

# Macroeconomics & Fiscal Management

## MFM PRACTICE NOTES

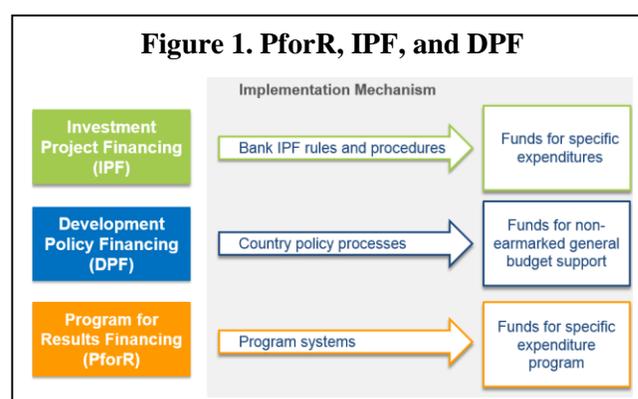
### RWANDA EXPERIENCE: PREPARING A PFORR OPERATION

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In 2012 the World Bank introduced a new lending instrument, [Program-for-Results \(PforR\)](#). PforR differs from the Bank's other instruments – development policy financing and investment project financing – by linking the disbursement of funds directly to the delivery of defined results (see Figure 1). PforR is intended to help countries improve the design and implementation of their own development programs and achieve lasting results by strengthening their institutions and building capacity. PforR also focuses on strengthening the country's systems that are associated with the program (financial management, procurement, monitoring and evaluation, and environmental and social systems). Thus, the Rwanda country team felt that PforR would be a very good fit for Rwanda, a country with results-based development management and strong country systems, and the Government was very much interested in this type of financing.

This note reflects on the experience with this instrument in one operation in Rwanda. [The Public Sector Governance Program PforR \(P149095\)](#) was approved by the Board of Directors in October 2014. This program, focusing on public financial management (PFM) and statistics, is Rwanda's first PforR operation and the first led by the World Bank's Macroeconomic and Fiscal Management Global

Practice (GMFDR). In leading the operation, the Bank team gained knowledge and experience on how to effectively and efficiently prepare for a PforR program. The purpose of this note is to share that knowledge and experience within the World Bank and beyond.



**Introducing PforR to the Client:** PforR operation is conceptually easy and attractive, but its success requires broad engagement and collaboration around the potential value-added of the instrument. Country directors, managers, and task teams need to be engaged with key counterparts – for example, Ministries of Finance and Planning and sectoral ministries. Frequent discussions are also needed within the Bank between country and sector management and within the government between line ministries and concerned sector ministries (and, where appropriate, local governments) to build

<sup>1</sup> This Knowledge Note was cleared by Albert G. Zeufack, Practice Manager (GMFDR).

understanding and consensus on the way forward. It is also critical to reach out to other partners and stakeholders and share information at all levels. The preparation of a PforR program requires three thorough assessments (technical, fiduciary, and environmental and social) and the preparation of a Program Document. It is important that neither the Bank team nor the government underestimate the amount of work that can be involved.

**Rwanda experience.** When the instrument was first introduced, the Government team thought that preparing a PforR operation would involve simply setting some disbursement-linked indicators (DLIs). Thus, the amount and type of dialogue and data/information that were involved far exceeded their original expectation and led to some initial dissatisfaction. Also, as this is the first PforR in Rwanda, there was little understanding of the differences among the three instruments. We found that holding workshops and follow-up discussions to engage the various stakeholders was a good approach to bringing everyone on board.

**Recommendation.** It is important to introduce the instrument to the client, taking the necessary time to build consensus. The Bank team and management should set aside enough time at the beginning of PforR preparation to explain the procedures and requirements clearly, and set the right expectations.

**Team Composition:** A PforR program is prepared by a Bank team and client counterpart team working together. For all Bank-funded operations, but especially for PforR, the Bank team must bring together complementary skills in policy dialogue, technical design, and implementation support, including subject-matter experts. The PforR team should also include staff who are very familiar with the PforR instrument. It is helpful if this team has a strong field presence. Similarly, the client counterpart team needs to include not only ministries and agencies relevant to the technical area of the program, but also those dealing with environmental and social issues and fiduciary issues. Where appropriate, development

partners should also be included as members of these teams.

**Rwanda experience.** The Bank's task team leader prepared a detailed processing schedule and division of labor for the team, including designating one member to oversee the preparation process. On the client side, the program involved five implementing agencies plus those dealing with environmental and social issues—a complicated team that had coordination problems at the beginning.

**Recommendation.** It is highly recommended that one team member—ideally one with PforR experience—oversees the timeliness and progress of the preparation. Having strong counterparts on the government side also helps, especially in multisectoral operations like this one, which may be dealing with complex issues.

#### **Coordination with Development Partners:**

A PforR program can strengthen partnerships, since development partners can work through the program systems, ideally around a common set of results owned by the government. Generally, development partners welcome the prospect of such a program, but not all partners in the field know how the instrument works.

**Rwanda experience.** Because the Rwanda Public Sector Governance PforR Program is about three times larger than the other development partners' interventions combined, and because this was the first PforR operation prepared in Rwanda, some of the development partners were concerned about how it would align with their projects and programs. In response, the Bank team took time to explain to the development partners how the PforR program would bring additional value to the sectors and would align with their interventions. To reduce the client's transaction costs for monitoring and evaluation, the Bank team adopted the same indicators that other development partners used. The development partners reacted well to this approach, welcomed the PforR, and readily cooperated with the Bank on it.

**Recommendation.** It is important to reach out to other development partners at the very beginning, briefing them on the PforR's potential as a means of coordination with partners, as well as on the specific program that is being prepared.

**Program Boundary and Expenditure Framework:** PforR finances part or all of a program of the government—whether national, subnational, sectoral, or subsectoral—that leads to defined development results. One of the most important tasks in preparing a PforR operation is working with the counterpart team to define the scope and boundaries of the PforR Program. The Program should be sufficiently ambitious to have real development impact, but it should not be so complex that it becomes unmanageable for the client. As part of the Program definition exercise, constructing a credible expenditure framework is very important. Carefully reviewing the budget structure and classification of government expenditures, and assessing the Program's financial sustainability and funding predictability, helps to (a) define the Program boundary and scope of the assessments, (b) identify relevant implementing agencies, and (c) analyze the efficiency of the Program's expenditures. However, developing a quality expenditure framework can be challenging, especially for a cross-cutting sector such as PFM, where multiple ministries and agencies are involved.

**Rwanda experience.** For Rwanda's PforR, it was challenging for the Bank team to convince the client of the importance of the expenditure framework and it was not easy on part of the Bank team to define the right scope of analysis. Also, some of the PFM program and subprograms were not aligned with the country's budget classification, and the Bank team requested the counterpart team to construct a matching table between the PFM program/sub-program and budget classifications. As a result, it took a few months for the client to construct a quality expenditure framework satisfactory to the Bank team, which caused a delay in parts of the preparation.

**Recommendation.** A quality expenditure framework requires information not only at the program and subprogram levels, but also at the output and activity levels. It should support the key elements of the results chain. If this activity reveals that the government does not have an appropriate budget structure, it can be an opportunity for the Bank team to help the government enhance its budget structure. It is particularly important that the Bank team have expertise in this area.

**Results Chain and DLIs:** Part of defining the Program's scope is identifying the key results to be achieved under the Program. The Bank and counterpart teams then work together to develop the indicators by which to measure the achievement of those results. Formulating a results chain linking the program development objective (PDO), results areas, results indicators, and DLIs is a core part of a program design.

**Rwanda experience.** Because Rwanda has strong results-oriented development management, the PFM sector strategic plan (SSP) and the national statistics development strategy include a great deal of information from which to construct a results chain. However, the Bank and client teams started by developing DLIs and trying to work backwards to finalize the results chain, using the results indicators and policy actions of the PFM SSP and the national statistics strategy. This was not the right approach. In addition, the teams were overly ambitious in terms of the numbers and contents of DLIs. Therefore, after a few iterations, the Bank team significantly simplified the DLIs by limiting their number and using the same indicator in each DLI across different years.

**Recommendation.** Our experience points to the importance of first developing a results chain that leads to sound and SMART (specific, measurable, attainable, relevant, and timely) DLIs. In designing DLIs, the teams should be careful not to make them too complex to be implementable.

**Addressing Capacity Constraints:** The preparation of a PforR operation involves three assessments—a technical assessment, a fiduciary assessment, and an environmental and social assessment. As part of carrying out the three assessments, the teams identify areas of weakness and capacity constraints that would hinder the client from successfully implementing the Program. Such constraints can be addressed through DLIs, in the program action plan, or in separate programs/projects financed by the World Bank or other development partners.

*Rwanda experience.* Although the Bank and client teams had recognized the importance of capacity issues in designing the PforR program, they found it was difficult to design a DLI on capacity; thus they included measures to address capacity constraints only in the program action plan. Management later advised the Bank team to include capacity issues in the DLIs and to identify capacity-related expenditures in detail. On the basis of that advice, the Bank and client teams developed a DLI related to capacity development, and identified expenditures related to capacity development.

**Recommendation.** The teams should put capacity building at the core of program design from the beginning. Also, the expenditure framework should clearly identify expenditure items related to capacity development.

### **Conclusion**

The preparation of the PforR program in Rwanda generated useful experiences and lessons that could be useful for the preparation of PforR programs in other countries. The authors of this note hope that it will add to the accumulating knowledge on how to effectively and efficiently prepare a PforR operation.

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