Ministry of Finance and Economic Planning

Budget Framework Paper 2013/14-2015/16

April 2013

TABLE OF CONTENTS

I. INTRODUCTION

The Budget Framework Paper (BFP) outlines Government's macroeconomic and fiscal policy stance for the fiscal year 2013/2014 and the medium term. The document reflects and supports the country's commitments as defined in the Economic Development and Poverty Reduction Strategy 2 (EDPRS2) and Vision 2020.

The major objective of the BFP is to consolidate the Government's commitment to achieving a medium term fiscal consolidation through an accelerated domestic resource mobilization and expenditure prioritization in order to narrow the fiscal gap and reduce the reliance on external donor financial assistance.

The BFP is also consistent with the Central Bank's(BNR) medium term monetary policy stance which aims at ensuring adequate liquidity to promote sustainable growth and at the same time achieve single digit inflation over the medium term. It is also in line with the Government's medium term debt strategy (MDTS), which also ensures that the country's public debt is maintained at an appropriate and sustainable level in the medium term.

The BFP is presented against the background of continued challenges in the global economic environment, especially the economic crisis in Europe. Rwanda has also experienced shocks to donor disbursements triggered by the reduction and delays in budget support funds. The Government responded to these shocks by adopting fiscal consolidation measures aimed at reducing spending in order to limit domestic finance requirements for financing of the budget and a tight monetary policy stance to contain inflation. The BFP proposes a range of policy actions designed to address the consequences of these shocks and to achieve overall macroeconomic stability.

The remainder of the BFP is organized as follows: section two presents the global outlook and the medium term macro-economic and budget policy framework including trends in revenue and expenditures; the third section deals with the details of the budget for fiscal year 2013/2014 particularly the economic classification allocations. The fourth section presents the functional allocations focusing on the priorities funded under the EDPRS 2 thematic areas. Policy issues arising from the 2013/2014 budget formulation are discussed in section five, while some possible risks to the economic and budget implementation are outlined in section six. Section seven deals with concluding remarks and finally annexes providing detailed numbers are shown in section 8.

II. RECENT ECONOMIC PERFORMANCE AND OUTLOOK FOR 2012/13

(a) Global Economic Performance

According to the recent World Economic Outlook (WEO)[1]global economic activity in 2012 was mixed. Real GDP growth decelerated to 3.2 per cent, down from 4.0 per cent in 2011. The “two-speed” recovery continued in 2012: strong growth (5.1 per cent) in emerging markets and developing countries contrasting with weak growth (1.2 per cent) in advanced economies, as the Euro Area went into recession again.[2] Global GDP growth is expected to pick up slightly in 2013 and 2014, to 3.3 per cent and 4.0 per cent respectively.

GDP growth for sub – Saharan Africa which was robust at 5.3 per cent in 2012 is projected to remain at this level in 2013.. GDP growth in the East African Community (EAC) member states averaged 6 per cent in 2012, higher than the Sub-Saharan African average of 5.3 per cent. The region is expected to sustain average growth rates of 6.7 per cent between 2013 and 2015.

(b) Domestic Economic Performance

i. Real GDP growth

Despite a modest slowdown in economic activity during the second half of the year, due in large part to the delay in donor disbursements, real GDP growth in 2012 was 8 per cent. This good performance was largely driven by the expansion of the service sector, particularly communication and transport activities, which expanded by 19 percent. In industry, construction recorded a robust growth of 15 percent. The expansion of credit to the private sector, amounting to 33.8 per cent, was one of the main drivers of the robust growth in the services and industry sectors. Agricultural production, mainly of food crops, grew by 3 percent. However, the production of export crops, tea and coffee, declined by 9 percent on account of adverse cyclical weather conditions.

---

[1] The WEO is published by the International Monetary Fund (IMF). The latest publication is April 2013. Many international commentators use the WEO forecast as a benchmark.

[2] In a recent assessment Christine Lagarde, the IMF Managing Director, has talked about a “three-speed” world economy: strong economic performance in emerging market and developing economies, while among advanced or developed economies the US is doing much better than the Euro area.

Table 1: Real GDP and growth rates by sector from 2009 to 2012

	2009	2010	2011	2012
Real GDP, Billion RWF, 2006 price constants				
GDP	2182	2339	2532	2734
Agriculture	776	815	853	879
Food Crop	659	692	727	750
Export Crop	20	22	23	21
Industry	300	326	383	411
Mining and quarrying	11	10	14	13
Manufacturing	128	140	151	147
Construction	157	171	211	243
Services	977	1065	1159	1301
Wholesale & retail trade	274	297	327	368
Restaurants & hotels	41	45	46	50
Transport, storage, communication	181	197	208	248
Adjustments	128	134	137	144
Less: Imputed bank service charge	-30	-35	-46	-53
Plus: Taxes	157.5	168.9	182.8	197.0
Annual growth rates				
GDP	6.2%	7.2%	8.2%	8.0%
Agriculture	7.7%	5.0%	4.7%	3.0%
Food Crop	9.4%	4.9%	5.0%	3.2%
Export Crop	-15.3%	14.2%	2.9%	-9.1%
Industry	1.3%	8.4%	17.6%	7.3%
Mining and quarrying	-17.9%	-10.8%	49.7%	-10.1%
Manufacturing	3.0%	9.3%	8.1%	-2.7%
Construction	1.3%	8.8%	23.6%	15.2%
Services	6.2%	9.0%	8.9%	12.2%
Wholesale & retail trade	4.0%	8.4%	10.2%	12.4%
Restaurants & hotels	-5.8%	7.9%	3.9%	7.7%
Transport, storage, communication	9.2%	8.7%	5.3%	19.5%
Adjustments	9.6%	4.8%	2.0%	5.2%
Less: Imputed bank service charge	-6.2%	17.9%	32.1%	15.3%
Plus: Taxes	6.2%	7.2%	8.2%	7.8%

Source: MINECOFIN

ii. Consumer Price Inflation

Rwanda continued to achieve moderate inflation, with annual headline inflation falling from 8.3 percent in December 2011 to 3.9 percent in December 2012 and to 3.3per cent in March 2013.The moderate inflation is explained by good food production as well as a rapid deceleration in inflation across the region, most notably in Kenya and Uganda. Low inflation in the region has meant low core inflation (headline inflation excluding fresh foods and energy) and low imported inflation despite the depreciation of the Rwandan Franc.[3]

(c) Fiscal Performance in the July- December 2012 period

Budget implementation in the July-December 2012 period was affected by the suspension of aid by some donors and delays in approval of expected disbursements by others. In addition, the budget was implemented without the expected accrual of receipts from the international issuance of Sovereign bonds and part utilization was postponed to 2013.[4] These elements resulted in a reduction in resource flows to the budget and led to a reduction in public spending and a slight slow-down in economic activity towards the end of 2012. The slow-down in economic activity in turn impacted negatively on domestic revenue collection. The reduction in spending was necessary in order to safeguard overall economic stability.

[3] The Rwandan Franc has depreciated by more than 4 per cent since the beginning of 2012. See the section on Exchange Rate Developments.

[4] The first sovereign bond issuance by Rwanda was postponed to the January to June 2013 period.

i. Resources

Table 2: Revenue and grants performance July-December 2012, RWF billions

	Projected	Actual (provisional)	Difference
Revenue and grants	589.4	545.3	-44.1
Domestic revenue	345.9	346.2	0.3
Tax revenue	307.8	304.6	-3.2
Direct taxes	121.5	121.9	0.4
Taxes on goods and services	166.5	160.0	-6.5
Taxes on international trade	19.8	22.7	2.9
Non-tax revenue	38.1	41.6	3.5
PKO/FPU	23.7	31.7	8.0
Total Grants	243.5	199.1	-44.4
Budgetary grants	121.6	96.3	-25.3
Capital grants	122.0	102.8	-19.2
Projects	73.9	62.2	-11.7
Global Fund	48.1	40.6	-7.5

Source: MINECOFIN

Domestic tax and non-tax collections

Domestic revenue collections in the July-December 2012 period were RWF 346.2 billion, marginally higher than the RWF 345.9 billion projected. A small shortfall in tax collections, particularly for consumption taxes (VAT and excise taxes)in December due to the slight slow-down in economic activity, was offset by an over-performance of non-tax revenue collections, mainly for administrative fees and charges. Improved collections of administrative fees and charges contributed to this performance under non-tax revenue.

External Grants and Budgetary Loans

Total grant disbursements in the July-December period amounted to RWF 199.1 billion as against RWF 243.5 billion estimated. Budget support grants of RWF 96.3 billion registered a shortfall of RWF 25.3 billion, accounted for by the suspension of aid by the UK (DFID), Germany and the Netherlands. Although disbursements of project grants were not affected by the aid suspension, actual disbursements of RWF 102.8 billion were significantly lower than the RWF 122 billion projected. Delayed implementation of some capital projects, notably in the energy sector, accounted for this shortfall in project grant disbursements.

ii. Expenditure performance

Consistent with the shortfall in resources, actual outlays for the July-December period were reduced through prioritization of spending in order to safeguard macroeconomic stability. This reduction meant that some spending was transferred to the January-June 2013 period. Total outlays in the July-December period therefore amounted to RWF 589.9 billion, which were RWF 70.5 billion lower than originally projected. With the exception of spending under transfers and subsidies and for interest payments, there was a reduction in expenditure under all categories.

Table 3: Expenditure performance July-December 2012, RWF billions

	Projected	Actual (provisional)	Difference
Total expenditure and net lending	660.4	589.9	-70.5
Current expenditure	310.2	325.3	15.1
Wages and salaries	87.2	82.7	-4.5
Purchases of goods and services	67.2	63.4	-3.8
Interest payments	9.0	10.5	1.5
Transfers	104.7	131.5	26.8
Exceptional social expenditure	42.1	37.2	-4.9
Assistance to victims of genocide (FARG)	15.6	13.0	-2.6
Demobilisation/Reintegration	2.9	3.2	0.3
Peace keeping operations	23.6	21.0	-2.6
Capital expenditure	268.5	255.2	-13.3
Domestic	90.2	96.1	5.9
Foreign	178.2	159.1	-19.1
Global Fund	48.7	40.6	-8.1
Net lending	81.7	9.4	-72.3

Source: MINECOFIN

iii. Fiscal deficit and financing

The original budget implementation program which included the accrual of the Sovereign bond receipts and part utilization of the proceeds had a cash deficit of RWF 75 billion. With the projected net external capital flows of RWF 280.3 billion (including the sovereign bond receipts of RWF 223.4 billion), the government was expected to accumulate deposits with the central bank amounting to RWF 205.3 billion. This figure would have included RWF 146.8 billion of the unused balance from the issuance of the sovereign bond. In the end, however, the government recorded a net positive domestic financial position of RWF 46.8 billion. This amount represents an increase in deposits of RWF 84.9 billion mainly from the disbursement of capital grants (including from the Global Fund) and project loans in November and December 2012 as well as net sales from Treasury bills to the non-bank sector of RWF 36.9 billion.

Table 4: Fiscal deficit and financing July-December 2012

	Projected	Actual (provisional)	Difference
Financing	75.0	10.2	-64.8
Foreign financing (net)	280.3	57.0	-223.3
Drawings	287.9	64.6	-223.3
Budgetary loan (AFDB)	8.3	8.3	0.0
Project loans	279.7	56.3	-223.4
Sovereign Bonds proceeds	223.4	0.0	-223.4
Amortization (due)	-7.6	-7.6	0.0
Domestic financing	-205.3	-46.8	158.5
Banking system (Monetary Survey)	-205.3	-84.9	120.4
Sovereign Bonds proceeds	-146.8	0.0	146.8
Non-bank (Net)	0.0	36.9	36.9

__Source:__ MINECOFIN

(d) Outlook for the Remainder of Fiscal Year 2012/2013

At the beginning of 2013, the budget for 2012/13 was revised to take account of the changes in some donor disbursement schedules as well as the likelihood that some of the suspended aid would not accrue during fiscal year 2012/13. The revision also took into account the flows from the Sovereign bonds receipts in the first half of 2013 and part use of the funds for some payments to be made by two public institutions.

i. External Sector

Exports grew by 27 per cent in 2012, building on strong export growth of 56 per cent from 2011. This export growth was achieved despite a significant reduction in coffee exports due to a decline in international coffee prices. Much of the export growth came through non-traditional exports, such as flour, hides and skins and pyrethrum. Although there was a slowdown in the growth of imports towards the end of 2012, for the whole year import growth was 26 per cent, leading to a widening trade deficit.

The suspension and delays in aid disbursements resulted in a large increase in the current account deficit, which could not be fully financed by capital inflows. This in turn led to deterioration in the overall balance of payments and a loss of reserves, equivalent to about 0.6 months of prospective imports.

ii. Debt

Rwanda's external public and publicly guaranteed debt amounted to US$1.171 billion, including central government debt amounting to US$ 1.068 billion and guaranteed debt of US$103.1 million. This represents 16.5 per cent of GDP as of end December 2012 compared to 14.6 per cent in 2011.

The increase was largely due to higher external financing, comprising the International Development Association (IDA) project loans, as well as higher commercial borrowing for the Kigali Convention Centre (KCC) project and Rwanda Air fleet expansion.

Table 5: Debt situation at end December 2012

Rwanda Public Debt Stock				
	2011		2012	
	(US$ million)	*(% of GDP)*	*(US$ million)*	*(% of GDP)*
Total (External + Domestic)	1,597	25.3	1,652	23.3
External Debt	1,135	18	1,171	16.5
Government	1,007	16	1,067.9	15
Guaranteed by the Government	128	2	103.1	1.5
Domestic Debt	462	7.3	481	6.8
In Rwf billions	279	7.3	303.7	6.8
Of which: Short-term	*175*	*4.6*	*164.1*	*3.7*

Source: MINECOFIN

Table 6: Balance of payments 2010 to 2012

	2010	2011	2012 (provisional)
USD millions			
Trade balance	-786.7	-1101.6	-1376.2
Exports, f.o.b.	297.3	464.2	590.8
Coffee	56.1	74.6	60.9
Tea	55.7	63.9	65.7
Imports, f.o.b.	-1084.0	-1565.8	-1967.0
Services and income (net)	-288.7	-238.8	-159.0
Services (net)	-246.2	-187.0	-85.2
Income (net)	-42.5	-51.8	-73.8
Current transfers (net)	657.3	880.5	722.5
Private	90.7	133.3	183.0
Public	566.6	747.2	539.5
Current account balance	-418.1	-459.8	-812.8
Capital and Financial account balance	499.4	682.5	582.5
Capital transfers	285.6	196.7	171.2
Long term debt	129.0	148.8	123.6
Foreign direct investment	63.7	137.5	166.6
Errors and omissions	-9.2	11.9	17.9
Overall balance	72.1	234.5	-212.4
Change in net foreign assets of NBR (increase -)	-72.1	-234.5	212.4
Change in gross reserves (increase -)	-69.1	-251.8	206.3

Source: BNR

iii. Monetary and Exchange rate Developments

Monetary Developments

Broad money growth of 14 per cent to end-December 2012, was well below the projection of 16.5 per cent, and down from 26.8 per cent to end-December 2011, consistent with the slow-down in economic activity on account of the delays or suspension of budget support. The slowdown of Broad money growth has been a result of the tight monetary policy stance maintained by the BNR due to the uncertainty about donor support, as well as global and regional developments. The composition of broad money growth also differed from projections, with net domestic assets expanding sharply, reflecting private sector credit growth of 33.8 percent in 2012, while net foreign assets (NFA) declined by 18.1 percent as the NBR attempted to meet market demand for foreign exchange. The NBR continues to orient its monetary policy toward limiting the risk of monetary inflation. The implementation of the reserve money program has been improved since November 2012 with a more flexible framework of the reserve money band.

Liquidity Management

The BNR has continued to use money market instruments to regulate the liquidity level in the banking system in line with the inflation objective, while keeping enough room for banks to continue financing economic activities. Over the year, there was a noticeable decline in banking system liquidity between June and September 2012 following an increase in investments of institutional depositors in Government T-bills. Liquidity levels recovered in November 2012 and during 2013Q1 due mainly to the reduction in mopping-up operations of the BNR in line with money demand. With the expected increase in Government domestic spending liquidity will continue to improve over 2013Q2.

Recent lower BNR interventions on money market are explained by easing inflationary pressures while the operational objective (Reserve money) is driven by much lower-than-expected increase in currency in circulation. In the meantime, Government borrowing through T-bills market has continued to increase, but leaving quite comfortable room for short-term liquidity for banks.

Interest Rate Developments

With regard to interest rates developments, money market interest rates have been stable and consistent with underlying liquidity in the banking system; while they remained aligned with the policy rate maintained at 7.5per cent. However, driven by increased Government domestic borrowing to partly compensate for shortfall in external budget support, T-bills rates have been increasing significantly since 2012H2, from an average of 9.3 percent in June 2012 to 12.4 percent in December and stabilized in 2013Q1. Following the increase in Government T-bills, interbank rates increased from 9.0 percent in June 2012 to 11.1 percent in December 2012 before falling back to around 10.0 per cent during Q1 2013, showing an improvement in the banking liquidity.

Regarding market rates, banks have been increasing the deposits rate in order to mobilize more deposits in response to increasing demand for domestic credit, from both Government and the private sector. Hence, deposit rates have increased from an average of around 8 percent at the beginning of 2012 to around 11 per cent in 2013Q1. However, due to improving competition within the banking system, the increase in deposits rates has not been transmitted in lending rates, which continue fluctuating around 17 percent. Both deposit and lending rates remained positive throughout 2012.

Exchange Rate Developments

The shortfall in aid inflows has hampered the ability of the NBR to continue meeting market demand for foreign exchange, leading to a depreciation of 4.5 percent over the year 2012 against 1.6 percent recorded the previous year. As noted previously, the external reserves declined by 18.1 per cent as the NBR attempted to meet market demand for foreign exchange. Moreover, the uncertainties around external inflows explain the emergence of a spread of about 5 percent between the official exchange rate and that of the foreign exchange bureaus. The BNR is committed to increasing exchange rate flexibility. Nevertheless, these policies contributed to the higher-than-projected economic growth achieved in 2012.

Financial sector

The developments of financial sector in 2012 under the supervision of the Central Bank relate to the banking, microfinance, insurance and pension sectors. In 2012, these sectors continued to be sound and stable and all complemented each other in the achievement of national development strategies.

The banking sector, which dominates the Rwandan financial sector, demonstrated an increase in the balance sheet of 15.1 per cent. The banking industry has been profitable, liquid and well capitalized to sustain growth, but also resilient to external shocks as a result of strengthened legal, regulatory and supervisory framework. Capital Adequacy Ratio (CAR) stood at 23.9 per cent as of end year 2012, far above the 15 per cent minimum regulatory requirement, and the non-performing loans (NPL) stands at 6.1 per cent.

The microfinance sector recorded a positive performance with the continued expansion of its balance sheet, realizing a 28.8 per cent asset growth. By end December 2012, the sector registered deposits and gross loans amounting to FRW 54.15 billion and FRW 58.93 billion respectively. Additionally, the SACCOs continued to play a significant role in expanding financial inclusion.

The insurance sector performance improved progressively during the year 2012 whereby total assets increased by 36 per cent, gross premiums by 67 per cent. This good performance is a reflection of the impact of the supervisory reforms undertaken in the insurance industry. The pension sector assets increased by 45 per cent and the contributions received also increased by 35 per cent.

III. OBJECTIVES AND POLICIES IN THE MEDIUM TERM 2013/2014-2015/2016

(a) Overview of the 2013/14 policy statement and Medium term Macro-economic Framework

The Government has recently finalized its EDPRS 2 which is to be implemented in the next five years to achieve its middle income status objective. Some important targets in the EDPRS 2 are the attainment of real GDP growth averaging 11.5 per cent during this period as well as reaching a GDP per capita of USD 1240 by 2020. The medium term macro-economic framework sets the stage for the required growth to achieve these objectives.

While an average real GDP growth of 11.5 per cent is the objective, this medium term policy framework is built on a baseline scenario, on account of downside risks stemming from global economic uncertainties (slow-down of economic activities and debt burden in Europe) and lower budget support funds than previously envisaged. The medium term macro-economic framework as presented here in this baseline scenario will be revisited when more information regarding expected resource flows are available.

i. Real Sector Projections

Economic growth is expected to slow slightly to 7.5per cent in 2013. A decline in services growth (7.0per cent) is projected particularly due to decline in credit to the private sector resulting from the tighter fiscal and monetary policies. However, this is expected to be offset by an improvement in agricultural growth (6.7 per cent) due to favorable weather conditions as well as the on-going investments under the CIP framework. Industry is projected to grow at 9per cent during 2013.In 2014, the baseline scenario projects overall GDP at 7.5 per cent. Growth in services is expected to pick up again and reach 8.9 per cent, whilst industrial growth is also projected to increase slightly to 10 per cent. Agricultural growth is expected to decelerate slightly to 5.1 per cent in 2014. In the baseline scenario initial GDP growth projections of 7 per cent have been made for 2015 and 2016 respectively.

Table 7: projected GDP growth by sectors for 2013/14-2015/16

	2012	2013 proj	2014 proj	2015 proj	2016 proj
Real GDP, Billion RWF, 2006 price constants					
GDP	2,734	2,939	3,160	3,382	3,619
Agriculture	879	938	985	1,042	1,107
Food Crop	750	803	843	893	952
Export Crop	21	24	27	30	32
Industry	411	448	495	540	594
Mining and quarrying	13	14	15	15	16
Manufacturing	147	154	160	172	185
Construction	243	272	310	341	379
Services	1,301	1,392	1,516	1,627	1,748
Wholesale & retail trade, rest. & hotels	418	444	484	512	542
Transport, storage, communication	248	265	301	326	352
Adjustments	144	161	163	173	170
Less: Imputed bank service charge	-53	-58	-67	-74	-83
Plus: Taxes	197	219	230	247	252
Annual growth rates					
GDP	8.0%	7.5%	7.5%	7.0%	7.0%
Agriculture	3.0%	6.7%	5.1%	5.7%	6.2%
Food Crop	3.2%	7.0%	5.0%	6.0%	6.5%
Export Crop	-9.1%	14.4%	13.7%	8.0%	8.7%
Industry	7.3%	9.1%	10.4%	9.1%	10.0%
Mining and quarrying	-10.1%	9.4%	4.0%	4.0%	6.9%
Manufacturing	-2.7%	4.6%	4.2%	8.4%	8.9%
Construction	15.2%	12.0%	14.0%	10.0%	11.0%
Services	12.2%	7.0%	8.9%	7.3%	7.2%
Wholesale & retail trade, rest. & hotels	11.8%	6.3%	9.0%	5.7%	5.9%
Transport, storage, communication	19.5%	7.0%	13.3%	8.6%	7.6%
Adjustments	5.2%	12.0%	1.3%	6.2%	3.6%
Less: Imputed bank service charge	15.3%	9.9%	15.0%	10.0%	12.0%
Plus: Taxes	7.8%	11.4%	4.9%	7.3%	6.1%

ii. External Sector Projections

Increased domestic demand for imports required for investment projects is expected to negatively affect external sector performance in 2013. The value of exports is projected to increase by 15 percent led by non-traditional exports, which will contribute about 14percent of the total export receipts. Coffee exports (value) in 2013 is projected to be about 48 percent higher than in 2012 on account of export of some beans carried over from the 2012 stocks despite lower international prices. The volume of tea exports is projected to increase by 27 percent in 2013. Total tea receipts are expected to rise by 34 percent on account of higher international prices. Minerals are projected to register slight increase in volume (MINIRENA/GMD) despite a sharp decline in the volume of coltan... With price increases projected for cassiterite and colt an, total receipts are projected to increase by about 10 percent despite a sharp decline in the prices of wolfram.

Mirroring the performance over the previous year, the value of imports (f.o.b.) is projected to rise by 8.0 percent in 2013. This development reflects the higher demand for capital goods, raw materials for industry and inputs in the services sector. As a result of this high level of imports, the trade deficit is projected to widen from US$ 1.38 billion in 2012 to US$ 1.46 billion in 2013.

The current account deficit (including official transfers) is projected at 10.2 percent of GDP, down from 11.3 percent in 2012. However net capital and financial flows of US$ 941.9 million (including the Sovereign bond receipts of USD 400million and foreign investment of US$171.4 million) will allow the achievement of an overall balance of payments surplus of US$ 81.7 million. Gross reserves will therefore reach US$ 925.5million at end 2013; about 3.8 months of projected imports (CIF).

In 2014 the strong growth of exports is projected to continue with a growth in value of about 15 per cent. As in 2013, non -traditional exports are expected to contribute a large share of this growth. Consistent with the increasing demand for capital and intermediate goods by both public and private sectors for investment, total imports are also projected to rise in 2014 although at a slower pace of 6.2 per cent. The resultant slight widening of the current account deficit is projected to be filled by the capital and financial account flows (including capital grants of US$ 332.8 million). As a result the overall balance will show a small surplus of US$ 8.6 million. External reserves at end 2014 will still cover about 4 months of imports.

Table 8: projected balance of payments 2013-2015

	2012 (provisional)	Proj. 2013	Proj. 2014
USD millions			
Trade balance	-1,376.2	-1,463.3	-1,494.4
Exports, f.o.b.	590.8	678.8	779.8
Coffee	60.9	90.4	94.4
Tea	65.7	88.4	97.2
Imports, f.o.b.	-1,967.0	-2,142.2	-2,274.2
Services and income (net)	-159.0	-204.6	-217.7
Services (net)	-85.2	-110.9	-90.4
Income (net)	-73.8	-93.6	-127.3
Current transfers (net)	722.5	822.3	794.1
Private	183.0	191.3	223.4
Public	539.5	631.1	570.7
Current account balance	-812.8	-845.5	-917.9
Capital and Financial account balance	582.5	941.9	907.5
Capital transfers	171.2	262.7	332.8
Long term debt	123.6	133.8	135.4
Foreign direct investment	166.6	171.4	172.2
Errors and omissions	17.9	-14.7	19.1
Overall balance	-212.4	81.7	8.6
Change in net foreign assets of NBR (increase -)	212.4	-81.7	-8.6
Change in gross reserves (increase -)	206.3	-82.1	-8.6

Source: BNR

iii. External Debt Policy

The Government medium term debt strategy targets a mix of a lower share of multilateral concessional debt, higher semi-concessional bilateral and its first euro bond without compromising its debt sustainability.

Consistent with this policy, the Government has just completed the sale of EURO bonds on the international market obtaining proceeds of US$ 400 million. The proceeds will be used to retire expensive government-guaranteed loans for Rwanda Air and the Kigali Conference Center as well as fund the completion of the Kigali Convention Center (KCC) and the Nyabarongo hydro project.

According to the debt sustainability analysis including the Eurobond of US$ 400 million, the debt level continues to be sustainable with a moderate risk of external debt distress showing all sustainability indicators (PV of debt to GDP and revenue ratios) well below indicative thresholds in the medium term.

iv. Monetary and Exchange Rate Policies

The NBR will continue to implement policies to minimize risks of monetary inflation while supporting the government economic growth objective. To achieve the expected results, the NBR will continue to closely monitor developments in underlying factors of inflation and will take appropriate measures, using the monetary policy instruments. Inflation is projected to rise gradually to 7.5 percent by end 2013before decelerating to 6.0 percent in 2014 and stabilize at about 5 percent over the medium term.

In 2013, projected increase in inflation is mainly explained by risks of continuing RWF depreciation (6.4 per cent) as the pressures on demand for foreign exchange persist, which may lead to higher imported inflation. However, expected good performance in agriculture sector, low fluctuations in oil prices as well as stable inflation in the region especially in major trading partners such as Uganda and Kenya give hope that inflation will remain in line with our projection. Furthermore, tight monetary policy stance will continue avoiding risks of monetary inflation. The growth rates of reserve money and broad money are both projected at 14.5 percent in 2013. Growth in credit to the private sector will continue to drive broad money growth, while gradually slowing down from 33.8 percent at end-2012 to about 15 percent end-2013.

v. Financial Sector Reforms

Consistent with the policy of establishing a strong, sound and efficient financial sector, the Central Bank for a number of years has been implementing a number of reforms. These are expected to continue in the medium term. In 2013 and 2014, several actions will be implemented as discussed below.

The BNR will review the existing regulatory framework: BNR Law and Banking law and set up a Deposit Insurance Law. Thereafter, update related regulations and guidance as well as developing new regulation and other supervisory tools to implement the concerned Laws. In addition, BNR will continue to conduct off-site surveillance and on-site examinations under risk based supervision. In this regard, quarterly prudential meetings will continuously be held with banks and ten (10) on-site inspections are planned for the year 2013. Capacity building for bank examiners will be strengthened through various actions including recruitment of new staff and trainings.

Strengthen SACCOs by consolidating them into a Cooperative Bank. The implementation action plan was elaborated in 2 phases. Step 1: SACCOs will be consolidated at district level by end December 2013. Step 2: All SACCOs will be consolidated to form a cooperative bank at national level by end December 2014. The consolidation roadmap, which is BNR top priority in 2013/2014, includes the program of enhancing the institutional capacity of SACCOs and their MIS, specifically the automation of their operations.

With regard to the Non- Bank financial Institutions reform, BNR is striving to ensure that the pension law currently in the parliament is enacted. This law will pave the way to the creation, licensing and supervision of the private pension schemes which will enhance saving mobilization. BNR is also working with the insurers to develop micro-insurance products to mitigate the risks faced by the Small and Medium

Enterprises (SMES).Additionally, the current insurance contract law is under review and this will promote efficiency and effectiveness in insurance operations. The supervision tools of the Non- Bank financial institutions (on-site and off-site inspections frameworks) are being enhanced to ensure soundness, viability and good governance of these institutions.

(b) 2013/2014 Budget Framework and Medium Term Fiscal Strategy

Fiscal consolidation through increased domestic revenue mobilization and expenditure prioritization to close the fiscal gap remain the key objectives of the Government's medium term fiscal strategy. On the resource side, the framework is guided by the fact that over the medium term domestic tax revenue is projected to rise on average by 0.2 percent of GDP per year. Accordingly, tax revenue collections which were projected at 13.7 per cent of GDP in fiscal year 2012/2013 are now expected to rise to 13.9 per cent of GDP in 2013/2014 and to 14.1 percent of GDP by 2014/2015.

Regarding outlays, the major focus of expenditure policy in the medium term is to implement a prioritization policy that will allocate adequate resources for the completion of on-going strategic investment and social protection projects and programs and also take on board some new expenditure that are consistent with the EDPRS 2 framework. Total outlays are therefore projected to decline from 30.5 percent of GDP in 2012/2013 to 29.2 per cent in 2013/2014. In 2014/2015 and 2015/2016 further declines to 28.9 percent and 27.4 percent of GDP respectively are projected. Recurrent spending in the medium term will average about 13.3 per cent of GDP in order to allow more room for priority capital spending within the framework ceilings.

Mirroring these declines in outlays, the overall deficit (on cash basis) is projected to decline from 6.1 percent of GDP in 2012/2013 to 5.5 percent of GDP in 2013/2014. It will further decline to 3.7 percent in 2014/2015 and to 3.1 percent of GDP by 2015/2016.

In the medium term, Government intends to limit the size of domestic finance of the budget to a level not exceeding 0.7 percent of GDP. This level will not only ensure adequate level of private sector credit for economic growth and macro-economic stability but will also maintain debt sustainability.

(c) The Budget for Fiscal Year 2013/2014

Table 9: Summary of the budget for the fiscal year 2013/14 through to 2015/16

	July 2012 - June 3013 (revised budget)	July 2013 - June 2014	July 2014- June 2015	July 2015- June 2016
RWF billions				
Revenue and grants	1,149.5	1,287.3	1,571.7	1,739.3
Total revenue	707.7	816.6	947.2	1,097.5
Tax revenue	641.2	749.1	874.3	1,013.6
Non-tax revenue	66.5	67.5	72.9	83.9
Total grants	441.8	470.7	624.6	641.7
Budgetary grants	197.9	170.7	304.6	338.8
Capital grants	243.9	300.0	320.0	302.9
global fund	96.2	87.9	80.0	90.0
Total expenditure and net lending	1,425.1	1,575.8	1,789.0	1,944.8
Current expenditure	631.4	710.4	832.6	951.7
Capital expenditure	628.2	744.5	904.4	927.1
Domestic	258.0	256.6	334.8	382.8
Foreign	370.2	487.9	569.6	544.3
global fund	96.2	87.9	80.0	90.0
Net Lending	165.5	120.9	52.0	66.0
Deficit (cash basis)	-283.6	-297.7	-227.7	-217.3
Financing	283.6	297.7	227.7	217.3
Domestic	-71.9	160.8	0.0	0.0
Foreign (net)	355.5	136.9	227.7	217.3

Source: MINECOFIN

The budget for fiscal year 2013/2014 is consistent with the medium term framework. It takes into account the lower budget support funds than previously expected through adjustments in spending allocations. The main objective of the budget for 2013/2014 in the face of declining aid is to increase domestic tax revenue collections by 0.2 per cent of GDP and limit new domestic debt to 0.6 per cent of GDP.

The 2013/2014 budget will also continue the policy started in fiscal year 2011/2012 to broaden the coverage of project grants in fiscal operations of Government.

Total revenue and grants in 2013/2014 are therefore projected at RWF 1287.3 billion (23.9 per cent of GDP) compared to RWF 1149.5 billion (24.6 per cent of GDP) in the revised 2012/2013 budget. Total domestic revenue collections are estimated at RWF 816.6 billion (15.2 of GDP), of which non tax revenue is projected at RWF 67.5 billion (1.3 per cent of GDP). Total grants are projected at RWF 470.7 billion (8.7 per cent of GDP) comprising RWF 170.7 billion (3.2 per cent of GDP) of budget support grants and RWF 300 billion (5.6 per cent of GDP) of capital grants. The capital grants figure includes RWF 87.9 billion of Global funds.

On the expenditure side, total expenditure and net lending is projected at RWF 1575.8 billion (29.2 per cent of GDP) as against RWF 1425.1 billion (30.5 per cent of GDP) in the revised 2012/2013 budget. Recurrent expenditure is estimated at RWF 710.4 billion (13.2 per cent of GDP), whilst capital spending and net lending are projected at RWF 865.4 billion (16 per cent of GDP).

The 2013/2014 budget is projected to close with an overall cash deficit of RWF 297.7 billion (5.5 per cent of GDP) as against RWF 283.6 billion (6.1 per cent of GDP) in the revised 2012/2013 budget. Net domestic finance of the 2013/2014 budget is estimated at RWF 160.8 billion (3 per cent of GDP). This amount includes draw-down of RWF 117.7 billion of accumulated funds from the Sovereign bonds receipts at end June 2013 to be used by the Kigali Conference Complex (KCC) and the Nyabarongo power project. The domestic finance estimate also includes an amount of RWF 43.1 billion representing new banking debt of RWF30.3 billion (0.6 per cent of GDP) and a draw-down of other Government accumulated deposits of RWF12.8 billion. (0.2% of GDP)

Resources

Domestic Resources:

Table 10: Domestic revenue projections 2013-14 to 2015-16

	July 2012 – June 3013 (revised budget)	July 2013 - June 2014	July 2014-June 2015	July 2015- June 2016
RWF billions				
Total revenue	707.7	816.6	947.2	1,097.5
Tax revenue	641.2	749.1	874.3	1,013.6
Direct taxes	260.0	301.5	343.2	388.2
Taxes on goods and services	340.1	399.9	476.8	564.0
Taxes on international trade	41.1	47.7	54.3	61.4
Non-tax revenue	66.5	67.5	72.9	83.9
PKO/FPU	44.6	44.4	46.8	55.9
Total Grants	441.8	470.7	624.6	641.7
Budgetary grants	197.9	170.7	304.6	338.8
Committed	81.1	0.0	95.6	0.0
Required grants	17.4	0.0	209.0	0.0
Capital grants	243.9	300.0	320.0	302.9
Projects	147.7	212.1	240.0	212.9
Global Fund	96.2	87.9	80.0	90.0

Source: MINECOFIN

Tax Revenue Projections

For the fiscal year 2013/2014, tax revenue collections are projected to rise by 0.2 per cent of GDP from RWF 641.2 billion (13.7 per cent of GDP) to RWF 749.1 billion (13.9 per cent of GDP). Most of this increase (0.15 per cent of GDP) is expected to come through taxes on goods and services, which are expected to generate RWF 399.9 billion (7.4 per cent of GDP) in revenue. A more moderate increase is projected for direct taxes, which are projected to generate RWF 301.5 billion (5.6 per cent of GDP), and taxes on international trade, which are expected to be RWF 47.7 billion (0.9 per cent of GDP). The main reason for the modest increase in taxes on international trade is the on-going shift in the direction of imports as more goods especially consumer goods are originating from the EAC region. In line with EAC common market policy these imports pay no import duties resulting in a significant loss of revenue.

The revenue projections do not envisage any substantial changes in the tax regime. However they are underpinned by several on-going as well as new measures to be implemented by the Rwanda Revenue Authority (RRA) in fiscal year 2013/2014 as outlined below:

Revenue administration measures for 2013/2014

- E-filing and e-payment: Its introduction and implementation will reduce compliance costs for both tax administration and taxpayers.

- Electronic Single Window: So far, EWS was launched and rolled out to different bonded warehouses. In addition other agencies involved in import/export clearing were fully connected.

- Electronic cargo tracking equipment: Its introduction will help to ensure the protection of cargoes from source to destination

- Introduction of mobile in technology in payment and filing of taxes. This is a platform to file and pay taxes through mobile technology

- Introduction of Gold Card Scheme to facilitate compliant taxpayers

- Revision of investment code: Since the current investment code was adopted, business and economic environment kept changing. Furthermore, some loopholes in the current investment code were observed and they need to be addressed. Hence, the investment code is currently on final stage of its revision in order to address all these loopholes as well as to be adapted to the prevailing business environment.

- Introduction of a royalty tax on minerals: A royalty tax will be introduced on different types of minerals in Rwanda and the rates to be applied are as follows: 4 per cent of the value of extracted minerals on basic metals and 6 per cent on both precious metals and precious stones.

- The revision of the Double Taxation Avoidance Agreement (DTAA) between the Rwanda and Mauritius. The agreement signed in 2011 allowed Mauritius companies/individual resident in Rwanda not to pay taxes in Rwanda which greatly led to treaty shopping where other foreign companies investing in Rwanda decided to have their permanent establishment in Mauritius, so as to benefit from the same special treatment which highly negatively affected our revenue collections. This challenge led to the DTAA termination and negotiation of a new agreement.

- Introduction of Electronic Billing Machines: The new VAT law requires registered taxpayers to use Electronic Billing Machines (EBM). The use of these machines will positively and greatly affect VAT collections by addressing different issues including among others: no record keeping especially for SMEs, refusal by traders to charge VAT and manipulation of records in order to reduce taxes payable.

Non-tax Revenue Projections

Non-tax revenues are projected at RWF 67.5 billion (1.3 per cent of GDP) in 2013/2014 compared to RWF 66.5 billion (1.4 per cent of GDP in 2012/2013). As in 2012/2013 a large share of non-tax revenues will come from peacekeeping operations (PKO) amounting to RWF 44.4 billion. Of the remaining RWF 22.1, billion the largest share is expected to come from administrative fees and charges including visa and passport fees.

External Resources:

Budgetary Grants and loans

Table 11: Budgetary grants and loans by donors for fiscal years 2012/2013 and 2013/2014, RWF billions

	2012/13	2013/14
Budgetary grants		
World Bank	68.3	46.8
AfDB	34.6	0.0
DFID (incl FTI)	55.5	66.7
EC (EU)	39.5	49.4
Germany	0.0	0.0
Netherlands	0.0	0.0
Belgium	0.0	7.8
Total	197.9	170.7
Budgetary loans		
World Bank	0.0	0.0
AfDB	17.4	0.0

Source: MINECOFIN

Budgetary grants are expected to decline from RWF 197.9 billion (4.2 per cent of GDP) in the revised budget of 2012/2013 to RWF 170.7 billion (3.2 per cent of GDP) in 2013/2014. This lower estimate is due to the fact that some donors, both multilaterals and bilateral have not finalized their financing plans for Rwanda. It is expected that when these plans are finalized they will result in increased support for the budget.

In the case of budgetary loans, no new loans are projected for the budget for fiscal year 2013/2014. In fiscal year 2012/2013 the AFDB provided RWF 17.4 billion.

External Project loans

Table 12: Project loan draw-downs for fiscal year 2013/2014 by Creditor

Project loans by creditor		
	USD million	RWF billions
AFD	1.7	1.1
BADEA	19.7	13.2
EXIMCHINA	35.3	23.6
EXIMINDIA	20.4	13.6
FAD	19.5	13.0
FIDA	3.5	2.3
FKWD	14.3	9.6
FSD	19.6	13.1
IDA	83.01	55.5
OPEC	14.2	9.5
Total	231.21	154.5

Source: MINECOFIN

In fiscal year 2012/2013, project loans projected for the budget amounted to RWF 386.8 billion (8.3 per cent of GDP). This amount consisted of RWF 259.4 billion of the proceeds from the EURO Sovereign bonds and other loans of RWF 127.5 billion. For fiscal year 2013/2014, loan draw-downs of RWF 154.5 billion have been projected. The largest share of RWF 55.5 billion will come from the World Bank (IDA) for various projects in the infrastructure sector.

i. Expenditures

Recurrent Expenditure

In fiscal year 2013/2014, recurrent spending has been projected at RWF 710.4 billion (13.2 per cent of GDP) compared to RWF 634.6 billion (13.6 per cent of GDP) in the revised 2012/2013 budget. Reprioritization of spending under recurrent expenditure accounted for the decline in total spending as a percentage of GDP. This not only reflects the fiscal consolidation policy of the Government but also takes into account the decline in external budget support funds.

Wages and Salaries

The allocation of RWF 204.8 billion in the 2013/2014 budget (3.8 per cent of GDP) is RWF 26.6 billion higher than the estimate of RWF 178.2 billion (3.8 per cent of GDP) in the revised 2012/2013 budget. As a share of GDP the allocation in both years are the same. To respond to the delay and in some cases reduction in budget support funds in fiscal year 2012/2013, expenditures were reduced. This reduction affected several spending areas including wages and salaries and lead to a suspension of new recruitments. The increased allocation for 2013/2014 will allow the recruitment of required critical staff especially in the education and health sectors.

Goods and Services

Expenditure on goods and services is being raised from RWF 117.4 billion (2.5 per cent of GDP) in 2012/2013 to RWF 131.1 billion (2.4 per cent of GDP). Whilst in francs terms there is an increase of RWF 13.7 billion, as a share of GDP there is a slight decline of 0.1 per cent of GDP. The increase in nominal terms will ensure that priority service delivery activities including supply of drugs, vaccines and other critical materials by MINISANTE, education and other essential items such as books and foodstuffs by MINEDUC as well as spending on road maintenance are catered for in fiscal year 2013/2014.

Interest Expenditure

An allocation of RWF 39.8 billion 0.7 per cent of GDP) is being made to cater for the Government's interest costs in 2013/2014. This amount is RWF 11.4 billion higher than the estimate of RWF 28.4 billion in the revised 2012/2013 budget. Domestic interest accounts for RWF10.5 billion, whilst RWF 29.3 billion will be used for external interest payments, of which RWF 18.7 billion (0.3 per cent of GDP) will be on Sovereign Bond proceeds. The interest on the bonds represents a full year's payment and is the reason for the increase in fiscal year 2013/2014.

Transfers and Subsidies

Spending under transfers and subsidies is projected to increase from RWF 238.2 billion in 2012/2013 (5.1 per cent of GDP) to RWF 262.3 billion (4.9 per cent of GDP) in 2013/2014. This allocation shows an increase in nominal terms of RWF 24.1 billion, but as a share of GDP declines from 5.1 per cent to 4.9 per cent.

The increase in nominal terms provides adequate resources for the operations of the various development boards (new recruitments and running costs) as well as funding for the tertiary institutions (scholarships and running costs). In addition the allocation will also finance the block grants to the districts in support of their operations and also allow the payment of subscriptions to various international organizations of which Rwanda is a member.

Exceptional expenditure

An amount of RWF 72.4 billion (1.5 per cent of GDP) has been allocated for exceptional spending in the fiscal year 2013/2014. This amount is the same as was allocated in the revised 2012/2013 budget. .RWF 24.0 billion will be used as transfers to FARG, whilst RWF3.9 billion will be spent on demobilization and social reintegration of demobilized armed personnel and returning rebels to civilian life. Peacekeeping operations in Sudan and Haiti will require spending of RWF 44.5 billion.

Capital Expenditure

Total capital spending at RWF 744.5 billion (13.8 of GDP) is higher than RWF625 billion (13.4 per cent of GDP) allocated in the 2012/2013 budget.. This increased capital expenditure is consistent with the Government's objectives of focusing on strategic investments to boost growth, in particular in support of the EDPRS 2 priorities. Of this total, RWF 256.6 billion (4.8 per cent of GDP) will be domestically financed, a decline from 5.4 per cent of GDP in 2012/2013, whilst RWF 487.9 billion (9.1 per cent of GDP) will be foreign financed, an increase from 7.9 per cent of GDP last fiscal year.

Consistent within EDPRS 2 priorities, the allocation will allow funding for various on-going strategic investment projects in the energy (energy rollout program with construction of hydro power stations and distribution), transportation (roads construction projects), irrigation facilities as well as construction of schools and health facilities. Export promotion projects will also benefit from these allocations.

The allocations for capital spending also include RWF33.4 billion (US$ 50 million) from the proceeds of the EURO Sovereign bonds issuance that has been earmarked for the completion of the Nyabarongo hydro project. The figure also includes RWF 87.9 billion from the Global fund for various health activities in fiscal year 2013/2014.

Net Lending

Net lending expenditure in 2013/2014 is estimated at RWF 120.9 billion (2.2 per cent of GDP), down from RWF 165.5 billion (3.5 per cent of GDP) in 2012/13. Individual items of net lending are similar to the last fiscal year, although the main reason for the decrease is a reduction in loans to Rwanda Air, although there will still be a loan of RWF 36.0 billion to Rwanda Air for working capital. The largest item of lending will be RWF 84.3 billion to Kigali City Council (KCC) for working capital. Revenues of RWF 5.1 billion from the privatization of tea factories (Shagasha and Mulindi) are expected to offset the RWF 126.0 billion gross lending.

Principal Debt Payments

In the 2013/2014 budget, RWF 17.6 billion (0.3 percent of GDP) has been allocated to pay the principal of external debt as against RWF 15.3 billion used in fiscal year 2012/2013. The higher spending is on account of higher debt due as well as higher exchange rate used to convert the US$ into RWF. Regarding the domestic non-bank component, RWF 24.0 billion (0.4 percent of GDP) has been allocated as against RWF 12.2 billion (0.3 percent) in fiscal year 2012/2013. This is due to the carry-over of some non bank debt from the sale of securities to finance the cash shortfall in 2012/2013.

The Budget Deficit and Financing

The overall cash deficit in the proposed 2013/2014 fiscal year is projected at RWF 297.7 billion (5.5 per cent of GDP) compared to RWF 283.6 billion (6.1 per cent of GDP) in 2012/2013. This deficit will be funded with net foreign project loans of RWF 136.9 billion (2.5 per cent of GDP) and net domestic borrowing from the banking system of RWF 160.8 billion (3.0 percent of GDP).

In the case of domestic financing, as mentioned earlier, RWF117.7 billion of the required amount of RWF160 represents a draw-down of accumulated funds from the EURO Sovereign bonds issuance earlier this year and earmarked for funding the completion of KCC and the Nyabarongo hydro project. In addition the Government will draw-down an amount of RWF12.8 billion from other accumulated funds and will also incur a new debt of RWF 30.3 billion (0.6 per cent of GDP) with the banking system through the use of the overdraft at BNR and through new issuance of Treasury bills. Despite this new banking debt, Government's domestic debt is projected to decline slightly from about 6.7 per cent of GDP at end June 2013 to about 5 per cent of GDP by end June 2014.

IV. DETAILED RESOURCE ALLOCATION TO EDPRS 2 CLUSTERS

In EDPRS 1, distinction was made between the various clusters of priorities to be addressed by government. With the introduction of EDPRS 2, the strategy distinguishes between thematic areas, foundational issues and support functions. The thrust of EDPRS 2 is to point new strategic directions and sets of Emerging Priorities that are critical to the next stage of Rwanda's development, and for transitioning Rwanda to middle income country status. Emerging priorities are grouped under the four thematic areas of Economic transformation for rapid growth, Rural Development, Productivity and youth employment creation as well as Accountable Governance. Foundational Issues reflect long-term priorities where, in most cases, significant progress has already been made during EDPRS 1. Health and basic education, macroeconomic stability and public finance management (PFM), justice, peace and stability, food security and nutrition, and decentralisation are prominent amongst these strategic areas that constitute the platform of Rwanda's sustainable development over the long term. The Support Functions cut across all the emerging priorities and foundational issues to ensure proper delivery of the EDPRS 2.

Expenditure projections have therefore been based on the priority areas of the EDPRS II. The EDPRS 2 therefore informs the process of prioritising budget allocations towards specific programmes and projects and away from areas of non-priority spending. The inclusion of a programme or project in the budget depends on the availability of funds and the relative priority given to the various initiatives set out in EDPRS 2.

Table 13: Resource Allocation to EDPRS Clusters 2013/14 – 2015/16

Planned Expenditure by EDPRS II Initiative	2013/14		2014/15		2015/16	
	RWF	%	RWF	%	RWF	%
Thematic Areas	818.0	50%	939.9	51%	978.4	49%
1. Economic Transformation	511.4	31%	557.3	30%	573.8	29%
2. Rural Development	161.4	10%	185.5	10%	197.4	10%
3. Productivity and Youth Employment	104.5	6%	139.2	8%	146.0	7%
4. Accountable Governance	40.8	3%	57.9	3%	61.1	3%
Foundational Sector	676.2	42%	736.3	40%	813.9	41%
1. Foundational Issues	676.2	42%	736.3	40%	813.9	41%
Support Function	132.4	8%	165.1	9%	206.4	10%
1. Support Function	132.4	8%	165.1	9%	206.4	10%
Total	1,626.6	100%	1,841.3	100%	1,998.7	100%

Source: MINECOFIN

(a) Allocations of resources to EDPRS Thematic Areas

The Second Budget Call Circular, issued on March 6, 2013 provides the indicative budget ceilings for the financial year 2014/2015 and provided guidance to ministries and budget agencies to finalise their 2013/2014 – 2015/2016 Medium-term Expenditure Framework. The primary focus of the 2013/2014 budget and the medium term strategy is to allocate available resources to the priorities in the four thematic areas of EDPRS II, whilst maintaining the allocations to the foundational programmes to sustain gains made under EDPRS I. The Second BCC and the subsequent budget consultation processes have focussed on ensuring the prioritization of allocations to EDPRS II priorities. Resources allocated to non-priority programmes and projects were re-evaluated and reallocated where appropriate. The following sub-sections gives more detailed resource allocation in each thematic area as well as the key projects and programmes to be financed during the 2013/14 financial year.

i. Economic Transformation

The main objective of the Economic Transformation thematic area is to propose an ambitious, prioritised and coherent cross-sectoral strategy to sustain rapid growth and facilitate Rwanda's process of economic transformation to meet Vision 2020 revised targets. Economic Transformation is the process of sustained high economic growth during which the fundamentals of an economy change, shifting from a traditional and low productivity agricultural base and a rural labour-force, to a more industrial, diversified and high productivity urban economy. The table below presents key priorities under the Economic Transformation thematic area.

Table 14: Priorities for the Economic Transformation Thematic Area

Thematic Area	Priorities
Economic Transformation for Rapid Growth	1. Diversifying the Economic Based for Exports
	2. Rapid Growth of Exports
	3. Increase the Productivity and Competitiveness of the Private Sector
	4. Improve Infrastructure to Boost the Growth of Business
	5. Planned Urbanization for Economic Growth and Green Growth

Source: MINECOFIN

The economic transformation thematic area consists of and is implemented by various elements of general public services, economic affairs, environmental protection, housing and community amenities and education and forms about 31 per cent of the projected 2013/2014 budget. In terms of EDPRS II, Private Sector Development (PSD), the Energy and Infrastructure sector form the backbone for economic transformation. To provide the platform for this economic transformation significant investments are being made in infrastructure and energy development. In the energy sector, most of the costs are derived from assessing the feasibility and subsequent development of projects such as geothermal, methane, and peat that promote Rwanda's self-reliance in power. The infrastructure sector is therefore investing heavily in the development of transport infrastructure and increasing the country's energy capacity. For PSD, initiatives to promote economic opportunity such as credit expansion to facilitate businesses, development of Special Economic Zones, and an integrated logistics system figure as prominent cost drivers. The allocation of resources to the thematic area and its sectors is shown in the table below:

Table 15: Economic Transformation Resource Allocation (RWF)

Thematic Area	Sectors	Budget 2013/2014	Budget 2014/2015	Budget 2015/2016
Economic Transformation (Objective: *Sustain rapid economic growth and facilitate the process of economic transformation by increasing the internal and external connectivity of the Rwandan economy*)	General Public Service	6,800,435,459	4,659,524,329	4,507,812,227
	Economic Affairs	441,409,297,925	473,551,915,145	457,880,624,612
	Environmental Protection	600,000	600,000	600,000
	Housing and Community Amenities	10,369,216,996	11,912,157,148	12,211,697,688
	Education	52,791,262,110	61,080,223,543	66,357,904,752
	Total	511,370,812,490	551,204,420,165	540,958,639,279

Source: MINECOFIN

The key projects and programmes of the economic transformation thematic area that have been allocated resources in the 2013/14 financial year are:

- Agribusiness investment and export marketing
- Manufacturing growth project
- Export diversification project
- Diversification of tourism products and product development
- Tourism quality management and standardization of new accommodation establishments
- Rwanda investment and tracking system
- Corporate governance advisory services project
- The Doing Business project
- Public private partnership (PPP)
- E-government project
- ICT skills development project
- ICT private sector development
- ICT for community development
- Regional ICT centre for excellence
- Regional communication infrastructure programme
- National customer care project

- Project for rural income through exports
- Genetic improvement programme (agriculture)
- Flower park construction
- Kigali wholesale market
- Improving coffee production, productivity and quality
- Commodity chain programme (Horticulture intensification and quality management)
- Kigali wholesale market
- Construction of 4 provincial industrial parks
- Relocation of Gikondo Industrial Park
- Industrial sub-sector master plans developed for Agro-processing, construction materials and chemicals
- Civil engineering testing laboratories and laboratory accessories
- Establishment of time and frequency laboratory and enhancement of metrology laboratories
- Export promotion project
- Regional integration and trade facilitation
- National unit trust
- Kalisimbi project
- Bugesera airport
- East Africa trade and transport facilitation project
- Roadside station project
- Dar es Salaam-Isaka-Kigali/Keza-Musongati railway
- Construction of Nyabarongo hydro power stations
- Feasibility study and construction of new mHPS
- Construction of 145 MW Ruzizi II hydropower plant
- Construction of 90 MW Rusumo Falls hydropower plant
- Optimization of KP1
- Increase in rural energy access to electricity through PPP
- Geothermal resource development
- Development of peat to power plant
- Solar PV system in 60 rural secondary schools
- Wind potential assessment Phase II
- Rukarara I
- 6 Micro hydro power
- Rehabilitation of 3 hydro power stations: Mukungwa 1, Gihira et Gisenyi (BADEA/OPEC)
- Construction of national wide-transmission line
- Electrification of 6 districts in Eastern Province with STEG
- Construction of sub-stations
- Upgrading 110 KV Mururu-Kirinda-Gikondo

- Street lighting
- Electricity roll out programme (Electricity access scale-up)
- Areas of expropriation for project implementation (Energy)
- Promotion of liquefied petroleum gas
- Sustainable energy development project
- Elaboration and implementation of urban planning tools
- Rehabilitation and renovation of public buildings
- Design and construction of public buildings
- Real estate development
- Extension, rehabilitation and equipping RIAM buildings
- Detailed exploration: Geology, geophysical and geochemical samplings in 4PTAS

ii. Rural Development Thematic Area

Given the prevalence of poverty and the range of socio-economic factors that affect rural areas, rural poverty reduction requires comprehensive treatment. For growth to be sustainable and its benefits to be equitably distributed, it should be broad-based, multi-sectoral and inclusive of the Rwandan rural labour force, which is currently primarily engaged in agriculture. The objective of rural development is to improve the quality of life and economic wellbeing of people living in rural areas. The primary objective of rural development is to reduce rural poverty, which in Rwanda remains widespread and persistent. Targeting rural poverty reduction also means focusing on strengthening social cohesion and reducing inequality. Poverty reduction is a complex process and many factors will determine whether economic growth is associated with poverty reduction, such as the initial level of inequality, the composition of growth (which sectors grow) and how inequality changes over the period of growth. The table below presents key priorities under the Rural Development thematic area.

Table 16: Priorities for the Rural Development Thematic Area

Thematic Area	Priorities
Rural Development	1. Sustainable Rural Settlements
	2. On-farm Productivity for Improved Food Security and Income Generation
	3. Social Protection linked to Development
	4. Connecting Rural Communities to Markets
	5. Alternative Sources of Energy

__Source:__ MINECOFIN

The rural development thematic area encompasses elements of economic affairs, environmental protection, housing and community amenities and social protection. The backbone of the Rural Development Strategy is formed by ensuring better use of available land, increases in agricultural productivity and improved connectivity,

As can be noted in the table below, rural development will make up 10 per cent of the projected budget for 2013/2014. The Crop Intensification Project was an important pillar in the implementation of the EDPRS I. The role of agriculture in addressing the priorities of rural development continues to be important, with specific emphasis being placed on increasing agricultural inputs. As is expected, the agricultural sector therefore accounts for more than half of the total costs associated with the implementation of the thematic area. Increasing the network of feeder roads, developing radical and progressive terraces, increasing access to better inputs by the farmers are envisaged as the way forward to promoting rural development, and are consequently the cost drivers for this thematic area. Infrastructure development is another important component to ensure the development of rural communities. Towards this end, significant investments are being made in Energy and Sanitation, the development of transport infrastructure and the maintenance of existing roads. Of particular strategic importance is the roll-out of electricity connections. The allocation of resources to the thematic area and its sectors is shown in the table below:

Table 17: Rural Development Resource Allocation (RWF)

Thematic Area	Sectors	Budget 2013/2014	Budget 2014/2015	Budget 2015/2016
Rural Development (Objecitve: *Sustainable poverty reduction is achieved through broad-based growth across sectors in rural areas by improving land use, increasing the productivity of agriculture, enabling graduation from extreme poverty, and connecting rural communities to economic opportunity through improved infrastructure*)	Economic Affairs	101,802,495,727	126,329,623,948	124,167,239,148
	Environmental Protection	435,181,200	248,000,000	240,500,000
	Housing and Community Amenities	26,493,638,794	30,991,728,628	31,477,201,285
	Health	16,456,330,030	9,947,030,496	10,869,745,982
	Social Protection	16,186,193,145	14,959,139,325	17,613,721,595
	Total	161,373,838,896	182,475,522,397	184,368,408,010

Source: MINECOFIN

The key projects and programmes that have been allocated resources in the 2013/14 financial year to finance rural development are:

- Agro-processing parks development
- Gishwati land and water management
- Land husbandry hillside irrigation and water harvesting
- Rural sector support project (Phase II)
- Immediate action irrigation project (GFI)

- Kirehe watershed management project
- Agricultural mechanisation programme
- Priority crops intensification
- Sericulture
- National strategic food reserve project
- Livestock infrastructure support programme
- Hatchery development programme
- Banana development and bacterial wilt control
- National rural water supply and sanitation programme
- Rural water supply and sanitation II
- Water sanitation and hygiene
- Lake Victoria water supply and sanitation programme (Phase II)
- Rural water supply in Eastern Province
- Rulindo challenge programme
- Optimized production of Nyabarongo ground water treatment plant
- Rural drinking water quality control project
- Rural water sustainability support
- Expropriation for WATSAN in Bugesera-Karenge and other interventions area project
- Water supply in Butare 2EME Phase
- Studies for clean water supply in 7 secondary towns: Muhanga, Ngoma, Rusizi, Gicumbi, Karongi, Nyanza and Rubavu
- Water supply Mutobo-Kigali (Study)
- Improvement of sanitation in urban areas
- Centralized sewage system for Kigali Business District

iii. Productivity and Youth Thematic Area

The overarching goal in this thematic area is to move Rwanda from an agriculture-based economy to an industry and services-based economy. Vision 2020 aims for half of the Rwandese workforce to be working off-farm by 2020, up from just 28 per cent today. This is because non-farm workers are five times more productive than farm workers, and are 50 per cent less likely to be in poverty. Reaching this goal will require creating an additional 200,000 non-farm jobs per year. The table below presents key priorities under the Productivity and Youth thematic area.

Table 18: Priorities for the Productivity and Youth Employment Thematic Area

Thematic Area	Priorities
Productivity and Youth Employment Creation	1. Education and Skills Development
	2. Ensuring a Healthy Workforce
	3. Job Creation

__Source:__ MINECOFIN

The productivity and youth employment creation thematic area therefore prioritizes the issues of education, skills development, a healthy workforce and job creation. Education takes the lion's share of the costs. However, everything in the Education sector is not automatically a part of this sector- costs under primary and pre-primary education are counted as a part of foundational issues. To support the accomplishment of these priorities, the thematic area is attributed 6 per cent of the total budget envelope for the 2013/2014 financial year. An increase to 8 per cent of total projected budget is foreseen for the 2014/2015 financial year. This funding and expenditure level will be maintained for the 2015/2016 financial year as well.

Table 19: Productivity and Youth Resource Allocation (RWF)

Thematic Area	Sectors	Budget 2013/2014	Budget 2014/2015	Budget 2015/2016
Productivity and Youth (Objective: *Move Rwanda from an agriculture-based economy to an industry and services-based economy*)	General Public services	456,243,497	355,525,552	358,312,790
	Economic Affairs	2,159,972,289	1,868,211,302	2,154,773,459
	Recreation, culture and religion	2,073,638,366	3,209,968,477	3,920,204,195
	Education	98,712,026,222	132,221,119,972	137,371,879,574
	Social Protection	1,032,136,700	1,533,102,961	2,227,576,700
	Employment	17,290,077	13,110,177	13,735,277
	Total	104,451,307,151	139,201,038,441	146,046,481,995

__Source:__ MINECOFIN

The key projects and programmes that have been allocated resources in the 2013/14 financial year are:

- Masaka business incubation and business development services project
- Rwanda business life cycle project
- Services development and competitiveness
- Rwanda labour market information system
- Work force development project
- Entrepreneurial development and innovation project

- Hanga Umurimo project
- Support to micro, small and medium enterprises – programme estimate 2
- Construction of hostels at NUR and UP
- Skills development project
- Support to skills development in Science and Technology
- Finalization of IRST laboratory construction
- Construction and equipment at SFB
- Laboratory and equipment at Rukara
- Umutara Polytechnic equipment and infrastructure project
- TVET schools infrastructure development and equipment project
- Expansion and development of the integrated Polytechnic Regional Centre project – IPRC Kicukiro
- School construction project
- Transport sector development (Masters-degree on Transport studies in KIST)

iv. Accountable Governance Thematic Area

The first pillar of Vision 2020 is good governance and a capable state. Social and economic transformation is equally about the state as it is about markets. The role of the state and the way it governs and accounts for itself is indispensable in creating the service culture and values for wealth-creation and quality of living. The main objective of the EDPRS 2 Accountable Governance thematic area is to advance a prioritised approach to governance that is capable of promoting and strengthening accountable governance in Rwanda. The Accountable Governance strategy lays great emphasis on citizens' participation, strengthened public accountability, and quality service delivery. A key component of this is promoting accountability through decentralized institutions, and use of ICT to promote participation. The costs of this thematic area reflect these priorities.

The accountable governance thematic area is centred on addressing three critical priorities, namely increased participation and mobilization in service delivery, improved service delivery and increased public accountability and the promotion of democratic governance. To achieve these priorities, various initiatives will be implemented through general public service, public order and safety, economic affairs and social protection. The accountable governance thematic area will receive an allocation of 3 per cent of total budget for the 2013/14 financial year, and thereafter a consistent 3 per cent of the projected total budget over the outer years of the MTEF period. The allocation of resources to this thematic area and its sectors is shown in the table below:

Table 20: Accountable Governance Thematic Area Resource Allocation (RWF)

Thematic Area	Sectors	Budget 2013/2014	Budget 2014/2015	Budget 2015/2016
Accountable Governance (Objecitve: *Enhance accountable governance by promoting citizen participation and mobilisation for delivery of development, strengthening public accountability and improving service delivery*)	General Public Service	31,895,866,603	42,200,541,258	44,553,975,994
	Public Order and Safety	276,791,828	268,383,681	230,173,083
	Economic Affairs	6,877,266,402	14,332,738,558	11,400,934,768
	Social protection	1,746,158,491	1,098,866,708	942,417,724
	Total	40,796,083,324	57,900,530,205	57,127,501,569

Source: MINECOFIN

The key projects and programmes that have been allocated resources in the 2013/14 financial year for the governance and sovereignty cluster are:

- National cyber security
- Embassy infrastructure
- Support for policy and strategy development project
- National population census
- Demographic and health survey
- NSDS basket fund NIS
- IDP models coordination project
- Support to Rwanda integrated development initiatives
- Support to social, economic and cultural development of the Northern Province (PADSEC)
- Support services to LG projects
- Inclusive participation in governance

(b) Foundational Sectors

Foundational issues reflect long-term ongoing priorities where, in many cases, significant progress has already been made during EDPRS I. Health and education, public finance management (PFM) and justice, peace and stability are prominent amongst the latter. Sector strategies cover both emerging priorities or thematic areas and the ongoing priorities embodied in foundational issues. Foundational issues in the EDPRS2 are not defined as sectors, but can rather be thought of as strategic areas that constitute the bedrock of Rwanda’s sustainable development over the long term. Resource allocation to this cluster is shown in the table below:

Table 21: Foundational Issues Resource Allocation (RWF)

Foundational Sector	Sectors	Budget 2013/2014	Budget 2014/2015	Budget 2015/2016
Foundational Issues	General Public Services	321,264,900,411	227,538,878,244	240,985,229,150
	Defense	1,125,051,798	1,181,304,388	1,240,369,607
	Public Order and Safety	64,866,731,036	71,315,686,865	86,529,502,792
	Economic Affairs	904,165,514	1,082,563,983	1,292,994,949
	Environmental Protection	12,265,729,785	14,767,194,225	14,696,372,231
	Housing and Community Amenities	10,989,455,884	14,218,345,546	16,014,877,873
	Health	132,665,146,879	136,726,786,852	144,476,282,723
	Recreation, Culture and Religion	3,539,899,946	4,204,422,396	5,301,670,832
	Education	80,559,560,643	105,929,735,273	125,879,435,861
	Social Protection	48,013,619,438	51,538,262,639	58,427,366,362
	Total	676,194,261,334	628,503,180,411	694,844,102,380

Source: MINECOFIN

Health and Education account for a significant percentage of the total foundational costs. These two sectors are, and will remain, a building block for the development of society and the economy during and beyond the period of EDPRS 2, and government therefore remains committed to ensuring that the focus these sectors deserve is provided, and this is reflected in the relative costs in the foundational issues. The foundational sector is allocated 41.6 per cent of the projected budget for 2013/2014. The foundational sector is responsible for maintaining and expanding the developmental gains achieved through the EDPRS I, during the implementation of the EDPRS II development objectives.

(c) Support Functions

The support functions ensure that an environment conducive to the achievement of the thematic areas is created. Such support functions provide the necessary back-office functioning to make the implementation of the EDPRS II priorities possible. Support functions to the value of RWF 132 billion is projected for the 2013/2014 financial year and make up 8 per cent of the total projected budget. Resource allocation to this cluster is shown in the table below:

Table 22: Support Function Resource Allocation (RWF)

Support Function		Budget 2013/2014	Budget 2014/2015	Budget 2015/2016
Support Function	General Public Services	53,426,695,796	67,724,752,626	82,851,973,684
	Defense	54,010,379,561	61,406,018,948	70,936,271,891
	Public Order and Safety	2,329,232,331	1,854,274,700	1,843,578,495
	Economic Affairs	2,474,671,252	3,656,515,178	3,726,217,053
	Environmental Protection	2,602,377,484	1,547,258,657	2,020,351,232
	Health	6,256,883,532	9,354,905,225	10,604,435,112
	Recreation, Culture and Religion	3,564,744,717	3,646,781,295	4,599,172,997
	Education	4,189,389,076	7,468,119,459	20,169,730,068
	Social Protection	3,526,853,053	5,293,035,806	6,973,410,896
	Total	132,381,226,802	161,951,661,894	203,725,141,428

Source: MINECOFIN

V. POLICY ISSUES FOR CONSIDERATION

The Ministerial budget consultations for the 2013/14 fiscal year were held during the month of March 2013 and the key players included sector Ministries on one side and MINECOFIN, MINICAF, MINALOC and MIFOTRA on the other. Budget requests were thoroughly scrutinized and where appropriate additional resources were granted, deductions proposed or budget reallocations recommended as appropriate. Sector Ministries were also advised to reprioritize the unfunded priorities and where possible sequence them in the medium term. However, there were a number of policy related issues that emerged from discussions and these are summarized below for Cabinet consideration:

(a) Sustainability of the Wage and Pay Policy

The 2013/14 budget consultation process made it a requirement for ministries and agencies to base their resource requests on their institutional structure as presented in the Prime Minister's Order N° 92/03 of 01/03/2013 and taking into account their recruitment plans. In addition, all requests for contractual personnel to provide additional support to the institutions were subjected to approval by MIFOTRA and accordingly a number of requests were declined. To have a sustainable wage bill, it is imperative that any changes to the wage bill envisaged in the Prime Minister's Order be approved by Cabinet and requests for funding in favour of contractual personnel be granted only after approvals by MIFOTRA.

(b) Unfunded Activities

As already highlighted, some sectors presented unfunded activities and most of them were advised to reprioritize them within the available envelope and where conditions permit, sequence them in the medium term. Previous experience has demonstrated however, that some institutions bring back these unfunded activities as urgent and priority activities during budget implementation. The Cabinet is requested to endorse the principle that where priorities emerge after the budget is approved and which do not constitute activities that were not foreseen at the time of preparing the budget or are urgent in nature to qualify for payment under impromptu budget line, the concerned institution shall be required to propose re-allocations from their approved budget for the period.

(c) Accumulated Arrears by Government Institutions

All Government institutions have been required through the second budget call circular issued in March 2013 to prioritize any outstanding arrears in the 2013/14 budget to ensure that all arrears are cleared. Subsequently, the Ministry of Finance and Economic Planning has issued announcements through the radio and newspapers during the month of April 2013 inviting the public to submit evidence of arrears that are owed by Government institutions so that they can be allocated resources for payment in 2013/14 fiscal year. Once there arrears are proven to be legitimate, the Ministry of Finance and Economic Planning will submit them to the relevant agencies for payment and the Cabinet is requested to endorse this proposal.

(d) Management of Government Debt

The Government debt levels have grown significantly during the 2012/13 fiscal year and the planned borrowing for Bugesera International Airport will cut further into the remaining borrowing space. It is envisaged that Rwanda will reach its limit for borrowing by 2019 at our current levels of export performance. The space for new projects to be funded through borrowing is therefore limited at least for the next two to three years to ensure sustainable debt levels in future. The Cabinet is requested to ensure that this discipline is observed.

(e) Diplomats Budget

The budget for diplomats from different institutions of government including MINAFET, MINICOM, MINADEF and NISS has been provided under the respective institutions for the past fiscal years. This has however created inefficiencies in the use resources within the diplomatic missions and has often undermined accountability. It is proposed within the 2013/14 budget to allocate all the budget of diplomats including commercial attaches and military attaches under the Ministry of Foreign Affairs and Cooperation. This has been discussed during budget consultations and is submitted to Cabinet for consideration and approval.

(f) Subsidy to Government Agencies

A sizeable number of government institutions generate own revenues and receive a subsidy from Government to close the financing gap. However, most of these institutions have remained inefficient and have been increasing the appetite for Government subsidies. During the 2013/14 budget consultations, some institutions (ILPD, RIAM, RBA and RCS) have been required to prepare an exit strategy or financing plan that do would see government subsidies declining in the medium term. Accordingly, we are proposing that with effect from 2014/15 budget, all government institutions that have potential for self-sustenance should be required to produce a financing plan and exit strategy before benefiting from Government subsidies. Government will also conduct a review of all subsidies to ensure that they benefit the lower income groups more than any other income group.

(g) Comprehensive Tax Reforms

The tax Although Rwanda has made significant strides in improving domestic revenue collection, the tax revenue to GDP ratio at about 14 percent of GDP is among the lowest by any standard. Amongst the causes of this include a large informal sector and multiple exemption regimes. There is also a culture amongst government institutions that do not budget and pay taxes on their transactions as required by the law and this was very evident during the budget consultations. All these perpetually suppress our tax revenue to GDP ratio and keep them low relative to countries in similar conditions. The Ministry of Finance and Economic Planning is planning comprehensive tax reforms that will broaden the tax net by tapping into the informal sector, minimizing the scope of tax exemptions and improving tax compliance especially amongst government institutions.

VI. POSSIBLE RISKS TO ECONOMIC AND BUDGET PERFORMANCE IN FISCAL YEAR 2013/2014

Government recognises that the 2013/2014 budget has been formulated against the background of several challenges including, adverse global economic environment, especially economic crisis in donor countries. These could trigger donor funding reduction and/or delays. The resultant reduction in foreign exchange to the budget and the economy at large could have a secondary impact by reducing economic activity and adversely affect domestic resource mobilization. The Government will continue to monitor these risks closely with a view to taking corrective measures when required. These measures will include cuts and in some cases delays in the implementation of selected non priority spending in order to ensure that there is no additional domestic borrowing. This action will safeguard macro-economic stability.

VII. CONCLUSION

The budget framework for 2013/2014 fiscal year and the medium term reflect EDPRS 2 priorities. With the proposed expenditure allocations, it is to be expected that progress will be made towards attaining most of the targets outlined in the EDPRS 2 policy document.by 2015/2016.

The medium term projections implement the fiscal consolidation policy through an increase in domestic resource mobilization and expenditure prioritization to reduce the fiscal gap. With the projected decline in donor grants support in the medium term, this is the right thing to do. However public expenditure levels alone will not be sufficient to generate the required growth expected in EDPRS2. This therefore calls for the targeting of resource allocations to projects and programs that have high impact on growth and employment that will be complimented with adequate private investment to generate the required EDPRS 2 results. Government is fully committed to realizing the EDPRS 2 objectives whilst maintaining macro-economic stability.

Cabinet is requested to approve of the macro-economic framework for the medium term and the budget for fiscal year 2013/2014.

VIII. BFP ANNEXES:

1. Annex I: Explanatory Note to the BFP 2013/14-2015/16
2. Annex II: Basic Macro Indicators 2008-2014
3. Annex III: Fiscal Projections for 2013/14-2015/16
4. Annex IV: EDPRS Sector Shares 2013/14-2015/16
5. Annex V: Budget execution tables for 2012/13
6. Annex VI: External borrowing and loan servicing projections
7. Annex VII: Domestic borrowing and loan servicing projections
8. Annex VIII: Public Enterprises Revenues and Expenditure Projections
9. Annex IX: Summarized CG Transfers to Districts for 2013/14-2015/16
10. Annex X: Consolidated Districts Revenues and Expenditures for 2013/14-2015/16
11. Annex XI: Block grant allocation table for 2013/14
12. Annex XII: Earmarked Transfers Guidelines for 2013/14 fiscal year
13. Annex XIII: Consolidated Gender Budget Statements