



Identifying Gaps and Obstacles;

*“Are capacities ready for more aid
at the country level”*

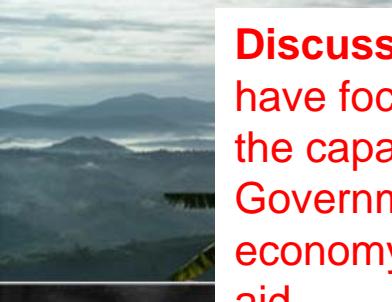
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Structure of Presentation

- What is absorptive capacity?
 - Dynamic concept
 - Focus needs to be on change management
- Case Study of Rwanda
- Conclusions and Points for Discussion



What do we mean by absorptive capacity?

Discussions on capacity have focused too much on the capacity of Government and the economy to absorb more aid.

Institutional and Human Capacities

Institutions and skills to ensure sound policies efficient planning, execution and accounting, alignment of external resources.

“Capacities”

Economic Capacities

Capacity to receive and spend more aid without macroeconomic distortions (i.e. Dutch Disease)

Non government capacities

Donor capacity/willingness to align aid to country programs and to use country systems.

Capacities of non state actors



Political Capacity Important for Motivating Change Management

**Strong state with fully developed capacity
(good governance)**

Government capacity weak and needs a lot of support for executing and managing aid;
Institutions and human capacity built to ensure ownership over ODA in the future.
Project support is the dominant aid modality.
Greater use of non state actors

Fragile State with no capacity



Political Capacity Important for Motivating Change Management

**Strong state with fully developed capacity
(good governance)**

Strong systems are in place and the Government fully capable of owning and managing aid.

Donors fully align behind strong Government ownership (bgt support).

The need for PIUs declines and they should be phased out.

Government fully capable of managing aid.

Donors reduce excessive reporting reqnts

Fragile State with no capacity



Focus Needs to be on Change Management

- The crucial link between the improvement of Government systems and their increased use seems to have broken down.
 - A key finding of the first Paris Monitoring survey was the weak correlation between the level of country systems and the use of those systems.
 - This was mentioned repeatedly at the regional HLF preparatory meeting in Kigali.
- This undermines capacity to absorb more aid, as the transaction costs associated are not mitigated.



Human Capacities

- Skills remain in short supply, but capacity building initiatives are in place (Human Resource and Institutional Development Agency coordinates it):
 - Paris Indicator 4 (coordinated capacity development) has improved, but the benefits of this numerical improvement have not been observed fully.
- Intensive training of professionals:
 - E.g. ongoing training of public accountants, procurement officers, planners and others (across government +local gov)
- GOR has taken a strategic decision to hire capacities to fill the gaps (they come help do what we want to do but lack capacity to it)



Institutional Capacities (I)

- PRSP II/EDPRS has already been launched
 - EDPRS offers clear priorities with which aid needs to be aligned
 - Costing of EDPRS gives clear indication of resource gaps in the medium term

- GoR Aid Policy (finalised July 2006) sets out clearly how aid should be provided and managed, with a view to ensuring fit with the EDPRS



Institutional Capacities (II)

- Important PFM reforms ongoing:
 - Building of strong legal framework based on international standards completed this year.
 - Successfully prepared GoR consolidated accounts for 2006 and 2007
 - A 5year PFM reform strategy and Action Plan in place to strengthen institutions and systems with strong inputs from a PEFA assessment.
- Continued strengthening of sector planning and MTEFs
- SWAP introduced in Education and Health sectors, soon to be introduced in Agriculture and Justice.
- Administrative reforms have led to greater decentralisation – performance contracts (Imihigo)



Institutional Capacities (III)

- Some key challenges ahead:
 - Further improving sector-level planning and coordination.
 - Strengthening of planning and budgeting at the district level – Linking district development plans (DDPs) to EDPRS.
 - Aligning donor-funded projects to the EDPRS flagships.
 - Improving Parliaments understanding of PFM processes and aid management through increased capacity of Parliamentary Committees.



In-country Donor Capacities

- Donor cooperation offices in Rwanda are often small in terms of staffing:
 - Unable to engage fully in policy dialogue that becomes increasingly important with the move towards partnership-based modalities (e.g. budget support).
- Many donor field offices are overly constrained by HQ-level regulations, despite commitments made at international level :
 - Cannot always align to the maximum extent, or enter into partnerships with other donors to increase aid effectiveness.
 - Always seeking non objections from hdqtrs



Non-State Actor Capacities

- Grassroots efforts in the elaboration of the EDPRS mean that the strategy is “owned” by its beneficiaries, but:
 - Literacy and skills remain a challenge to civil society in its role in asserting greater ownership over development activities, and in advocating for an effective use of aid.
 - Relatively disorganised NGO sector reduces ability to implement their interventions effectively, though new umbrella organisations (e.g. NGO platform) promise to improve this.
- Integrating NGO activities into the national development programs and increasing their accountability – JAFs at local govts level trying to address this.



Key constraint of scaled up aid: Uneven Paris Declaration performance

- Performance against Paris targets is a principle constraint to our capacity to absorb more aid
 - Progress on Paris has been uneven at best, and transaction costs, off-budget allocations, and weak alignment remain problematic.

Selected Paris Declaration indicators		2005	2007	2010 Target
3	Aid on Budget	49%	51%	85%
4	Strengthen capacity through coordinated support	58%	84%	50%
5a	Use of PFM systems	39%	42%	59%
5b	Use of Procurement systems	46%	43%	64%
9	% Programme Based Approaches	42%	38%	66%



Key constraint of scaled up aid: Uneven Paris Declaration performance

- Donors seem to place some confidence in GoR PFM systems following recent reforms as they have increased general budget support allocations from 26% in 2006 to 30% in 2007.
- Paradoxically, however, the overall use of programme based approaches (indicator 9) is declining and donors' use of country systems (indicators 5a and 5b) is not improving.
- Scaling up could be achieved much easier were donors to allocate proportionally greater amounts of funding on-plan and on-budget.



Importance of Scaling Up (I)

- Meeting the MDGs will require increased investment in social as well as productive sectors, e.g.; education, health, water and sanitation, agriculture, infrastructure etc..
- The EDPRS will address these constraints, but there is need for additional and better aligned external resources.



Conclusions

- Many recipient countries have made significant progress in rebuilding their institutions in a way that prepares them for a much-needed scaling up and effective use of aid.
- Use of country systems (budget execution, accounting, procurement) by donors is a pre-requisite to their continued strengthening (otherwise gov credibility is also undermined - UNDP HDI 2007)
- Aid volume and effectiveness should be seen as interlinked: as transaction costs are reduced, the ability of a recipient government to manage a greater volume of resources is improved and more resources are put to better use.
- It won't make sense to continue talking of building capacities of recipient countries if donors are not ready to change – need to also focus on why donors don't use gov systems.



I THANK YOU