

REPUBLIC OF RWANDA



Ministry of Finance & Economic Planning

BUDGET STATEMENT 2002

**STATEMENT DELIVERED BY THE HON. DONALD KABERUKA,
MINISTER OF FINANCE AND ECONOMIC PLANNING TO THE
PARLIAMENT**

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INTRODUCTION

Mr. Speaker;
Honourable Members of Parliament;
Colleague Ministers;
Ladies and Gentlemen;

1. I am pleased to present the Government Budget proposals for Fiscal year 2002, as well as our economic and financial policies for the coming year and in the medium-term. As in previous years, I will take this opportunity to also inform the House and the Nation of the State of our economy.
2. This Budget has, as its central axis, the Poverty Reduction Strategy elaborated nationally through a consultative and participatory process. The Strategy will serve as our “road map” over the forthcoming months.
3. The total recurrent Budget is 125.8 billion, an increase of 21.6 billion or 17%. The Development Budget is increased by 22% to 72.4 billion. The Total Budget (including arrears debt and net lending) increases by 19% from 187.5 billion to 228.6 billion.

Mr. Speaker,

4. It is vitally important that Parliament and the Nation fully understands the need for, and implication of this increase, which is a departure from the last three annual budgets which were belt tightening. It is even more crucial that we understand how this increase in the budget will be financed without increasing tax burden, raising inflation and increasing further dependence on aid. Rwanda remains a country with enormous needs and yet with one of the lowest revenue bases in Africa; therefore sustainable financing our budget without causing macroeconomic imbalances, increased debt or aid dependence remains a challenge. The year 2002 is

particularly challenging in this regard. We are faced with an agenda which is both overloaded and frontloaded but absolutely necessary for the future socioeconomic development of this country. Luckily however many of the above programs are not permanent and they would taper off starting in 2003. There is therefore a hump in expenditures in 2002 which is unlikely to continue in subsequent years. While many of our development partners understand and are prepared to give us financial backing, it would not be right nor desirable for Rwanda to finance these programs in a manner that would create macroeconomic imbalances. Furthermore the increase in the Budget envelope should not go to increased consumption but increased investment which increases the tax base, exports and reduce poverty thereby making us less and less reliant on foreign budgetary support. This proposed budget would raise the overall deficit from 9.8% to just above 12% of GDP. I will be indicating shortly how we intend to finance this deficit.

5. The increase in the Budget estimates for 2002 is a response to a packed agenda of policies; many of which cannot be postponed:
 - (i) Implementation of the different components of the Poverty Reducing Programs;
 - (ii) Decentralization and the need to allocate resources to the Districts, resources which will finance development programs in the villages. I refer in particular to the Common Development Fund;
 - (iii) Demobilization and reintegration a result of the Lusaka Peace Process;
 - (iv) Gacaca implementation;
 - (v) Formulation of a new Constitution and strengthening Good Governance Institutions;
 - (vi) Conducting a general population census in August 2002.
 - (vii) Providing adequately for counterpart funding necessary to increase our absorptive capacity.
 - (viii) Payment of arrears on goods and services as audited by the Auditor general

Mr. Speaker, Honourable Members,

6. As I said last year, our national economic policies emanate from our long-term Vision 2020. Among other things the vision commits to:
 - (i) good governance
 - (ii) reducing poverty through policies geared at increasing incomes and quality of life of the poor by 2015.
 - (iii) increasing real per capita incomes in the context of broad-based growth, making Rwanda a middle income country by 2020.
 - (iv) investing in our human resources through education, capacity building, vocational training, skills development, combating HIV/AIDS and malaria, now the number one cause of mortality in the country,
 - (v) progressively working towards reducing our dependence on external finance by promoting exports and by “facilitating” private sector development and
 - (vi) Enabling widespread participation of all social and economic groups thereby promoting a stakeholder economy.

7. Rwanda is a small economy, one of the smallest in the world, our exports account for only 4% of GDP, but this does not mean we are completely insulated from the vagaries of the world economy. The recent events of September 11 in the United States of America and the looming recession in the industrialized countries are already having an adverse impact on the export of our primary commodities tea and coffee; and more generally resource flows towards the African continent. In addition, we see also lower tourism receipts and higher transportation costs for imported merchandise. It is too early to see definitively the effect of oil prices. So far oil prices have moved down in reaction to lower demand with prices now hovering around 20 dollars a barrel. But prices could move rapidly in the opposite direction if the market becomes fearful of supply disruptions. Therefore, we have to brace ourselves for a period of some uncertainty

ahead of us. The impact of these developments has been taken into consideration in our projections for the 2002 Budget.

THE STATE OF THE ECONOMY IN 2001

Mr. Speaker,

8. After a rather difficult economic situation in 2000, the year 2001 registered a modest improvement our economy, which continues to grow this year at a decent rate of 6% in 2001. By Sub-Sahara African standards this would be a credible performance. However, we have to recognize that our population, growing at about 3% per annum, has increased significantly from 6.8 million in 1990 to about 8.3 million in 2000. As such, the living standard, when measured on the basis of GDP per capita is 22% lower than 10 years ago. We need to do better than 6% while maintaining a tight reign on inflation. So far this remains under control at 3.5%, but has been under pressure lately due to the 12% depreciation of the franc. However poverty is still affecting 60% of our population and living conditions of the poor in this country are improving too slowly. The heavy rains that have affected many parts of our country have increased hardship for the affected population.

9. The challenge we face in 2002 is therefore this, how can we, in the midst of a worldwide recession, continued regional security challenges and a rising population growth, achieve a higher sustainable growth rate, in any case higher than 6%, reduce poverty of our people, provide employment for the unemployed without runaway expenditures which would provoke macroeconomic imbalances a sure recipe for poverty in the future?

10. Mr. Speaker,

In this Budget I indicate the way ahead, and how we would hope to reconcile these conflicting goals. Before I do so, allow me first to review performance this year, in the real sector, the external sector, the monetary and banking sector and the fiscal sector:

REAL SECTOR

11. **Agriculture** accounts for 41% of our GDP. Growth in this sector for 2001 is projected at 8%. Thanks to good rains the harvests of seasons A and B in 2001 have been quite encouraging. No region is currently undergoing any severe food shortage crisis. The market supply of agricultural inputs (selected seeds, fertilizers and pesticides) improved this year. However, the low purchasing power of farmers continued to constrain their purchase and extensive use of modern inputs. It is becoming increasingly evident that improving the purchasing power of the rural economy is our greatest challenge for now and the medium-term. The **industrial sector** is expected to register a 7% growth with mining, cement production and construction activity being the principal reasons for this growth. The manufacturing sub sector continues to be depressed by lower overall demand high energy costs and competition from imports and many of the enterprises operate below capacity. The **services sector** expanded by 4% in 2001.

EXTERNAL SECTOR

Mr. Speaker,
12. Our Balance of Payments presents a structural problem. Since Independence it remains problematic; the external current account deficit remains high at 16% of GDP. This year Rwanda will export US\$ 94 million and import US\$ 243 million. Coffee prices are at their lowest in 50 years and the recovery in coffee production remains disappointing. We were slightly fortunate by way of a temporary export boom in coltan during the first half of 2001 which enabled us to generate about US\$ 44 million. But, the international price of coltan has been falling since the second half of the year due to the resumption of large-scale production elsewhere in the World. Tea exports have overtaken coffee for two consecutive years and this sector shows enormous potential but the price remains low.

13. Slowly the pyrethrum sub-sector is being revived and efforts must be made to develop other non-traditional exports. We should not continue thinking that only tea and coffee can be exported. A determined effort needs to be made to develop non-traditional exports. One interesting development this year was that Rwanda has been able to export beans and maize, though on a modest scale, to Uganda and Kenya.

MONETARY SECTOR

14. The continued sluggish lending to the private sector continues to affect activity in the financial sector. **Domestic credit fell by 8 %** reflecting continued cautiousness by the commercial banks which are carrying non-performing loans, currently representing 49.5% of banks' total portfolio. The Government is undertaking some actions to address this pressing problem, notably:

- a. An arbitration center is now operational, aimed at encouraging an amicable resolution of financial disputes, given the length of time taken to resolve such cases in courts.
- b. In the same vein, we are trying to reestablish the system of *voie parée* to make it easier for banks to recover outstanding loans by seizing existing mortgagable property of the borrowers;
- c. We shall also be making exceptional use of Treasury bills and bonds to negotiate with banks to see whether some of the problem loans within the banking system can be bought, we shall then utilize these funds to restructure and recapitalize the Housing Bank. We are convinced that some of these loans are not performing because of high interest and short maturities. If this particular problem was resolved the performance would definitely improve. We are approaching this carefully because of the need to avoid moral hazard and the importance of developing a credit culture and responsibility among bank lenders and borrowers.

- d. We shall also continue negotiation with international financial institutions to see how they can assist in strengthen our banks n general.
- e. The law creating an Institute of Banking & Finance is going through Parliament.

I would like to say however that Government's action alone would not suffice. Improvements are needed within the banking sector itself, and the supervisory authority (BNR), as well as the borrowers themselves.

15.As for **exchange rate developments**, a new system of foreign exchange auctions was successfully introduced in February this year. Significant inflows of external budget support and private sector foreign currency deposits provided stability for the Rwandan franc. The parallel market premium narrowed to negligible levels. However, as a result of the commercial banks reducing their importation of U.S. dollar currency notes, the differential between the official rate and the parallel market rate widened from 0.9 % at the beginning of the year to almost 6 % by end August 2001. But this is essentially due to the preference for cash dollars among our business community and the general customers.

16.Following the liberalization of foreign currency deposits, there was a rise in the **money supply** in the first 6 months of the year under the impulse of a 26 % jump in foreign currency deposits and a 15 % increase in currency in circulation, thus raising fears of inflationary pressures. However as longer term deposits in local currency declined between June and August this year, the overall money supply declined to a modest 1% annualized increase by end August 2001.

Mr. Speaker,

17.During the first 8 months of this year, there was a sharp increase in net foreign assets. Our **foreign exchange reserves** increased by 11.8%. While the gross foreign reserves at the Central Bank

rose largely on account of disbursements from development partners and resources from debt relief, the net foreign reserve position of commercial banks worsened by 4.1 billion francs during the period under review as their foreign assets declined by 1.3 billion francs and their foreign liabilities rose by 2.8 billion francs.

FISCAL SECTOR

Mr. Speaker,

18. For the first time since four years, our projected revenues in tax and non-tax have been attained. The creation of the RRA and the administrative reforms introduced since 4 years are now bearing fruit. Consequently, our **tax revenue** collections are expected to be on target at the end of 2001. As for **non-tax receipts**, the payment of dividends from public corporations, administrative fees and charges have boosted our domestic revenue collections in 2001.
19. However, the key development here has been a uniquely satisfactory introduction of the VAT. I would like here to state the Government's appreciation for the cooperation of the business community and public in general. We are doing our best to iron out outstanding problems that have been reported, especially the delay in the VAT refund mechanism. The Ministry keeps receiving requests for VAT exemptions from different quarters of the business community and the population. I would like to state here that VAT waiver will not be possible in the near future, except for cases provided for already by the law, that is, to promote exports and/or to protect the poor. With our continued policies of gradually lowering taxes on production and trade, the VAT will remain the flagship of our tax efforts and its integrity needs to be protected, especially now when we progressively begin the entry into the COMESA Free Trade Area (FTA).
20. However, despite this most welcome improved capacity to raise our own domestic resources, Rwanda will remain for sometime dependent on

external budgetary support. In 2001, external disbursement totalled some US\$84 million in recurrent budget support from major donors. As I have mentioned in the past, this continued dependence on external support recurrent expenditure is not desirable. This year 2001 external resources financed about 35% of our recurrent Budget. In the coming year the figure will be 40%. In our judgment this should be the limit and it is our aim to eliminate it significantly in the medium-term. Rwanda should aim at fully financing its recurrent budget, with external resources (whether loans or grants) being directed at financing capital investment.

21. Although revenues have been satisfactory and foreign support disbursed, total **expenditure** by Government has also been under pressure throughout 2001. Additional resources were required to deal with the security threat in the North Western region and the reintegration and resettlement of some of these returnees and attempts to cope with the catastrophes caused by the rains that affected the country.

I am however pleased to report two important aspects of our expenditures in 2001: (i) spending on the priority sectors remained on target and (ii) following the introduction of cash budgeting system, which I announced in last year's Budget Statement, no new domestic arrears were accumulated in 2001. Many Departments find the "cash budget" a highly constraining instrument, but given our resource constraints we shall maintain this budgetary control instrument for the coming year rather than accumulate new arrears on goods and services which can have serious knock-on effects on the private sector. As I will be explaining later we are continuing our programme of clearing arrears, which accumulated in previous years, either by outright cash payments or by securitizing the balance, as appropriate. We are also going to strengthen cash planning and management within the Central Administration and elsewhere to prevent creation of new arrears. A decree is being issued to prevent autonomous, semi autonomous bodies or our embassies from accumulating new arrears.

Mr. Speaker,

22. This overall fiscal performance, led by buoyant tax revenue collections, helped to contain the primary fiscal deficit well within our structural adjustment program target. But this should not mislead us into believing that the economy has turned the corner. Although the number of people living in poverty is declining steadily and is now around 60%, this figure is still unacceptably high and social conditions of the population remain precarious. There is still no marked improvement in our external current account deficit, largely because of falling commodity prices, rising freight and insurance costs but also the slow pace of diversification of our economy. It is therefore essential for Rwanda to maintain a cap on the reforms we embarked upon since six years ago, as our economy is still very fragile.

23. We recognise the concerns of many that since the 1997 reform of the tax code, there has been many changes in taxes, which have added to the complexity of the system. This concern is understandable. But the changes were necessary. In the coming year, our Ministry will compile together all the changes that have been made into a compendium to make the tax laws comprehensible and accessible to the taxpayer. But it is essential that we continue our efforts at revenue improvement.

THE 2002 BUDGET STRATEGY

REVENUE POLICY ACTIONS

Mr. Speaker,

24. Before I outline the revenue policy we shall follow in 2002, I would like to inform the Honourable Members that, as a member of COMESA, Rwanda is moving towards full implementation of its commitment under the FTA. Last year the COMESA Heads of State launched the FTA in Lusaka. For revenue considerations, we were not able to be among the first group of countries to join the Free Trade Area. We have decided to implement this

in phases. The first phase will be an effective reduction of 80% on import duty levied on imported products originating from COMESA member countries. We propose that this takes place January 1st 2002. Reducing the import duty by 80% will result in a cumulative loss of customs duty, excise duty and VAT of about Rwf 650 million per year, assuming no change in the current trade patterns in Rwanda. The second phase would be a 90% reduction on goods originating from COMESA countries to be implemented on January 1st 2003 and the final phase a 100% reduction effective on January 1st 2004. But I must add, that we will be very strictly enforcing the rules and regulations pertaining to the certificate of origin to ensure the planned zero tariff from being abused. In addition, we shall carefully monitor the impact on the overall revenue, and if the losses are significant, we shall take countermeasures.

Mr. Speaker,

25. This Budget does not propose any new taxes in 2002 we shall concentrate on improving the revenue administration consolidate recent reforms and especially the VAT. Nonetheless there are some amendments that we are proposing in 2002 for Parliament's approval, with a view to correcting distortions and creating an environment for growth: these are being submitted simultaneously and alongside the 2002 Draft Finance Law which is before you today:

25.1 Firstly, **restoring the 25% import duty on imported cement.** In the aftermath of the 1994 genocide, the Government took several measures aimed at addressing the housing problem, notably reducing taxes on housing materials and reducing import duties on construction materials. From time to time, CIMERWA, our sole national cement producer, did not have the capacity to meet the market demand for cement. Therefore import duty on cement was steadily reduced from 40% to 10% in 1998 and 10% to 5% in 1999. Last year the duty was lowered from 5% to 0%. I made it clear then that this was a temporary measure. Now, as a result of recent investment by CIMERWA, the national capacity to produce cement has

increased considerably. A tax law is therefore being proposed along with this Budget to bring imported cement back to the tax net by applying an import duty rate of 25%. However, imported cement originating from COMESA member states will be maintained at preferential tariff rates. In the same proposed law, a provision is made for reintroducing a 5% duty on imported raw materials used in the local production of cement.

Secondly, **introducing a distinctive rate of excise duty on mineral water and changes to other excises.** Currently, an excise tax rate of 39% is levied on all soft drinks, including soda water and mineral water. Initially the rate applied to soft drinks was 60% and water products (soda and mineral water) 10%. With the introduction of VAT, the rates were harmonized to neutralize the effect of the 15% VAT rate and a uniform rate of 39% was levied on all soft drinks, including water products. No differentiation was made for natural mineral water, yet this is an essential commodity whose consumption we would like to encourage. Local manufacturers have indeed complained about the impact of the current excises on production and marketing of the mineral water. It is now proposed that the excise duty applicable on imported or locally manufactured mineral water be restored to its previous rate of 10%.

As for the other excises, the Government has approved the following proposals, which I now submit to Parliament: In 1997 and 1998, Government raised excise taxes on beer and soft drinks and other alcohols in general. Since that time, the beer industry has presented a case for reducing excises with a view to encouraging beer consumption, which has also suffered substitution from competing products. I informed the House last year of Government's intention to review the matter objectively. We have done so.

Mr. Speaker,

25.3 The Brewery employs directly and indirectly over 650 people; its annual contribution to taxes amount to 13 billion Rwf on average. Bralirwa's

principal shareholder has informed Government of its intention to make a new investment in our country. I consequently propose today a reduction in beer excises from 57 % to 40 %, we do not expect any revenue losses as a result. I am certain that the Beer industry will welcome this proposal. Government urges the Beer Industry to take advantage of this to improve investment, efficiency, workers' welfare and seek to penetrate regional markets, especially the COMESA market.

Mr. Speaker,

26. As I said before, Government is not proposing any new taxes but it is proposing amendments to existing taxes with a view to encouraging investment in the beer industry and in telecommunications. In order to avoid speculation and significant revenue losses, it is important that the House considers passing some of these fiscal laws quickly.

27. Improvements to the Income Tax Code.

In addition to the above changes, we propose amending the code of income tax. Some of the major investors in Rwanda including the Brewery have raised concerns about treatment of royalties, management and professional fees in Rwanda. We would like to adopt international best practice in this area. We propose to have a separate regime which involves applying a specific rate of 20% and excluding them from the corporate tax base. I would also like to inform Parliament that Government has concluded Double Taxation Agreements with Mauritius and is considering one with the Netherlands and South Africa respectively. The Government is further proposing an amendment to the tax on professional remuneration,TPR, in respect of casual employees. Under current Income Tax Laws, annual personal incomes below 180.000 RwFrancs are not taxable; only casual labourers are taxed on their incomes. These are some of the poorest people in the country and, as such, this tax has not only been socially inequitable but it is also low yielding. We therefore propose extending this tax threshold benefit to casual labour in the interest of fiscal equity.

Mr. Speaker,

28. Assuming a 5% GDP growth in 2002, it is our view that the above tax changes plus continued good implementation of laws already passed will enable the **tax revenue** next year to increase by **Rwf 10.2 billion** for 2002 bringing our tax revenue collection to about **11.4% of estimated nominal GDP**, still inadequate for our needs but close to the **sub-Saharan African level** for countries with an economic structure similar to Rwanda.

TABLE 1: Domestic Revenue Performance & Projections (Rwf. Billion)

	1999	2000	2001	2002 Budget	2003 Prelim.	2004 Prelim.
Direct Taxes	15.8	18.0	22.9	25.1	29.3	34.1
Taxes on Goods & Services	33.6	34.3	40.7	46.8	52.9	59.9
Taxes on Int'l Trade	11.0	10.9	13.2	15.1	17.4	19.4
Sub-total: Tax Revenue	60.4	63.2	76.8	87.0	99.6	113.4
Non-Tax Revenue	3.2	3.5	7.1	6.5	7.5	8.7
Total	65.6	66.7	83.9	93.5	107.1	122.1

Source: RRA and Minecofin staff estimates

29. In terms of **non-tax revenue**, the increase is expected to be generated via administrative fees and charges, the rates of which have been recently revised upwards, and dividends from the larger, more profitable public enterprises, including the BNR.

EXPECTED AID DISBURSEMENTS

30. In the course of 2002, to fill the gap between domestic revenues and expenditures, we expect external disbursements to increase from 84 million US Dollars this year to 107 million US\$ or about 48 billion francs. These will be from Debt Relief, EU, UK, AfDB and the World Bank. I am also

pleased to announce to the House that two more countries have agreed to provide budgetary support to Rwanda; these are Sweden beginning this year to the tune of 11 million Kroners and the Netherlands beginning next year. I would like on your behalf to express Government's appreciation to these two countries for their solidarity with our country.

Mr. Speaker,

31. During the course of the year, a number of businesses have complained of heavy-handed methods by the Rwanda Revenue Authority. I believe these to be exaggerated. The Rwanda Revenue Authority has over the years done a commendable job; it is an institution for which the Government is proud. But we cannot afford to be complacent. Therefore, I am proceeding to putting in place a transparent appeals process, pending the creation of a Tax Court to investigate and follow up these cases. But in the meantime, I wish to encourage taxpayers to continue abiding by the law and discharge their obligations.

EXPENDITURE POLICY ACTIONS

Mr. Speaker,

32. Let me now turn to expenditure issues in year 2002. As previously stated, our central axis will be Poverty Reduction. To that extent, public expenditure must meet a number of criteria. It must:
- contribute, directly or indirectly, to the reduction of poverty.
 - be targeted at those activities which the private sector cannot realistically be expected to undertake.
 - target those activities which can be shown to have high socio-economic impact, as measured by rates of return or other quantitative criteria.
 - Expenditures that reduce future recurrent costs will be prioritized
 - Activities that are labour intensive and create necessary infrastructure for development will also be prioritised.
 - Activities that raise productivity, skills and create jobs will be accorded high priority.

Consequently, the protected priority expenditures geared towards poverty reduction will be enhanced from Rwf 39.98 billion in 2001 to Rwf 52.63 billion in 2002.

33. On the basis of the above criteria, our national priorities for 2002 and the medium-term have been identified as:

- Rural development and agricultural transformation
- Human resource development
- Economic Infrastructure, including the development of roads, energy and communications to support economic development
- Governance
- Private sector development
- Insitutional capacity building which is a cross-cutting issue affecting all sectors.

34. The **core programs** of the PRSP within these priorities are:

- ✓ Agricultural intensification
- ✓ Labour intensive public works
- ✓ Malaria and HIV/AIDS prevention
- ✓ School textbooks
- ✓ Economic infrastructure, including road rehabilitation and rural electrification
- ✓ Skills development for youth and women, including small business start-up funds
- ✓ Adult literacy
- ✓ Gacaca, the budget of which will increase from Rwf 1.8 billion to Rwf 2.3 billion in 2002
- ✓ Demobilisation and reintegration into socio-economic activities
- ✓ Shelter provision for the homeless, development of low-cost housing and *imidugudu* infrastructure

- ✓ Financial sector reform to ensure access to appropriate finance for small, rural businesses
- ✓ Development of sectoral strategies based on the PRSP

35. The primary strategy developed in the PRSP is the improvement of the real incomes of the poor. Not only is agricultural transformation a realistic way to reach this goal for the majority of the population of Rwanda who are based within the rural economy, but it is also the most effective way of generating growth within the economy. By increasing rural incomes, these in turn increase the demand for both agricultural and non-agricultural goods and services produced for the local market. The fastest way to move away from an agriculture-based economy to a service oriented economy is to invest in rural growth.

36. But it is clear, Mr. Speaker, that not all Rwandans own farm assets, there are many Rwandans without adequate land, there are many unskilled youth looking for opportunities and training and there are many skilled youth needing vocational training and resources to start up own businesses, they cannot get out of poverty by farming alone. We shall therefore be promoting labour-intensive programs in the urban and rural areas. Above all, we intend to intensify skills development programs, vocational training especially among the youth and start up schemes for small businesses.

Mr. Speaker,

37. Let me now turn to the specific expenditure proposals. I will start with the Development Budget. As requested by the Parliament at last year's Budget sessions, we have circulated to Honourable Members a Memorandum detailing the status of each project incorporated in the Draft Finance Law.

The Development Budget for 2002 caters for a number of capital projects that have the potential of raising incomes for the poor in the rural sector. It also provides for the rehabilitation and extension of basic infrastructures,

including roads, energy and water and a strengthening of primary health and primary education in rural areas.

38. Our Public Investment Program (PIP) is influenced by certain key recent developments, notably:
- the shift in focus from emergency programs to long-term development programs
 - the decentralization policy
 - the implementation of the PRSP
 - the MTEF process

Mr. Speaker,

39. The total capital budget for 2002 amounts to Rwf 96.9 billion and is funded by Rwanda by 12%. It comprises a total of 166 projects, 83 of these are new projects committed for implementation in 2002. Out of this amount the Common Development Fund (CDF) is allocated 4.2 billion. This will fund the districts development programs better for PRSP. The contribution of Rwanda to this Budget at 12% is very small contribution but it is an improvement from previous years where Rwanda's contribution was only 8%. The reliance on external funding for our investment is not unique in Africa but is still on the high side. In making choices in this Budget, we are guided by the following principles:
- a strong coherence of the Public Investment Program (PIP), from which the Development Budget is drawn.
 - targeted resource allocation to sectors and programs that will have a direct or indirect impact on poverty reduction and increase the capacity of our economy to close the dual deficit.

- increased attention to the recurrent cost implications of capital expenditure by analyzing the capital and recurrent costs of each program in an integrated framework; and
- measures to improve the implementation rate of capital projects which remains disappointing, varying between 55% and 70%.

40. Our project portfolio performance has remained on the low side. The three main reasons for this under-performance are:

- ❖ Poor project management and lack of respect for loan conditions and procedures, especially unauthorized or ineligible expenditures, leading to temporary suspensions by the donor;
- ❖ Low capacity in line ministries in terms of capital planning, budgeting, follow-up of projects being implemented and project monitoring;
- ❖ Some Donors' whose loan effectiveness procedures remain lengthy and too rigid, thereby delaying the release of funds.

41. Rwanda has to increase capital investment, both private and public. And it has to invest well. Therefore this Budget takes into account the absorptive capacity of implementing all committed capital investments, both ongoing and new, as listed in the Draft Finance Law before you today. It is imperative that only those projects which can be implemented are in the Development Budget. In order for us to improve on our project implementation rate, we will have to strengthen capacities in all executing agencies. Furthermore, we shall ensure that no new project is considered unless approved by the Development Committee and supported by a

verifiable, signed donor agreement and a realistic disbursement and/or implementation schedule.

42. In the coming year a number of major projects come on stream. Especially in the field of infrastructure and agriculture. These projects have been carefully scrutinized by Government and my colleagues will be holding discussions on each one of them during the Commission hearings.

43. Funding and Implementation of the CDF

This year we embarked on the process of **decentralization**. All over Africa, decentralization is difficult but necessary in order to ensure empowerment of local populations in the fight against poverty by allowing them to participate in the planning and management of their own development process. The Budget allocates 5% of domestic revenue (about 4.2 billion francs) for the districts recurrent budgets. But if poverty is to be effectively fought in this country the Provinces have be given means to do so. It is for this reason the **Common Development Fund (CDF)** was put in place. However we have to start cautiously to build up systems and absorptive capacity. The modalities of the CDF functioning are a challenge. For this reason Cabinet set up a Committee to look into the matter, the committee has reviewed the draft law, and a revised draft has been prepared. It is important that systems of transparency, accountability and broad representation on the decision making body be ensured to include all stakeholders. The modalities of distribution amongst Districts will be outlined in a joint decree of the Minister of Local Government and the Minister of Finance. This decree is currently being prepared by the Ministry of Local Government and once finalized will allow Districts to make their Budgets within a realistic resource framework. The

CDF will be a key instrument in fighting poverty and all safeguards will be taken to ensure its success.

Mr. Speaker,

44.I must note that as a result of decentralization, recurrent expenditure allocations of several Ministries have been reduced as the resources are transferred to the Districts. It is to be noted of course that the extent of the programs and activities of Ministries to be decentralized vary from Ministry to Ministry and that is reflected in the Budget before you.

45.Restructuring and Recapitalisation of C.H.R.

Mr. Speaker, one of the acute social problems in this country is the housing problem, especially low cost housing. The population of Kigali and other urban areas have expanded at a rate unseen elsewhere in Sub Sahara African in recent times. It is for this reason that Cabinet decided to restructure the *Caisse Hypothecaire du Rwanda* (CHR) into a Housing Bank. An appropriate restructuring plan has been prepared and approved by the Government. The procedure to obtain the licence from the BNR is underway; the core business will be to promote housing savings, finance long term mortgages and finance property developers. Accordingly, an amount of RWF 1.8 billion has been allocated in the 2002 budget as Government's contribution to the recapitalisation of the restructured CHR. This allows the CHR to meet its capital adequacy ratio as prescribed by the new Banking Law and to begin operations in the new year.

46. The Government taking note of the special plight of lower paid civil servants decided that the Bank will have a special window for this category of civil

servants. One of the biggest problems the civil servants face is to find the down payment for the house purchase. In order to ensure, a loan amount of RWF 500 million is being allocated in the 2002 budget to be drawn on by eligible civil servants to enable them to afford the down payment so that they can benefit from housing loans from the Housing Bank. The down payment will be deducted from civil servants' monthly salaries over a specified time frame. In the next five years, we intend to make yearly allocations of similar amounts in the budget for this purpose. We expect that this will allow a number of civil servants to own their houses thereby easing the acute housing problem they currently face and permitting a disposal of Government houses, the conditions of which are deteriorating and as such pose a burden to the national budget. You may ask why the Government, committed to privatisation, is proceeding in this way rather than leaving all this to the private banking sector? You may even ask how shall Government ensure that the causes of failure of the CHR will not be repeated? These concerns are justifiable. I want to assure the House that Government decided on this path after noting that the private banking sector was not responding suitably. However all efforts will be deployed to attract private capital into the revamped Housing Bank and private shareholders will be encouraged eventually to buy up the Government's stake progressively.

Mr. Speaker,

47. I referred earlier to the need to prioritise within all categories of expenditures, Government spends a significant amount on student welfare (Rwf 1.4 billion per year). We spend on overseas and domestic scholarships Rwf 2.5 billion and Rwf 1.1 billion respectively. The number of students enrolled at tertiary level is expected to increase by 25% from 7,974 in 2001 to 9,972 in 2002.

Rwanda needs to train more people especially in the areas of Sciences, technology and Management in order to be able to enroll more students in line with our Human Resource Development Policy we need to reduce unit costs per student. The Ministry of Education will be announcing new initiatives in this regard including the principle of cost sharing in tertiary education which is taken into account in this budget.

48. Payment of Domestic Arrears

As I mentioned earlier, in the course of fiscal 2000, the problem of arrears on goods and services became thorny. Government during 2001 adopted a schedule for the regularisation of old domestic arrears to the tune of RWF 9.4 billion of which about 3 billion in bonds. We have also paid a float in arrears of 2.6 billion. These are made up of arrears carried forward from 1994 to end 1999. All have already been verified as legitimate. In addition the Auditor General has been requested to verify about 6.6 billion arrears for payment next year including arrears on counterpart funding. Treasury bonds with a face value of RWF 5 billion with various maturities will therefore be issued to some of these creditors and 1 billion in cash.

OTHER POLICY ACTIONS

Mr. Speaker,

49. We need to continue to promote an effective **public service**. The Government wage bill consumes around 40% of revenues. This year the House adopted the “cadre organique» for the Central Administration and the Provinces. This therefore means, recruitment to fill the new posts will lead to a slight increase of wage bill during FY 2002. Reforms must continue to ensure a small but

motivated public service. Despite this large share of the wage bill in the overall budget, Government is aware of poor pay of civil servants. It is not possible in the near future to raise the wage bill but Government will continue to look for ways of improving the welfare of civil servants, for example the housing finance facility just described and the new contributions modalities to the medical scheme introduced in this Budget.

50. The government's commitment to **privatisation** continues. However we have gained experience both ways, including what to do in order for the impact and the economic efficiencies desired are obtained. This year, the Tabarwanda factory has been sold to its main foreign shareholder, British American Tobacco.

In 2002, the privatization of a number of tea plantations, Rwandatel, Rwandex and the management contract of Electrogaz will be concluded. We have taken measures with support of the World Bank to strengthen the Privatization Secretariat. The Regulatory Agency Law is approved and with the passage of the Telecommunication Law, we can go ahead with the full liberalization of this sector. To date privatization has generated 4.2 billion Francs but expenditure on liabilities total 2.9 billion. I believe with the privatization and the liberalization of the Telecommunication sector after many months of waiting will give a boost to our ICT policy, especially coming at the time when the media such as TV is also being liberalized.

Mr. Speaker,

51. In June 1998 the Government signed a **three-year program** of economic stabilization and reforms with IMF, the World Bank and other donors. This

program has enabled us over the last three years to mobilize our own efforts and those of donors around Rwanda's reconstruction. This program comes to an end in December 2001. Its implementation has not always been easy, largely due to capacity constraints in a context of what was a challenging agenda to tackle the deep-seated economic problems of Rwanda. But we have managed to stabilize the economy and created conditions for growth. We now need to move to a higher gear. We are beginning now a process of negotiating a new three-year program, which will be directed at poverty reduction and economic growth. Government is looking forward to a successful conclusion of these negotiations sometime in the first quarter of next year.

HIPC DEBT RELIEF

Mr. Speaker,

52. Let me now say something about the debt relief for Rwanda. In December 2000, Rwanda has been granted what is known as the **interim debt relief** by the multilateral institutions: the IMF, World Bank and AfDB. The Paris Club also has agreed to grant Rwanda the so-called Cologne Terms. In the current year, a sum of 3 billion francs accrued to the Government account.

	2001 (in millions US\$)	2002 (in millions US\$)	Total (in millions US\$)
IDA	12.2	12.5	24.7
AfDB	4.3	5.0	9.3
IMF	8.9	5.9	14.8
Total	25.4	23.4	48.8
<u>Memorandum Item: Paris Club</u>	3.2	4.8	4.4

53. In line with the agreement with these multilateral institutions, the proceeds of the debt relief amount to US\$ 14.8 million in Poverty Reduction Program are to be used to fight poverty. After interim relief we are working on the program, which enables us to reach completion point. In order to qualify we need to continue on the path of the economic reform program agreed with the IMF and make sustained efforts to implement the PRSP. But if all goes well I expect that provided we conclude and sign a new program with the IMF in the coming months Rwanda would reach the completion point sometime in 2003. As I have indicated before, despite HIPC decision point, Rwanda has to pay next year an extra 6 million dollars since the Trust Fund is no longer replenished.

Mr. Speaker,

54. One element which has always been a subject of difficult negotiations between us, donors and financial institutions, is the level of our security expenditures. I repeat what I said last year on the issue of Defence and Security. It is often said that Rwanda is spending more than it can afford on Defence. The reality is that Rwanda spends not enough on its security in relation to challenges it face. Unless Rwandans and residents of Rwanda can feel secure economic development and other social programmes are not possible. Investment will not take place. Defence expenditures have constantly declined since 1997, at 3% of GDP it is lower than any time in the last 10 years. Despite these challenges we have maintained in this budget defence expenditure at same level as last year. We are however providing resources for further recruitment into the National Police Force to enable this young force to increase its capability to deter crime.

Mr Speaker,

55. In August 2002 we shall carry out a National Census. This is a vital planning tool for a demographically challenged country like Rwanda. Throughout the year we intend to strengthen our planning and statistical mechanism and instruments. A Strategic Development Plan for Rwanda as well as an Investment programme will be produced based on our vision 2020. The capital project management unit the Cepex is being restructured and strengthened with the support of the ADB to ensure that our investment programme is effectively implemented.

Mr. Speaker,

56. Two years ago the Government decided to put in place the office of the Auditor General. It was not a donor condition. It was our choice. Government is very pleased with progress made so far with the production of the first sets of audits and reports. The Government is seriously implementing all the recommendations made in the Auditor General's report. We are strengthening Internal Audit functions and have put in place Public Accountants in all the Ministries. But problems in Rwanda, as elsewhere will always be there, some of which are mentioned in the said report. The essential thing is that we are trying to build systems to prevent them, identify, sanction and correct malfeasance when they happen. We are increasing further our initiatives in the area of transparency; a new law on tendering will be tabled to Parliament soon. It will provide among other things for a transparent appeal process, a broader membership of the Tender Council to other stakeholders and a modernized, best practice procurement code.

CONCLUSION

Mr. Speaker, Honourable Deputies,

57. This 2002 year will be a challenging year for Rwanda. We have a packed socio-economic agenda. Only last week Rwanda and its development partners met to discuss our National Poverty Reduction Strategy and our Good Governance Program. There was wide agreement that Rwanda is on the right path. Our task is to build up on the enormous progress made over the last 7 years of our reconstruction with even greater vision and focus. Our country's needs in relation to the revenue base remains limited. This Budget cannot deliver everything; it demands of each of us greater focus and optimal use of all the resources, human and financial at our disposal.

58. I therefore commend this Budget, to the House. The complete details in revenue and expenditures are in annexes and of course I shall be providing further clarifications and details to the Commission. I look forward to this Budget being examined in detail by the Parliamentary Budget Commissions and its adoption before the close of this year so that we can begin the task of its implementation. I would like to thank my Cabinet colleagues with whom we collaborated to draw up this Budget and on whose behalf I am presenting it. I thank the staff of my Ministry, the technical experts and all who participated in one way or another tirelessly to produce this Budget. I thank you for your attention.

THANK YOU