REPUBLIC OF RWANDA

MINISTRY OF FINANCE AND ECONOMIC PLANNING

BUDGET SPEECH
FINANCIAL YEAR 2011/12

Theme: *"Ensuring food security and price stability whilst maintaining sustainable growth"*

PRESENTED TO BOTH CHAMBERS OF THE PARLIAMENT OF THE REPUBLIC OF RWANDA ON JUNE 8, 2011

BY

HONOURABLE MINISTER JOHN RWANGOMBWA
MINISTER OF FINANCE AND ECONOMIC PLANING

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I. INTRODUCTION

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

I have the honour to present to this august house the Government's Budget and Economic Policy for the financial year 2011/2012.

1. This budget is the third one since we joined the East African Community Customs Union (EAC) on 1st July 2009 and aligned ourselves to the EAC budget calendar. This year 2011 also represents the fourth year in the implementation of our EDPRS. It also represents the second year of our three year program with the International Monetary Fund (IMF) under the Policy Support Instrument (PSI) vehicle.

2. The current global economic and financial situation looks uncertain with several macroeconomic risks. Of particular importance are the volatilities concerning oil prices which are somewhat related to geopolitical uncertainty as well as increases of prices of other commodities including food items. The budget I am about to present therefore has been formulated against the backdrop of these challenges and their possible implications for the domestic front. Our ability to cope with the spill-over effects of these global developments particularly on food supply and general price levels will remain the key objectives of our economic policy in this coming fiscal year. Given this situation, the theme I have chosen for this budget is **"Ensuring Food Security and Price Stability whilst Promoting Sustainable Growth".** I have chosen this theme because these price shocks are likely to lead to higher inflation and not only threaten food security but also our macroeconomic stability. We need to sharpen our ability to deal with any eventuality.

3. The budget statement is therefore organized as follows :
   a) First, I will present a brief summary of the global outlook for 2011 and 2012 including the outlook for sub-Saharan countries and the likely impact on our domestic situation.

   b) Second, I will present a brief summary of our recent economic performance in fiscal year 2010/2011. I will also give a brief status report on our EDPRS implementation in 2010.

c) The third section of my presentation will highlight the Government's medium term macro-economic framework. This framework describes briefly our objectives and policies for the next three years.

d) In the fourth section, I will focus on the Government's Budget and Economic Policy for the fiscal year 2011/2012 which will also spell out our policies to maintain food security and stable prices for this fiscal year.

II. THE GLOBAL OUTLOOK FOR 2011 AND 2012

4. Global economic activity according to the World Economic Outlook (WEO) continued to strengthen during 2010 at an annual rate of about 5.%. Strong growth in emerging economies particularly China, India and Brazil led this recovery. This performance was about 0.5% higher than forecasted at the end of 2009. Global financial stability which suffered a major setback with the turmoil in sovereign debt markets during the second quarter of 2010, broadly improved in the second half of the year. However by the end of the 2010 pockets of vulnerability still persisted.

5. World real GDP growth is forecasted to be about 4.5% in 2011 and 2012, down modestly from the 5% in 2010. This level is about 0.25% higher than predicted in October last year and reflects stronger –than-expected activity in the second half of 2010 as well as new policy initiatives in the USA that will boost activity this year. However recent uncertainties surrounding petroleum and food prices together with financial risks could reduce output growth and put pressure on the recovery effort.

6. In Sub-Saharan Africa the economy is projected to have expanded by about 5% in 2010 compared to about 2.5% in 2009 during the financial crisis. For 2011 output is projected to grow by a further 5.5% reflecting the continuing global output growth. A small increase in output growth to about 5.9% is forecast for 2012. As in the case with the global outlook, high fuel and food prices could reduce output growth and increase inflationary expectations in Sub-Saharan African countries including our country Rwanda.

7. In the East African Community (EAC), extensive macroeconomic stabilization and policy reforms ushered in an uninterrupted period of financial stability, market development and institutional strengthening, which set the stage for the recent growth surge. The benefits of reforms have increased over time, and a continuation of prudent, market- based economic management should help sustain reasonable

growth rates in the years to come. Reflecting this performance, average output growth in the region is projected to have reached about 6.5 percent in 2010.

III. RECENT ECONOMIC PERFORMANCE

A. Output Growth

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

8. I will now speak briefly about the recent performance of our domestic economy. After a slower growth in 2009 reflecting the impact of the global financial crisis and the tight liquidity situation experienced in the country, a slight recovery took place in 2010. Real GDP growth is estimated at about 7.5 percent in 2010 compared to about 6.1 percent registered in 2009. Even though agriculture especially food crops continue to perform well reflecting the ongoing investments in this sector (fertilizer and improved seeds as well as land consolidation policies) growth in this sector at about 5 percent was lower than the 7.7 percent achieved in 2009. Real GDP growth in 2010 was therefore largely led by growth in the industrial and services sectors.

9. In the industrial sector, the growth was led by manufacturing sub sector especially food processing which registered a growth of 9% as against 3% in 2009. Electricity, gas and water as well as construction performed well with growths of 15% and 9% respectively reflecting good recovery from 14.4% and 1.4% respectively in 2009. In the case of electricity, gas, and water, this sub sector continues to benefit from the ongoing investments by the Government. The recovery in construction was mainly due to the resumption of credit to this sub sector reflecting a reduction in non-performing loans as well as completion of some public projects.

10. Growth in the services sector which reached 9% compared to about 5.9% in 2009, reflects the ongoing recovery in many sub sectors including financial services resulting in increase in profitability (finance and insurance) and the on-going investments in communication as well as the recovery in tourism and trade. Overall the recovery in output also reflected the slow recovery in the growth of private sector credit as well as the continued surge in imports. Regarding private sector credit there was an increase of about 11% compared to a decline of about 4% in

2009. With regards to imports these rose by about 8.5% compared to about 11% in 2009.

B. Consumer price inflation

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

11. We can take pride in the fact that inflation in Rwanda has remained low in the last eighteen months. Year-on-year inflation fell to 0.2 percent in December 2010 from 5.7 percent in December 2009, well below the target of 7 percent for 2010. This figure of 0.2% was the lowest in the region at end December. The low inflation in 2010 was driven by continuous low foreign inflation leading to low import prices, good domestic food harvest that kept food inflation very low, relatively stable nominal exchange rate against the major currencies, and modest increase in money supply.

12. Since the beginning of this year however, we are seeing a rebound in demand- pull inflation reflecting mainly the first round pass-through effects of the rising fuel and food prices. Accordingly inflation rose to 4.98% in April 2011. Despite this sharp increase in inflation during the first quarter of this year, it still remains the lowest in the region. We are monitoring this situation continuously. We believe that for the rest of the year, inflation will be affected primarily by the domestic food supply levels and transport costs on one hand and the continuing first round pass-through of the any increase in world market fuel and imported commodity prices on the other hand. If the current situation persists then we can see inflation rising to about 7.5% in 2011 from the 0.2 % in 2010.

C. Monetary, Exchange Rate and the Financial Sector Developments

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

13. I will now deal with our recent monetary and financial developments.

14. Monetary policy in 2010 was accommodative in response to the sharp drop in inflation and underlying credit requirement pressures. This monetary policy stance was designed to support the gradual recovery in economic activity after the slowdown since 2009.

15. Broad money growth was strong—growing at 17 percent in 2010 compared to 15 percent in 2009—driven mainly by increases in net foreign assets which accounted for about 85 percent of the increase in total liquidity in the system. Thus, the banking system liquidity improved significantly in 2010 and gave more confidence to banks in treasury management as they continued to invest in short term instruments. However, growth in credit to the private sector was much lower than expected in 2010, growing at 11.1 percent far lower than the 20 percent programmed.

D. Exchange Rate Development

16. BNR continued to maintain a flexible exchange rate regime in 2010—only intervening at the margins of the market to smooth out temporary volatility in the exchange market. For the year as a whole, the Rwanda franc was relatively stable, depreciating by 4.1 percent against the US dollar. However, interbank activity in the new exchange rate corridor framework has remained very low. This continues to remain a challenge to the implementation of the exchange rate corridor framework.

17. In December 2010, BNR removed the average reference rate and replaced it with a market-based exchange rate calculated as a weighted average of foreign exchange interbank rates and intervention transactions rate by the BNR. With this action BNR improved the flexible exchange policy still further.

E. Financial sector performance

18. Regarding the financial sector developments in general, banks remained well capitalized, with strong solvency, liquidity and improving asset quality in 2010. This has increased public confidence in the banking sector. The capital adequacy ratio of the banking system stood at 22.3 percent at end-December 2010, well above the

regulatory capital of 10 percent for Tier 1 capital and 15 percent for total capital. Asset quality also improved during the year as non performing loans (NPLs) decreased from 13.1 percent in December 2009 to 10.8 percent in December 2010, leading to an increase in banks' profitability (return on equity and return on assets increased respectively to 10.2 percent and 1.8 percent from 5.5 percent and 1 percent at end 2009).

19. BNR also increased its supervisory activities in 2010. Following the risk based supervision approach, 7 on-site inspections of banks were conducted, against the target of 6 inspections. In addition, BNR also adopted a number of regulatory and institutional reforms to further strengthen the supervision of microfinance (MFIs) and non-bank financial institutions (NBFI's). Six out of seven approved regulations in 2009 were translated and published in the official gazette in 2010, and eight new regulations were approved by the Board as well as a regulatory framework for ZIGAMA-CSS under the banking law.

F. External sector performance

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

20. I will now deal with our trade relations with the global market.

21. The recovery in the world economy led by the East Asian states notably China and India impacted positively on the performance of exports in the country. This impact was notably seen in the increase in volume of our export products and the rise of our commodity prices. As a result of these two events, our total export earnings in 2010 amounted to US$ 297.3 million which was about US$ 62.3 million higher than achieved in 2009. This performance was also about US$ 13 million higher than the US$ 285.5 million projected for this year 2010. All our major export commodities contributed to this performance. Coffee and tea production increased by 22% and15%, respectively. In the case of coffee the yield of US$ 56.1 million was about US$18.8 million higher than the US$ 37.3 million achieved in 2009. Tea exports also fetched US$ 55.7 million which was US$ 7.5 million higher than the performance in 2009.

22. In the case minerals, cassiterite and wolfram performed better benefitting from the increases in world prices. Despite the decline in the export volume of coltan and casssiterite by about 21% and 9% respectively, total earnings from minerals amounted to US$67.9 million which was US$ 12.5 million higher than the US$ 55.4 million achieved in 2009.

23. On the imports side, total value of imports (fob basis) at US$1084 million in 2010 was about 8.5% higher than the US$ 999 million achieved in 2009. This level of imports was lower than originally projected due to delays in the implementation of some strategic investment projects. Imports of consumer goods which represented about 32% of total imports showed a volume increase of 30% over what was achieved in 2009. Within this category of imports pharmaceutical products, sugar, cereals (especially sorghum, maize wheat and rice), clothes and oils and fats accounted for the largest share. Capital goods especially machinery and equipment took a share of 25% of imports. Intermediate goods including cement and other construction materials as well as industrial raw materials accounted for about 27% of the total imports in 2010. Energy imports which showed a volume increase of about 3% took a share of 15%.

24. In the area of services, despite the recovery in most components including tourism receipts which rose from US$ 174.5 million in 2009 to US$ 201 million in 2010, higher outflows regarding freight, insurance and other charges associated with higher imports increased the expenditures in this area and registered an increase in total outflows of about US$73.7 million compared to 2009. Official current transfers registered an increase of about US$ 134.4 million in 2010 on account of increased Global Funds disbursements for HIV/Aids and malaria projects. As a result of this increase in current transfers the current account deficit (including official grants) declined slightly from US$ 382.7 million in 2009 to US$ 333.5 million in 2010 despite the widening of the trade, services and income deficits.

25. Turning to the capital and financial account, this registered a balance of US$ 197.6 million almost the same as was achieved in 2009.Foreign direct investments did not perform as well as expected since negotiations on securing finances for some large projects are still being finalized. Long term private capital flows were however boosted by some large investments notably in the telecommunication, hotel and tourism sectors.

26. In the light of the aforementioned developments, the balance of payments in 2010 closed the year with an overall positive balance of US$ 72.1 million compared to US$ 144.8 million achieved in 2009. In the original projection for 2010, a small deficit of about US$ 9.4 million was projected.

27. The overall surplus allowed an increase in gross external reserves of the country as these rose by about US$72 million from US$ 742.2 million to US$ 814.2 million enough to cover about 5.2 months of goods and services compared to about 5.4 months at end 2009.

G. Fiscal performance

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

28. I now turn to fiscal performance. In June last year, Parliament approved a total budget of RWF 984 billion for fiscal year 2010/2011 as against a revised budget of RWF899 billion for fiscal year 2009/2010. However in course of the year, as a result of the poor performance of profit taxes resulting from the financial crisis in 2009 and a larger than projected revenue loss from trade with EAC, total revenue collections were revised downward by RWF8.5 billion. This shortfall was compensated with a EAC-COMESA grant of equal amount. As a result the total of the revised budget approved by Parliament in March this year did not differ from the original budget approved last year.

29. Fiscal performance in fiscal year July 2010/ June 2011 was affected on the resources side by delays in budget support grants disbursements, and on the expenditure side by delays in completing tender processes for procurement. On the resources side with about 86% of expected total primary resources accruing to the budget by end April 2011, we are on track with our resources target. With regards to domestic revenue collections with about 82% collections at end April our objective of total collections of RWF 471.7 billion will be achieved.

30. In the area of tax collections RRA has been able to achieve its objective through their ongoing tax administration measures. Some of the measures implemented in fiscal year 2010/2011 included the establishment of the Risk Management Unit which profiles taxpayers and orients audits on the risk level. This measure has

increased assessments, rectifications and compliance. In addition, the use of the Block Management System led to the identification of 978 new taxpayers who were added to PAYE collections to boost yields and thereby widen the tax net.

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

31. Government spending in the first ten months of fiscal year 2010/2011 fluctuated significantly. Total spending was low in the first five months of the fiscal year on account of slow budget support disbursements and also delays in completing tender processes for procurement and award of contracts. I am however pleased to announce that spending has picked up and by end April about 85% of the budget had been executed. I am therefore optimistic that by the end of the fiscal year the budget will be fully implemented such that we can achieve our objectives in the EDPRS.

32. With net privatisation receipts from the part sale of Government shares in BRALIRWA (IPO and sale of shares) as well as the top-up grants from the World Bank, the Government has been able to reduce domestic financing of the fiscal gap from the originally approved budget of RWF 91 billion to RWF 81 billion as the revised estimate. This is a reduction of about RwF 14 billion and will help increase the Commercial banks ability to provide additional credit to the private sector.

IV. KEY ACHIEVEMENTS IN FISCAL YEAR 2010/2011

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

33. Last year in my budget speech to this august house I stressed that we have to remove bottlenecks such as inadequate infrastructure and lack of skills that will allow us to address our growing balance of payments gap and thereby not only ensure our prosperity but also reduce our dependency on external aid. In this regard I also highlighted our key strategic investment projects which are at the heart of our medium term development plan. These were the broadening of our energy access by increasing household and other grid connections, completion of our Fiber Optic Program to provide broadband wireless technology to several users, construction of the Kigali Conference Center with a five star hotel, the building of a new airport at Bugesera, and our commitment with the Governments of Burundi and Tanzania to start the construction of an international railway line linking out three states. Consistent with these objectives, our expenditure policies in fiscal year 2010/2011 which I am going to highlight therefore provided some resources to move the implementation of these projects forward.

A. Key Achievements in the 2010/11 Financial Year

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

34. I will now mention some key programs implemented as well as some results achieved in key sectors for the 2010/11 financial year:

a) Education:

i. More than 6,000 9YBE classrooms were contracted in 2009/10 and completed in the financial 2010/11 with strong support from community participation. This has greatly improved access to education services to 100 per cent for the 9 years of basic education. I take this opportunity to thank the Rwanda community for their relentless effort in achieving this important milestone.

ii. The quality of education continued to improve with the proportion of students obtaining division 1 at primary leaving examinations almost doubling between 2009 to 2010. Additionally, the proportion of students obtaining Division 1 at Ordinary level increased from 18 percent in 2009 to 22 percent in 2010. The proportion of qualified teachers has increased from 91 percent in 2008 to 98.5 percent in 2010 at primary level and 57 percent to 60 percent at secondary level. Furthermore, in the spirit of enhancing quality of education, textbook procurement has been successfully decentralised to school level with textbook selection committees established at every single school.

iii. The post-basic education (PBE) system has been scaled-up to meet the needs of the labour market by accelerating the expansion of the upper secondary and TVET. Enrolment in higher learning institutions continued to expand with the number of students in public HLIs increasing from 20,967 in 2008 to 31,565 in 2010 and the number of students in private HLIs increasing from 26,441 in 2008 to 31,171 in 2010

b) Health:

i. Enhanced health infrastructures to increase universal access to health care. In this regard, Butaro Hospital was completed and inaugurated whilst construction for Masaka, Kirehe, Bushenge, Ntongwe and Kinihira Hospitals progressed to 70% by end of April 2011. Construction 7 Health Centres has been completed (Kabarore, Mudende, Bugeshi, Mukoma, Bushenge, Bisesero and Ngeruka) and acquisition of health equipment is in progress. Furthermore, a surgical block in Gisenyi (Rubavu) Hospital, is completed as well as the Maternity, Emergency and Pediatric block in the Butare University Teaching Hospital while construction of a Maternity and Emergency block in Kanombe Military Hospital is in progress. The University Laboratory and Kibungo Hospitals are being renovated.

ii. Improved health transport and 26 high standard ambulances have been provided while 8 others are in process of procurement. Now districts have a comprehensive emergency transportation and the SAMU has been reinforced.

iii. Scaled-up disease treatment and quality of health care and continued to fight against communicable diseases. From July 2010 to March 2011, 2,923,245 mosquito nets were distributed and treatment of Malaria continues to be subsidized. About 90,830 patients are now under treatment of HIV, and efforts are being done to eliminate mother to child HIV transmission. Additionally, vaccination against Human Papilloma Virus in young girls to prevent cervix cancer was initiated as well as introduction of heart surgery and other specialized interventions in KFH.

iv. In order to increase financial accessibility to heath care, the Government approved a new policy of "Mutuelles de santé" and its implementation is scheduled to start in July 2011. The new policy provides for three categories of beneficiaries with the top level income category contributing RwF 7,000, the middle level income category RwF 3,000 while the contribution of the lowest level income category of RwF 2,000 will be paid by the Government. This will strengthen the financing of the health insurance scheme to better address the increasing health care risks. The Government has also paid mutuelle arrears owed to district hospitals and health centers. Meanwhile, the average mutuelle adherence rate jumped from 81% in 2008 to 91% in 2010, whereas the utilization of health services attained 95%.

v. There was an increased funding to Post Graduate Program, Internship program and Nursing programs to get adequate health personnel to cater for the growing number of health centers and hospitals.

c) Agriculture:

i. Registered increased agricultural productivity through the scaling up of irrigation of hillsides and soil erosion control through the key government project of Land Husbandry, Water-Harvesting and Hillside Irrigation (LWH) where yields for Irish Potatoes have gone from around 4 tonnes per hectare to around 25 tonnes per hectare. This has resulted in large income gains to the farmers.

ii. Scaled-up efforts to increase agricultural productivity and production through the crop intensification program. The national average of fertilizer use is 30 kg/ha/annum by the end of 2010 from 6 kg/ha in 2006. This has been supported by land consolidation initiatives and provision of extension services with currently 436 Agro-dealers operating at the sector level.

iii. Enhanced large-scale marshland irrigation projects and additional 3,000 hectares of rice have been provided in 2011 in order to increase the incomes of farmers. For the existing irrigated marshlands, the estimated returns are in the region of USD 9.5 million for 10,000 households which is around USD 930 per household from the irrigated land. This will lift many out of poverty.

iv. Strengthening of post-harvest storage program to ensure food security continued through the construction of several strategic grain reserve facilities in various parts of the country. This included a facility with capacity of 20,000 MT at the Free Trade Zone. These construction activities will continue to increase in subsequent years.

v. Livestock development has been enhanced through GIRINKA Program and about 5,000 cows were distributed in the 2010/11 financial year through Government budget. This has been accompanied with increased veterinary services to ensure sustainability of this program. Additionally, 1,900 cows were mobilized from well wishers and I take this opportunity to thank all those that contributed to this program to support the Government in achieving the objective of lifting the poor from poverty.

vi. Improved market access for agricultural produce through supporting value addition in tea, coffee and horticulture commodities. Export revenues from tea and coffee alone have increased from 112 million USD in 2010 calendar year from 85 million USD in 2009 calendar year.

d) Information Communication Technology:

i. Increased funding for the National Backbone project with a view to acquire affordable and reliable connectivity. The laying of Optic Fiber was completed throughout the country connecting all Districts, Nine main Boarder posts and several other public and private Institutions such as schools and helath centers. This includes the connection to the main route of Gatuna-Kigali and Kigali-Rusomo for the international connectivity to the submarine cable. The Kigali Metropolitan Network was also completed and about 98 government institutions are already connected to the fiber optic cable. The objective of the project was to provide broadband connectivity to all Government Institutions in Kigali City including the Commercial Banks in Kigali and further link them to the National Backbone for interconnection with all the Districts.

ii. Funding for the National Data Center was increased and about 98% of the required physical construction is now completed. This project will provide a secure, reliable and highly available physical infrastructure for effective data processing to match the needs of other ICT initiatives in pipeline for both the public and private sector.

iii. Funding for Telecenters to support and improve the delivery of public and private sector services. Currently 30 Telecenters are equipped with IT equipments and are operational.

e) Transport:

i. Undertook rehabilitation and upgrading of paved road network for Musanze-Rubavu (64.5km), Gitarama-Ngororero (47km) and Ngororero-Mukamaira (55km) were undertaken

ii. Rehabilitated and upgraded Kigali City roads (36km), Kigali economic free zone (6.6km), Rubavu roads (7.5km) and Huye roads (4.6km).

iii. Developed new infrastructures to promote external trade especially the One stop Border Post at Nemba and cargo scanners at Gatuna and Rusumo.

iv. Completed technical detailed design for the new Bugesera International Airport and mobilization of financing is in progress. Commencement of works is scheduled before the end of the year 2011.

f) Energy:

i. Completed the following high priority electrification projects with Nasho in Kirehe District and Matimba-Kagitumba in Nyagatare district still on-going:
   - Electrification of Kamutwa-Busasamana-Ryabizige in Rubavu District

- o Electrification of Nyagasambu in Rwamagana District
- o Electrification of Bumbogo in Gasabo District
- o Electrification of Nkombo Island in Rusizi District
- o Electrification of Ngarama-Mugere in Gatsibo District
- o Electrification of Kiruhura-Ruhashya-Rugogwe in Huye District
- o Interconnection of Mukungwa II and Rugezi micro-hydro power projects to the National grid.

These interventions increased access to electricity to 50,000 households in 2010/11 financial year increasing the cumulative number of households connected to electricity to 204,056.

ii. Implemented the electricity Access Rollout Program whose objective is to connect to electricity 350,000 households by 2012. The cumulative total to date is 204,056 households connected.

iii. Increased power production through the completion of Rukarara Hydro Power of 9.5 MW as well as on-going works on Nyabarongo Hydro Power for 28 MW. There is also construction of Rukarara II Micro Hydro Power Plant (2.0 MW) in Nyamagabe district through a public-private partnership arrangement. Several other micro-hydro power projects are on-going.

g) Social Protection and Governance:

i. Successfully conducted the Presidential and Local leaders elections and organized induction course for all newly elected Local Government leaders.

ii. Organized and conducted Itorero Program for about 35,783 students who completed their secondary school education.

iii. Scaled-up the VUP program from 60 to 90 sectors and all components are being implemented.

iv. Scaled-up the "Umudugudization Program" and the population settling in Imidugudu sites increased from 51.6 percent in 2010 to 55.9 percent in 2011.

v. Supported 41,580 vulnerable families out of 47,075 families living in Nyakatsi to own decent houses by May 2011.

B. Progress in EDPRS Implementation

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

35. The Government has shown its commitment in implementing the set goals in the Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2012. I would like now to highlight some of the key achievements made to date in the implementation of the Economic Development and Poverty Reduction Strategy (EDPRS).

(a) Economic cluster

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

36. The economic cluster covers the Macro Economic and Financial sector and the economic sectors of Agriculture, Infrastructure (Energy, Transport), Private Sector development as well as Environment and Natural Resources management. I have already discussed the macroeconomic and budget performance which covers most of the achievements of the sectors in this cluster.

    i. Agriculture sector has made significant progress towards the achievement of MDGS and 2020 vision targets. The Percentage of household using agricultural inputs has tremendously increased compared to the past results. Main key sub-indicators of EDPRS in this area are the percentage of farmers using inorganic mineral fertilizers, improved seeds, insecticides and integrated pest management practices. For the inorganic fertilizers, we have exceeded the target by 119%. Improved seeds also exceeded the target of 2012 (230 %). For insecticide a study is being prepared in order to know the real situation.

ii. There has been an increased production of key food security crops. Beans, Sorghum, Maize, Cassava, Banana and Rice are the key ones in this regard. Tremendous increase has been noted where some crops exceeded the target to about 400% like the example of Maize. Sorghum is still facing the problem of meeting the target mainly becuase it is not under the Crop intensification Program like other crops.

iii. In the financial sector, the law regulating Capital Markets industry was published and secondary market for stock exchange (where buyers and sellers of stock began to trade over the counters) is smoothly running.

iv. Rwanda Integrated Payments Processing System (RIPPS) which facilitates inter Bank payments was launched on 11 February 2011. All commercial banks and SIMTEL have been connected and all inter-bank payments from Bank headquarters and branches now pass through the system.

v. Improving business environment as measured in the Doing Business score and investor perception index especially foreign direct investment demonstrated positive correlation. Exports and imports showed a positive trend, growing by 23.7% and 11.4% respectively between 2009 and 2010 calender years.

vi. Regarding energy, the installed capacity for electricity generation has increased from 45MW in 2006 to 97.4 MW in 2010/11 exceeding the target of 90MW 8.2 percent. The construction of Rukarara hydropower (9.5 MW) was also completed and the plant is in operation since December 22, 2010, and has been injecting up to 8MW to the national grid.

vii. The ICT sub-sector has continued to register remarkable progress particularly in the area of voice penetration. The progress in ICT penetration rate in voice (subscriber) has moved from 26 percent in 2009/10 to 36 percent in 2010/11.

viii. Slow progress has however been noted on the data penetration mainly due to the delays in the implementation of the national backbone fiber network project that required sigificant redesigning to accomodate new developments with regard to long-term needs.

ix. In Land and Environment Sector, over 3,609,058 parcels of land were demarcated and registered, bringing the total to about 4.08 million parcels or 60 percent of all land in the country. Interim land certificates issued on the 4.08 million parcels is about 51 percent of the total compared to the target of 30 percent.

x. The total revenue from mineral export was USD 55.4 million in 2009.. This has increased slightly to USD 68 million in 2010..

(b) Social Cluster

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

37. This cluster covers Health, Education, Social Protection and Youth. The achievements in this cluster include:

i. In the Health Sector, the percentage of women aged 15-49 using modern contraceptive methods increased from a baseline of 10 percent in 2006 to an estimated 45 percent in 2010, exceeding the target of 44 percent. The percentage of population covered under health insurance scheme also increased to 91 percent exceeding the target of 85 percent by 6 percent.

ii. With regard to the percentage of children under 5 who receive 2 doses of vitamin A per year, performance of 85 percent was achieved. On the indicator of per capita allocation to PBF for health facilities and community health cooperatives, significant progress was made with the allocation of USD 2.4 against the a target of USD 2.25.

iii. On the indicator measuring the percentage of children using Long Lasting Insecticide Treated Nets (LLITN), significant progress was made, reporting a score of 75 percent in 2010 from 60 percent in 2009/10. The percentage of assisted births in an accredited health facility now stands at 66.2 percent against the set target of 45 percent.

iv. In Education, Primary school completion rate reached 76 percent overall and 80 percent for girls compared to the overall target of 59 percent and 58 percent for girls. Pupil per qualified teacher ratio reached 63:1 compared to the target of 64:1. Transition from basic to upper secondary education also recorded an improvement of 90 percent compared to the target of 83 percent. 67 percent of employers surveyed expressed satisfaction with TVET graduates and 29 percent of male and 19 percent of female students in science streams passed S6 examinations compared to the target of 20 percent for males and 10 percent for females. There was construction of 2,936 new 9YBE classrooms and 5,174 latrines as well as an English training course delivered to 41,956, Primary and secondary school teachers.

v. In the sector of Social Protection, the national social protection strategy was elaborated and adopted by cabinet in January 2011. This strategy sets out the strategic areas of intervention for the next 5 years.

vi. VUP was successfully scaled up from 60 to 90 Sectors in 2010/11, by adding a third Sector in each of Rwanda's 30 Districts. Extremely poor households employed in public works were 61,335 of which 49 percent were women headed households. In direct support, a total of 9,692 households received direct support and the financial services component that was launched in March 2010 has already reached 55,675 borrowers through Ubudehe Credit Scheme.

vii. In Water and Sanitation, progress has been made in access to safe water and access to hygienic sanitation. In 2010/11, an estimated 80.4 percent of population had access to safe water supply exceeding the target of 80 percent and an estimated 58 percent had access to hygienic sanitation.

viii. In Youth Sector, 1,631 youth from different cooperatives in 9 Districts were given technical skills training in cooperatives management. Also, from a baseline of 24 cooperatives, 91 others were given financial support including 2 COOJAD branches.

(c) Governance Cluster

38. This cluster covers Public Financial Management (PFM), Justice, Reconciliation, Law and Order (JRLO), Decentralization, Citizen Participation, Empowerment, Transparency and Accountability (DCPETA), and Capacity Building and Employment Promotion (CBEP).

i. In the area of Decentralization, Citizen Participation Empowerment, Transparency and Accountability, the Decentralization Implementation Plan (2011-2015) was successful developed and will act as a guiding tool for the third phase of decentralization. Local Government elections were also successfully conducted.

ii. In the Justice, Reconciliation, Law and Order (JRLO) sector, the GoR continued to increase the capacity of several prisons to reduce prison overcrowding. As a result the total number of prisoners as a percentage of total jail capacity stands at 120.9% at the end of 2010, compared to the target of 130%. Phase 1 of the Gikombe prison is completed and accommodates all male inmates from Gisenyi and Ruhengeri prisons. Female prisoners will remain in their respective prisons.

iii. The percentage of genocide convicts serving TIG achieved the target of 75%. The reduction of the crime rate by 5% was also met. The Rwanda National Police reported crime rates steadily going down from 119 in 2009/10 to 114 in 2010/11 representing a decrease of 5%.

iv. In the area of Public Finance Management, 100% of Public enterprises submitted fiscal reports in 2009/2010 and all their reports were consolidated. Audit committees have been established in all Government Business enterprises and semi-autonomous agencies.

v. The chart of accounts has been revised and aligned with GFS 2001 and has been used as the basis for the 2011/2012 budget preparation.

vi. The upgraded IFMIS has been implemented and work is in progress to interface it with the IPPS. The system has been rolled-out to 94 budget agencies from 1st July 2010 and plans are underway to roll it out to all agencies in the financial year 2011/12.

vii. Following the introduction of Gender Responsive Budgeting in 2008, Gender was mainstreamed in four pilot sectors (Education, Health, Infrastructure and Agriculture) during the financial year 2010/11 and has now been rolled-out to all sectors during the financial year 2011/12.

viii. In the Capacity Building and Employment Promotion Sector, the Strategic Framework for Public Service Reform 2010-2015 was completed and its priorities were included in the Capacity Building and Employment Promotion Strategic Plan 2008 - 2012.

V. MEDIUM TERM MACRO-ECONOMIC FRAMEWORK

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

39. Having discussed our recent economic performance and budget implementation, I now turn my attention to the Government's medium term macroeconomic framework which was recently agreed with the International Monetary Fund and shared with our Development Partners. This framework will guide our economic and financial policies in the medium term. Our overriding economic objective which is in line with our EDPRS remains achieving real GDP growth rates averaging about 8% per year in the medium term. During this period we will continue to aim at consolidating our macro-economic stability by continuing our fiscal consolidation and domestic revenue mobilisation strategy to reduce the fiscal deficit and the country's aid dependency. We will pursue structural reforms aimed at improving our infrastructure base, deepening the financial sector, diversify our export base and improve the business climate to increase private investment. We will continue to improve and strengthen monetary and exchange rate policies to ensure low and stable inflation and adequate credit facilities.

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

A. Real Sector

40. On output growth, we expect that our strategic investment projects should begin to impact on our economic performance in the medium term In this regard and taken this development into consideration, we expect our real GDP to grow on average by about 7.2% per annum over the five year period covering 2011-2015. Specifically for 2011 we expect output growth to decline marginally to about 7% from the 7.5% achieved in 2010.This slight reduction reflects the expected adverse impact of rising fuel and food prices.

41. The contribution from the agriculture sector is projected to average about 5.2% per annum led by food crops production especially cereals. This reflects the ongoing investments under the CIP through the provision of fertilizer and seeds, land consolidation and the increase in irrigated areas. The expected increase in cereals production (especially sorghum, maize wheat and rice) should lead to a reduction in imports of these food items in the medium-term and save foreign exchange.

42. Industry and services sectors are projected grow on average by about 7.6% and 8% respectively annually. The growth in the industrial sector will be led by electricity, gas and water as well as construction sub-sectors. In the case of the electricity, gas and water sub sector, this reflects the results of ongoing investments in both power generation and distribution as well as water projects. Construction activities which have begun to recover through the resumption of credit facilities will be expected to benefit from the ongoing and new public and private projects.

43. Growth in the services sector will be led by trading, finance and insurance activities reflecting the increasing monetisation of the economy and profitability of banking and insurance activities. Growth in the transport, storage and communication sub-sector reflects the value addition from ongoing and new public and private investment. The ongoing recovery and growth in both domestic and foreign tourism numbers will spearhead growth in this sub-sector.

B. Fiscal Sector

44. In the fiscal area, fiscal consolidation through increased domestic revenue mobilisation and expenditure prioritization to close the fiscal gap remain the key components in our medium-term fiscal strategy. Accordingly, the fiscal deficit (including grants) is projected to decline from about 2.3 of GDP in 2011/2012 to about 0.3% of GDP by 2014/2015. Over the same period, domestic revenues are projected to increase from about 13.6% of GDP in 2011/2012 to about 14.8% of GDP by 2014/2015. Consistent with the policy to reduce our dependency on donor aid inflows, donor budgetary grants are projected to decline from about 11.4% of GDP in 2011/2012 to about 8.5 % of GDP by 2014/2015.

C. External Sector

45. With regards to the external sector, performance in the medium-term will be influenced by the global financial developments. However we will expect that the implementation of our comprehensive national export strategy which provides the framework to increase exports will show early results. Accordingly our total earnings from exports which have been projected at about US$ 376 million in 2011, will reach US$ 411 million in 2012 before climbing to about US$ 497 million in 2015.

46. Imports (fob) basis are also projected to increase from about US$1400 million in 2011 to about US$ 1515 million by 2015, reflecting our implementation of the ongoing strategic investment projects and the associated requirement of capital goods for these projects. Food imports in this period are however projected to decline in response to our Crops Intensification Program as our cereal production increases.

47. Mirroring our projected growth in imports to support our investment strategy, the current account deficit (including grants) which is projected at about 5.2% of GDP in 2011 is expected to rise to about 9.1% of GDP by 2012 before declining slightly to about 4.5% by 2015. Consistent with our private investment strategy we expect FDIs which at end 2010 amounted to about 0.8% of GDP in 2011 to reach about 1.4% of GDP by 2015. In the medium-term we aim to maintain official foreign

exchange reserves at a level that will cover about 5 months of imports of goods and services.

48. Our commitment to implement a prudent debt management strategy in the medium-term in order not to fall into a debt distress situation again remains firm. A debt management strategy has therefore been finalized and will soon be submitted to Cabinet for its approval. This strategy will provide guidelines for all our future borrowings and will ensure that projects funded with loans are sound and profitable. The debt limit for non concessional loans of US$ 240 million for the medium term will be maintained.

D. Monetary and exchange rate policies

49. Monetary and exchange rate policies in the medium term are expected to be more proactive to support the country's economic growth by stimulating lending to the economy, as long as the underlying inflationary pressures remain low and real interest rates remain positive to continue to promote domestic savings mobilization and support financial sector deepening.

50. BNR will continue to use reserve money as the anchor of its monetary program. The monetary program in the medium-term will seek to accommodate the Government's financing requirement for the budget without "crowding out" the private sector. Reserve money and broad money growth in the medium term are projected to grow in line with nominal GDP growth. This means that they will grow on average by about 12% per annum in the period 2011-2015.

51. Regarding exchange rate policy, BNR will seek to further enhance the flexible policy by allowing the rate to reflect market fundamentals. In this regard it intends to operate a system that will allow it to intervene on the market and re-base the exchange rate corridor in line with changes in economic fundamentals. This will allow BNR to subordinate open market operations in the foreign exchange market to the reserve money anchor.

VI. THE BUDGET AND GOVERNMENT'S ECONOMIC POLICY FOR FISCAL YEAR 2011/2012.

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

52. Having dealt with our medium term macro-economic policies, I will now turn my attention to the budget and Government's economic policy for this coming fiscal year. This year 2011 is already proving to be a difficult year for our economy. Recently Government showed concern about the rising domestic food prices especially in the urban areas. It therefore commissioned a team to conduct an in depth analysis into the causes of these rising prices and to provide recommendations to reduce any future price pressures and also to ensure food security in the country. The team identified two major causes for the rising trend in food prices namely supply side effects- adequacy of supplies (domestic production and imports) and high commodity prices driven by rising world market prices for food and fuel. In the case of the fuel this translates into the high pump prices in Rwanda.

53. As I stated in my introductory remarks the rising international fuel and food prices are already having an impact not only on our economy but that of the region in general. We have since the beginning of this year seen an increase in both region wide and domestic inflation. In the region supply side pressures on account of poor weather and fuel price increases are the main cause of the rising inflation. On our domestic scene, we are already seeing a rebound in demand-pull inflation reflecting mainly the first round pass-through of the rising fuel and food prices. Accordingly, inflation reached about 5% at end April compared to 0.2% at end December 2010 as I have stated earlier.

54. For the rest of this year and indeed the entire fiscal year 2011/2012, our domestic economic performance especially output growth and the level of inflation will be affected by the domestic food production and supply levels and transport costs on one hand and the continuing first round pass-through of rising world market fuel and imported commodity prices on the other hand. These developments will pose significant challenges to our Government in ensuring food security and at the same time maintain price stability and growth. It is in the light of these challenges that I

have chosen the theme ***"Ensuring Food Security and Price Stability whilst Maintaining Sustainable Growth"*** for this coming fiscal year's budget.

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

55. The Government's budget and economic policy for fiscal year 2011/2012 will therefore focus on how to address these challenges and ensure a better life for our compatriots. We intend to adopt a two front approach to deal with this situation namely implement policies to safeguard food supplies and ensure food security on one hand and adopting measures to contain inflation and maintain price stability on the other hand.

A. Policies to safeguard food supplies and ensure food security

56. The Government's serious attention to agriculture and in particular food production has begun to yield significant results. In the last few years, particularly since 2008, domestic production of the six food crops (maize, wheat, rice, beans, Irish potato and cassava) that MINAGRI has promoted under the Crops Intensification Program (CIP) has shown an increasing trend. MINAGRI has just finished the estimates of the 'Season B" harvest and there are indications that it will be good. If our expectations are correct, with the exception of cassava where a small negative growth of about 0.1% is projected for 2011, we should see on average about 16% increase in the production of maize, wheat, rice, beans and Irish potato in 2011 compared to 2010.To safeguard this harvest and ensure that our hardworking farmers get good returns for their efforts when these food items come to the market, MINAGRI is accelerating the construction of the storage warehouses in various parts of the country including a 20,000 MT capacity warehouse in the Free Trade Zone so that any eventual surpluses could be purchased and stored for food security purposes. For the fiscal year 2011/2012, RWF 2.5 billion has been allocated for these projects. At the end of 2011, MINAGRI is expected to have a storage capacity for food totalling about 66,000 MT.

57. Cross border trade with our neighboring countries in some food items in both formal and informal ways has been going on for years. This should be encouraged as they improve the well being of our farmers. During the first few months of this year however, we have noticed an increase in the export of some items such as beans, Irish potato, maize and bananas to our neighboring countries reflecting the impact of adverse weather conditions on food production in some countries in the region. We will continue to monitor these exports and ensure that they do not impact negatively on our domestic supply situation.

58. Even though our domestic production of food has been increasing in the last few years, imports of some selected items have also been increasing. This reflects population growth as well as increase in disposable incomes of households which translates into higher demand for better quality foods. This refers particularly to some cereals. For 2011 we have made provisions of US$ 136.3 million in our balance of payments for private sector imports of food particularly grains to augment our domestic production and prevent any shortfall in food supply. This amount is about US$20.6 million higher than the US$ 115.7 million spent in 2010 and reflects both expected world market price and volume increases. Government expects that with the expected improved domestic food production situation together with the projected imports to fill any potential gaps, there should be adequate supplies of the major food items in the country. However should the need arise, Government will use some budgetary resources for additional imports to ensure adequacy and stable prices. In this regard the budget will be amended accordingly to accommodate this expenditure.

B. Policies to contain inflation and maintain price stability

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

59. I have already mentioned that inflation in Rwanda is affected by domestic food supply levels and transport costs on one hand and the first round pass-through of rising world market fuel and imported commodity prices on the other hand. I have also already told this august house what Government is doing to ensure that there is adequate supply of food this year. I now turn my attention to the rising world market price for fuel and its impact on domestic pump prices and the implications for transport costs which are important components for our domestic inflation.

60. Given that we have no influence on the direction of price movements of these commodities especially oil, one of the actions that Government can take to influence domestic price levels is on the domestic fuel pump price, which can be reduced through reduction of taxes. Average pump prices for both petrol and diesel at RWF 1060 per liter in the country are much higher than the regional averages of RWF839 per liter for petrol and RWF 816 per liter for diesel. This is due to the fact that Rwanda's petroleum tax rates for petrol and diesel at RWF 283 and RWF 250 per liter for petrol and diesel respectively are about 60% and about 232% respectively higher than the regional averages of RWF167.3 and RWF 107.9 per liter for petrol and diesel respectively.

61. This situation is not only untenable but is also a major factor in transport costs which in turn put pressure on our domestic inflation. The Government has therefore decided that the time has come to address this particular tax issue and start harmonizing the tax rates in Rwanda to those in the region and at the same time reduce the inflationary pressure emanating from world fuel and food price increases. The proposed reduction will be done in two stages and I will deal with this issue in detail when I discuss our revenue policies for fiscal year 2011/2012. We are hoping that with this tax reduction measure together with our entire fiscal policy and the monetary and exchange rate measures that BNR will take, we can maintain inflation in 2011 at about 7.5% by end December as we have projected.

C. The Budget for Fiscal Year 2011/2012

62. The budget for fiscal year 2011/2012 is consistent with our medium term macro-economic framework. The policy underlying the budget for 2011/2012 is to improve fiscal consolidation through an increase in revenue mobilization and expenditure prioritization with a view to reduce the fiscal deficit and domestic financing. Consistent with this policy, total revenue and grants has been projected to rise from RWF 844.2 billion in the revised budget for 2010/2011 to RWF 974 billion in 2011/2012, showing an increase of RWF 129.8 billion or 15.5%. Total expenditure and net lending is also programmed to rise from RWF 988.1 billion in 2010/2011 to RWF 1062.8 billion showing an increase of RWF 74.7 billion or 7.6%. The overall cash deficit is projected to decline sharply from RWF155.1 billion in 2010/2011 to about RWF 96.8 billion. Consistent with this reduction the domestic financing

requirements are also declining from RWF 73.3 billion in 2010/2011 to only RWF 11.6 billion showing a decline of RWF 61.7 billion.

63. For the first time in our budget formulation, we are taking steps to broaden the coverage of project grants in fiscal operations of Government and this can affect the future path of grants in fiscal consolidation. In this regard starting from 2011/2012, we have included grants related to the Global Fund spending by central Government which is expected to be sizable about RWF 70.7 billion (about 1.8% of GDP). This inclusion represents a large share of the increases in total revenue and grants and total expenditure and net lending that I have mentioned above.

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

64. I will now like to spell out the details of our resources including our proposed revenue measures to achieve our fiscal objectives.

1. Resources

i. Domestic Revenue Projections

65. Our total domestic revenue collections for fiscal year 2011/2012 have been projected at RWF 529.4 billion as against total collections of RWF 471.7 billion in 2010/2011. This shows a 49.8 percent contribution to our total expenditure and net lending expenditure for fiscal year 2011/2012 compared to 47.7 percent in fiscal year 2010/2011. Tax revenues will be expected to contribute RWF 501.4 billion whilst non tax revenue collections have been estimated at RWF 28 billion.

(a) Tax revenue projections

66. Regarding tax revenue projections, we expect that direct taxes will contribute RWF 199.9 billion compared to RWF 175.8 billion in 2010/2011, showing an increase of about 13.7 percent. PAYE and profit tax collections will lead the way in direct tax collections.

67. Tax collections from domestic goods and services have been projected at RWF 261.5 billion showing an increase of about 11.6 percent over the RWF 234.3 billion collected in 2010/2011. VAT and consumption taxes are the main components of these collections. However the projected increase in fiscal year 2011/2012 is lower than the nominal increase in our projected GDP of about 12.7 percent because of expected revenue losses from our proposed reduction in fuel taxes. I will give the details of this policy when I deal with our tax revenue proposals.

68. We have projected that taxes on international trade will yield RWF 28 billion compared to RWF 22.6 billion in 2010/2011. This estimate reflects the expected losses resulting from changes in sources of imports with more imports coming from the EAC and COMESA regions. As at end December last year our estimate is that about 32 percent of our imports originated from the EAC and COMESA regions compared to about 25 percent at end June 2009. The increase in expected collections is therefore based on the expected increase in the value of imports from the rest of the world and the expected depreciation of the currency vis-a-vis the US dollar in the fiscal year 2011/2012. The tax revenue projections are underpinned by our proposed tax revenue policies as well as other administrative measures that RRA plans to implement in fiscal year 2011/2012 which I am now going to highlight.

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

69. I have already stated that Government has accepted the fact that we must start harmonizing our fuel tax rates with those in the region and at the same time reduce the inflationary pressure emanating from world fuel and food price increases. We are therefore proposing a total reduction in fuel taxes by RWF100 per liter for both petrol and gasoilfor fiscal year 2011/2012.This reduction is to be carried out in two stages. In the June-December period of 2011, we are proposing a reduction in fuel taxes by RWF 50 per liter for both super and gasoil, while the second reduction of RWF 50 per liter is to be carried out on 1st January 2012. As a result of these tax reductions the average pump prices for both super and gasoil should come down. The Ministry of Commerce and Industry will announce the appropriate pump prices for petroleum products at the beginning of July 2011. We expect that the pump prices that will be announced by 1st January 2012 will also reflect the further reduction in taxes by the additional RWF 50 per liter for both products.

70. The total revenue loss from the fuel tax reduction of RWF100 per liter in fiscal year 2011/2012 will amount to RWF 14.1 billion. The loss in the June-December period will amount to RWF 4.7 billion whilst the additional loss in the January –June 2012 period is estimated at RWF 9.4 billion.

71. To reduce the impact of the loss on our budget, we are proposing the following revenue measures:

- **Introduction of Electronic Transaction Devices to increase efficiency of VAT collections**

72. Currently many retailers do not issue receipts to their customers for purchases made by them. As a result, VAT efficiency and collections suffer since ascertaining the correct sales are difficult because the system is based on self assessments which have large in-built loopholes thereby reducing the potential collections. RRA is therefore proposing to reduce these loopholes with the introduction of Electronic Transaction Devices which will reduce the loopholes and increase collections. RRA proposes to implement these efficiency measures gradually from 1st July 2011. The first phase will target Large and Medium sized retailers numbering about 2500.

73. On the basis of 2010 VAT declarations, which have been adjusted by the projected nominal GDP growth for 2011/2012, we expect an additional VAT collections of RWF 4.2 billion in fiscal year 2011/2012.

- **Introduction of gaming tax**

74. Since 2009, the Rwanda Gaming Corporation has been operating several gaming activities including Casino Kigali, lottery 6/36, slot machines and sport betting. The Corporation has not been paying taxes on these activities because the gaming law has not been passed. We are proposing that this law with the proposed laws be passed by Parliament.

75. In this regard, we are proposing the introduction of a gaming special tax of 13% and a withholding tax of 15%. On the basis of activities performed in 2010, we expect collections in 2011/2012 of RWF 186.3 million and RWF 859.9 million in gaming special tax and withholding tax respectively.

76. These yields from the increase in VAT efficiency and the introduction of the gaming taxes will provide additional revenue of RWF 5.2 billion which reduces the fuel tax adjustment loss from RWF 14.2 billion to about RWF9 billion. The projection of RWF 261.5 billion of collections under taxes on domestic goods and services in the 2011/2012 in the domestic revenue estimate reflects these transactions.

- **VAT Payment on Invoice**

77. To facilitate payment of VAT by companies doing business with Government entities, it is proposed that VAT be deducted at source before payments of invoices by Government entities. This will not only ensure prompt payment by tax payers but it will also reduce the cost of collection. The modalities for this collection will be worked out between MINECOFIN and the Private Sector Federation (PSF).

- **Changes in the EAC tax Regime.**

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

78. Following recent consultations of the Ministers of Finance of the EAC member states, the following changes were agreed:

i. Regarding the application of the Common External Tariff (CET), it was agreed to stay application for Rwanda for a period of one year on the following products:

ii. Rice: CET of 30%

iii. Tractors: CET of 0%

iv. Trucks carrying capacity exceeding t tonnes but not exceeding 20 tonnes: CET of 10%

v. Wheat grain: CET of 0%

vi. Wheat flour: CET 35%

vii. Construction materials for investors with projects of at least US$ 1.8 million: CET 5%

viii. Aluminium conductors and cables: CET 10%

ix. Amendments on Exemptions

79. In addition to these changes in the CET, it was agreed that the fifth schedule of the East African Community Customs Management Act concerning exemptions should be amended to cater for the following goods:

i. Equipment purchased by the National Police

ii. Tsetse fly traps

iii. Other security related equipment

iv. Motorcycles and ambulances

v. Battery operated vehicles for use in hospitals, hotels and airports

vi. Apron buses

(b) Tax Administration Measures

80. In fiscal year 2011/2012, we expect RRA to continue its ongoing ambitious tax administration reforms. This will not only widen the tax base but will also reduce the cost of compliance especially to the Small and Medium Enterprises. Some of these reforms will include the following:

- ✓ Conduct a study to identify potential areas to widen the tax base and estimate the tax gap.
- ✓ Introduce e-filing and payment to improve on time spent, reduce burden to taxpayers and service delivery.
- ✓ Conduct customer satisfaction survey to inform our next areas of focus for strategic planning purpose.
- ✓ Continue the new tax compliance risk assessment system (DTD) that will orient audit function to highly risk taxpayers.
- ✓ Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point.

- ✓ Establish a One-Stop-Border concept on Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade.
- ✓ Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination.
- ✓ Fully automate collection of pension funds and RAMA contributions and bring those out of the PAYE net into the system.

(c) Non tax revenue projections.

81. In the area of non tax revenue our projection of RWF 28 billion for fiscal year 2011/2012is about 24 percent higher than the estimate of RWF 22.6 billion in 2010/2011. This revenue area is undergoing a structural change as with the increasing privatisation of public enterprises, the contribution from dividends is also declining. For fiscal year 2011/2012 administrative fees and charges including passport/travel document fees and visa and driving licence fees are expected to contribute the largest shares of the projected amount.

ii. Budgetary grants and loans and Project loans estimates

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

82. I will now like to turn my attention to the external financing portion of our budget. We continue to rely heavily on external donors for resources for our budget. Whilst for many years our traditional sources have been budgetary grants and project loans, for the first time since 2005, when we reached the Enhanced HIPC completion point and benefitted from debt relief through cancellation, we have received and will receive budgetary loans for the financing of our budget. This is due to the fact that Rwanda is now classified as a country with moderate risk of debt distress and therefore in no more a GRANTS ONLY country in the eyes of the African Development Bank and IDA of the World Bank Group. Consistent with this change in status IDA provided RWF 21.3 billion (US$ 35.5 million) of budgetary loan for the 2010/2011 budget.

(a) Budgetary Grants

83. For fiscal year 2011/2012, donor support grants for our budget have been estimated at RWF444.7 billion as against RWF 372.5 billion received in fiscal year 2010/2011. The figure for 2011/2012 represents financing for about 42% of our total expenditure and net lending compared to about 38% in fiscal year 2010/2011. Direct budgetary grants are expected to contribute RWF 260.3 billion compared to RWF 208.5 billion in 2010/2011 showing an increase of RWF 52.3 billion. Delayed disbursements from the AfDB and increased support from the EU in fiscal year 2011/2012 mainly account for the increase in budget support grants. Project support grants are projected to rise from RWF 164 billion in 2010/2011 to RWF 184.4 billion in 2011/2012. The scaling up of disbursements from the Global Fund account for the largest share of the increase in capital grants.

(b) Budgetary Loans

84. In line with the classification of Rwanda as a country of moderate debt distress, the AFDB is providing RWF 20.8 billion (US$ 31.1 million) as budgetary loan for the financing of the 2011/2012. This is a sector budget support loan for the financing projects and programs in the agricultural sector.

(c) Project Loans

85. For the fiscal year 2011/2012, we intend to draw down project loans amounting to RWF 75.4 billion. This amount is RWF 5.9 billion higher than the RWF 69.5 billion used in 2010/2011. The most important projects to be financed with these funds include the various power projects such as the Electricity Access program and the Nyabarogo power project, the Kigali roads project, land and water harvesting projects.

1. Expenditure policies and projections

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

86. I will now spell out the details of our expenditure policies and projections for the coming fiscal year. Within the expenditure total of RWF1062.8 billion for fiscal year 2011/2012, RWF 557.9 billion has been allocated to recurrent spending as against RWF 514.9 billion in 2010/2011. This shows an increase of about 8.3%. Capital expenditure is projected to rise to RWF 503.3 billion from RWF 452.9 billion in 2010/2011, showing an increase of about 11.1%. Within capital spending the domestic component of RWF 243.6 billion is RWF 24.2 billion higher than the RWF 219.4 billion in 2010/2011. The foreign financed portion also rises to RWF 259.8 billion from RWF 233.5 billion in 2010/2011 showing an increase of about 11.3%. I will first start with the expenditure details by economic classification.

i. Expenditure projections by economic classification

(a) Wages and Salaries

87. Within the recurrent envelop of RWF 557.9 billion we are proposing an allocation of RWF 126.5 billion in 2011/2012 for civil service wages and salaries. This is about 5% higher than the RWF 120.5 billion spent in 2010/2011. The allocation allows a modest increase in remuneration of the civil service staff and also caters for the filing of some critical vacancies.

(b) Goods and services

88. In the 2011/2012 budget an amount of RWF 131.2 billion is being allocated for goods and services compared to RWF 119.1 billion in the 2010/2011 budget. The increase in spending is expected to cater for increased expenditure on drugs and vaccines by MINISANTE as well as education materials notably books and other accessories by MINEDUC. The allocation for road maintenance is also being raised to cater for the proper maintenance of both rural and urban roads.

(c) Interest Payments

89. An allocation of RWF16 billion is being made to cover Central Government's interest costs in fiscal year 2011/2012. This amount is only about 5% higher than the allocation in 2010/2011. The increase is required to cater for additional interest costs of some new external public loan disbursements in the new fiscal year. Regarding interest on domestic debt, the allocation is lower than spent last fiscal

year. This is due to a much lower domestic borrowing requirement of Government in fiscal year 2011/2012.

(d) Transfers

90. Spending under Transfers is being raised from RWF192.6 billion in 2010/2011 to RWF 216.2 billion in 2011/2012. This shows an increase of about 12% over the 2010/2011 allocation. The increase will allow the operationalization of a number of development boards that have been created by Government. In addition it allows the allocation of block grants to the districts in support of their operations to be made.

(e) Exceptional Expenditure

91. We propose an allocation of RWF68.1 billion for spending under exceptional expenditure in fiscal year 2011/2012. This amount is only about 2% higher than the allocation in fiscal year 2010/2011. The increase is solely due a rise in the transfer to FARG which rises from RWF 23.5 billion in fiscal year 2010/2011/2012 to RWF 26.7 billion to respect the legal requirement of Government contributing 5% of domestic revenue to the Fund.

(f) Capital Expenditure

92. Outlays for capital expenditure are being increased by RWF50.4 billion as total spending rises from RWF452.9 billion in 2010/2011 to RWF 503.3 billion in 2011/2012. We propose that domestic portion should rise from RWF219.4 billion in 2010/2011 to RWF 243.6 billion and this shows an increase of RWF 24.2 billion. The major reason for the increase is the scaling up of funds to some strategic investments in energy, transport and agriculture to accelerate growth, create jobs and reduce poverty. Areas that will benefit from the increase in funds include the energy roll out program, construction of hydropower stations, roads construction, export diversification and promotion projects, irrigation projects as well as various activities under the Crops Intensification Program of MINAGRI.

93. Regarding the externally financed part, this rises from RWF 233.5 billion in 20101/2011 to RWF 259.8 billion in 2011/2012 showing an increase of RWF 26.3 billion. The inclusion of expenditures funded from the Global Fund and implemented by MINISANTE account for the increase.

VII. KEY PRIORITIES TO BE FUNDED IN THE 2011/12 FINANCIAL YEAR

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

94. Having provided expenditure the details under economic classification, I now wish to present to you the priority sectoral activities that will be funded in the financial year 2011/12:

A. Education:

95. In the Education sector, RWF 170.5 billion has been allocated compared to RwF 155.7 billion in 2010/11 financial year, an increase of about 10%. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Continuing to implement the programme of 9YBE through allocating funds for construction of classrooms, payment of teachers salaries, acquisition of scholastic materials and school feeding.

ii. Improving the quality of education at all levels through Provision of textbooks and teaching materials, recruitment of more teachers and training of teachers in English language.

iii. Scaling-up of the Technical and Vocational Training institutions (TVET) and providing the necessary equipments to 16 vocational training centers with the support of the World Bank and the Belgian Technical Cooperation.

iv. Promotion of Science and Technology by constructing and equipping science laboratories.

v. Integration of ICT in Primary Education through provision XO Laptops (OLPC). 28,742 XO Laptops will be procured and distributed to schools in the financial year 2011/12.

B. Health:

96. In the Health sector, RWF 131.9 billion has been allocated compared to RwF 97.4 billion in 2010/11 financial year, an increase of about 35%. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Operationalization of the Rwanda Bio-Medical Center (RBC) to improve service delivery of health care.

ii. Implementation of the new "Mutuelle de santé" policy to promote health insurance and increase access to health care for the population. The Government has allocated funds worth RwF 4.8 billion in this budget to contribute for the lowest level income category so as to fully benefit from the health insurance scheme.

iii. Continue the construction and equipment of Health facilities to improve geographical accessibility to health care. The districts of Kinihira and Ntongwe hospitals will be finalized and fully equipped while works will commence for Nyabikenke hospital in Muhanga district. Studies will also commence for the rehabilitation of Byumba Hospital in Gicumbi district as well as Muhororo hospital in Ngororero district.

C. Agriculture:

97. In the Agriculture sector, RWF 67.1 billion has been allocated compared to RwF 64.4 billion in 2010/11 financial year, an increase of about 5%. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Support scaling-up of irrigation in both marshland and hillside to protect against soil erosion across the country to increase long-term farmer productivity. About 4,500 Hectares will be developed for irrigation while 2,000 hectares will be protected from soil erosion. Additionally, mechanization centers will be established in 20 villages to facilitate commercialized agriculture.

ii. Support crop intensification through increasing access to key inputs, such as fertilizer and improved seeds, to further improve agricultural supply. About 40,000 Metric tonnes of fertilizers will be procured and distributed to farmers.

iii. Support projects to improve post-harvest storage facilities in the farms and villages and using the National Strategic Food Reserve to improve food security and minimize post harvest loses. A strategic grain reserve will be completed in the Kigal Free Trade Zone and will have capacity to hold 20,000 metric tonnes of grain in reserve. Additionally, a 10,000 Metric tonnes and 15,000 metric tonnes strategic reserves will be completed in Nyagatare and Kirehe districts respectively.

iv. Increase funding for the One Family-One Cow Program and other Livestock programs to fight against extreme poverty by providing milk and improved incomes from the sales of livestock products. About 10,000 cows will be distributed to needy families and 75,000 cows inseminated. Additionally, 20,000 children will have access to one-cup of milk.

v. Increase funding for export production of tea, coffee and horticulture as well as value addition to the farmer's production as a means of export crop diversification. About 20 hectares of land will be mobilized for flower park construction and exports of horticulture and coffee are planned to increase by about 20%.

vi. Improve research and extension services to farmers across the country to improve seed productivity for the farmers. About 2,000 metric tonnes of improved seeds will be distributed to farmers.

D. Information Communication Technology:

98. In the Communication sector, RWF 25.7 billion has been allocated compared to RwF 29.4 billion in 2010/11 financial year. The allocation has reduced following the completion of the fiber optic project in the financial year 2010/11. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Finalize the deployment of National Backbone Infrastructure and make it operational including deployment of ICT Infrstructure in local Government administration offices.

ii. Continue the works on National Data Center and deploy cloud computing solution in the National Data center.

iii. Continue the deployment of Document Tracking and Work flow management in Government Institutions.

iv. Deploy robust Cyber security Infrastructure and establish Rwanda Computer Emergency Response Team.

E. Transport:

99. In the Transport sector, RWF 75.2 billion has been allocated compared to RwF 61.6 billion in 2010/11 financial year, an increase of about 22%. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Continue the rehabilitation and upgrading of classified national road networks as well as rehabilitation and upgrading of urban road networks. We plan to increase the national road network in good condition to 46 percent in 2011/12 financial year against 38.1 percent in 2010/11 financial year.

ii. Continue the maintenance and rehabilitation of unpaved road networks in districts to provide farmers with easy access to markets for their produce and also access to the Factories and hydropower stations. The unpaved road network in good condition will be increased to 25 percent in financial year 2011/12 against only 4 percent in 2010/11 financial year.

iii. Undertake the rehabilitation and extension of Kigali International Airport.

iv. Finalize the PPP and concessioners arrangement for the construction and operation of Bugesera International Airport.

v. Finalize the detailed study for the development of Dar-ES-Salaam - ISAKA - KIGALI Railway Line.

vi. Implement the East Africa Trade and Facilitation Project to facilitate cross-border trade and transportation.

vii. Development of the Lake Kivu marinetime transportation.

F. Energy:

100. In the Energy sector, RWF 98.6 billion has been allocated compared to RwF 75.8 billion in 2010/11 financial year, an increase of about 30%. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Support the Electricity Access Roll-Out Programme to increase access to electricity for an additional 65,000 households in all provinces and City of Kigali.

ii. Continue the construction of Nyabarongo power plant (28 MW) to increase power production.

iii. Confirm geothermal resources by carrying out exploratory drilling in Karisimbi.

iv. Produce 15MW of power from peat.

v. Procure and install an additional 10MW of thermal generators to meet prospective shortfall in power supply.

vi. Implement the Biogas Project to substitute for Charcoal and save the environment.

G. Trade and Industry:

101. In the Trade and Industry sector, RWF 35.2 billion has been allocated compared to RwF 55.5 billion in 2010/11 financial year. The shortfall has been caused by the shift of RDB from the Ministry of Trade and Industry. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Continue Doing Business reforms to level the field for the Rwandan private sector and attract more Foreign Direct Invetsments. The priority reform areas for 2011/12 include making it easy to start a business, deal with construction permits, register property and trade across borders in order to enhance doing business further.

ii. Support the Small and Medium Enterprises through comprehensive and focused interventions in order to increase the number, size, formality and sustainability of SMEs that will lead to an increased number of jobs, a wider tax base and a rise in exports.

iii. Continue technical and financial support to Umurenge SACCO, with the aim of making them sustainable to increase access to financial services and access to credit. RwF 3.2 billion has been provided in the budget.

iv. Implement the industrial policy, develop a pilot industrial park at provincial level and continue relocation of the Gikondo industrial park to the new SEZ in Kigali.

v. Implement the National Quality policy to increase compliance to standards and competitiveness of Rwandan products.

H. Social Protection and Governance:

102. In the Social Protection and Governance sector, RWF 48.3 billion has been allocated compared to RwF 40.6 billion in 2010/11 financial year, an increase of about 26%. The following key programs and projects will be implemented in the 2011/12 financial year:

i. Strengthening Decentralization by building capacities of Local Governments and providing additional staffing at the sectors and cell levels.

ii. Enhancing fiscal and financial decentralization in Local Governments by increasing transfers from the central government and providing capacities in public finance management. Central Government transfers to Local Governments will increase from RwF 108.0 billion in 2010/11 to 167.8 billion in 2011/12 financial year, an increase of 55%.

iii. Conducting Elections of the upper chamber of Deputies (Senators).

iv. Scale-up the VUP program form 90 to 120 sectors to support vulnerable households and individuals to graduate from poverty. Special programs will be implemented in Nyaruguru and Ngororero districts to accelerate poverty reduction in the two districts. Additional RwF 6.0 billion has been provided.

v. Provide help to vulnerable families moved from grass thatched houses to decent houses to ensure social and economic stability.

VIII. STRUCTURAL REFORM PERFORMANCE AND THE MEDIUM TERM AGENDA

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

103. The Government has realized that formulating sound macroeconomic policies alone will not bring prosperity to the nation unless they are accompanied with strong structural reforms. The objective of Government in implementing structural reforms therefore is to remove all bottlenecks hindering productive activity in all sectors of the economy. These actions are expected to improve conditions for private sector development to promote growth and ensure accountability and effectiveness in public financial management.

A. Fiscal Structural Reforms.

104. Since the adoption of the PFM reform strategy and action plan, commendable progress has been made in implementing the reform agenda and the following reform actions are being pursued under public financial management reforms in 2011/12:

- ✓ **Internal Audit:** We are continuing with efforts to help government entities achieve efficient and effective use of public resources. The review and update of internal audit regulations and manuals have been completed. The code of ethics for government internal auditors is ready for implementation and Audit Committees have been put in place in all Districts and Government Business Enterprises.

- ✓ **Public Procurement:** The Rwanda Public Procurement Authority (RPPA) has ceased to award tenders beginning the month of March this year. Budget agencies have been authorized to award their own tenders as large as they may be. RPPA is now focusing solely on its role as a regulator and an enabler of capacity building for all public agencies. This will expedite the procurement process at the Agency level and will allow ample time to the RPPA to undertake regulation.

- ✓ **Fiscal decentralization:** We are commencing the financial year 2011/2012 with a new Fiscal Decentralization Strategy, a revised Fiscal and Financial Decentralized Policy as well as a draft law on sources of revenues for Local Governments. A revenue potential study for local governments is also being finalized with a view to provide information on the resource base of each district. All these interventions are intended to enhance the revenue base for districts and provide resources to improve service delivery.

- ✓ **IFMIS/SMARTGOV:** Since July 2010, we have implemented an Integrated Financial Management Information System (IFMIS) that supports budgeting, accounting and reporting functions of Government and this has been rolled out to 87 budget agencies that include 21 Ministries, 32 Line agencies, 30 districts and 4 Provinces.

  The IFMIS will enable GoR to efficiently prepare and implement sound budgets, effectively manage and monitor expenditure, and improve economic and financial management. The extension of the use of the system to capture and report on the transactions of all embassies, districts and lower cost centers is expected to yield ample dividends. Furthermore, the system will allow budget agencies to generate and issue purchase orders with reserved funds instead of the off-budget purchase order that have been issued in the past. This will substantially resolve the problem of arrears that have been previously reported by some suppliers.

  Public Private Partnership (PPP) concept: The government is strongly committed to encourage private sector participation in infrastructure delivery targeting social and development goals. Ample resources are currently being invested in moving forward the PPP institutional and legal framework with the hiring of a Transaction Advisor to start work on these items.

Financial Sector Development

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

105. Financial services are fundamental to economic growth and development of the country. The year 2011 has started in favourable international and national financial environment. Better economic performance in 2010 has been achieved with a very low inflation estimated at 0.2% in December 2010 as compared to 5.7% recorded in the same period of 2009.

106. Access to banking services improved significantly, Banks opened 15 additional new places of business many of them being located up country. By end December 2010, banking system recorded 99 branches and 204 counters throughout the country. In 2010 the commercial banks' balance sheet expanded to RWF 728.5 billion from RWF 578.6 billion achieved in 2009, which is an increase of 25.9% against 13.2% realized last year. The recently concluded IMF-World Bank assessment indicates that the Rwandan Banking Industry is resilient to shocks.

107. The financial situation of MFIs in Rwanda, ZIGAMA CSS excluded, shows a growth in the sector. The total assets of the sector increased by 25.6% from December 2009 to December 2010 moving from RWF 36 billion to RWF 45 billion. The Gross Loans and the Deposits increased by 36% and 25.1%, respectively for the same period. The 416 SACCOs established in line with UMURENGE SACCOs Program have mobilized more than Rwf 10 billion of deposits in their first year of operations and this was a target of 3 years. The Government is committed to strengthen this program in order to achieve intended goals.

108. Going forward, the Government will continue strengthening the legal and regulatory framework in order to deepen and consolidate the financial sector. In this regard the following measures are to be implemented:

- ✓ Two more insurance laws will be enacted in 2011 and more regulations and guidelines will be put in place to facilitate the insurance sector to move towards professionalism and better performance.

- ✓ After successfully Implementing FSDP I that was aimed at strengthening legal framework of the Financial Sector, FSDP II will be prepared in order to deepen and consolidate the Financial Sector.

- ✓ Expanding access to financial services for the rural population and increasing access to finance for SMEs through the expansion of microfinance banks, the consolidation of lending operations of existing MFIs and enhancing the UMURENGE SACCO program.

- ✓ In pension sector, the main priorities in 2011 will include the streamlining of the legal framework for both public and private pension funds by following up the enactment of the new pension law.

- ✓ Concerning retail payment systems, concerted effort will be put in the following areas: deployment of ATMs and POS in addition to issuing as many cards as possible based on the principle of interoperability. We will keep working on the use and acceptance of international payments cards like Visa International in Rwanda.

- ✓ The Government will also continue participating and contributing to all planned activities that will lead to EAC Monetary Union, as part of the EAC integration.

B. Improvement to the Business Environment

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

109. Rwanda has achieved visible progress in improving the business climate through active doing business reforms. This has culminated in the attainment of top global reformer status in the 2010 World Bank Doing Business Publication, having registered significant legal and regulatory changes that made it easier for businesses to operate. This year, we have pursued four other fundamental reforms that make it easy to start a business, deal with construction permits, register property and trade across borders in order to enhance doing business further.

110. We intend to scale-up electronic transactions in business operations to reduc the need to carry cash, putting in place a single window for our international trade, business licensing reforms, addressing non tariff barrier issues and the establishment of an electronic land information system. We are also working closely with our partners in the EAC, SADC and COMESA States to promote a regional approach to business environment reforms.

C. Debt Management Strategy

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

111. We recognize that Government has increasing demand to finance development projects and this cannot be done without recourse to external borrowing. However, it is the policy of the Government to keep the total debt at sustainable levels especially now that Rwanda has been classified as moderate risk of debt distress country and therefore is eligible for both grant and concessional loan financing by both the African Development Bank and International Development Association (IDA) of the World Bank Group. To this end, we have developed a Public Debt Policy and Medium Term Debt Strategy to guide us and ensure that we don't fall back into a debt-trap.

112. We will therefore continue to explore all options for concessional financing and where it does not jeopardize the debt levels, consider contracting some non-concessional borrowing especially for projects that are key to our development agenda and are also sound in terms of financial analysis.

D. Export Promotion Strategy

Honourable Speaker of Chamber of Deputies
Honourable President of Senate
Honourable Members of Parliament,

113. The Cabinet recently adopted the National Export Promotion Strategy including its implementation and institutional framework. The objective is to mobilize and organize Rwanda stakeholders to accelerate export growth, create jobs, increase revenues, and ultimately improve the prosperity of the average citizen. The strategy focuses on increasing value addition of existing export sectors and developing new products and services. The priority sectors for the next 5 years are the traditional sectors of tea, coffee, tourism and mining as well as emerging non-traditional export sectors of horticulture and business process outsourcing.

114. The strategy aims at addressing bottlenecks to make local products more competitive both locally and for export. This strategy compliments the ongoing reforms to improve the business climate and access to credit.

IX. CONCLUSION

115. The Government's budget and economic policy for fiscal year 2011/2012 is built on the EDPRS foundations and a prudent macro- economic and fiscal framework. It has established that we face significant challenges this year and possibly next year as well because of global developments on commodity prices notably fuel and food. These are likely to exert negative impact on our economic management. We have proposed measures to mitigate the possible adverse effects of these developments. In the area of food security, we intend to safeguard our good domestic food production by continuing our investment in agriculture as well as expanding our storage facilities. The domestic production will be augmented with possible food imports to ensure adequate supplies. Regarding the maintenance of price stability we have proposed the lowering of fuel taxes both as a policy towards harmonizing these taxes with the regional tax levels and also as an input in lowering inflation for this fiscal year.

116. Our fiscal policies aim at supporting our growth objectives for fiscal year 2011/2012 which will ensure a healthy economic growth and enhance private sector development. The Government is fully committed to achieving this rapid growth while maintaining macro-economic stability.

117. I hereby recommend the Government's budget and economic policy for fiscal year 2011/2012 and the accompanying draft laws for you to consider and consequently approve in the framework and timeframe prescribed by the law.

I THANK YOU