



## REVIEW OF THE COMMON DEVELOPMENT FUND ACT

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## 1. 0 EXECUTIVE SUMMARY

The review of the Common Development Fund Act aims to generate more attributes towards the performance and responsibilities of the fund to achieve development geared towards economic growth. The Common Development Fund is responsible for the financing of a sustainable, socio-economic, equitable participatory and integrated development of the country. Its responsibilities, organization and functioning in promoting development, is linked to decentralization.

According to law, the responsibilities of the Common Development Fund include among others to support development activities of local administrative entities, to place mechanisms of distributing financial support in local administrative entities and to serve as an intermediary local administrative entities with legal personality and development partners especially those involved in financing development activities in those entities. Thus, the objectives of the Common Development Fund are multidimensional embracing the main spheres of development; political /administrative, economic and social.

The Act adopts general provisions, responsibilities of CDF, the supervising authority, the organization and functioning, the patrimony and finance and the financial support and distribution of development funds to local entities and the city of Kigali. Some of these need to be revised and given more clarity especially as regards the distribution of funds to districts and Kigali city for the development projects.

The review identifies major challenges with regard to the functioning of the Common Development Fund. First, there is a budgetary allocation to districts where a formula is applied basing on specific variables, this formula may not be adequate in the equitable distribution of the funds as the variables applied in the formula may change overtime. Second, the proposed development projects by the district council do not reflect a general participation of the citizens at the grass root level. Therefore, the proposed projects may in the end not be distributed in the rural community due to limited community participation directly towards the projects to be financed.

Finally, the Act clarifies the legal and institutional framework of Common Development Fund and the performance framework for continuous monitoring and evaluation of development projects in districts and City of Kigali that shall foresee further prospects of development in Rwanda.

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## 2.0 INTRODUCTION

The Common Development Fund (CDF) is a Government owned fund set up to support the implementation of decentralization policy, a policy which the Government of Rwanda considers as the main strategy to achieve good governance and sustainable economic development, as well as a weapon to fight poverty specifically in the rural communities. In order to ensure an effective implementation of this policy, availing resources to grassroots administrative entities was indispensable; the CDF was established and assigned the mission to empower those administrative entities by financing development projects.

The Government of Rwanda is conscious that its financial decentralization objective can be achieved by effectively using the Common Development Fund channel. And it is as much better realizable when the populations take part in development activities, are able to express their whole potentiality, to mobilize themselves and negotiate their interests within their local communities. In this respect, Districts and the populations play a determining role in the planning and management of development projects which take into account their needs and priority with the aim of poverty reduction<sup>1</sup>.

The Common Development Fund (CDF) was created to fund local government development initiatives. In order to stimulate the utilisation of local resources to develop public assets, a vast programme of Labour Intensive Public Works (LIPW/HIMO) was adopted and attached to the CDF. The Ubudehe approach the counterpart strategy to mobilise the population to alleviate their own poverty. Ubudehe is active at the cell level and will continue to be implemented at the Umudugudu level<sup>2</sup>.

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<sup>1</sup> Government of Rwanda, (2005) Common Development Fund.

<sup>2</sup> Community Development Policy, (2008), Ministry of Local Government.

## **2.1 CDF's Mission and Objectives**

The Common Development Fund (CDF) has the mission of financing Districts and Kigali City development efforts, with at least 10% of the annual national revenues allocated to the Fund.

The Common Development Fund started in 2002, following the decentralization policy. The focus was to decentralize finance. Its initial objectives were to;

- To finance local initiatives through development projects, to distribute between Districts and Kigali City funds allocated to those projects and to ensure that these funds are equitably distributed between those entities;
- To monitor the implementation and use of funds allocated by the government to development projects in Districts and the City of Kigali ;
- To "participate to the administrative entities' capacity building in order for them to manage their development and mobilize complementary resources.
- To serve as an intermediary between local administrative entities with legal personality and donors especially those involved in financing development activities in those entities.

However, provisions of point 3 paragraph one of this article do not prevent the districts and City of Kigali from establishing direct partnership with Donors

## **2.2 CDF's Linkage to Decentralization**

The Government of Rwanda set up the CDF on 16<sup>th</sup> October 2002, to enhance the process of decentralization initiated since 2000, while contributing to the efforts of financial decentralization and decision making capacities. It had to contribute to the sustainable, equitable and participatory development through the financing of development projects from the decentralized entities and the improvement of the local benefits of public services.

From 2002 to 2005 the CDF financed Districts and Kigali City, according to a project support approach for the realization of development initiatives proposed by Districts and Kigali City. These projects had to be approved by the CDF's Board of Directors

while referring to CDF's priorities and distribution criteria. In 2004, CDF collaborated with donors like the Swiss cooperation, the Belgian Technical Cooperation and others. Since 2006, the CDF progressively adopted a budget support system that consists of financing development projects as expressed in the planning and performance contracts of partner entities, in return for only one financing contract<sup>3</sup>.

The Rwanda Decentralization Strategic Framework (RDSF) has been developed to act as a reference to the national orientations relative to the Economic Development and to the Poverty Reduction. RDSF is the overall framework of reference for current and future interventions in Rwanda. It is an important vehicle for collaboration with Government and its national and international partners. It underpins Vision 2020, the MDGs and EDPRS by reinforcing the link between good governance and attainment of broad reaching development objectives<sup>4</sup>.

The Common Development Fund is called to contribute to the achievement of Decentralization Implementation Programmes five objectives and to become one of the main actors in the achievement of the fiscal and financial capacities of Local Governments so that they assume their roles and responsibilities in the improvement of development services rendered to the population. In addition to the responsibility in the allocation of funds, the CDF is destined to progressively mobilize fund donors to finance development, to ensure the periodic monitoring of implementation of financed projects and to evaluate their effects and socio-economic CDF's funding.

With the 2001 fiscal and financial decentralization policy, laws and regulations related to the establishment, functioning and financing of local administrative units have been established:

- Law N°17/2002 of 10/05/2002, on Districts and Towns' finances and determining their use,
- Law N°20/2002 of 21/05/2002, on the creation, organization and functioning of the Common Development Fund of Districts, Towns and Kigali City (CDF: Common Development Fund),

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<sup>3</sup> Common Development Fund, (2007) , Annual report.

<sup>4</sup> Republic of Rwanda (RoR) (2008), Community Development Policy

- Procedures Manual of the financial and accountable Management of decentralized entities, adopted by the Cabinet meeting in May 2003.

These regulations and measures provided the requisite political and legal setting for a sustainable financing by the provision of subsidies to the decentralized entities. This is in line with the general aim of ensuring the transfer of responsibilities and the fiscal and financial resources for the empowerment of decentralized entities so that they can render efficient services to the communities<sup>5</sup>.

It is in this framework that the CDF was created to support Districts and Kigali City development activities and projects. As noted earlier, the Government assigns to the CDF 10% of the constituted annual budget endowments, calculated on the basis of total internal revenues of the previous budget year. This is a response to the major concern of encouraging efficient mechanisms that are likely to accelerate the political, financial and fiscal decentralization process, sole possible and sure way of reducing poverty and achieve the objectives of the Vision 2020.

The CDF ensures the financing of projects submitted by decentralized entities according to a per equation formula that ensures fairness between entities. The formula is based on specific variables like population, rate of poverty, size and others. The Common Development Fund has financed projects in accordance with the procedures (Procedures Manual) like schools, street lights in Kigali city, roads in both districts and Kigali city and many other development projects.

### **3.0 LEGAL FRAMEWORK OF COMMON DEVELOPMENT FUND**

CDF started its activities on 16 October 2002 after the decision of the 15 October 2002 Cabinet Meeting, which appointed its management Team.

It was instituted by the Law N° 20/2002 of 21 May 2002 on the creation, organization and functioning of the Common Development Fund for Districts, Towns and Kigali City revised and abrogated by the new Law N° 07/2007 of 1 February 2007 determining CDF's attributions, organization and functioning in a bid to comply with the Organic Law N° 14/2004 of 26 May 2004 establishing general provisions

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<sup>5</sup> Common Development Fund (RoR), (2007), Annual Report

governing Public Institutions. The former had as corollaries the following related orders and regulations;

1. Presidential Order N° 130/01 of 29 December 2002 determining CDF's Parent Ministry
2. Presidential Order N° 137/01 of 31 December 2002 on the fixation of directors' fees for the members of CDF's Board of Directors
3. Presidential Order N° 138/01 of 31 December 2002 on the abrogation of the Presidential Decree N° 984/04 of 25 October 1991 on the establishment and organization of the Commune Solidarity Fund.
4. Presidential Order N° 157/01 of 29 December 2002 on the fixation of salaries and other Advantages granted to CDF's executives.
5. Prime Minister's Order N° 83/03 of 23 December 2002 on the appointment of the members of CDF's Management
6. Prime Minister's Order N° 84/03 of 23 December 2002 on the appointment of the members of CDF's Board of Directors
7. Prime Minister's Order on the modification of the Prime Minister's Order N° 83/03 of 23 December 2002 on the appointment of the members of CDF's Management
8. Prime Minister's Order on the modification of the Prime Minister's Order N° 84/03 of 23 December 2002 on the appointment of the members of CDF's Board of Directors
9. Ministerial Order establishing the deadline for the transmission of a report on the use of funds by the Management of Common Development Fund for Districts, Towns and Kigali City (CDF)
10. Internal Regulations as approved by the Board of Directors' meeting of 17 May 2003.
11. CDF's Manual of Procedures as approved by the Board of Directors' meeting of 18 November 2004

The above orders and regulations are adopted in the reviewed law N° 20/2002 of 21/05/2002 establishing and determining the organization and functioning of the Common Development Funds for Districts, Towns, and Kigali City. They are adopted in different chapters and detailed in Articles.

### **3.1 Review of the Common Development Fund Law**

#### **3.1.1 General Provisions**

The General provisions of the act are indicated in chapter one of the Act. This determines the organization, functioning and responsibilities of the Common Development Fund for districts and city of Kigali. This article clearly stipulates the legal personality of CDF, the administrative and the financial autonomy in accordance with the laws governing organs of the public service. CLADHO recommends the clarification of the functioning and responsibilities to integrate the efforts of the civil society at the grass root level. It also recommends the law to be reconsidered in order to expand responsibilities up to the sector level and not at the district as stipulated by the law.

#### **3.1.2 Patrimony and Finance**

Chapter four of the Common Development Fund Act indicates the patrimony, where it's comprised of both movables and immovables. It clearly indicates the sources of the funds and how these funds shall be audited.

The patrimony of CDF shall come from the budget allocated by the state comprising of at least 10% of the domestic revenues calculated from the budget of the previous fiscal year, from government of donor subsidies, from the services CDF offers, interest on its investments and from donations and bequests.

Recommendation: It's recommended to the government that the budget allocated to CDF be increased so as to meet the objectives of the vision2020. The baseline to achieve the pillars of the Vision2020 is development of the rural areas through development projects and activities and the local levels. With limited allocation, these development projects would not be realized in the timeframe set. In consultation with

the priority settings in the EDPRS<sup>6</sup> the government must address as a matter of priority challenges in local development projects with an increase in budget allocation.

### **3.1.3 Financial Support and Distribution of Funds to districts and Kigali City**

The modalities of distribution of funds and other financial support services are determined by the Board of directors according to article 23 Chapter 3 of the CDF act. The board has achieved the distribution by using a distribution formula with certain variables like population size of the district, poverty levels etc. This formula is applicable on the annual basis in regard to a fiscal year to ascertain budget allocations. Districts and the City of Kigali may have any other development projects and collaborations with donors and development partners. CDF may play a role of intermediating between donor agencies/partners and the districts.

It's recommended by CLADHO that the distribution formula be revised after certain interval of time to capture other new variables that may have not been included earlier. Similarly, there may be an improvement in the baseline measures or variables that would need to be revisited and re- evaluated to clarify their value in the formula.

The government should give due attention to local governments' capacity to manage huge amounts of funds that are transferred to the districts, as it has been previously indicated that a low uptake of the Community Development Fund(CDF) by district governments is attributed to lack of capacity.

The law in its article 24 further describes procedures of financial support and distribution of development funds to districts and Kigali city. All projects funded by CDF, are selected and approved by the district and the City of Kigali councils. The decisions of the council are included in the minutes and they should specify the priority of the projects. CDF only advises on priorities and long as districts and the City of Kigali are outside their funding envelope. The priorities of the districts are developed from the Medium Term Expenditure Framework (MTEF) where Annual

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<sup>6</sup> EDPRS is scheduled to last until 2012

Action Plans are formulated to generate District Development Plans (DDP's) that have to be approved by the council.

The law does not clearly indicate the role of CDF at the district level in terms of prioritizing the projects. It's also worrying on how the selection of projects is done at the district level by the council since priorities from different sectors may be varying. Indeed, there is likely to be low participation of the grass root population in taking decision regarding the priority projects.

Article 25 of the Act stipulates that the Coordinating Committee at the Provincial level and Kigali City Council have the role to advice districts that compose the Province and the City of Kigali regarding the selection of development projects funded by CDF. They further ensure that the projects conform to national programs, reflected in the EDPRS and Vision 2020. This article does not clarify the role and representation of the civil society in the coordination of development programs

Recommendations from CLADHO focuses on the functioning of CDF in relation to the projects financed. The priotization of the development projects by districts councils and Kigali City council should reflect the total participation of the citizens at the grass root level. Equitable distribution should also be given clarity beyond district level. The law only mandates CDF to work with local/district governments where Sectors are not included. There is no doubt that development projects at the sector level would accelerate the rate of local development than being centered at the district level.

The budget allocations should also be revised and increased on annual basis as revenue collections are increasing on each fiscal year. This will facilitate the attaining of the vision2020 pillars and desired by the government of Rwanda.

## **4.0 CONCLUSION**

The current Common Development Fund Act No 07/2007 of 01/02/2007 determining its responsibilities, organization and functioning stipulates clearly the mandate of the fund in accelerating development in the districts and City of Kigali. For the past years, CDF has managed to perform its responsibilities as per the Act. The responsibilities of each stakeholder are identified; however, there are still intervening stakeholders that need to be part of fund especially with the current community development policy in place.

With regards to the prioritization of the development projects, emphasis should be given to the community level with grass root participation to identify clearly the priorities of the people with focus on the economic development and poverty reduction strategy. The government should provide capacity to the districts and City of Kigali in order to increase the absorption capacity of the funds allocated specifically to development projects and activities of local administrative entities.

The review of the Common Development Fund Act reveals that there is a significant gap between in the identification of the priorities at the district level and the sector level. The sector level is not empowered to have a selection of the priorities that could be forwarded at the district level. The law does not clarify on the involvement of the lower level citizen.

The government through the Common Development Fund should emphasise on monitoring the use of the disseminated funds to districts and Kigali city to maintain a high level of the control and focus on the already attained developments for sustainability reasons. In addition, the budget to the Common Development Fund should be increased to achieve targets of the country's vision 2020 in the set timeframe.