

REPUBLIC OF RWANDA



MINISTRY OF FINANCE AND ECONOMIC PLANNING

**SPEECH OF THE MINISTER OF FINANCE AND ECONOMIC
PLANNING, JAMES MUSONI PRESENTING TO
PARLIAMENT DETAILS OF THE BUDGET 2008**

OCTOBER 12, 2007

I. INTRODUCTION:

Honorable Speaker of the National Assembly,

Honorable Vice Presidents,

Honorable members of Parliament,

Distinguished guests,

1. It is my pleasure to present to you the project of the law of finance 2008 as provided for under Article 79 of the Constitution of the Republic of Rwanda of 04 June 2003 as modified to date. This Project of the law of finance was adopted by Government on 19 September 2007 in accordance with Article 42 of the Organic Budget Law;

2. The draft 2008 State finance law details the following key points as provided for under Article 39 of the Organic budget law:
 - *Economic performance in 2007 and outlook from 2008 to 2010;*
 - *Main risks and obstacles to economic progress over the period;*
 - *Projected public resources in 2008;*
 - *Planned public expenditure in 2008;*
 - *Key strategies and programmes for 2008;*

3. This draft 2008 State finance law has been prepared based on key policies and programmes from 2008 to 2010 as highlighted in the Economic Development and Poverty Reduction Strategy (EDPRS) adopted by Government on September 14, 2007 and to which the Parliament also contributed on July 31, 2007. It is also in line with the 7 years Government programme that was publicized on November 07, 2003 as well as the Millemium Development Goals (MDGs) and Rwanda Vision 2020.

4. As presented in the Budget Framework Paper (BFP) 2008 – 2010 attached to the draft 2008 State finance law, the 2008 Budget has been prepared based on the main ítems of public resources and expenditure of the next three years. This will be done in a way that does not undermine the country macroeconomic stability.

Honorable Speaker of the Assembly, Honorable members of Parliament,

I. ECONOMIC PERFORMANCE IN 2007 AND OUTLOOK UP TO 2010

I.I. WORLD ECONOMY

5. As you know, the World economic performance has an impact on the domestic economy. This impact can be either positive or negative. Therefore, I would like first to present the World economic performance in 2007 and outlook over the next three years as publicised by the International Monetary Fund (IMF), and its impact on the economy of the country:

- i. The World production is estimated to grow by 4.9% in 2007 whilst the average growth over 2008-2010 is projected to 4.8%. This should have a positive impact on the economy of Rwanda.
- ii. International prices for coffee and mineral are projected to decrease. Despite increased international demand, coffee prices are projected to fall by 2%. This is due mainly to the more than proportional increase in World production. This implies that Rwanda needs to add value to exported coffee to avoid diminished receipts.
- iii. International prices for tea are projected to grow by 2.9%. This is due to increased world demand. It will have a positive impact on the domestic economy and it calls for increased production as

well as value added to tea exports in order to augment Rwanda economic performance.

- iv. International oil prices are projected to fall by 2.1%. This will be due mainly to increased supply not only from new sources discovered in various countries, such as Angola, but also the confidence that peace will be restored in the Middle East in general and Iraq in particular. This situation will also have a positive impact on Rwanda economy.

In general, the World economic performance over the medium-term will be favorable to the economy of our country.

I.II. RWANDA ECONOMIC PERFORMANCE IN 2007 AND OVER THE MEDIUM-TERM

6. Concerning Rwanda's economic performance currently and over the medium-term, economic indicators present a positive and improving performance. Main indicators are as follows:

- i. GDP growth in this year is about 7% and is projected to 7.5% on average over the next three years. This growth will be driven by:
 - o Growth in agriculture will increase from 3.4% in 2008 to 6% in 2010; food crops growth varying from 3% to about 6% whilst growth in livestock will improve from 5% to 7%. Exports crops will grow by 15% over the next three years.

- Industrial output growth is projected to improve from 7% in 2008 to almost 14% in 2010; construction growth increasing from 8% in 2008 to 15% in 2010 whilst manufacturing will go from 7% in 2008 to 11% in 2010. Growth in electricity, gaz and water production will improve from 3% in 2008 to 50% in 2010.
 - Services output will increase on average by 8% over the three next years. Over that period bank services will grow by 14% whilst tourism and transport will increase by 9%.
- ii. Inflation will reach about 10% by end-2007. This inflation is due to specific circumstances prevailing this year, in particular increased prices for water, school material, food (especially vegetables), electricity, oil products and health care in King Faisal hospital. Although inflation figure is higher than last year, it is projected to fall back to our target of 5% from 2008 to 2010.
- iii. In 2007, the Exchange rate for our currency has been relatively stable with an appreciation of 1% compared to the US Dollar and depreciations of 0.5% and 0.3% repectively compared to the sterling pound and the euro.
- iv. Foreign Exchange reserves have augmented of 22% from December 2006 to September 2007, increasing from RwF 225 billions to RwF 275 billions. This trend is projected to continue over the next three years due to increased external assistance and

exports. The latter are projected to grow by about 15% annually up to 2010.

- v. Exports growth has been 7% in nine months of 2007 compared to the same period last year; whilst imports have increased by 23%. Although imports are more important than exports, a large share of these imports (35%) is made of investment goods necessary to increase Rwanda's industrial production.

- vi. Credit to the private sector has increased by 11.3% in the nine first months of this year compared to last year. It is projected to continue increasing on average by about 12% over the next three years.
- vii. The interest rate is currently of 16.4% whilst the central bank discount rate is of 9%. Although this rate compares favorable to interest rates in the region (Uganda 17%, Burundi 19%, Tanzania 18%, and DRC 20%), we will continue pursuing policies to keep it low. Strategies for next year include the Financial Sector Development, ensure eased access to credit and strive to make credit affordable.
- viii. This year increase in tax revenue is estimated at about RwF 34.3 billions, mainly from indirect taxes. Tax revenue is projected to continue increasing from RwF 228 billions in 2007 to RwF 330 billions in 2010. Over the three-year period, direct taxes will grow by RwF 31 billions whilst indirect taxes will augment by RwF 71 billions. Non-tax revenue will increase from RwF 14 billions in 2007 to RwF 18 in 2010.
- ix. Public investment is estimated to increase by 10% compared to last year, from RwF 112.4 billions in 2006 to RwF 184.1 billions in 2007. The Government intends to continue increasing investment by more than 10% annually from 2008 to 2010.

Private investment is projected to increase from 9% in 2008 to 12% in 2010.

- x. Over the next three years, the budget necessary to the Government to achieve its goals is of RwF 1,968 billions. Domestic revenue is projected to RwF 1,043 billions and external assistance to RwF 925 billions. Commitments from donors amount to RwF 785 billions, leaving a gap of RwF 140 billions. The Government will therefore have to mobilise more external aid or financing other than non-concessional debt to implement its programme.
- xi. After Rwanda has benefited from debt relief in 2006, the Government will remain prudent in contracting debt to avoid falling back in unsustainable debt.

Honorable Speaker, Honorable members of Parliament,

II. OBSTACLES (RISKS) TO GOOD DOMESTIC ECONOMIC PERFORMANCE OVER THE MEDIUM-TERM

- 7. As highlighted in the Economic Development and Poverty Reduction Strategy (EDPRS) paper, insufficient private investment compounded by weak entrepreneurial capacity has got an important negative impact on the economic performance of the country. These obstacles to Rwanda's economic growth originate from the following problems:

- i. Insufficient infrastructure including roads, electricity and water used as industrial inputs.
- ii. Insufficient capacity and unskilled labour force have adverse impact on the rate of technological progress.
- iii. Agricultural activities are still backward in a number of ways.
- iv. The demographic growth rate is not in line with the economic performance of the country.
- v. Weak capacity of and weak development of services to the private sector including procurement, property rights, licenses to investors, etc.

Honorable Speaker, Honorable members of Parliament,

8. The budget 2008 reflects strategies to tackle the problems I have just described as well as other I did not detail. It is translated in the key programmes I will present in a while.

III. REVENUE IN 2008

9. The budget 2008 amounts to RwF 607.5 billions, an increase of about RwF 80 billions (15%) in comparison to 2007.

Domestic revenue amounts to RwF 325.5 billions, representing 54% of the budget whilst external grants amount to RwF 282 billions, representing 46% of the budget.

Out of external grants, financing of the budget is composed of tax revenue 85%, external loans 8%, domestic borrowing 5% and 2% of drawdown on Government Deposits.

Honorable Speaker, Honorable members of Parliament,

This budget will be used in the following way:

IV. EXPENDITURE IN THE BUDGET 2008

10. As I explained before, the budget 2008 amounts to RwF 607.5 billions, an increase of 15% compared to 2007.
11. The recurrent budget has increased of RwF 35 billions compared to 2007, representing 11% whilst the development budget amounts to RwF 227.0 billions having increased of 27% compared to 2007. domestic financing of the development budget is of RwF 115 billions, representing 51% whilst external grants financing amounts to RwF 112 billions, representing 49%.
12. In this budget, RwF 18.5 billions have been allocated to domestic debt payments (amortization and interest). RwF 7.7 billions have been allocated to external debt payments (amortization and interest).

13. RwF 7.0 billions have been allocated to the payment of arrears.
14. RwF 8.2 billions have been allocated to Net lending, most of it for investment in the 'Gaz Methane' project.

Honorable Speaker, Honorable members of Parliament,

V. KEY PROGRAMMES IN 2008

15. As I mentioned earlier, there are key programmes in the budget 2008 aiming to address problems identified in the EDPRS. Resources mobilised have been allocated to these programmes as follows:

(a) Development infrastructure including roads, electricity and habitat has been allocated RwF 102 billions compared to RwF 87 billions in 2007. The increase of RwF 15 billions represents 17%. Key activities are:

- Rehabilitation of National roads, especially Kigali-Musanze, Musanze-Rubavu, and Muhanga-Ngororero-Mukumira, has been allocated RwF 20.4 billions;
- Construction of Kicukiro-Nemba road has been allocated RwF 6.6 billions;
- Rehabilitation of rural road has been allocated RwF 10.8 billions. Roads for which work will start in 2008 include:
 - a. Butare-Kibeho-Muse;
 - b. Byimana-Buhanda-Kitabi;
 - c. Cyakabili - Nyabikenke – Ndusu;

- d. Mudasomwa –Gisovu;
 - e. Gashirabwoba-Nyamirundi;
 - f. Kazabe-Rutsiro-Gashubi;
 - g. Maya-Rushaki-Muhambo;
 - h. Nyanza – Karongi;
 - i. Bulinga-Kanyanza and Kabaya-Rubaya -
Ngororero;
 - j. Kigali-Rushashi-Gakenke;
 - k. Byumba-Butaro-Base;
 - l. Kigali – Rushaki- Gakenke;
- The renting of generators for Gikondo and Mukungwa as well as payment of taxes on the fuel used for these generators have been allocated RwF 13.7 billions;
 - The Urgent electricity rehabilitation project has been allocated RwF 7 billions;
 - The ongoing construction of electricity stations of Rukarara and Nyabarongo has been allocated RwF 5.7 billions;
 - Rehabilitation of 3 electricity stations of Mukungwa, Gihira and Rubavu has been allocated RwF 4 billions;
 - The ongoing construction of 8 micro-hydro plants including Janja, Mukungwa, Rugezi, Gashashi, Nyabahanga, etc. Has been allocated RwF 1.5 billion;
 - Establishing electric lines between Rubavu-Mukungwa, Karongi-Rubavu, Kigali-Kiyumba, Rambo-Rubona, and Kirinda-Rukarara has been allocated RwF 1.9 billion;

- Complete extension of the electric grid to Huye, Gisagara, Kirehe, Nyaruguru, Ngororero and Gicumbi districts;
- Detailed studies on Bugesera airport, Isaka-Kigali railway, and rehabilitation of Kamembe and Rubavu aerodromes have been allocated RwF 1.2 billion;
- Studies on improved habitat and maintenance of public buildings have been allocated RwF 5 billions.

(b) Increasing agricultural output has been allocated almost RwF 26 billions compared to RwF 19 billions in 2007. This increase of RwF 7 billions represents 37%. Key activities are as follows:

- Promotion of fertilisers and selected seeds in agriculture as well as improved breeds of livestock has been allocated RwF 3.7 billions;
- The priority crops intensification programme (rice, maize, sorghum, cassava and potatoes) has been allocated RwF 2.8 billions;
- Building of terraces has been allocated RwF 2.1 billions;
- The fight against crops and livestock diseases has been allocated RwF 1.7 billion;
- Collection of rainwater for agricultural purposes has been allocated RwF 1.5 billion;
- Irrigation and hillside irrigation have been allocated RwF 1.6 billion;
- The ongoing programme to give each vulnerable household a cow has been allocated RwF 1.4 billion;
- Seeking markets, both domestic and foreign, for agricultural products has been allocated RwF 900 millions;

(c) Provision of potable water has been allocated RwF 25 billions. Key activities are:

- Augment potable water in rural areas with an allocation of RwF 17 billions;
- Increase potable water provision in Kigali town from Nyabarongo with an allocation of RwF 5 billions;
- Establish stations to collect rainwater with an allocation of RwF 428 millions;

(d) Environment protection and land (soils) conservation have been allocated RwF 7 billions compared to RwF 5 billions in 2007. The RwF 2 billion difference represents a 40% increase. Key activities are:

- Reforestation in various districts has been allocated RwF 1.2 billion;
- Conservation of rivers and lakes sources has been allocated RwF 910 millions;
- Implementation of the land law has been allocated RwF 1.4 billion;
- Mapping of land use has been allocated RwF 700 millions;

(e) Support to the private sector for the development of trade and investment has been allocated Rwf 12 billions compared to Rwf 10 billions in 2007. The 2 billions difference represents a 20% increase. Key activities are:

- Investment and export promotion has been allocated RWF 2.0 billions.
- Promotion of handicrafts to add value to exports has been allocated Rwf 1.5 billion;
- Preparation of the sites for the Free Trade Zone and Industrial parks has been allocated Rwf 1.1 billion;
- Support to SMEs has been allocated Rwf 1.9 billion;
- Support to fair competition has been allocated Rwf 1.0 billion.
- Promotion of cooperatives and creation of an agency to regulate their activities have been allocated Rwf 530 millions;
- Creation of 4 business development centres in districts has been allocated Rwf 100 millions;
- Support to the Rwandese Private Sector Federation has been allocated Rwf 500 millions;

(f) Promotion of technology, science and research has been allocated Rwf 14.2 billions. Key activities are:

- Promotion of science and technology in poverty reduction by strengthening laboratories has been allocated Rwf 3.7 billions;

- Completion and operationalisation of Karisimbi communication project has been allocated RwF 400 millions; activities of the project include radio and television as well as telephone and Internet communication.
- Creation of an agency for technological research at the national level has been allocated RwF 402 millions;
- Extension of rural telecommunication has been allocated RwF 300 millions;
- Strengthening technological uses at the national level has been allocated RwF 400 millions;
- Rehabilitation of the research laboratories and ICT park has been allocated RwF 200 millions.

(g) Pursuing the promotion of education has been allocated RwF 103 billions compared to RwF 97 billions in 2007. The RwF 6 billion difference represents a 6% increase. Resources have been allocated as follows:

- Primary education has been allocated RwF 45 billions compared to RwF 42 billions in 2007;
- Lower and Upper secondary has been allocated RwF 28 billions compared to RwF 22 billions in 2007;
- Colleges of technology has been allocated RwF 2.5 billions; this amount will assist in rehabilitating colleges of Tumba, Kicukiro and Gitarama;
- Construction of 2 higher learning institutes of technology to assist colleges of technology has been allocated RwF 800 millions;
- To build teachers capacity, 2 Teacher Training Colleges of Rukara and Kavumu have been allocated RwF 1.4 billionn;
- Higher education has been allocated RwF 27 billions compared to RwF 20 billions in 2007;
- Non formal education has been allocated RwF 550 millions;

(h) Health and social services have been allocated RwF 58.6 billions compared to RwF 48.4 billions in 2007. The RwF 10.2 billion difference represents a 21% increase. Key activities are:

- Community schemes and mutual health insurance have been allocated RwF 8.8 billions;
- Support to the contractual approach in health service delivery has been allocated RwF 13.6 billions;
- Support to the purchase of vaccines, drugs for tuberculosis, malaria as well as other epidemics has been allocated RwF 21.8 billions;
- Family planning has been allocated RwF 2.3 billions;
- Promotion of youth programmes including under-20 CAN preparation for 2009 has been allocated RwF 4.7 billions.

(i) General Public Services have been allocated RWF 146.1 billions compared to RWF 139.6 billions in 2007. the RWF 6.5 billion difference represents a 5% increase. Key activities are:

- Parliamentary elections have been allocated RwF 5 billions;
- Contributions to international bodies, especially to the East African Community have been allocated RwF 6.8 billions;
- External debt repayments (amortization and interest) have been allocated RwF 7.7 billions whilst domestic debt repayments (amortization and interest) have been allocated RwF 18.5 billions. Arrears payments have been allocated RwF 7.0 billions;

- Support to the Genocide Survivors Fund (FARG) has been allocated RwF 12.8 billions compared to RwF 10.9 billions in 2007; an increase of 17%.
- Prisoners food and prisons management have been allocated RwF 6 billions;
- Creation of commercial courts has been allocated RwF 1.2 billion;
- Social protection, especially of orphans, widows and other vulnerables has been allocated RwF 3.8 billions;
- The ongoing demobilisation and reintegration programme has been allocated RwF 5 billions;
- Support to building capacity of national security and defense as well as equipment have been allocated RwF 44 billions;
- Resettlement of returnees has been allocated RwF 2 billions;
- Completion of the Inkiko-Gacaca programme has been allocated RwF 1.4 billion;
- Strengthening of local governments to enable them implement current and development activities has been allocated RwF 93.4 billions compared to RWF 72.8 billions in 2007. The RwF 20.6 billion difference represents a 28% increase.

Honorable Speaker, honorable members of Parliament,

VI. RECOMMENDATIONS

16. Before concluding, I would like to remind that the legislation provides under Article 68 as well as Article 73 of the Organic Budget Law that some documents be attached to this project of the law of finance to assist Parliament in evaluating it in commission. This concerns especially the budget execution report for 2006 and the first quarter of 2007. Other documents as provided for under Article 41 as well as 72 of the same Law are also attached to this project of the law of finance. These are:

- i. Summary of resources and expenditure of public enterprises;
- ii. Summary of resources and expenditure of commission created under the Constitution.
- iii. Summary of resources and expenditure in districts budgets;
- iv. A document depicting the national debt globally;
- v. A document depicting generally all grants received by the State;
- vi. A document depicting generally all guarantees given for debts contracted by the State;

We have also submitted them and hope that they will prove helpful in evaluating this project of the law of finance in commission.

Honorable Speaker, Honorable members of Parliament,

17. I would like to acknowledge the assistance of our development partners for their support to our development programme as well as Rwandans who pay their taxes as provided for by the legislation.

18. I would like also to thank you and ask you that you adopt the opportunity of this project of the law of finance for 2008 submitted by the Government, after what discussions will go on in commission as usual.

THANK YOU