



FISCAL SPACE ANALYSIS FOR SOCIAL SECTORS IN RWANDA: KEY FINDINGS AND RECOMMENDATIONS

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KEY MESSAGES

- Public sector spending on social sectors has risen over the past five years. However, the challenging global economic context, fuelled by COVID-19, is limiting investment in social services in Rwanda and progress towards related national and international goals (NST-1, SDGs).
- A Fiscal Space Analysis (FSA) for social sectors was carried out to simulate projections of available government funds for the social sector and to identify options for increasing financing.
- The FSA shows that current levels of funding are insufficient to reach national and international goals and gaps will widen further over time.
- A mix of financing options (including increased tax, reprioritisation of the social sector, external financing, and efficiency savings) have the potential to almost close the financing gap by 2030, and it is possible to close the gap completely for child-specific expenditures.
- Whilst these projections are optimistic given the substantial financial, technical, and political effort they would require, the FSA demonstrates that fiscal space can be found without detriment to fiscal deficit and macro instability.

BACKGROUND

To reach national and international social sector goals Rwanda needs to invest more in social sectors, here defined as Climate Change; Early Childhood Development (ECD); Education; Health; Nutrition; Social Protection; and Water, Sanitation, and Hygiene (WASH). Whilst spending within these sectors increased nominally and as a share of GDP between 2017-2021, the macroeconomic impacts of the COVID-19 pandemic and the war in Ukraine are expected to limit the government's ability to increase investments in social services, putting the National Strategy for Transformation (NST-1) social transformation agenda off track. Now is the time to reassess and reprioritise these sectors to ensure that NST-1 targets can be met in the medium term, and SDGs in the longer term.

This brief presents the results of a Fiscal Space Analysis (FSA) that was conducted in Rwanda to identify the projected financing gap for the seven social sectors as a whole and for child-specific programmes until 2030. The financing gap is measured as the difference between available government expenditure and the cost of achieving country and international goals.

The brief then demonstrates the effects of implementing a mix of financing options on closing the gap and presents both general and sector specific recommendations towards achieving this. An accompanying brochure provides more information on the methodology used for the analysis and a menu of possible financing options.

ABOUT THE FISCAL SPACE ANALYSIS

The analysis used a Financial Programming Framework¹ (FPF) to model the impact of the COVID-19 crisis and the Economic Recovery Plan (ERP) on available government expenditures for social sectors up to 2030. Country-specific data and projections from government and IMF were used (2017/18 to 2020/21). The FSA considered the available government expenditures against the costs of achieving country goals (NST-1) and international goals (SDGs).

Various financing options were then considered in an attempt to reduce the financing gap between expenditures and costs. One limitation was the lack of comprehensive country-specific costing for each social sector. The FSA focused on the seven social sectors in their entirety followed by an analysis of child-focused programmes. This was carried out by isolating certain budget lines or making assumptions based on what proportion of spending would accrue to children in each sector.

KEY FINDINGS

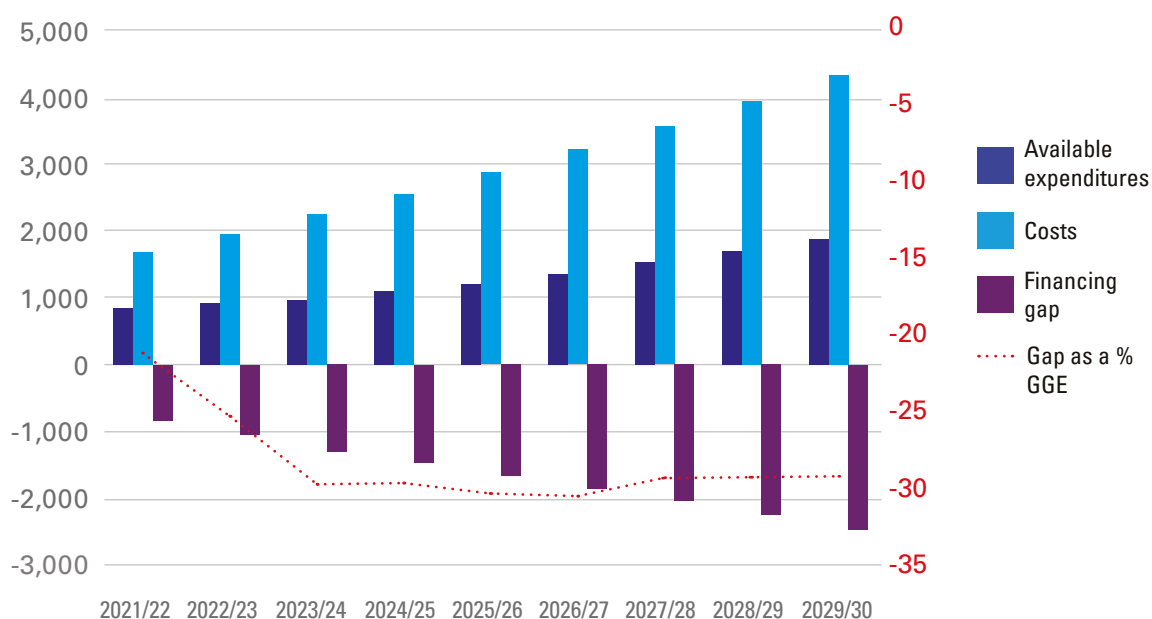
Projected financing gap with no policy change

The FSA projections show that the government's budgetary allocation is currently insufficient to achieve NST-1 and SDG goals, and without changes in public social sector expenditure the gap in financing will widen further over time (see Scenario 1 below).

SCENARIO 1: BUSINESS AS USUAL

- The financing gap rises from 830 billion RWF in 2021/22 to 2,460 billion RWF in 2029/30.
- This equates to an average of 28% of General Government Expenditure (GGE) and 8% of GDP each year.
- To reach NST-1 and SDGs, the government needs to spend over 100,000 RWF (90 USD) per person more each year on social sector services.

Figure 1: Projected Financing Gap for Social Sectors (Billion RWF)



The financing gap (purple bar) is the difference between available expenditure for the 7 social sectors and their costs.

Source: Authors'.

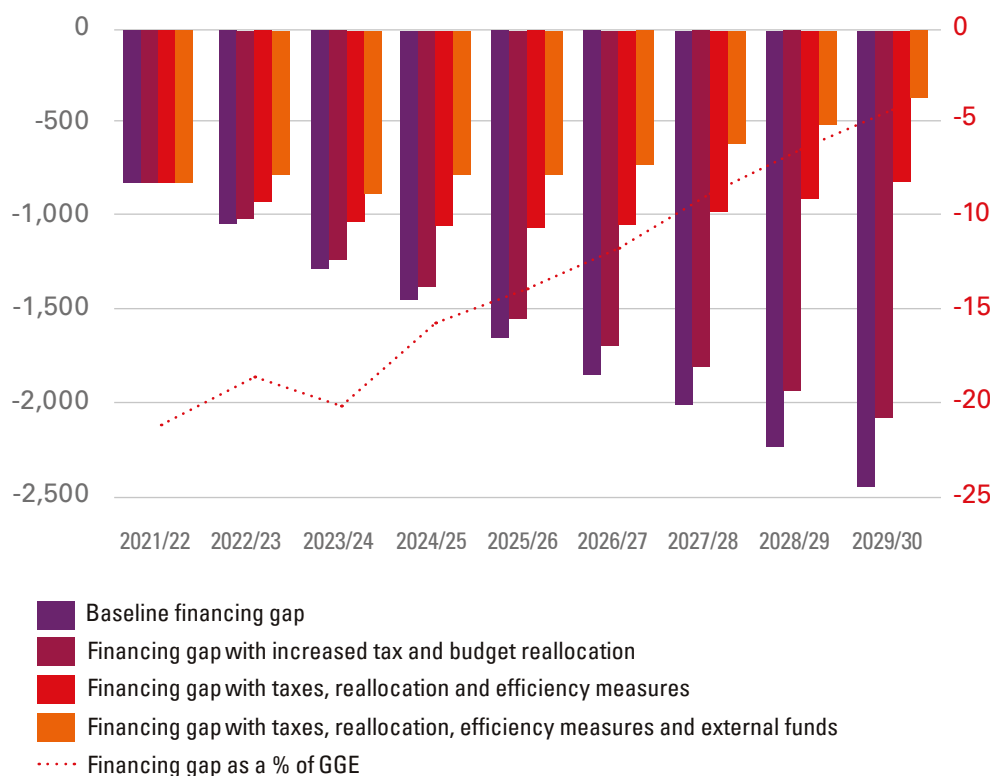
¹ The macroeconomic approach adopts a numeric framework, known as a financial programming framework, which is designed to assist in the development of a consistent approach to the different aspects of economic policy.

Projected financing gap when social sectors are prioritised and financing options are used

Several financing options are available to reduce the gap including general tax reforms and increase in budgetary share, efficiencies, external finance for social sectors and debt relief. Using these options together could almost close the financing gap by 2030 (see Scenario 2 below). Whilst this projection is likely an overly optimistic scenario, where the government prioritises all additional expenditure to the social sectors, it demonstrates that closing the financing gap is possible.

SCENARIO 2: BEST CASE

Figure 2: Potential Fiscal Space for Social Sectors (Billion RWF and as a % of GGE)



Source: Authors'.

1. The original financing gap (purple columns) show the financing gap under Scenario 1: Business as Usual.
2. The burgundy columns show how the gap can be reduced by **raising tax** by 0.3 percentage points a year (from 2027/28) and **raising the allocation of social sectors** by 0.5 percentage points a year (from 2022/23). This would reduce the gap by 15% by 2030. The gap remains at 2,080 billion RWF, 24% of GGE. This equates to 128,000 RWF per person (104 USD).
3. The red columns show the sum of the tax and budget increase (in 2 above) with the implementation of **efficiency measures** across all social sectors. These two initiatives could reduce the financing gap to 820 billion RWF in 2030, equivalent to 10% of GGE. This equates to 50,000 RWF per person (41 USD).
4. The orange columns start from option 3 above and adds in the fiscal space from **external finance** – debt relief and additional Overseas Development Assistance (ODA). This would reduce the financing gap to 370 billion RWF by 2030, equivalent to only 5% of GGE. This equates to 22,800 RWF per person (18 USD).
5. The resultant reduced gap – 4% of GGE – could be filled by **innovative funds**, which have not been quantified here.

Results for child focused social sectors

The FSA projected child-specific expenditures and costs resulting in a financing gap.

SCENARIO 1: BUSINESS AS USUAL

- In 2021/22, the financing gap for child-specific expenditures within social sectors was 484 billion RWF.
- With no new financing options introduced, the gap between available expenditures and resource needs is projected to increase to 1,370 billion RWF in 2029/30.
- This equates to an average of 16% of GGE and 5% of GDP each year.
- To reach NST-1 and SDGs goals, the government needs to spend over 137,000 RWF (117 USD) per child more each year on child-focused social sector services.

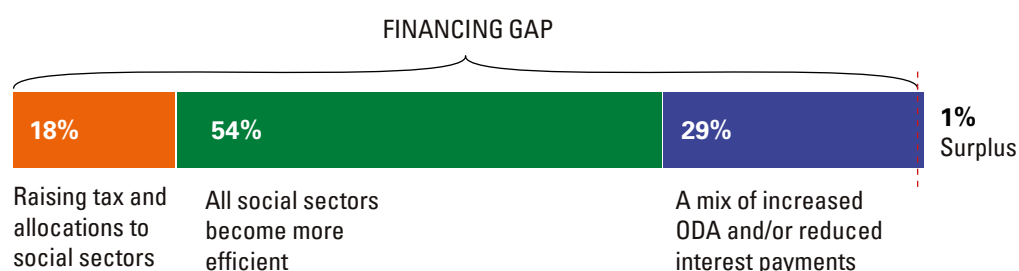
SCENARIO 2: SOCIAL SECTORS ARE PRIORITISED AND FINANCING OPTIONS ARE USED

The method used for the total population was replicated for children. However, in this scenario, the benefits of each financing option were directed solely on child-focused programmes to increase their available funding. Summing all these initiatives together could close the financing gap by 2030.

Breakdown:

1. **Raising tax revenues** by 0.3 percentage points a year (from 2027/28) and **raising the allocation of social sectors** by 0.5 percentage points a year (from 2022/23) would reduce the gap by 18% by 2030 (figure 3). The gap remains at 1,130 billion RWF, 4% of GGE. This equates to 158,000 RWF per person (128 USD).
2. Considering the tax and budget increase (above) with the implementation of **efficiency measures** together (such as focusing on value for money, more effective targeting measures, cost reduction, etc.), could reduce the child financing gap by 54% to 380 billion RWF in 2030, equivalent to 10% of GGE. This equates to 54,000 RWF per person (43 USD).
3. Adding in the fiscal space from **external finance** (debt relief and additional ODA) would reduce the child financing gap entirely and move to a surplus of 60 billion RWF by 2030, equivalent to 1% of GGE.
4. To speed up the closure of the child financing gap, sectors could use **innovative or blended financing**, however, the level of potential funding has not been quantified. Such innovative mechanisms involve a mixture of financing from public, private, ODA, and philanthropic sources, for example Public-Private Partnerships in WASH, Social Impact Bonds in Education, and green finance for climate change.

Figure 3: Potential contributions of different financing options on reducing the gap by 2030



Source: Authors'.

CONCLUSION AND RECOMMENDATIONS

The FSA shows that current levels of funding are insufficient to reach national and international goals, and gaps will widen further over time under the ‘business as usual’ scenario. The projections under a second scenario maximising fiscal space for social sectors suggests there can be sufficient funds by 2030. This supposes social sectors are prioritised and a variety of financing options are used. Moreover, substantial technical and political efforts will be required to ensure the financing options are fully implemented and results realized. However, FSA shows that if focus was placed on a mix of initiatives then fiscal space can be found without detriment to fiscal deficit and macro instability. Whilst it might not be possible to do it all, some action will inevitably be worthwhile to achieve social sector goals.

GENERAL RECOMMENDATIONS

RECOMMENDATION	ACTIVITY	RESPONSIBLE INSTITUTION
Undertake sector-specific and comprehensive costing	The lack of costing limits analysis and understanding of what Rwanda needs to invest to achieve its social goals. NST costing should not be based on what is available but consider complementary analysis on what will cost to reach the target, i.e. a mix of fiscally affordable costs and aspirational (what it cost to achieve the goals). The newly formed agency for Early Childhood Development and mainstreaming of Nutrition will require some form of costing to negotiate for budget allocation, and other sectors will also benefit from this.	All Ministries with MINECOFIN providing guidance and support - potentially need TA specialists
Secure exemptions	Social sectors currently benefit from a range of tax exemptions. They should build sufficient evidence around the benefits of these exemptions to the sector and beneficiaries.	All Ministries with MINECOFIN backing
Higher taxation	Assess optimal taxation measures with consideration for the technical, economic and political feasibility, and the social-welfare impacts of different tax reforms. This should include existing subsidies in other non social sectors such as energy, investments and FDIs	RRA and MINECOFIN
Create evidence-based advocacy for greater budget allocation	Advocacy should build on existing international evidence on the benefits of investing in children and social sectors, with strong Rwandan M&E to show the impact of policies and continued improvements in achieving targets.	All Ministries for negotiation with MINECOFIN- potentially need TA specialists
Strengthen Efficiency Analysis to Improve Public Resource Allocation	Efficiency savings must be approached in an evidence-based systematic way to ensure that output and outcomes are not harmed. This will require analytical work and research before new plans are implemented. Efficiency analysis can be done over each sector and achievements linked to budget allocation, if agreed in advance with MINECOFIN.	All Ministries- potentially need TA specialists
Secure near-term ODA before Rwanda transitions to middle-income status and ODA reduces	Mapping of all ODA will provide a picture of future gaps and give a strong advocacy tool for negotiating with DPs and Government for more funding. Sector-specific mapping and analysis of stakeholders should work towards advocacy and solutions to bring existing DPs to invest more in Rwanda, bring new DPs to Rwanda, sector-specific underfunded priorities that can benefit from niche donor assistance. There should be a focus on how to optimise these funds to maximise outputs. It should also cover international advocacy topics such as the ongoing debt relief debate, and the longer-term implications of becoming a middle-income country for the longer-term ODA trends.	All Ministries
Investigate and secure sectoral innovative financing	The benefits and risks to Social Impact Bonds (SIB), Public Private Partnerships (PPP), and climate / green bonds have been outlined. More sector specific (and possibly even project specific) analysis needs to be carried out to assess the applicability of new financing mechanisms.	All Ministries- potentially need TA specialists

SECTOR SPECIFIC RECOMMENDATIONS

CLIMATE CHANGE	<p>Budget: Receives little in terms of budget allocation each year, significantly less than the proposed costs to achieve SDGs.</p> <p>Reallocation: Strong evidence-based arguments will need to be made to gain any rise in allocation from MINECOFIN. Mainstreaming climate within all sectors is a useful tool in this endeavour.</p> <p>Efficiency: Little is known about this sector's (in)efficiency, therefore, analysis into this would be useful.</p> <p>Innovative financing: Preference in this sector is for climate or green bonds is expected to continue, as is external support related to climate change.</p>
ECD	<p>Budget: The budget has grown but is insufficient to meet needs.</p> <p>Reallocation: Take advantage of political support in this sector and advocate using international and Rwandan evidence on the long-term economic benefits of investing in ECD to advocate for increased budget allocation.</p> <p>Efficiency: Little is known about this sector's (in)efficiency, therefore, analysis into this would be useful. The sector could improve its M&E for more impact assessment style analysis.</p> <p>Innovative financing: There might be some opportunities to engage with the private sector through infrastructure needs using PPP or utilising SIBs. Further investigation is necessary, including the possibility of it working in certain niche areas and of having an interested DP in the sector.</p>
EDUCATION	<p>Budget: Receives a large share of the budget.</p> <p>Efficiency: A focus on improving efficiency could have substantial impact on fiscal space and achieving greater outcomes with the same funding levels.</p> <p>Innovative financing: The sector has stated an interest in engaging the private sector for infrastructure needs. This would need to be backed up by strong contract management and M&E. SIBs might be useful for improving drop out and repetition rates given the possibility that an adaptive intervention may be required.</p>
HEALTH	<p>Budget: Projections suggest an upcoming reduction of ODA in a heavily donor-dependant sector. Public health expenditure has risen but remains heavily donor-dependent.</p> <p>Reallocation: Projected reductions of ODA coupled with the growing international evidence around why investing in child health is economic and socially beneficial should underpin advocacy to MINECOFIN to raise budget allocation. Mapping of DPs and their funding plans over the medium term can help provide a base of information.</p> <p>Efficiency: The sector has begun working on efficiency in terms of redesigning the CBHI but more analysis could be carried out to see where the health sector can improve.</p> <p>Innovative financing: The sector has a system in place via the Rwanda Development Board (RDB) and is attracting health investors. Whilst PPPs seem to be the most popular, there could be an opportunity for SIBs to be useful for reaching maternal and child health targets.</p>
NUTRITION	<p>Budget: The budget has grown but remains insufficient to meet needs.</p> <p>Reallocation: Take advantage of political support in this sector and use international and Rwandan evidence on the long-term economic benefits of investing in nutrition to advocate for increased budget allocation.</p> <p>Efficiency: Little is known about this sector's (in)efficiency, therefore, analysis into this would be useful. The sector could improve its M&E for more impact assessment analysis.</p> <p>Innovative financing: The idea to create incentives for the private sector in manufacturing fortified foods in Rwanda could be assisted with further investigative analysis as to whether this could work using PPP or SIB. Due to the linkages with health, the nutrition sector could benefit from learning best practice from MINISANTE and RDB for engaging with the private sector.</p>
SOCIAL PROTECTION	<p>Budget: A highly donor dependant sector with limited government funding.</p> <p>Reallocation: Advocacy is needed to help key government stakeholders understand the long-term productive nature of investing in social protection.</p> <p>Efficiency: The sector needs substantial work to become more efficient. M&E of high impact interventions will be crucial to be able to continually adjust plans and budget for the greatest impact on children.</p>

Budget: Receives little in terms of budget allocation each year, significantly less than the proposed costs to achieve SDGs.

Reallocation: Strong evidence-based arguments will be needed to achieve any rise in allocation from MINECOFIN.

Efficiency: Inefficiencies could be reduced by spending more on staff to send invoices / collect unpaid fees, and on the maintenance of infrastructure.

Innovative financing: The sector seems comfortable using PPP for its infrastructure needs. Improved M&E around implementation and impact would be useful to see how productive these collaborations are. Greater focus on geographical inequalities in service delivery would be beneficial and attract the private sector to engage in less well-served areas. The WASH sector could potentially benefit from climate / green financing as they also deal with water supply.

FINANCING OPTIONS BY SECTOR

	CLIMATE CHANGE	ECD	EDUCATION	HEALTH	NUTRITION	SOCIAL PROTECTION	WASH
Taxation & Redemption of Exemptions	Increasing domestic tax base most sustainable. However, generally out of social sector's control, rather the responsibility of RRA and MINECOFIN. Social sectors should secure their current exemptions.						
Budget Allocation	Requires much evidence-based advocacy in tight fiscal environment. Budget allocation could be linked to sector-specific improvements in efficiency.						
Efficiency	A potentially large source of fiscal space. Requires detailed analysis, planning and monitoring at sector level.						
Debt Relief	Unlikely, but if so, will increase available resources from reduced interest payments.						
ODA	Short to medium term only as Rwanda becomes a middle-income country- sector specific development partners and their headquarter plans.						
PPP							
Social Impact Bonds							
Climate / Green bonds							

■ Strong chance of success
 ■ Will need effort to ensure success
 ■ Unlikely to occur

Source: Authors'.

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Full report: Study on fiscal space analysis for social sectors in Rwanda commissioned by UNICEF Rwanda. Email: Kigali@unicef.org

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