rwanda's National Environment Policy developed in 2003 and on the country's long-term environmental strategy as developed in Vision 2020. The CEP gives an overview of the current state of the Rwandan environment highlighting key problems and suggesting solutions. Some of those recommendations have been included in the EDPRS (logframe, indicators and costing) that will be finalized end of 2007 as Environment is considered as a cross-cutting issue but it is also as a focal chapter of the EDPRS.

¹⁷ http://www.rwandagateway.org/article.php3?id_article=178&lang=

¹⁸ RWANDA POVERTY REDUCTION STRATEGY : Evaluation Report (2002 – 2005) Pg25

¹⁹ Fabien TWAGIRAMUNGU, Juillet 2006. Profil Environmental du RWANDA. Pg36.

3. OVERVIEW OF PAST AND ONGOING CO-OPERATION

2006 Outlook

2006 was another successful year in EC-Rwanda cooperation. Primary Commitments (decisions) reached €41.6M and Secondary Commitments reached €17M. Payments reached €46.4M (excluding STABEX and Thematic Budget Lines), a satisfactory result after the record level of 2005, which was the result of a peak in project expenditure caused by the liquidation of a substantial backlog. 2007 and 2008 forecast show levels of disbursements back above €60M per annum.

Table 3.1 Summary of Ongoing Cooperation projects by sector

	Decided to 12/06	Committed to 12/06	%	Paid to 12/06	%	Paid in 2006
Budget Support	83.565.949	83.365.949	100%	64.278.114	77%	18.323.046
Governance, Justice, Rule of Law	13.700.000	7.591.822	55%	6.051.164	44%	791.924
Health	1.995.000	1.386.741	70%	1.379.770	69%	824.144
Institutional Support	6.780.000	2.861.718	42%	1.278.075	19%	1.105.483
Infrastructure	233.464.164	193.288.719	83%	177.544.919	76%	22.111.476
Rural Development	34.500.000	31.659.024	92%	13.591.019	39%	3.782.145
Total	374.005.113	320.153.973	86%	264.123.061	71%	46.938.218
<i>Of which Regional Projects</i>	<i>15.000.000</i>	<i>12.500.000</i>	<i>83%</i>	<i>11.681.139</i>	<i>78%</i>	<i>520.526</i>
<i>Of which NIP</i>	<i>359.005.113</i>	<i>307.653.973</i>	<i>86%</i>	<i>252.441.922</i>	<i>70%</i>	<i>46.417.692</i>
STABEX						2.884.031
Thematic Programmes						4.560.718
Consolidated Total						54.382.967

ETR Results

An End Term Review of the Country Strategy Paper and the National Indicative Programme of Rwanda took place in 2006 according to Article 5 of the Annex IV of the Cotonou Agreement.

It was decided to maintain the current strategy of cooperation with Rwanda. The overall 9th EDF post-ETR split between sectors will be as follows:

- Rural Development and Infrastructure Rehabilitation 38%
- Macroeconomic Support 47%
- Non Focal Sectors 15%

The European Commission revised the financial allowance of Envelope A by adding € 9,270,267. The total National Indicative Programme now stands at € 218,450,638

3.1 Focal Sectors and Macro-Economic Support

3.1.1 Rural Development²⁰

a) Results and legal, policy and strategy development

The agriculture sector is identified in the PRSP and *Vision 2020* as a leading engine of future economic growth. According to *Vision 2020*, agricultural transformation is expected to boost growth in both the formal and informal sectors, with the effect of reducing the proportion of the population dependant on agriculture from the present 87 percent to about 50 percent in 2020. In addition, because agricultural productivity is currently very low, there is considerable potential to

²⁰ Although the 9th EDF National Indicative Programme includes issues of infrastructure within the rural development domain, the two are treated separately in this report.

achieve rapid income gains by increasing productivity in the short run. The Government planned to increase public investment in agriculture during the "primary growth phase" from 2002 to 2006 and subsequently to have the private sector play a greater role in investment during the "consolidation phase" from 2006 to 2010. The focus in 2006 has been on refining planning and budgeting in the sector, developing an outcome focused PRS matrix and an output focused MTEF (Medium Term Expenditure Framework), based on the PSTA (Strategic Plan for Agricultural Transformation)

The export earnings from the sector, derived mainly from coffee and tea, plummeted in the period immediately following the genocide. More recently, production gains achieved in the coffee and tea sectors have allowed foreign exchange earnings to recover, but the value per capita of commodity exports remains much lower than the average for sub-Saharan Africa as a whole.

The support of STABEX (section 3.5.1) and other programmes continued to improve the quality of coffee, through the construction and equipment of washing stations²¹, the replacement of old coffee trees, and providing fertilisers. Funds have been granted to two new projects in order increase the production of pyrethrum.

As noted in section 2.1.2 above, the process of decentralisation progressed in 2006. The Government implemented the reform of administrative structures, with the objective of increasing capacity and accelerating the transfer of responsibility and resources. The active decentralisation cluster played a role in shaping and implementing this reform. The reforms are expected to have a significant impact on the effectiveness of decentralisation from 2007, particularly in terms of service delivery in rural areas as the districts will establish their own development plans. *The Common Development Fund (CDF)* is the key tool for providing resources for local (and locally prioritised) infrastructure, which is a crucial driving force of rural development.

b) Progress in activities

2006 was an improved year for EC-funded rural development activities. After several years of preparation and low disbursements, activities and disbursements accelerated. In particular, the Decentralised Programme for Rural Poverty Reduction (DPRPR) entered a phase of full implementation. The Ubudehe component of this programme was rolled out across the country during 2006, providing support to local poverty assessment and development planning. Through the implementation of this innovative approach, around €1,000 was provided to each of the almost 10,000 cells in the country to finance a priority community investment and provide a transfer to the poorest households. The support to the District Development Plans component of DPRPR has encountered various delays and has not been able to deliver in 2006.

All funds available as of December have been committed and an additional € 5 M has been allocated to DPRPR, increasing its budget to € 34 M. More than € 8 M were disbursed in 2006, largely for local development projects in rural areas and therefore directly responding to the needs of the poor.

Table 3.2 – Rural Development Financial Summary

Project Title	Decided to 12/06	Committed to 12/06	%	Paid to 12/06	%	Paid in 2006
Cross-Border Water Basins (9 RPR 54)	2.500.000	0	0%	0	0%	0
Reinsertion of the Demobilised (9 RW 3)	3.000.000	3.000.000	100%	2.816.782	94%	1.194.723
Decentralised Programme for Rural Poverty Reduction (9 RW 4)	29.000.000	28.659.024	99%	10.774.237	37%	2.587.422
Total EDF NIP & RIP	34.500.000	31.659.024	92%	13.591.019	39%	3.782.145
STABEX	22.996.882	15.983.068	70%	8.593.334	37%	2.884.031
Grand Total	57.496.882	47.642.092	83%	22.184.353	39%	6.666.176

²¹ The PRS policy matrix targeted a national increase from 46 to 80 washing stations in 2006. This target was almost achieved, at end-2006 there were 79 washing stations.

The second key programme under rural development is the Programme of Support of the Reinsertion of Demobilised Soldiers. This was characterized in 2006 by very high implementation and disbursement rate. All infrastructures projects were implemented through labour intensive methods. At the end of 2006, all activities ended six months in advance compared to the initial planning. All funds (€ 3,000,000) were committed and almost totally disbursed (96.6 %). Closure of the last "programme estimates" will be done early 2006. About one million euros remaining from 7th EDF were also committed and disbursed in 2006 funding similar public and urban infrastructures and using similar approaches (reinsertion of demobilized soldiers and vulnerable women, heads of families / labour intensive public infrastructure works - LIPW). 2464 soldiers and 2679 women, heads of family were employed for six months and would have received around 190 000 RWF as salaries (around € 300) including 71.000 RWF as savings each. 11 infrastructures projects were also completed using LIPW, such as the transformation of a 2,200 metres long / 30 metres deep ravine into a masonry canal or a 8 km long rural road on Mount Kigali.

3.1.2 Infrastructure

a) Results and legal, policy and strategy development

Year 2006 was the occasion to assess the level of coordination reached in the sector by the infrastructure cluster, which is co-chaired by the EC Delegation alongside the Ministry of Infrastructure (MININFRA). In a sector dominated by transport, water management, energy and ICT, a significant part was played by town planning and the habitat this year.

Various groups of reflections in the sub-sectors contribute to the overall coordination of activities, with the objective to make the indicators in the infrastructure sector more clearly measurable for a better assessment of performance.

In the water and energy sub-sector, the strategy implemented to overcome the 2004 crisis was carried on in parallel with efforts to increase production capacity and to reduce costs, which remain very high to consumers. The programme of exploitation of methane gas in Lake Kivu is part of that strategy.

In the transport sub-sector, the administrative decentralisation allowed districts to assume the responsibility of infrastructure management and the collection of important data in terms of planning and evaluation. This should allow an improvement of the situation of landlocked rural areas and their access to markets. The medium-term creation of the Road Agency focused attention. The bill for its creation is being finalized and should be voted in 2007. Coordination continues to improve in the sector with a second joint ADB/WB/UE mission report signed with MININFRA.

In the ICT sub-sector, the main goal for the reform of the legal framework to allow broader competition of private sector was entirely realised. Thus, the telecommunications services for mobile telephony and the access to Internet were opened to competition. Moreover, the programme of connection to the big cities of the country by optical fibre is in good progress. Data allowing the assessment this sector on poverty reduction are sorely missing. Rwanda was active in the East African Submarine Cable System (EASSY) framework development.

b) Progress in activities

Several large transport projects started in 2004 were completed. A large water supply project and three public buildings rehabilitation projects were added in 2006. 2006 also saw significantly progress in the implementation of the Rwanda Road Sector Support Program (RRSSP). 2006 did not reach the record € 31 M disbursements of 2005 but remained above € 22 M.

The close-out of EDF 6 & 7 rehabilitation programmes is near completion and allowed large decommitments, which were recommitted on 9th EDF activities. Marginal additions were made on the Kigali-Kayonza and Gitarama-Butare-Akanyaru rehabilitation projects. A study for the creation of a Roads Agency was commissioned with the improvement of road maintenance in mind, and its conclusions are expected for the beginning of 2007.

However, in the road sub-sector, the most important activity was the launching of the call for tender within the framework of the RRISP, for Ruhengeri-Gisenyi road works and supervision contracts, which, as programmed, start in 2007. But also the agreement for a large scale capacity building programme based on Technical Assistance to MININFRA, Road Maintenance Funds and new Road Agency, for which the procedure of pre-selection was initiated during 2006.

Table 3.3 – Infrastructure Financial Summary by sub-sector

	Decided to 12/06	Committed to 12/06	%	Paid to 12/06	%	Paid in 2006
Water Supply	23.200.000	20.311.600	88%	13.870.095	60%	9.877.103
Roads	134.994.987	99.690.982	74%	97.984.783	73%	7.206.522
Social / Education / Health	61.269.177	60.803.070	99%	57.738.572	94%	1.473.144
Airport (EIB Only)	6.000.000	6.000.000	100%	6.000.000	100%	1.603.238
Justice / Governance	8.000.000	6.483.067	81%	1.951.469	24%	1.951.469
Total	233.464.164	193.288.719	83%	177.544.919	76%	22.111.476
<i>Of which NIP</i>	<i>220.964.164</i>	<i>180.788.719</i>	<i>82%</i>	<i>165.863.780</i>	<i>75%</i>	<i>21.590.950</i>
<i>Of which RIP (Roads)</i>	<i>12.500.000</i>	<i>12.500.000</i>	<i>100%</i>	<i>11.681.139</i>	<i>93%</i>	<i>520.526</i>

After the completion of the rehabilitation of the airport of Kigali, the remaining EIB funds have been allocated to the purchase of significant spare parts for the maintenance of the equipment. Moreover, the reimbursement of the EIB loan started with the payment of the first € 1.5 M instalment.

The social infrastructure rehabilitated into 2005 within the framework of the 6th and the 7th EDF were delivered (definitive reception) in 2006 and the contracts for equipment of the health centres were implemented (€37,000). The construction of the €265,000 Kimisagara youth centre was also completed this year.

Public infrastructure projects were very active, including the rehabilitation / extension of the MINECOFIN (8th EDF) buildings, the construction of the Supreme Court buildings and MINIJUST (9th EDF) and the rehabilitation of the building of Parliament (9th EDF) which started in early 2006.

The project of AEP Bugesera-Karenge generated € 9.8 M disbursement in 2006 and is well on the way to completion.

Weaknesses in the follow-up of the projects already mentioned in 2005 will be partially addressed in 2007 with the creation of the Roads Agency and the implementation of the RRISP. This will allow the effective management of infrastructure investments through a stronger maintenance program. The reinforcement of capacities of the Road Maintenance Fund and the future Roads Agency will allow to MININFRA to focus on policy formulation.

c) Integration of cross-cutting themes

Besides the obvious impact of the projects of infrastructure on the vulnerable populations, the projects started into 2006 and all the recent studies since 2005, integrate these issues in their analysis. Thus, for the direct benefits on the women and the children and the reduction of the rate of unemployment, more detailed social and environmental impact studies are included, in particular as regards environmental conservation.

3.1.3 Macro-economic and Social Sector Support

a) Results and legal, policy and strategy development

Economic and social sector support is in the Commission's approach linked through budgetary support. Variable tranche disbursements under the 9th EDF budgetary support programme (Budget Support for Poverty Reduction- BSPR) are linked to performance against targets in the health and education sectors. Key economic, health and education trends are discussed in Chapter 2.

Macro-economic support to Rwanda is driven by two important donor and Government initiatives : firstly the Joint Budget Support Group and its review (JBSR) and secondly the IMF PRGF review.

May 2007

The 4th Joint Budget Support Review of Government of Rwanda and Rwanda Budget Support donors took place from 14th to 20th September 2006 in Kigali. The JBSR was co-chaired by Ministry of Finance and Economic Planning and the World Bank. Participation involved other budget support donors in addition to the WB, namely: AFDB, IMF, SIDA, EC and DFID. Switzerland, UNDP and Germany attended as observers. Germany through KFW is anticipated to join the BS group in 2007.

The dialogue during the September 2006 review focused on the macro and fiscal frameworks, the national budget and the PFM reforms and processes. The 2007 budget was first examined showing a sharp increase in the development side of the budget. The review noted, with concern, the lack of a Budget Framework Paper for 2007, with the risk of having an unclear picture of Government plans for 2007.

The following recommendations, of particular importance for budget support, emerged from the review:

- 1) Necessity to align 2007 budget and 2007-2009 overall MTEF to sector strategies;
- 2) Ensuring that the Long Term Investment Framework and Economic Development Poverty Reduction Strategy (PRSP) processes are strongly linked and complementary planning tools;
- 3) Addressing the issues of capacity building and related absorption capacity in target sectors (infrastructures, energy).

Following two IMF PRGF missions in Rwanda (6th Review and New PRGF: February 22-March 7, 2006 and Article IV and First Review of PRGF October 18-31, 2006), the Executive Board of the IMF has completed on January 29th, 2007 its first review of Rwanda's performance under the Poverty Reduction and Growth Facility (PRGF).

In completing the review, the Board granted waivers for the non-observance of a quantitative performance criterion concerning total priority spending and a structural performance criterion concerning issuing a first report on a monitoring system of project accounts.

According to the IMF, the Rwandan Authorities are to be commended for continuing to make good progress under their program supported by the PRGF. Macroeconomic performance has continued to be satisfactory and structural reforms are broadly on track.

Nevertheless, to reduce widespread poverty and make headway toward the Millennium Development Goals, decisive action is needed to remove obstacles to higher growth, which include low agricultural yields, severe infrastructure gap and underdeveloped financial system. This will also involve making the most effective use of aid, addressing the risk of a resurgence of inflationary pressures, and prudently managing debt to maintain debt sustainability.

b) Progress in activities

A first payment of € 17,900,000 was made in 2006 under BSPR, composed only of a fixed tranche. A € 17,700,000 payment is planned for May 2007, representing the remainder of the fixed tranche and the variable tranche.

Table 3.4 – Macro-economic and social sector support financial summary

Project Title	Decided to 12/06	Committed to 12/06	%	Paid to 12/06	%	Paid in 2005	Paid in 2006
9 RW 2 PPARP	47.565.949	47.565.949	100%	46.378.114	98%	20.952.951	423.046
<i>Of which Budget Support</i>				20.764.000		20.764.000	0
<i>Of which Institutional Spt</i>				611.997		188.951	423.046
9 RW 9 BSPR	36.000.000	35.800.000	99%	17.900.000	50%	0	17.900.000
<i>Of which Budget Support</i>				17.900.000		0	17.900.000
<i>Of which Institutional Spt</i>				0		0	0
Total	83.565.949	83.365.949	100%	64.278.114	77%	20.952.951	18.323.046
<i>Of which Budget Support</i>				38.664.000		20.764.000	17.900.000
<i>Of which Institutional Spt</i>				611.997		188.951	423.046

3.2 Projects and programmes outside focal sectors

3.2.1 Governance, Justice and Rule of Law

a) Results and legal, policy and strategy development

2006 was another year of achievements in the Justice sector further to the 2004 judicial reform. In order to consolidate the judicial reform process a number of laws have been revised, drafted and adopted during 2006 in various fields of the Justice sector including the one establishing The National Institute for post graduate Law training. This has led to an acceleration of the activities in the sector such as the reduction of judicial backlog as jurisdictions have been able to start again in April. The Justice cluster, under the coordination of the Justice sector coordination secretariat is now fully on track. The national phase of Gacaca trials was launched countrywide in July 2006 following the adoption in April 2006 of an organic law modifying and establishing the organization, competence and functioning of Gacaca courts. . With a total of 12,103 jurisdictions countrywide, the Gacaca process is due to end in 2007 except for some regions where the level of participation of the population in the killings was high. Another law revising the categorisation is under preparation and will be ready for early 2007. By the end of 2006 a total of 40.000 judgements were rendered by the Gacaca jurisdictions. But with a caseload of over 800.000 accused in different categories waiting for judgement, the Gacaca jurisdictions still face a huge challenge. The Gacaca judges commonly known as "Inyangamugayo" have been continuously trained throughout the year 2006. The TIG (Travail d'Intérêt Général) programme of non-custodial punishment through community service for national reconciliation started in 2005 and expanded during 2006 as more sentences have been passed by Gacaca courts. Sensitisation of the public through radio broadcasts and training of local leaders all over the country continued in 2006.

Throughout the year 2006, an emphasis was made on strengthening the collaboration with the International Criminal Tribunal for Rwanda (ICTR) with regard, particularly, to the ICTR completion strategy and the transfer of cases to Rwanda; the tribunal is set to complete its activities by 2008.

A task force regrouping institutions concerned about the transfer of cases has been put in place to work on the feasibility of the transfer of cases. A law abolishing the death penalty on ICTR accused has been passed and a prison meeting international standards is ready to receive ICTR accused and convicted.

The official inauguration of a special court facility for the Supreme Court took place in August, in the presence of the President of the Supreme Court and the Ministers for Infrastructure and for Finance and Economic Planning together with the Head of the European Commission Delegation in Rwanda.

b) Progress in activities

2006 saw the end of the Project Support to the Rule of Law under the 8th EDF and the launch of its 9th EDF successor. Secondary commitments started in the last quarter of 2006. An audit of the 8th EDF project started in December 2006 and the first results are to be delivered during the first quarter of 2007. The 9th EDF project supporting rule of Law will ensure a continuity of EC support to this sector i.e : support to Supreme Court, Mininter, Minijust, SNJG, NCHR, NURC, TIG, Parquet, NGOs.

Table 3.5 – Governance, Justice and Rule of Law financial summary

		Decided to 12/06	Committed to 12/06	%	Paid to 12/06	%	Paid in 2006
Support to the Rule of Law and national reconciliation	8 RW 19	7.200.000	6.189.822	86%	6.051.164	84%	791.924
Support to the Rule of Law	9 RW 11	6.500.000	1.402.000	22%	0	0%	0
		13.700.000	7.591.822	55%	6.051.164	44%	791.924

3.2.2 Trade, Private Sector and Institutional Support

a) Results and legal, policy and strategy development

The EDF supports regional integration negotiations, especially in the context of EAC and EPA. The monitoring of progress in poverty reduction requires monitoring and evaluation tools, one of which consists in a good system of information processing i.e. a reliable National Statistical System.

The National Institute of Statistics of Rwanda was created in 2005 to replace the former Directorate of Statistics. It is now in place, support of € 1,9 million has been prepared in 2006 and will be signed in 2007. This project which implies NISR, DFID and UNDP (through a basket fund) aims at improving the quality of statistics in many areas (economics, social ...) through capacity building, which is vitally important in the context of increased budget support.

b) Progress in activities

Implementation of the 9th EDF "Rwanda Institutional Support to Economic Management" project continued in 2006, in particular through the activities of the NAO Support Unit. The overall objective of this € 6 M project is to strengthen Rwanda's economic management through 4 components:

- trade negotiation position and Rwandan private sector capacity (€ 2 000 000);
- integration and effectiveness of EDF financed projects in Rwanda (€ 1 000 000);
- management of public finances (€ 1 000 000);
- improvement of statistics for M&E of poverty reduction programmes (€ 2 000 000).

Regarding institutional support and project preparation, a number of activities were implemented under the Technical Cooperation Facility (TCF – 9 RW 6) in 2006 (funding of a pre-study for "tribunaux de base", economic impact report on Rwanda's accession to the EAC, etc).

Table 3.6 – Trade and institutional support financial summary

		Decided to 12/06	Committed to 12/06	%	Paid to 12/06	%	Paid in 2006
Technical Cooperation Facility	9 RW 6	780.000	588.718	75%	321.376	41%	148.784
Institutional Support to Economic Management	9 RW 10	6.000.000	2.273.000	38%	956.699	16%	956.699
Total		6.780.000	2.861.718	42%	1.278.075	19%	1.105.483

3.3 Use of resources for non-State actors

The cooperation between the EC Delegation and Rwandan non-State actors considerably increased in 2006. It covered more areas: on top of national reconciliation, human rights, genocide related justice, rural development and environment issues, projects were initiated on social issues, health, gender and media. By year end, some 51 projects were being implemented mainly by NGOs, both local and European (against 36 in 2005) with grants awarded further to Calls for proposals, for a total amount of €21.6M. The projects run by NSAs can be divided in two main groups: governance and rule of law with 43 projects (genocide-related justice, ordinary justice, unity and reconciliation, human rights, media, gender, indigenous people, etc) and rural development with 8 projects (agriculture, environment, food security and decentralisation).

Among these, 10 projects funded under EIDHR and NGO Co-financing budget lines were contracted in December 2006 by the Delegation further to Calls for Proposals managed by the EC headquarters, for an amount of €5.8M, whereas 6 micro-projects were contracted early 2006 for an amount of more than €453,000. All these new projects strengthen the activities of the civil society amid the Rwandan socio-economic challenges on issues so far not covered by EC co-financing or to a very limited extent: strengthening the professionalism of Rwandan media, fight against gender-based violence, health education for women, development of a new combustible for vulnerable communities, etc.

Table 3.7 – Use of resources for non-state actors

	Paid in 2006
Instrument EIDHR	2.497.563
Other Instruments	1.949.193
Total Thematic Budget Lines	4.446.756
EDF - 8 RW 19 (Support to the Rule of Law and Reconciliation) NSA Component	113.962
Total NSAs	4.560.718

A local call for proposals for micro-projects under the European Initiative for Democracy and Human Rights (EIDHR) was launched by the EC Delegation early November 2006 in order to support Rwandan civil society, with the following focal areas:

- “campaign for promoting the democratic process” for an amount of €400,000.
- “advancing equality, tolerance and peace” for an amount of €235,000.

A very high number of Rwandan NGOs (some 150) have collected the documents needed for the preparation and submission of proposals, thus confirming the vitality of local NSAs observed since 2004 with similar calls. It is expected that some 7 to 8 projects will be contracted as a result of this Call for Proposals.

In its support to NGOs working in the field of transitional justice, the project “Support to the rule of Law” launched a call for proposals in 2005. Five national and international NGOs were selected and their projects related to Gacaca jurisdictions and implementation of TIG were funded for a total amount of 418.000 Euros. 2006 saw the finalisation of the closure process of the NGOs projects (both international & national).

3.4 Use of B-Envelope

In the absence of natural disasters, Rwanda has not required recourse to remaining Envelope B resources in 2006. As a result of the Mid Term Review €52M had already been shifted from Envelope B to Envelope A through the MTR process in 2005. In addition, €2.8M was used from envelope B as a contribution to the EU-Africa Peace Facility. Under the End-Term Review process, it has been agreed that the remaining €7.2m of Envelope B would be transferred to the Long Term Development Reserve of the EDF. At the same time, it was agreed that funds totalling € 19,270,266 would be added to Envelope A, resulting in a net increase of Rwanda's NIP by more than €12M

3.5 Use of other Instruments

3.5.1 Stabex Interventions

See the Rural development section in 3.1.1 above. Disbursements under the STABEX continued in 2006 for a total of €2.9M, a very substantial improvement over the €1.8M spent in 2005, although activities progressed more slowly than expected.

All STABEX funds remain on interest-bearing accounts, which add funds every year to the FMO. As of end 2006, the total FMO funds for Rwanda are of €23M with a total RAL of €14.4M. to be spent entirely by the end of 2010.

The rider to the STABEX FMO came into effect in August 2006, allowing the redeployment of the activities in a new framework. The implementation and disbursement rates have been slowed down partially due to difference of opinions between the administration and the delegation on the objectives and results to achieve. The institutional weaknesses of the national partners are also responsible of the poor results achieved during the first part of the year. During the second semester, all components (Coffee, Tea, ISAR) started to deliver more efficiently. A support to the pyrethrum sector has been designed and will be implemented by the MINAGRI. A rider to the TA contract has been signed improving TOR and extending support up to mid 2008.

The Commission and Government agreed on new work plans in order to accelerate the implementation of the COM STABEX in 2007 refocusing activities on the implementation of Government's export promotion strategy and to increase the effectiveness of STABEX funds.

3.5.2 EIB Interventions

In 2006, the European Investment Bank had one active operation in Rwanda: the financing of the rehabilitation of the Kigali airport. However, in the same year, the Bank carried out 4 different missions that resulted in the evaluation of a Global Loan for the country. The Global Loan was negotiated with two financial intermediaries. A loan for the amount of EUR 3 million was signed in December 2006 with Banque Commerciale du Rwanda and another loan amounting to EUR 7 million was signed with Banque Rwandaise de Développement in February 2007.

These two credit lines aim at increasing the flow of long-term funds for SME development in Rwanda. Building on existing relationships with banks in Rwanda, long term funding will be made available to, primarily, small and medium sized companies. The facility will enable BRD and BCR to provide long-term loans and structure leasing operations in Euros and in Rwandan Francs (RWF).

The amount of the loan is in line with the current funding requirement of the two banks. The current facility specifically supports the development of export-oriented enterprises through two of the best performing banks in Rwanda. Both banks have a strategic goal of developing their SME portfolio, making use of their well-established branch-network. They also have a tradition of providing diversified financial service to Rwanda's private sector.

The Bank is also following up several potential investment opportunities in the energy sector.

3.5.3 Regional Co-operation

Rwanda still benefits from several regional projects, which are included in the analysis of focal sectors above, but the rate of disbursements is slower than in 2005, largely due to the completion of major road components. Rwanda benefited to a small extent from resources made available to COMESA for trade negotiations, from the all-ACP funds related to trade related assistance (including the funding of a EPA Sustainability Impact Assessment), and from the programme of control of epizootic diseases.

3.5.4 Intra-ACP Cooperation

Rwanda has not been awarded any subvention under the first call for proposals of the Water Facility. 8 proposals (6 national, 2 regional) were submitted in response to the second call; 2 national and 1 international proposals have been selected for a total amount of € 5,817,186.

4 proposals have been submitted at national level in response to the call for proposals of the Energy Facility; 3 passed the first assessment step of concept notes and have been submitted to the detailed assessments.

A €5M Intra ACP project aiming at reviving the institutions of the CEPGL (Democratic Republic of Congo, Burundi and Rwanda) has been prepared in 2006 and should be approved in 2007. The objectives of the project are:

- Improvement of economic integration and the efficiency of the regional markets,
- Sustainable management of natural resources and of energy in the countries of the CEPGL.

This revival will be based on the political and the technical relaunching of the bodies of the CEPGL specifically around energy, transport, inter-university exchanges, agronomy and trade.

The ultimate aim of this first project is to pave the way through project identification and feasibility studies for a larger programme.

3.5.5 EC Budget Lines

All the Thematic Budget Lines involving Rwanda are currently related to Non State Actors (mainly NGO Co-financing, European Initiative for Democracy and Human Rights). Please refer to section 3.3 on use of resources for NSAs.

4. EVALUATION OF PERFORMANCE INDICATORS

Performance indicators exist within the framework of budget (macroeconomic) support. They take into account results and indicators from a number of sources including the Government of Rwanda, other donors and most importantly the IMF. Sets of indicators are used for the fixed and variable tranches of budget support, and are deemed satisfactory at this stage by donors involved in budget support. It can be argued that the statistical collection system remains relatively weak, but this issue is being addressed by a group of donors including the European Commission (see 3.2.2. above).

During the lifespan of the first PRSP, the policy matrix attached each year to the Annual Progress Report never assumed the status of overarching framework containing all conditions associated with the various programmes of the individual budget support donors. However, development of a Common Performance Assessment Framework (CPAF) is a high priority on the agenda of the Budget Support Harmonisation Group, in order to further harmonise and align budget support and reduce transaction costs to the Government of Rwanda. Initial thoughts point to a CPAF that will contain a maximum of 50 elements, consisting of policy measures and performance indicators. It is expected that the CPAF will be agreed upon before the end of 2007 as part of finalising the EDPRS.

For the time being, Result Oriented Monitoring is used by the Delegation to monitor project performance as ROM missions have monitored a large number of projects over the last few years.

5. COORDINATION AND HARMONISATION OF DONORS

Cooperation with other donors and in particular Member States

Close cooperation with the Member States present in Kigali (UK, Germany, Belgium, Netherlands, Sweden and France) continued in 2006, in particular with the weekly Heads of Mission and monthly Heads of cooperation meetings held in the premises of the Delegation. France left the country when the diplomatic relations were severed by Rwanda in November 2006, leaving only 5 Member States presents at the end of the year.

Cooperation with other donors is also continuing. The Delegation is a member of the Steering Committee (along with the Netherlands, Sweden and the World Bank) of the "One UN" project under the joint chairmanship of UNDP and MINECOFIN. The project, which aims at harmonising and coordinating UN agencies in Rwanda, is progressing on schedule.

Harmonisation of donors and implementation of the Paris Declaration

Rwanda signed the Paris Declaration in 2005 and the Government of Rwanda and its Development partners are working on its key global commitments through their Aid Coordination, Harmonization and Alignment Framework as well as Rwanda's national policies and strategies.

July 2006 saw the formal endorsement by Cabinet of Rwanda's Aid policy, which is the outcome of intensive consultations with Government stakeholders and development partners. The final document reflects the Government's priorities with regard to external assistance.

As a first step towards the implementation of policy, country development partners have been invited to undertake a self-assessment of current practices against the provisions of the policy. The Government's implementation plan was presented to donors at the Annual Government of Rwanda and Development Partners Meeting in November

Coordination and Dialogue through the Development Partners Coordination Group(DPCG)

The Ministry of Finance and Economic Planning has continued to lead Rwanda's coordination structure providing open forums on policy and technical dialogue. The External Finance Unit is mandated with the coordination and management of external aid.

The Government and its partners maintain regular and transparent dialogue through the Development Partners Coordination Group (DPCG), the highest level coordination structure in Rwanda. The working of the DPCG (whose frequency of meetings has been reduced to one every two months to reduce the burden on Government) in the finalization of the Rwanda's Aid policy ensured that the role of civil society, private sector and financing preference for decentralized entities were included.

The DPCG has worked on the advancement of the EDPRS. It was agreed for clusters to convene as sector working groups for 2006 in order for them to focus their work on the EDPRS process. Accordingly, cross-cutting issues working groups were established to facilitate issue mainstreaming in the EDPRS elaboration and implementation processes. Sector working groups carried out two main tasks over 2006: a backward looking review (the Joint Sector Review) covering the period 2002-2005 and the forward looking EDPRS planning.

Budget Support Harmonization Group and Budget Cycle

In the first quarter, joint sector reviews within clusters look both at the progress achieved and at future plans and financing needs. This first quarter joint budget support and public financial management review allows the BSHG to assess progress in macroeconomic framework, budget

execution and incidence of public spending, performance of priority sectors, public financial management and procurement, as well as predictability and budget support harmonization.

The Government has been requested to improve budget reporting to provide regular information to donors for their in-year reporting to their headquarters. Likewise, donors were also requested to better their long term commitments and frontloading procedures. On the EDPRS, the JBSR concluded that the process is generally well managed.

Budget support donors commended the Government for its processes in the implementation of PFM reforms. However, it was recommended that capacity gaps at local levels be immediately addressed.

Supporting Sector Programs – the Sector Wide Approach

Rwanda's Aid policy calls upon stakeholders in Rwanda's development to increase the proportion of assistance delivered in the context of SWAPs in an effort to increase aid effectiveness, with hopes that eventually all sectors will be operating through their own SWAPs.

In June 2006, high level officials from the Government participated in the Joint Learning Program on SWAPs, which brought together participants from the Agriculture, Decentralisation, Health, Justice and Land and Environment Sectors.

6. DIALOGUE WITH THE NAO AND THE NSAS

Dialogue with the NAO

The already existing regular contacts with the Rwandan authorities continued in 2006 on a very steady basis. The **structured work relationship with the NAO** put in place at the end of 2004 (bi-weekly technical meetings led by the operational sections completed in 2006 by monthly meetings led by the Finance & Contracts section dealing specifically with closeouts, decommitments and the reduction of RAL with the sunset clause in sight; monthly steering committees jointly chaired by the NAO and the Head of Delegation aimed at taking decisions on problems that cannot be solved at technical level) proved to be a very efficient way of ensuring a smooth and timely implementation of the EC external aid assistance.

The Delegation continued participating actively in cluster meetings co-chaired by the Government and donor representative as well as Sector Working Group for the preparation of the 2nd PRSP generation. The Delegation co-chairs the Infrastructure cluster. **Bilateral relationships** with relevant ministries were similarly continued in a dynamic way in every sector.

Interactions with NSAs

Interactions with NSAs continued on a regular basis especially for the preparation of the 10th EDF (27/04/2006 and 31/08/2006) and the preparation of the 2005 JAR (03/03/2006).

The increasing number of NGOs applying for support either spontaneously or through the EIDHR calls for proposals, as well as the improving overall quality of the proposals, constitute strong evidence of an increasing interest and participation of NSAs over the last three years as well as the vitality of civil society in Rwanda.

7. CONCLUSIONS

The Rwandan calendar does inevitably incorporate the 1994 genocide as a "year zero" in development terms, most of the country's infrastructure and social fabric having been destroyed in the process. 12 years after the genocide, 2006 confirmed the steady progress made by the country year after year. The object of these conclusions is to put Rwanda's process in perspective and to measure the progress still to be made to reach the Millennium Development Goals.

Political, economic, social and environmental developments

Politically, the country remains stable despite the high pace of reforms (consolidation of the constitutional and judicial reforms, far-reaching reform of local government structures, follow-up of public service reform). The Gacaca process proved effective in rendering post-genocide justice without lasting damage to unity and reconciliation.

Regionally, the political and security situation remained fairly stable as relations of Rwanda with DRC improved. Despite the slow progress made in disarming / repatriating the militia in Eastern DRC, it is fair to say that the region has never been so stable in 15 years. Rwanda remains one of Africa's few countries having successfully undertaken the African Union's APRM process.

Macroeconomic performance in 2006 was reasonably good: 6.3% growth, inflation under control at 7.7%, marginal improvement in the balance of payment, stable currency.

Progress in poverty reduction

Progress in poverty reduction was unfortunately largely offset by demographic factors. Poverty remains widespread in Rwanda, and a vast majority of the population remains dependent on subsistence agriculture. The Millennium Development goals are still far away. This will undoubtedly influence the evolution of Rwanda's poverty reduction strategy in the years to come.

Results in focal sectors

Results in the infrastructure sector have been very successful and the European Commission's involvement is substantial, visible and lasting. However, progress in capacity is still needed before a shift towards Sectoral Budget Support is possible.

Progress has been made in the rural development sector, leading to a much improved disbursement pattern, but action in this crucial sector remains hampered by a relatively low absorption capacity.

Involvement of NSAs, local authorities, MS coordination and donor harmonisation

The Delegation is involved with NSAs through the preparation of the 10th EDF CSP and EIDHR calls for proposals, and with local authorities at all levels through its rural development projects. Coordination with the Member States that have embassies in Kigali is assured through regular meetings of EU Heads of Mission and Heads of Cooperation. The Delegation is active in the field of donor harmonisation through the Development Partners Coordination Group which brings together all donors and NGOs under the joint chairmanship of MINECOIN and the UN.

ANNEXES

Annex 1: Country at a Glance and MDGs

Annex 2: Retrospective financial situation

Annex 3: Financial Perspective for 2007-2008

Annex 1: Country at a Glance and MDGs

Annex 1.1: Country at a Glance table from 10th EDF CSP

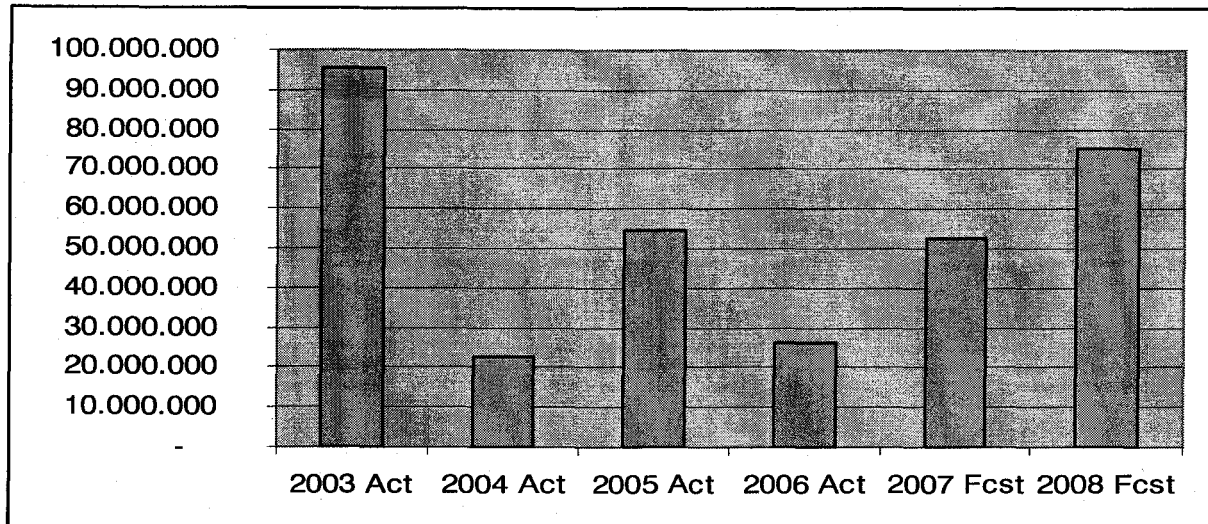
	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	Source
		Actual	Actual	Actual	Actual	Actual	Est.	Proj.	Proj.	
	Basic data									
1	Population (000)	7.754	7.956	8.163	8.375	8.593	8.816	9.045	9.280	2002 Census
	Annual Population growth (%)			2,60%						2002 Census
2a	Nominal GDP (€m)	1.970,1	1.901,0	1.834,6	1.501,3	1.469,0	1.731,8	1.858,3	2.036,1	
2b	Nominal GDP per capita (in €)	254,1	238,9	224,7	179,3	171,0	196,4	205,4	219,4	
3	Real GDP annual growth Rate (Rwf based)	6,9%	5,9%	9,4%	0,9%	4,0%	6,3%	6,0%	6,0%	MINECO FIN
4	Gross investment	17,5%	18,4%	16,9%	18,4%	20,5%	22,3%	21,9%	21,9%	IMF 1/
	International transactions									
5	Exports of goods (% GDP)	4,96%	5,50%	3,90%	3,70%	5,30%	6,00%	5,60%	5,35%	IMF
	of which coffee (% GDP)	1,24%	1,14%	0,93%	0,88%	1,74%	1,84%	2,59%	2,10%	IMF
6	Trade balance (% GDP)	-8,3%	-8,5%	-9,7%	-10,7%	-9,7%	-11,6%	-14,5%	-12,9%	IMF
7	Current account balance (as % GDP),									IMF
	Including official transfers	-5,0%	-5,9%	-6,7%	-7,8%	-3,0%	-3,1%	-10,8%	-10,0%	IMF
	Excluding official transfers	-16,3%	-15,9%	-16,6%	-19,2%	-18,2%	-19,4%	-21,4%	-19,2%	IMF
8	Net inflows of foreign direct investment (% GDP)	8,1%	3,8%	2,6%	4,7%	3,8%	5,5%	9,0%	4,6%	IMF
9	External debt (% GDP)	71,8%	78,5%	85,3%	93,4%	91,9%	70,7%	15,0%	18,7%	IMF
10	Service of external debt (% export of goods)	29,7%	9,3%	12,0%	11,1%	9,6%	7,2%	5,0%	5,0%	IMF
11	Foreign exchange reserves (in months of import cover)	5,4	5,8	6,3	5,0	6,3	6,2	4,9	4,8	IMF
	Government									
12	Revenues (in % GDP)		19,6%	19,4%	21,6%	25,9%	29,2%	27,3%	24,1%	IMF
	of which domestic revenue	9,7%	11,4%	12,2%	13,5%	13,9%	15,1%	14,1%	14,3%	IMF
	of which grants		8,2%	7,2%	8,1%	12,0%	14,1%	13,2%	9,8%	IMF
13	Expenditure (in % GDP)	18,7%	21,0%	21,2%	23,9%	26,1%	28,5%	28,1%	27,5%	IMF
	of which recurrent expenditure (%GDP)	12,6%	14,2%	14,8%	17,8%	15,9%	17,9%	18,8%	17,9%	IMF
	of which capital expenditure (% GDP)	6,0%	6,6%	4,9%	5,6%	8,5%	10,1%	8,6%	8,8%	IMF
14a	Deficit (including grants)	-9,0%	-9,6%	-9,0%	-10,4%	-12,2%	-13,4%	-14,0%	-13,2%	IMF
14b	Deficit (excluding grants)		-1,4%	-1,8%	-2,3%	-0,2%	0,7%	-0,8%	-3,4%	IMF
15	Debt (in % GDP)									
	of which external (in % of total public debt)									
	Other									
16	Consumer price inflation (annual average change in %)	3,9%	3,4%	2,0%	7,4%	12,0%	9,2%	5,5%	5,0%	IMF
17	Interest rate (for money, annual rate in %)									
18	Exchange rate (annual average RWF per €)	358,2	396,8	449,7	603,0	717,7	691,3	700,0	700,0	IMF
19	Unemployment (in % of labour force)									
20	Employment in agriculture (in % total employment)									

Annex 1.2: Table of MDGs from 10th EDF CSP

	Indicator	1990	1995	2000	2004	2005	2006	2007	2008	2015	Source
		Actual	Actual	Actual	Actual	Estimate	Target	Target	Target	Target	
Impact	Poverty Headcount 1/	47,5%	77,8%	60,3%						23,8%	EICV
	% of underweight children (under 5)	29%		24%		22,5				14,5%	DHS
	Under-five mortality rate (per 1000 live births)	141	219	198		152				47	DHS
	Maternal Mortality rate (per 10,000 births)	2.500	2.300	1.071		846				625	DHS
Outcome	Net primary enrolment rate	65,9		74,3	92,0	92,0	94,0	94,0	94,0	100,0	EMIS
	Primary completion rate	53,0%		77,0%	51,0%	64,0%	74,0%	84,0%			EMIS
	Ratio of girls to boys in:										
	* Primary education	75%		98%	103%	104%				100%	EMIS
	*Secondary education (all schools)	75%		104%	91%	89%				100%	EMIS
	*Tertiary education (public and private)			58%							EMIS
	Births attended by skilled health personnel (%)	22,0%		31,0%	39,8%	38,7%	40,0%				SIS
	Utilisation of curative services				0,38	0,47	0,50				SIS
	Proportion of 1 year old children immunised against measles			62,0%	84,0%	85,6%	85-90%	85-90%	85-90%		SIS
	HIV Prevalence among 15-49 year old pregnant women			13,7	9,5	3,0					Sentinel Site survey (DHS for '05)
	% population with sustainable access to an improved water source			41%			57%			85%	Census
	1/ EICV II data is foreseen for January 2006										

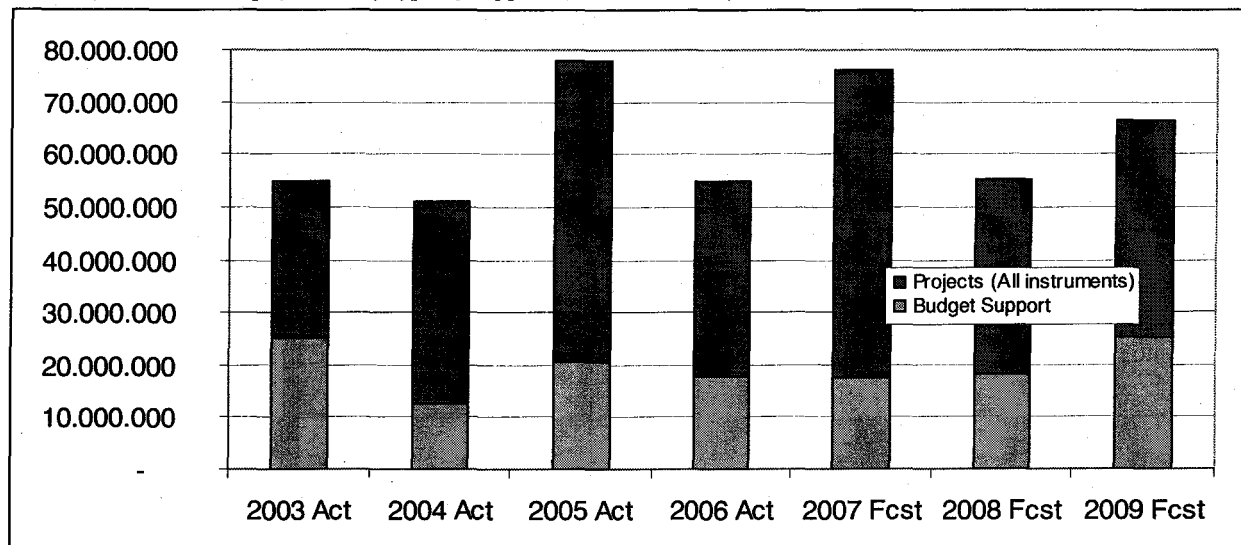
Annex 2: Retrospective financial situation

Figure 4.1 – Trends in individual commitments (EDF NIP only)



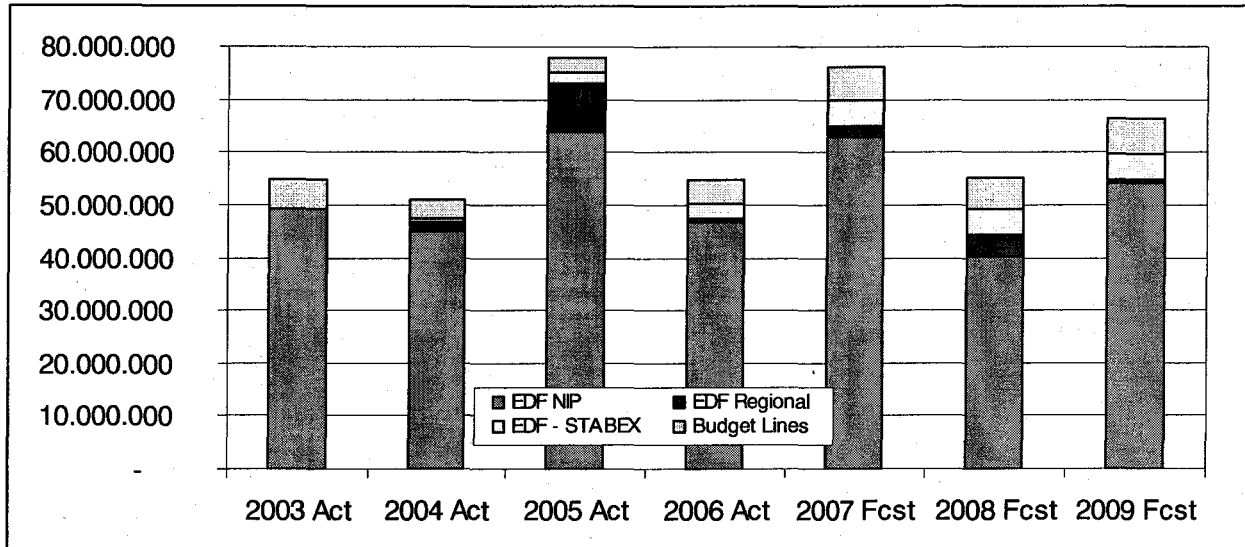
Trends in individual commitments show a sudden decrease in 2006 due to the delay in contracting the Ruhengeri-Gisenyi Works Contract, which will take place in 2007. The trend is due to pick up in 2007 with the contracting of post-ETR amendments and new commitments. This will continue in 2008 with the beginning of 10th EDF contracting.

Figure 4.2 – Trends in payments by type of support (all instruments)



Trends in payment show a level consistently above €50M per annum with peak years such as 2005 due to the elimination of backlog. 2007 is expected to be a good year for payments and the 2008-2013 future looks equally promising with an increase of budget support allowing for payment levels consistently above €60M.

Figure 4.3 – Trends in payments by instrument



The table of payments by instrument above shows generally speaking an increase of STABEX and Thematic Budget Lines payments over recent years.

The STABEX payments are related to the current revised FMO and the phasing-out of that instrument as of end 2010. Considering the STABEX RAL, sustained payment levels of €5M per annum are forecasted until 2010 and specific disbursement plans are in place.

Thematic Budget Lines payment reflect the increased space of these centralised instruments in the EU-Rwanda Cooperation, concerning almost entirely Non State Actors. Sustained payment levels around €5M are expected for the forthcoming 5 years, involving the management by the Delegation of an average of 50 NGO contracts on a going basis.

Regional (RIP) payments have peaked in 2005 as there were an important component of several road projects that had a substantial regional impact. They are slowing down in 2006/2007, but will pick up in 2008 with the implementation of the CEPGL project.

Annex 3: Financial Perspective for 2007-2008

Post-ETR 9th EDF programming is shown in the table below. All decommitments up to the ceiling, as well as the additional amount of €19,270,267, will be committed via 2 new commitments (Road Sector Support 9 RW 12 and a new TCF) and 4 amendments to existing commitments. The final total of 9th EDF NIP will be €218,507,915. Because of the sunset clause of the 9th EDF, all new commitments and riders are to be made before the 31st March 2006. There will be no further primary commitment until the 10th EDF starts in 2008. The bulk of 9th EDF disbursements will peak in 2007 and carry on at a decreasing pace until 2010.

Table 4.1 – 9th EDF Programming
Ressources

<i>Ressources</i>	
Enveloppe A Initiale	124.000.000
Transfert Enveloppe B	52.000.000
Total PIN 9ème FED hors reliquats	176.000.000
Reliquats dégagés au 1/1/05	7.207.426
Dégagements effectués en 2005	4.141.364
Dégagement 2006 sur 7ème FED	2.142.152
Dégagements 11/2006 sur 8ème FED	776.928
Dégagements du 20/12/06 sur FED 7 et 8	4.568.228
Dégagement du 27/12/2006 sur FED 6	989.467
Dégagement du 16/01/2007 sur FED 6->9	255.328
Dégagements du 18/01/07 sur FED 6->9	2.012.427
Total PIN 9ème FED avec reliquats	198.093.320
<i>Disponible non engagé:</i>	<i>13.507.371</i>
Montant Additionnel agréé ETR	19.270.267
Total prévisionnel 9ème FED	217.363.587
Dégagements Par 2007 autorisés ETR	1.144.328
En cours (8 RW 17 avenant de diminution)	140.000
Pipeline (8 RW 19 et 8 RW 35)	1.004.328
<i>Total à engager avant le 31 mars 2007</i>	<i>33.921.966</i>
Grand Total Prévisionnel 9ème FED	218.507.915

Engagements

<i>Engagements</i>	
9 RW 1 Elections	1.800.000
9 RW 2 PPARP	47.565.949
9 RW 3 PARES	3.000.000
9 RW 4 DPRPR	34.000.000
9 RW 5 Assemblée Nationale	8.000.000
9 RW 6 TCF 1	780.000
9 RW 7 Augmentation de Plafond Route	2.080.000
9 RW 8 Augmentation de Plafond AEP Bugesera	3.860.000
9 RW 9 Budget Support for Poverty Reduction	36.000.000
9 RW 10 Institutional Support for Economic Management	6.000.000
9 RW 11 Soutien à l'Etat de Droit	6.500.000
9 RW 12 Appui Secteur Routier	35.000.000
Total engagé 9ème FED	184.585.949
Pipe line en cours	19.500.000
Avenant 9 RW 9 Budget Support for Poverty Reduction	18.000.000
Avenant 9 RW 5 Assemblée Nationale	1.500.000
Pipe Line envisagé	14.421.966
Avenant 9 RW 11 Soutien à l'état de droit	5.000.000
Avenant 9 RW 10 RISEM	1.800.000
Avenant 9 RW 12 Appui Secteur Routier	7.000.000
Nouvel Engagement TCF 2	621.966
Grand Total Pipeline	33.921.966
Grand Total Engagements 9ème FED	218.507.915

Forecasted disbursements in 2008 stand at €55.5M (with a risk-adjusted target at €43.6M). Disbursements in 2008, not including any 10th EDF disbursement, stand at €39.5M.

The 2007-2008 financial forecast for EDF and Budget follows:



EUROPEAN UNION
DELEGATION OF EUROPEAN COMMISSION
KIGALI – RWANDA
Head of Delegation

A/4716.

Kigali, 31 July 2007
Ref : 579/07 (1707)

NOTE TO MRS ELIZABETH TISON
HEAD OF UNIT DEV D/3

Subject : Signature of the Rwanda Joint Annual Report 2006

Following your email dated 26 July 2007, please find attached to this note is a copy of the letter confirming the Rwandan NAO approval of the JAR 2006 (version 2.1), along with a copy of the finalised JAR (version 2.2), which incorporates some minor modifications requested after the e-CTR compared to the version 2.1 that was communicated to Headquarters at the end of May 2007.

David MacRae

Att: Final Joint Annual Report 2006 (version 2.2)



MINISTRE DES FINANCES ET DE LA
PLANIFICATION ECONOMIQUE
B.P. 158 Kigali
Tel: +250-577994 Fax: +250-577581
E-mail : mfin@rwanda1.com

Date	10/02/07	Proceder	Original JWR
N°	1529		cc HOS, GAD
Repondre			a ET VDB
W/en parler			
Pour information			
A classer			

Monsieur le Chef de Délégation
Délégation de la Commission européenne
B.P 515 Kigali

Objet : Rapport Annuel Conjoint 2006

Monsieur le Chef de Délégation,

J'ai l'honneur de vous transmettre ci-joint, le rapport Annuel Conjoint 2006 Union Européenne –Rwanda dans sa dernière version.

En effet, après intégration de différents éléments d'informations et échanges sur ledit rapport entre les Services de l'Ordonnateur National du FED d'une part, et la Délégation de la Commission Européenne d'autre part, l'Ordonnateur National du FED marque son approbation sur le présent rapport (version 2.1).

Je vous prie de croire, Monsieur le Chef de Délégation, en l'assurance de ma considération distinguée.

Pour le Ministère des Finances et de la
Planification Economique
L'Ordonnateur National du FED



John RWANGO
Secretary General and
Secretary to the treasury

P.J :
- Rapport Annuel Conjoint 2006.