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REPUBLIC OF RWANDA

MINISTRY OF FINANCE AND ECONOMIC PLANNING

BUDGET FRAMEWORK PAPER, 2003-2005

September 2002

Table of Contents

1. Introduction

The main objective of the Budget Framework Paper (BFP) is to set out the affordable resource envelope over the medium term and clarify the costs of strategic policy options. Preparation of this year's BFP has benefited from consultation between the Minister of Finance and other Ministers on sector expenditure issues (12-16 August 2002). Prefects of Provinces were also consulted on 27 March 2002. It is planned to circulate the draft BFP to Ministries, Provinces and donor agencies for further comments prior to Cabinet discussion of the paper.

The recommended projections for expenditure by Ministry and Province constitute ceilings for the 2003 Budget. Detailed budgets for 2003 will be prepared through the normal process of consultation between Ministries/Provinces and Minecofin within the ceilings approved by Cabinet. Expenditure projections for 2004 and 2005 constitute guidelines for planning purposes at this stage, which will be reviewed during next year's Budget Framework Paper.

A reliable, predictable expenditure framework is vital for improving the effectiveness and efficiency of public expenditure. By giving a reliable framework for medium term planning, Ministries/agencies can be held more accountable for the achievement of agreed outputs and outcomes within an agreed level of resources.

Progress in achieving such a framework has so far been limited. For example, in 2002 there has been considerable variation between the ceilings agreed in last year's BFP, the approved Budget and the Revised Budget (see figures on page 36 in Annex D). Issues concerning debt and fiscal sustainability[1] influenced the Budget revision in July, along with the need to reduce over-dependence on external resources by implementing additional tax measures. Ongoing negotiations on programmes such as the Poverty Reduction and Growth Facility (PRGF) or the Rwanda Demobilisation and Reintegration Programme (RDRP) have also had an impact on the medium term framework.

This year there is a much better opportunity to strengthen the predictability of the expenditure framework.

- Agreement with the IMF on a new 3-year PRGF was reached in July 2002. This includes targets and mechanisms to ensure debt and fiscal sustainability.
- Concerning the demobilisation programme, the World Bank has approved support for the revised RDRP.
- Within the development budget, a "National Investment Strategy" has been prepared, which recommends how the development budget can be better oriented towards the objectives of Government's Poverty Reduction Strategy; the draft National Investment Strategy is being presented for consideration by Cabinet together with the BFP;

[1] "Fiscal sustainability" means not implementing an overall expenditure programme that is far beyond the ability to finance it from domestic revenue and/or grants and loans from external sources;
"Debt sustainability" means not borrowing money beyond a level that is very difficult to pay back

- This year's sector consultations (at Minister level) were supported by detailed "Strategic Issues Papers" outlining key budgetary constraints for the medium term.

Chapter 2 shows that, while economic performance continues to improve, the budget remains very constrained. Expenditure needs far outweigh the available resources. At the same time, analysis shows that the flexibility of the existing budget is also very constrained. Most of the recurrent budget allocations can not be reallocated in the short term. They are already committed to "fixed expenditures" (e.g. wages, food programmes, debt service, etc). The wage bill alone consumes 44% of the recurrent budget, and 65% of domestic resources (see Table 3 in Chapter 2). Reallocations within the recurrent budget require structural change, which in turn requires time.

Chapter 3 outlines the overall macroeconomic framework for 2003-2005. It is consistent with the PRGF programme recently agreed with the IMF. However, it notes that the framework may be adjusted in the light of results awaited from the Poverty and Social Impact Assessment (PSIA), which may allow for supplementary grant financing of poverty reducing programmes.

To the extent that there is any flexibility in the recurrent budget, Chapter 4 suggests that spending on the health sector should receive particular attention as it is falling well behind international and regional standards. Chapter 4 also highlights evidence from the National Investment Strategy on structural weaknesses in the composition of the development budget. Greater focus is needed on PRSP priorities, and there must be much more focus on true investment (rather than "recurrent" activities) to increase the productive capacity of the economy. Particular investment gaps have been identified in some of the critical infrastructure areas such as energy, transport and water/sanitation.

Chapter 5 raises some of the key policy issues raised at the sector consultations. However, in the interests of comprehensiveness and transparency, all of the key issues raised at the sector consultations are summarised in Annex A. Demands for additional expenditures amounting to Rwf 30-40 billion were presented during the sector consultations. One of the most urgent demands was the need to identify additional funding of up to Rwf 6.7 billion for the national referendum and elections during 2003. Cabinet advice is sought on reallocations from the preliminary expenditure ceilings distributed with the Budget Call Circular.

2. Economic Performance 2002

(a) International context

As shown in **Table 1**, after a sharp contraction in the second half of 2001, economic activity in the main industrial countries is projected to accelerate progressively to reach 2% by end 2002. Economic recovery is uneven with output in Japan already increased by 2.6% in the second quarter of this year compared to a decline of 0.7% a year earlier and a more modest growth of 1.1% in the United States. Consumer prices have declined significantly in the U.S.A. (2.7% in July 2001 to 1.5% in July 2002), Eurozone (2.7% to 2.1%) and the United Kingdom (1.6% to 1.5%), but have continued fall by 0.8% in Japan. The decline in inflation has enabled Central Bank authorities to ease monetary policy such that interest rates on the main money markets have continued a declining path with the largest fall in the U.S. money market, where short term rates are currently 1.73% compared to 3.24% a year earlier.

Table 1: Selected economic indicators

	GDP (% change)		Consumer Prices (% change)		3 month Interest Rates (%)	
	QII 2002	QII 2001	July 2002	July 2001	sept-02	sept-01
United States	1,10	2,10	1,50	2,70	1,73	3,24
Japan	2,60	-0,70	-0,80	-0,80	0,02	0,01
Euro Zone	1,40	0,60	2,10	2,70	3,32	4,18
United Kingdom	2,40	1,20	1,50	1,60	3,94	4,75

On the commodity markets (see **Table 2**), the International Coffee Organisation New York price for arabica coffee has fallen by almost 9% from 57 US cents per pound at the end of 2001 to 52 U.S. cents per pound in August 2002. On the Mombassa market, auction prices for top grade tea have strengthened during the same period from 167.6 US cents per kilogramme to 181.9 US cents per kilogramme in August 2002.

Table 2: Selected commodity prices

	QIV 2001	August 2002	(% change)
Arabica Coffee (US CTS/Lb)	57,00	52,00	**-8,8%**
Tea (Mombassa Auction US CTS/Kgs)	167,60	181,90	**8,5%**
Petroleum (Spot Crude US$/ Bbl)	19,31	26,92	**39,4%**

The price of crude oil has increased sharply during the course of this year and is now close to US$ 30 per barrel. The average price of refined gasoline on the world market has increased from US$ 178 per metric tonne at the beginning of the year to US$ 255 in August. Oil prices have spiked in recent months as the prospect of armed conflict between Iraq and major powers loom large and uncertainty about OPEC members' increasing output quotas during their next meeting on September 19th. These developments have resulted in an increase in domestic pump prices from RWF 370 per litre in January to the current price of RWF 398. This price reflects the increase in international price, the depreciation of the Rwandan franc and increases in customs tariff and the VAT. The increase in pump prices are in turn inducing increases in transport costs and food prices.

(b) Domestic economy

Economic Growth

GDP growth remains strong: this fiscal year, the projected growth rate is estimated at 7.3%. Owing to excellent season A and B crops, the outcome could exceed this estimate.

Food crop output has increased by 21% compared with last year (at constant prices; tonnages by 34%). Since food crops account for 41.6% of GDP, this already warrants a GDP increase of 8.8% over last year, assuming no growth in all other sectors.

With respect to agricultural exports, tea export earnings decreased by 13% during the first half of 2002 compared with the corresponding period of 2001, as volumes decreased by 2%, reflecting a price decline of 11%, from 1.61$/Kg on average during the first half of 2001 to 1.43$/Kg during the first half of 2002. The decrease in export unit value reflects a shift in tea sales policy: whereas best tea quality used to be sold at the highest offered price, since this year all output is auctioned on Mombassa market irrespective of differences in quality. Coffee export earnings increased by 3%, less than volumes, which increased by 43%, reflecting a price decline of 28% from 1.1$/Kg during the first half of 2001 to 0.8$/Kg in 2002.

Based on a quick sample survey of industrial enterprises in August, activity was good in agroindustry. However, performance will be weaker than expected for Bralirwa. Overall, activity in chemical and in metal branches was flat, or even declined slightly. Textile output registered a growth, owing to strong exports. Based on partial information, performance of the construction sector was strong. Our industry starts experiencing tightened competition from COMESA countries brought about by the new customs tariff structure, and has yet to adjust to this new environment.

Domestic Prices

In spite of a depreciating exchange rate, inflation remains under control, owing to the very good harvest of food crops in season "A". Prices actually declined in the 12-month period ended April 2002, and then have been again oriented slightly upwards. The increase of VAT rate from 15% to

18% and non-COMESA customs tariffs in July is also expected to increase pressure on prices. Consumer price movements over the 12-month period ending July 2002 was -3.8% at the national level and –3.6% for Kigali.

Foreign Trade

The declining trend in imports observed since 1996 continues. During the first half of 2002, imports cif totalled $ 130.5 million as compared to $ 146.7 million in 2001, i.e. a decrease of 11%.

Overall exports do not show any increasing trend in the medium term. Exports declined by 34% during the first half of 2002 compared with 2001, a period that was characterized by a surge in coltan exports, both in volumes and in prices. Coltan export earnings decreased by 62% from 30.9 million $ during the first half of 2001 (corresponding to more than half total export earnings) to 11.6 million $ in 2002.

Exchange rate

At the beginning of the year the mid rate for US dollars quoted by the Central Bank stood at 457.8277. As of the end of August 2002, it had depreciated by 5.8%, to 484.6191. This compares with an average depreciation of 6.1% during the same period in of 2001. Given the weakness of the US dollar against other international currencies, the actual depreciation of the franc was much larger against the euro (18.2%), the pound sterling (12.6%) and the Special drawing rights (11.7%). There was a strong demand for foreign currencies as commercial banks bid US$ 4-5 million at the weekly auctions organised by the Central Bank compared to supply range from US$ 2-3 million. The resulting tensions were reflected in the differential between the official rate and the parallel rate which stood at almost 3% at the beginning of the year but narrowed slightly to 2.3% by end August as external budget support were disbursed.

Monetary developments

Monetary indicators were volatile during the first eight months of the year as net foreign assets declined by 7.2%. Official reserves of the Central Bank remained comfortable and represented over 7 months of projected imports for the year. The deterioration of the external position was essentially on account of an increase in foreign liabilities of the Central Bank and the commercial banks of almost 6 billion francs. Domestic credit expanded by 13.4%, substantially more than projected increase in nominal GDP. This was caused in large part by the increased indebtedness of the treasury vis-à-vis the banking system, as external budgetary assistance was not disbursed until late July. Credit to the rest of the economy was well below projections with an increase of slightly over 5% since the beginning of the year. As a result of theses developments, money supply accelerated by 9.6% ahead of projections. Interest rates on the money market have been on a declining path from 12.56% at the beginning of the year to 10.85% by the end of July 2002.

(c) Budget performance

The implementation of the 2002 budget has been very difficult due to the delay and uncertainties concerning the disbursement of external donor resources. As a result, the Government had to rely on domestic resources (tax, non-tax as well as bank and non-bank borrowing) to finance Government expenditure during the first half of the year. The uncertainty in external donor disbursements is therefore likely to affect Government spending for the rest of the year.

Tax revenue

Revenue performance to end August has been good. The various tax measures undertaken during the last two years (including the introduction of the VAT, increase in the presumptive tax rate from 2% to 4% and the introduction of the 5% withholding tax on imports), together with the numerous reforms in administrative procedures implemented by RRA, have begun to boost tax revenue collections. For 2002 therefore, the tax revenue target of Rwf 92.9 billion is likely to be reached by end December. The recent increase in the VAT rate from 15% to 18% and the increase in external tariff rates for non-COMESA goods are major factors in attainment of the budget target.

Non-tax revenue

Of major concern to the Government is the performance of non-tax revenue collection to end August. For 2002, a shortfall of about Rwf 2.7 billion is likely to be registered. This is due to several factors. In the case of dividends, several public enterprises either reported lower profit, or losses or in some cases are disputing payments. With regard to collection of administrative fees and charges, the late implementation of the new service charges (visa and passport fees) in April instead of January has reduced collections.

Furthermore, Government is concerned about the system of collecting the various service fees and charges and whether proper accounts are rendered by those authorised to collect these funds. Government is therefore considering a number of options to boost the collection of these service fees and charges. One of the options under consideration is to allow RRA and or some private agencies to collect these for a charge. Cabinet is requested to examine this option.

Expenditure

Expenditure performance to end August shows lower spending on most items except for goods and services and payment of domestic arrears where the end September targets have been exceeded. The lower spending in general reflects the delay in external donor disbursements mentioned above and the fact that Government had to rely on domestic resources for spending.

For the rest of the year there is the likelihood of continued pressure on spending particularly on goods and services and domestic arrears payment. However the level of spending will be constrained as a result of the uncertainties concerning the disbursement of external donor support.

Of concern to Government is spending in the area of the Common Development Fund (CDF) for Districts. Unless the machinery for implementation is expedited, no funds can be spent this year.

Financing

As mentioned above, because of the delay in the disbursement of donor external assistance, the Government had to rely on domestic resources for spending especially during the first half of this year. In addition to domestic tax and non-tax revenue collection of Rwf 61.9 billion up to end August, the Government borrowed an additional Rwf 4.8 billion from the banking sector and Rwf 2.9 billion from the non-bank sector through the sale of treasury bills.

Structural features of the Recurrent Budget

Previous Budget Framework Papers have highlighted the degree to which the recurrent budget is constrained by the large proportion of expenditure which is non-discretionary or “fixed” (i.e expenditures like salaries, food programmes, debt service, FARG and other legal obligations, etc.). These fixed expenditures are difficult to reallocate in the short term without severe reforms in the staffing and operations of Government. As shown in **Table 3**, wages alone comprise 44% of the total budget and consume 55% of domestic revenue in 2002. When other fixed expenditures (identified in Table 3), are included, these reach a total of Rwf 114 billion, which is 76% of the total recurrent budget, and 12% greater than domestic revenue. This total does not even include the basic running costs of Government, amongst which are essential services such as defence, police and prisons.

This structural feature is important to bear in mind for deliberations on 2003 budget allocations. Without a significant increase in revenue, the capacity to add new expenditure items is extremely limited. Reallocations from existing programmes risks worsening the imbalance between wage and non-wage running costs for Government agencies. At the sector consultations, the lack of adequate finances to run existing programmes was often raised as an important constraint on effectiveness.

As highlighted in the next chapter, the increase available for basic running costs of Government is extremely limited. Out of the Rwf 19 billion increase in total resources for 2003, Rwf 14 billion is already committed to increases in the demobilisation programme (by Rwf 6 billion) and development expenditures (by Rwf 8 billion).

However, over the medium term, it should be possible to plan how to overcome such structural constraints. It is important to make use of the medium term expenditure framework to identify how structures might be rearranged over a longer period to allow for new expenditures without worsening the existing balance between wage and non-wage expenditure. Cabinet needs to give careful consideration to desired trends in the medium term expenditure framework to allow preparation for structural changes (e.g. staff reallocations) to begin now.

Table 3: Analysis of Recurrent Budget 2002 by economic category of expenditure

Category		2002 Revised Budget	% of total	"Fixed" costs
Wages (incl. social contributions)		55.80	44%	55.80
of which,	*Civil servants*	*11.58*	9%	
	Teachers	*13.06*	10%	
	Military	*15.72*	12%	
	Police	*1.97*	2%	
	Transfers	*8.20*	6%	
	Exceptional	*5.27*	4%	
Classified equipment and other supplies		12.02	10%	
Food programmes		3.46	3%	3.46
of which,	*School*	*2.16*	2%	
	Prison	*1.30*	1%	
Fuel		3.14	2%	
Utilities (water, electricity, phone)		2.06	2%	2.06
Rent		0.95	1%	0.95
Maintenance		2.67	2%	
of which,	*Building*	*0.79*	1%	
	Vehicle	*1.23*	1%	
	Other	*0.65*	1%	
Travel and charter		3.75	3%	
Road Fund		2.00	2%	2.00
International organisation membership		1.42	1%	
Documents & textbooks		1.65	1%	
Scholarships		5.08	4%	5.08
FARG, orphans and vulnerable groups		6.05	5%	6.05
District transfers		1.37	1%	1.37
Demobilisation/reintegration		5.90	5%	5.90
Contingency fund		1.32	1%	
Interest payments		7.67	6%	7.67
Not elsewhere classified		9.99	8%	
TOTAL		**126.30**	**100%**	**89.39**
Debt repayment		16.14		16.14
Arrears		7.80		7.80
Net lending		1.00		1.00
TOTAL RECURRENT BUDGET		**151.24**		**114.33**
Fixed costs as % of total recurrent(incl. debt, arrears & net lending)				76%
Fixed costs as % of domestic revenue				112%
Wage bill as % of domestic revenue				55%
N.B Domestic revenue =	101.74			

3. Medium Term Budgetary Framework, 2002-2005

(a) The Development Challenge

Rwanda continues to suffer from a combination of high rates of population growth, declining agricultural productivity, environmental degradation and falling per capita GDP. The economy has a very weak export base, with high dependence on agricultural exports, in particular tea and coffee, and a resulting vulnerability to declines in world prices. The revenue base is very small and private investment levels are low. Given that 90% of the population lives in the rural sector, this decline in rural sector performance presents a huge challenge for government.

The legacy of the genocide, particularly in terms of decapitalisation in the rural sector, destruction of livestock and infrastructure, the burden of the large prisoner population, and the creation of significant numbers of female-headed and child-headed families, has exacerbated this situation.

Although a great deal has been achieved since the genocide, much still remains to be done in terms of access to and affordability of health and education services. Whilst progress has been made to improve the enabling environment for private sector activity, the financial sector remains weak and not adapted to the financing needs of the economy.

(b) Overview of budgetary framework

Against this background, preparation of the budgetary framework has been guided by several key principles:

(a) the Budget must contribute to the implementation of the poverty reduction and growth strategy, including the macroeconomic policies outlined in the PRGF program;

(b) resource projections should be realistic, based on the likely performance of the economy over the medium term and on the new tax measures to be introduced;

(c) dependence on external resource should be reduced over time, especially external borrowing; efforts should be made to substitute grants for loans to allow Government to reduce the ratio of NPV of debt to exports; using the availability of grants and highly concessional external credit;

(d) the Budget should take into account the Poverty and Social Impact Assessment findings in reviewing possibilities for accommodating supplemental grant income that may become available;

(e) the overall budget deficit has to be contained;

(f) non-discretionary expenditures (i.e. mandatory expenditures, such as wages, debt, CDF, FARG, counterpart funds on externally funded projects, and other legal commitments) should be covered first;

(g) within discretionary expenditures, budget allocations should reflect the priorities identified in the PRSP;

(h) Districts have to rely substantially more on their own resources and budgetary resources must be allocated to them according to the law, but also taking into account their absorption capacity;

(i) relevant extra-budgetary and off-budget projects and transactions should be consolidated into the Budget;

(j) it is assumed that there will be an extension of additional interim relief from the IMF, World Bank and AfDB to cover part of the debt service obligations;

(k) the Budget should provide for the settlement of outstanding domestic obligations and a reduction in domestic borrowing; in addition, it must reflect drawings on concessional external financing and HIPC initiative debt relief;

(l) the demobilization and reintegration program should be accelerated in order to consolidate national reconciliation, reduce the military wage bill and improve the efficiency of the army.

Table 4 gives a summary version of the medium term budgetary framework. A more detailed version of the same table appears in **Annex E**, and the following sections give more detail on different categories within the framework.

Table 4: Summary of Budgetary Framework, 2001-2005 (Rwf billion)

	2001 outturn	**2002 revised budget**	**2003**	**2004**	**2005**
Resources	**185.00**	**207.64**	**226.08**	**233.73**	**194.50**
Tax and non-tax revenue	86.20	101.74	117.00	127.90	136.50
Domestic financing	3.00	10.71	1.70	0.00	0.00
External financing	95.80	95.19	107.38	105.83	58.00
Expenditure	**185.00**	**207.64**	**226.21**	**231.58**	**239.03**
Current	***107.30***	***126.31***	***136.51***	***135.18***	***139.53***
Wages (civil, military)	38.90	42.34	42.34	43.59	45.01
Goods and services	29.40	32.64	34.87	37.10	40.51
Interest payments	6.20	7.67	7.60	7.40	7.50
Transfers	15.10	21.15	23.11	25.15	27.41
Exceptional social exp.	17.70	22.51	28.59	21.93	19.10
Capital	***50.00***	***56.40***	***64.90***	***69.60***	***72.00***
Domestic	3.50	6.90	10.20	12.20	14.00
of which, CDF		*2.00*	*4.00*	*5.50*	*6.50*
External	46.50	49.50	54.70	57.40	58.00
Debt, arrears, and net lending	***27.70***	***24.93***	***24.80***	***26.80***	***27.50***
Domestic Fiscal Balance*	**-20.20**	**-26.98**	**-25.41**	**-15.38**	**-12.83**
Overall Budget Deficit**	**-71.70**	**-81.97**	**-85.41**	**-77.88**	**-76.03**
Financing Gap (Resources minus Expenditure)	**0.0**	**0.0**	**-0.1**	**2.1**	**-44.5**

* domestic revenue (excl. grants) minus current expenditure (excl. external interest), minus domestic capital, minus net lendi

** domestic revenue minus total expenditure (excluding debt and arrears)

GDP ratios

Nominal GDP (figures from PRGF)	754.3	825.2	906.4	998.8	1,050.0
Domestic revenue/GDP	11.4%	12.3%	12.9%	12.8%	13.0%
Expenditure(excl. debt and arrears)/GDP	20.9%	22.3%	22.3%	20.6%	20.2%
Priority expenditure/GDP	5.3%	6.1%	6.2%	6.3%	6.4%
Overall deficit/GDP	9.5%	9.9%	9.4%	7.8%	7.2%

A key feature of **Table 4** is the relatively higher growth in domestic resources against other forms of financing. The domestic fiscal balance (which gives an indicator of external dependency) gradually declines over the medium term. The lower growth in expenditure over domestic revenue means that the overall budget deficit also decreases.

However, it should be noted that the Government is carrying out a poverty and social impact assessment (PSIA). The PSIA involves an ex-ante assessment of the poverty, environmental and social impact of major macroeconomic policy and structural reforms. The PSIA findings will be taken into account in reviewing possibilities for accommodating supplemental grant income that may become available within the fiscal and monetary policy, which may allow for a higher fiscal deficit (see **Box 1**).

Box 1: The Budget Deficit Debate

(extract adapted from the PSIA Scoping Report)

The debate about the size of the expenditure programme (and consequent budget deficit) reflects two different approaches to fiscal policy.

The first view derives the desirable budget deficit from an estimation of the expenditure needs and revenue base. The role of international assistance is essentially to fill this gap, and assistance should in general be accepted. The case for accepting grants is essentially straightforward; the acceptance of concessional loans is considered prudent because of the urgency of the current needs for expenditure now, the likely economic growth, and the very concessional interest rates involved. The use of increased tax revenue to fund higher public expenditure is felt to be politically problematic and risky for economic incentives. The draft PRSP adopts roughly this view of the budget deficit; hence the inclusion of different expenditure scenarios.

Some observers argue not only that an increase in expenditure is desirable; but that it is necessary in order to ensure political and environmental sustainability. Delay in necessary public action will cause further environmental damage and could undermine the process of reconciliation. Not only is a fiscally contractionary stance painful; it is also, in this view, risky.

The alternative view is based on a more conservative view. High debt overhangs are considered damaging for private investment and an indicator of fiscal risk (since if new funds are not forthcoming, a highly indebted government can be forced into sudden and severe fiscal adjustment). For budget deficits, it is argued that countries with higher-than-average budget deficits incur risks of running into macroeconomic problems. The medium-term objective of policy should be to achieve sustainable levels of both indicators. This implies debt relief (as envisaged in the HIPC initiative) followed by the imposition of sufficient fiscal discipline to keep debt ratios in line with international norms. No further increases in any of the deficit measures – whether financed by grants or loans - should be encouraged, and it is seen as desirable to reduce the deficit excluding grants over time as a proportion of GDP. This view also holds that the scope for increasing revenue in Rwanda has been underestimated, and that there is more room for cutting low-priority public expenditures than the PRSP assumes.

Within the current macroeconomic framework, the overall fiscal deficit of 9.9 percent of GDP targeted for 2002 will be reduced to 9.4 percent in 2003, to 7.8 percent in 2004 and to 7.2 percent in

2005. The fiscal program aims to strengthen the revenue-to-GDP ratio from 12.3% of GDP in 2002 to 13.0% of GDP in 2005. In order to achieve these targets, the revenue base will be further strengthened during 2003-2005, mainly by increasing the efficiency of tax administration. Some new measures will be introduced, but these will be limited by the critical need to ensure a stable fiscal environment for the private sector. New tax measures being considered include:

(a) a revised tax base on professional remuneration (including all salary allowances, in cash and in kind);

(b) a new tax on importation of new and used cars (although diesel cars may be given a lower rate);

(c) a reduction in the corporate income tax rate from 40 % to 35% from January 2003;

(d) ensuring that excise duty collected on excisable goods in 2003 is in line with nominal GDP growth and, in any case, not lower than the tax objective for 2002;

(e) a comprehensive review of all tax exonerations, exemptions and incentives under existing tax laws, and investment agreements; and/or modification of such special treatment based on appropriate analysis.

The policy to reduce the intra-COMESA tariff (by 90% from January 2003 and by 100% from 2004) will also continue.

The increase in the revenue base will allow Government to implement its program as identified in the PRSP and gradually strengthen core government administration while meeting its fiscal targets.

It also allows a doubling of domestic capital expenditure by 2005, driven by an increase in the Common Development Fund (CDF) for Districts. Government has decided that new investment in the Districts is critical for future development. Hence the CDF must be carefully focused on the highest priority expenditures. However, given the limited administrative capacity at the district level, the CDF resources will be disbursed progressively.

Overall capital spending targets for 2003 and beyond have been determined based on a recent review of implementation capacity. These are consistent with the macroeconomic goals under the PRGF programme.

As the settlement of outstanding government obligations incurred prior to 2000 is an important element in the overall strategy in restoring financial solvency of the private sector, additional payments to clear domestic arrears will continue during 2003-2005.

(c) Domestic Resources

Domestic resources are expected to increase over the medium term, rising from Rwf 101.7 billion (or 12.3% of GDP) in 2002 to Rwf 117.0 billion (or 12.9% of GDP) in 2003 and Rwf 136.5 billion (or 13.0% of GDP) by 2005. In order to achieve these targets, it is assumed that:

- real GDP grows by at least 6 % a year while keeping inflation at an annual average rate of about 3 percent;
- foreign exchange reserves are kept at around 6.5 months of import;
- there is an increase in the volume of imports of about 3%;
- appropriate levels of credit are available to the private sector in line with nominal GDP growth;
- national savings will increase from about 2 percent of GDP in 2002 to 6.3 % in 2004;
- there will be a depreciation of Rwanda Francs vs. US Dollars of 2.1 percent per year;
- real oil import growth of 3 percent and non-oil import growth of 3.2 percent (USD);
- improvements in import tax efficiency of 2-3 percent a year;
- a VAT efficiency on imports of 3 percent and on domestic production of 5 percent a year;
- an increase in nominal private consumption of 8-9 percent per year;

All of these targets are consistent with Government's medium term policy objectives for macroeconomic stability and poverty reduction.

Tax revenue

Table 5 shows that tax revenues are expected to increase next year from 93.9 billion in 2002 to Rwf 109.5 billion in 2003, and to Rwf 119.9 billion in 2004. This represents an increase in the revenue/GDP ratio from 12.3% in 2002 to 12.9% in 2003. This rapid improvement in tax revenue results from the Government's decision to increase the rate of VAT from 15% to 18% in July 2002, rather than increasing the rate progressively over 2002-2003. The immediate increase will avoid repeated changes in fiscal measures and allow a period of stability in the fiscal system over the medium term while still conforming with the PRGF programme.

Direct taxes are expected to increase by 5.8% in 2003 and by 11.6% in 2004. In addition to increases attributable to real economic growth, this assumes: (i) an increase in efficiency and equity in the collection of taxes (TPR); (ii) increased auditing of company accounts to control tax evasion; (iii)collection of tax arrears; (iv) increased compliance due to a reduction in the corporate income tax rate from 40% to 35%.

Taxes on goods and services increase by about 3.2% in 2003 and by 9.8% in 2004. This should be possible through: (i) continued improvement in the administrative capacity and through the VAT system;(ii) reduction of tax exemptions; (iii) enlargement of the tax base, including an extension of VAT to Non-Government Organisations (NGOs); (iv) changes in TPR; and (v) change in USD reference price of petroleum.

Table 5: Domestic Revenue Projections (Rwf billion)

	1998 Actual	1999 Actual	2000 Actual	2001 Actual	2002 Prelim.	2003 Prelim.	2004 Prelim.	2005 Prelim.
Tax Revenue	**62.6**	**60.4**	**65.3**	**79.5**	**93.9**	**109.5**	**119.9**	**128.0**
Direct Taxes *(Income & Profit Taxes and Property Taxes)*	18.3	15.8	18.5	24.5	27.6	31.2	34.8	35.0
Taxes on Goods & Services *(VAT/Excise/RoadFund/ Turnover Tax)*	28.5	33.6	35.2	41.0	50.4	59.9	65.7	62.5
Taxes on Int'l Trade	15.8	11.0	11.6	14.0	15.9	18.4	19.5	17.5
New measures*								13.0
Non-Tax Revenue	**3.4**	**3.2**	**3.3**	**6.7**	**7.8**	**7.5**	**8.0**	**8.5**
Total	**66.0**	**63.6**	**68.6**	**86.2**	**101.7**	**117.0**	**127.9**	**136.5**
% of GDP	**10.6**	**9.9**	**9.7**	**11.4**	**12.3**	**12.9**	**12.8**	**13.0**

Source: RRA, IMF and Minecofin staff estimates

** see Table 3 below (note that new measures for 2005 not yet identified)*

Taxes on international trade decrease by about 3.1% in 2003, but increase by 7.1% in 2004, reflecting both the COMESA revenue loss and an improvement due to the increased level of imports. The increase assumes strengthened links between tax and customs departments, and increased control of transit goods and warehouses. It should be noted that the projected increase in tax revenue occurs despite the reduction in imports duties caused by Rwanda's entry to COMESA (involving an 80% reduction in taxes on COMESA imports from January 2002, a 90% reduction from 2003, and a 100% reduction from 2004). This loss is estimated at around Rwf 650 million in 2002, and Rwf 100 million in 2003 and in 2004. There will also be a small loss because with the new liberalized pricing mechanism for petroleum products, it is assumed that the petroleum reference price will go down (although a temporary increase may occur due to uncertainty over the world oil supply due to the conflict between the USA and Iraq).

Impact of new tax measures : As shown in **Table 6**, the impact of new measures introduced during the second half of 2002 (which will have full annual implementation in 2003) and other new measures to be introduced will have an impact of Rwf 12.9 billion in 2003 and Rwf 13.8 billion in 2004.

Table 6: Impact of new tax measures (Rwf billion)

Measures	**Starting date**	**2002**	**2003**	**2004**	**2005***
VAT 18%	July 2002	2.9	6.5	7.2	-
Cars Excise	January 2003		0.4	0.4	-
COMESA Tariff	July 2002	1.5	3.0	3.0	-
Excise Beer	January 2003		1.0	1.0	-
TPR Reform	July 2003		2.0	2.2	-
TOTAL		**4.4**	**12.9**	**13.8**	**13.0**

** note that details of new measures in 2005 have not yet been calculated*

District tax revenues have not yet been included in the current framework. Under the new law on fiscal decentralisation, Districts were given authority to collect and retain certain taxes. The Ministry of Local Government is responsible for collecting information on projected tax revenues from Districts and must ensure that this data is available for preparation of the Finance Law.

Non-tax revenue

Non-tax revenue is estimated to increase from Rwf 7.8 billion projected in 2002 (although 5.3 billion is the expected outturn) to Rwf 7.5 billion in 2003, Rwf 8.0 billion in 2004, and Rwf 8.5 billion in 2005. This increase will be the result of the full year implementation of the increase of all non fiscal measures introduced from April 2002, and the expected payment of dividends by most public enterprises.

(d) External resources

Dependency on external recurrent budgetary support will be reduced progressively from Rwf 56.40 billion in 2002 to Rwf 52.68 billion in 2003 and Rwf 48.43 billion in 2004 (see **Table 7**). Note that the external recurrent budgetary support for 2005 does not appear in the budgetary framework as it will be considered during negotiations for the next PRGF.

Table 7: External recurrent budgetary support (Rwf billion)

	Revised Budget 2002	**Projected 2003**	**Projected 2004**
United Kingdom	12.98	13.23	9.96
European Union	12.21	11.93	12.18
Sweden*	1.03		
HIPC initiative grants	10.70	13.90	17.87
World Bank	13.98	2.68	3.60
World Bank (for DRR programme)	1.69	5.43	3.90
Bilaterals (for DRR programme)	3.81	5.51	0.92
Total	**56.40**	**52.68**	**48.43**

** In fact, Sweden has provided Rwf 3.6 billion compared to the Revised Budget projection*

The availability of these funds depends on the agreed performance criteria and the realization of budgeted expenditure on priority programmes.

The resources expected to finance the capital budget will be provided under various financing agreements for projects in the development budget. The level of disbursement is expected to increase from Rwf 49.5 billion in 2002 to Rwf 54.7 billion in 2003 and Rwf 57.4 billion in 2004.

(e) Expenditure

Wages and Salaries

In the preliminary expenditure ceilings, the wage bill for the civil service and military in 2003 is projected to remain at the same level as 2002 of around Rwf 42.3 billion. This allows for a 5% increase in the civil service element (3% statutory increment and 2% towards harmonisation of payscales), while the military element of the total wage bill will be reduced by 8% according to projected salary savings from the demobilization programme. Similar salary increments of 5% have been allowed for other Government agencies and commission (allocated under 'transfers and exceptional expenditure'). The wage bill then increases to Rwf 45 billion by 2005, reflecting 7% increases each year for the civil service portion and 4% reductions in the military wage bill.

An issue for Cabinet consideration (see Annex A) is whether to freeze all wage increases in 2003 pending implementation of a "merit-based" evaluation system by Mifotra. This would allow Rwf 1.9 billion to be reallocated to other priority expenditures.

Goods and services

Under the PRGF programme agreed with the IMF, Government is committed to increase expenditure on priority programmes by 0.1 % of GDP each year, giving a target of Rwf 56.1 billion in 2003. This implies growth of around 18% each year for goods and services under priority programmes.

Given the continued imbalance of wage to non-wage expenditure in most Ministries/agencies, this high rate of growth for priority programmes is certainly justifiable. However, overall resource constraints mean that it does "crowd out" expenditure on "normal" programmes, which face reductions of up to 10% on goods and services. Overall levels of spending on goods and services increase by 7% in 2003.

Interest Payments

The funds to be allocated toward interest payments in 2003, 2004 and 2005 are expected to remain at the same level. But if the Paris Club Members don't change the decision taken in July 2002 not to extend the agreement signed in 1998, the interest payments will be higher.

As noted in the section below on domestic arrears, it is anticipated that a larger proportion of payments to private suppliers for domestic arrears will be made through the issue of government securities at an affordable interest rate of around 7 ½-8 percent.

Transfers (grants in aid to institutions/commissions/individuals)

The level of transfers (from Ministries to related agencies and commissions) increases from Rwf 21.1 billion in 2002 to Rwf 23.1 billion in 2003 mainly due to the Rwf 1.8 billion (1.5% of annual revenue in the preceding year) allocated to running costs for the Districts as per the law on fiscal decentralization.

Transfers cover both the salaries and running costs of agencies/commissions, which have been grown by the same rates quoted above.

Exceptional expenditures (transitional expenditures resulting from1994 crisis)

Expenditures such as the 'Fund for Survivors of the Genocide', the Rwanda Demobilisation and Reintegration Programme (RDRP), Gacaca, the prison food programme, etc, are treated as 'exceptional' expenditures resulting from the aftermath of the 1994 crisis. By keeping these expenditures separate, Government can determine the "normal" cost of its operations, assuming exceptional expenditures will eventually fall away.

Total exceptional expenditure increases from Rwf 22.5 billion in 2002 to Rwf 28.6 billion in 2003. This is mainly due to an increase in the allocation for the revised RDRP of Rwf 5.3 billion. The RDRP allocation then falls by Rwf 6 billion in 2004, bringing total exceptional expenditure to Rwf 21.9 billion (lower than the 2002 level).

The Gacaca allocation remains at its 2002 level of Rwf 2 billion, then declines by 50% per annum over 2004 and 2005. The feeding of prisoners and the expenditures on the Gacaca programme are heavily correlated. With the starting of Gacaca trials, it is programmed that the number of prisoners will be reduced accordingly. By 2004, it is hoped that Gacaca will have had an impact on the number of detainees, allowing funds to be redirected away from the prison food programme.

Capital expenditure

Excluding the Common Development Fund, domestic capital expenditure is not expected to increase substantially over the medium term (Rwf 1 billion increase each year). Of the Rwf 10.2 billion allocated in 2003, Rwf 4 billion is allocated to the CDF and about Rwf 6.2 billion to ongoing projects, of which about Rwf 3 billion is needed as counterpart funds of ongoing donor funded projects.

As noted before, inclusion of Rwf 4 billion in 2003 and Rwf 5.5 billion in 2004 for the Common Development Fund (CDF) represents a major injection of resources for priority expenditure at the

District level. The allocation criteria for the CDF will be determined by a decree of the CDF Council now being established.

Domestic arrears

Regarding arrears from before 2000, an Audit has been carried out by the Auditor General to determine the legitimacy of all arrears and has identified arrears on goods and services amounting to Rwf 34 billion (some of which date back to pre-1994). So far, Rwf 15 billion have been settled in 2001, about Rwf 7.8 billion will be regularized in 2002, and it is projected to regularize Rwf 7.0 billion in 2003.

Government is committed to settling all legitimate arrears and has put in place a yearly plan to deal with this issue in the next two years. For the remaining outstanding pre-1998 claims not yet received, <u>it is proposed to limit the period within which claims should be lodged for verification to end June 2003</u>.

External Debt (and debt relief under HIPC)

Rwanda's debt position is likely to improve substantially following its acceptance in December 2000 as an eligible country for debt relief under the enhanced "Heavily Indebted Poor Countries" (HIPC) initiative. Final qualification for debt relief depends on continued pursuit of sound policies and commitment to structural reforms. Another key element of qualification for HIPC is the implementation of the Poverty Reduction Strategy Paper (PRSP) during one year starting from July 2002.

It is important to clarify that reductions in Rwanda's debt service do not constitute budgetary savings that can be redirected to priority programmes for poverty reduction. This may be true for countries where the full burden of a country's debt service is covered through its budgetary resources. However, this is not the case in Rwanda where development partners, through a Multilateral Debt Trust Fund (MDTF), covered 100% of IDA, AfDB and IFAD debt service obligations, amounting to around 63% of total obligations in 2001.

In December 2000, when Rwanda reached decision point, development partners ceased their contributions to the MDTF. Rwanda was programmed to receive a reduction in debt service of US$25 million in 2001, which was widely assumed to fund its Poverty Reduction Strategy. However, since the MDTF had stopped financing more than half of the pre-HIPC debt service, amounting to around US$20 million in 2001, the net benefit to Rwanda was less than US$5 million. For 2001, Rwanda gained around US$25 million from HIPC, but lost US$20 million from the MDTF. For Rwanda to benefit from these savings, donor contributions from the MDTF would have to be redirected into grant funding for priority programmes.

4. Ministry/Province/District expenditure

(a) Determination of expenditure ceilings – PRSP Priority Programmes

It should be noted that under an established 3-year Medium Term Expenditure Framework (MTEF), preliminary ceilings for 2003 would have been agreed during last year's discussions of the 2002-2004 MTEF. This has not been possible due to the large variations in the 2002 Budget mentioned earlier, which altered the base year of the framework.

Key steps in determining the preliminary ceilings for 2003-2005 were as follows:

(a) estimate the projected resource envelope;

(b) establish broad guidelines for allocations by category of expenditure (e.g. recurrent, development, debt, arrears, etc), while maintaining consistency with fiscal sustainability targets and agreed allocations for programmes like Gacaca, demobilisation, etc.

(c) For recurrent expenditure:
   1. Consider fixed costs – salaries, legal obligations (FARG, CDF, District transfers)
   2. Ensure that goods and services for PRSP priority programmes are increased sufficiently to meet targets under (b);
   3. Allocate remainder of funds to "normal" programmes, giving consideration to "special cases" e.g. military/security expenditures;
   4. Where significant and unrealistic reductions occur under the previous step, reconsider earlier steps in order to free up extra resources (e.g. the allocation for CDF was reduced from the 10% originally projected).

(d) For development expenditure:
   1. Consider counterpart funding requirements of donor projects;
   2. Consider requirements of ongoing projects;
   3. Consider new requests if possible.

The preliminary ceilings for the recurrent budget for each Ministry/Province are presented in **Annex D**. These were distributed and used at the sector consultations to determine where budget reallocations may be needed. Note that ceilings for the development budget were not distributed. Due to uncertainties over the accuracy of data, Cepex is now engaged in a data collection exercise for the development budget after which a "zero-based" approach for allocations will be applied within the overall ceiling for capital expenditure.

Perhaps the most important element in determining the growth of a Ministry/agency ceiling under these criteria is the definition of the priority programmes. A list of the priority programmes is presented in **Annex C**. These are based on the Poverty Reduction Strategy Paper (PRSP), which is the national plan for Rwanda and spells out the policy framework and priority actions for poverty reduction.

The PRSP is based on a comprehensive poverty diagnosis and substantial consultation within government, civil society and the donor community. Six broad priority areas have been identified: (i) rural development and agricultural transformation; (ii) human resource development; (iii) economic infrastructure; (iv) good governance; (v) private sector development; (vi) institutional capacity building. A matrix of policy actions has been compiled for each area, along with the identification of specific budget priority programmes and preliminary costings. The coordination unit of the PRSP has been transformed into the Strategic Planning and Poverty Reduction Department to reflect the importance of the PRSP as the planning document and to improve the coordination of planning at a central level.

The IMF Board has recently approved the PRSP, and implementation is now underway. A substantial component will be the development of sector plans to improve the strategic planning, coordination and efficiency of sectoral expenditure.

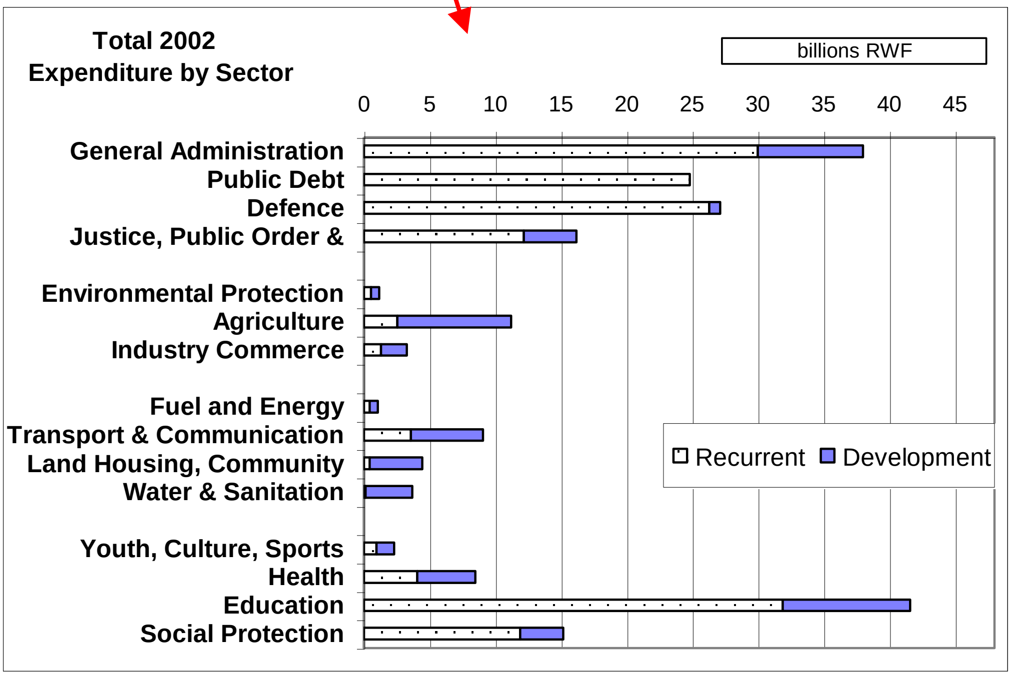
In addition, the 'Ubudehe' programme was officially launched in August, involving the prioritisation of poverty problems at cellule level, by cellule members, and the identification of activities to overcome them. Ubudehe is expected to distribute US$ 1,000 to each cellule, for which 1 million Euros of EU support has already been agreed.

(b) Trends in overall expenditure framework (by sector)

Table 8 and **Chart 1** illustrates the sector distribution of the 2002 Revised Budget. A more detailed table of the projected distribution of recurrent expenditure by sector and sub-sector is provided in **Annex B**. The education sector takes the largest share of total public expenditure (20%), followed by General Administration (18.3%) and Defence (13.1%). It can be noted that most of the funding in the agricultural sector comes from development projects (which can include significant activities of a recurrent nature, such as agricultural extension). Also notable is the low share of the health sector (4.1%), which was an issue discussed at the sector consultations (and discussed further below).

Table 8 and Chart 1: Analysis of total expenditure by sector, 2002 (Revised Budget)

in billions RWF	Recurrent	Development	Total	Total
Governance and Sovereignty			**106.1**	
1 General Administration	30.0	8.0	38.0	18.3%
Public Debt	24.8		24.8	11.9%
2 Defence	26.3	0.8	27.1	13.1%
3 Justice, Public Order & Safety	12.2	4.0	16.2	7.8%
Production and Environment			**15.7**	7.6%
4 Environmental Protection	0.6	0.6	1.2	0.6%
5 Agriculture	2.6	8.6	11.2	5.4%
6 Industry Commerce Tourism	1.3	2.0	3.3	1.6%
Infrastructure			**18.3**	8.8%
7 Fuel and Energy	0.4	0.6	1.1	0.5%
8 Transport & Communication	3.6	5.5	9.1	4.4%
9 Land Housing, Community Dev.	0.5	4.0	4.4	2.1%
10 Water & Sanitation	0.1	3.5	3.7	1.8%
Human and Social Development			**67.6**	32.5%
11 Youth, Culture, Sports	1.0	1.3	2.3	1.1%
12 Health	4.1	4.4	8.5	4.1%
13 Education	31.9	9.7	41.6	20.0%
14 Social Protection	11.9	3.3	15.2	7.3%
Total	**151.2**	**56.4**	**207.6**	



(N.B General Administration covers expenditures on executive / legislative agencies; economic/financial management; external affairs; labour and employment affairs; and general planning and statistical services)

Table 9 and Chart 2: Projected expenditure by sector (recurrent and development) in 2003

in billions RWF	Recurrent	Development*	Total	% of Total	Financing gap** Development
Governance and Sovereignty			**102.6**		
1 General Administration	28.8	2.9	31.7	14.2%	
Public Debt	25.4		25.4	11.3%	
2 Defence	27.7	1.0	28.7	12.8%	
3 Justice, Public Order & Safety	12.5	4.2	16.7	7.5%	
Production and Environment			**20.8**	9.3%	
4 Environmental Protection	0.7	0.5	1.2	0.5%	
5 Agriculture	2.8	10.6	13.4	6.0%	
6 Industry Commerce Tourism	1.5	4.8	6.2	2.8%	
Infrastructure			**24.9**	11.1%	
7 Fuel and Energy	0.5	1.4	1.8	0.8%	-0.6
8 Transport & Communication	4.0	10.1	14.0	6.3%	
9 Land Housing, Community Dev.	0.5	4.2	4.7	2.1%	
10 Water & Sanitation	0.2	4.2	4.4	2.0%	
Human and Social Development			**75.7**	33.8%	
11 Youth, Culture, Sports	1.1	1.8	2.8	1.3%	-0.8
12 Health	4.6	5.5	10.1	4.5%	-0.3
13 Education	34.8	8.5	43.3	19.3%	
14 Social Protection	16.3	3.1	19.4	8.7%	
Total	**161.3**	**62.7**	**223.9**		**-1.7**

* using projected disbursements in National Investment Strategy

** deficit (-) means funding gap between existing commitments in PIP and NIS projected targets

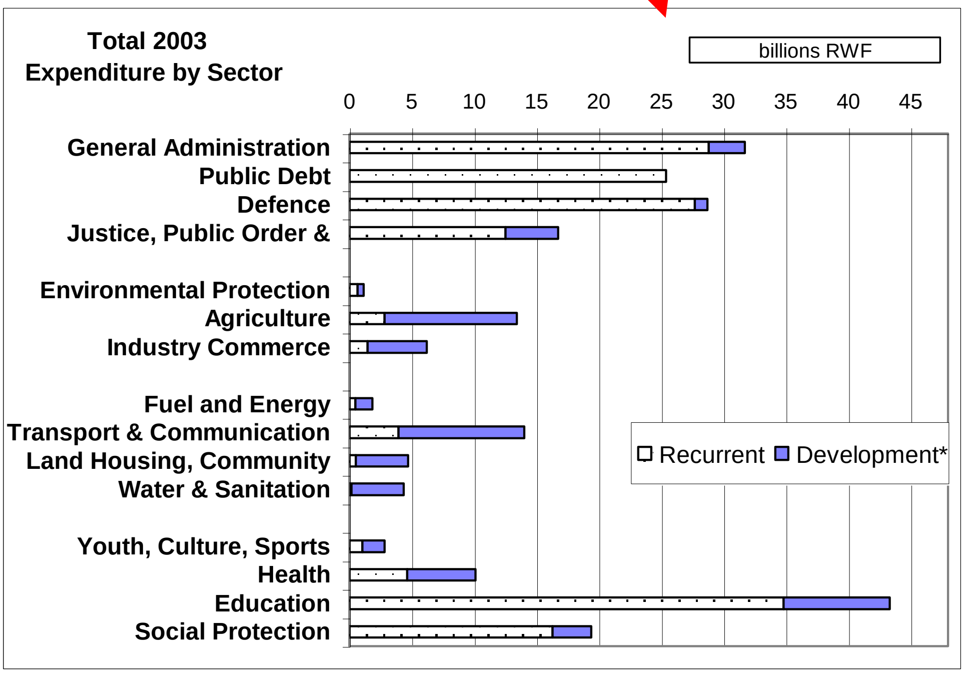


Table 9 and Chart 2 show the preliminary allocations for recurrent and development expenditure in 2003. The development budget figures are based on target disbursements in accordance with the National Investment Strategy (and consistent with the budgetary framework). Based on the strategies outlined in the PRSP, the National Investment Strategy (NIS) aims to improve the prioritisation of investments by sectors and increase their impact on the beneficiaries. The NIS attempts to address problems such as:

- The excessive influence of donor policies;
- Many projects having a fixed asset ratio lower than 50% of the total cost, thereby having a limited impact on growth and sustainable development;
- Low disbursement rates for external financing (particularly grants), indicating poor use of available funds;
- Weak domestic saving in Rwanda, limiting the investment capacity of both private and public sectors;
- The lack of a clear strategy for investments by sector and type of financing (notably for loan criteria).

Table 9 indicates that almost 50% of development expenditure is to be spent on the agriculture, roads and education sectors in 2003. Table 9 also indicates that there is a financing gap in the energy, health and youth sectors.

Over the period 2002-2007, investment in agriculture, transport, and education are projected to remain high in order to boost production and incomes in the rural sector. A considerable increase is proposed for the energy sector (for electricity generation) and the water and sanitation sector.

The NIS requires considerable reorientation of the development programme as currently programmed in the Public Investment Programme. **Table 10** indicates that the agriculture and education sectors appear to have enough resources already committed (internal funding, grants and on-going loans) to achieve the proposed investment scheme up to 2007 However, several sectors have huge financing gaps, especially energy, transport and water/sanitation.

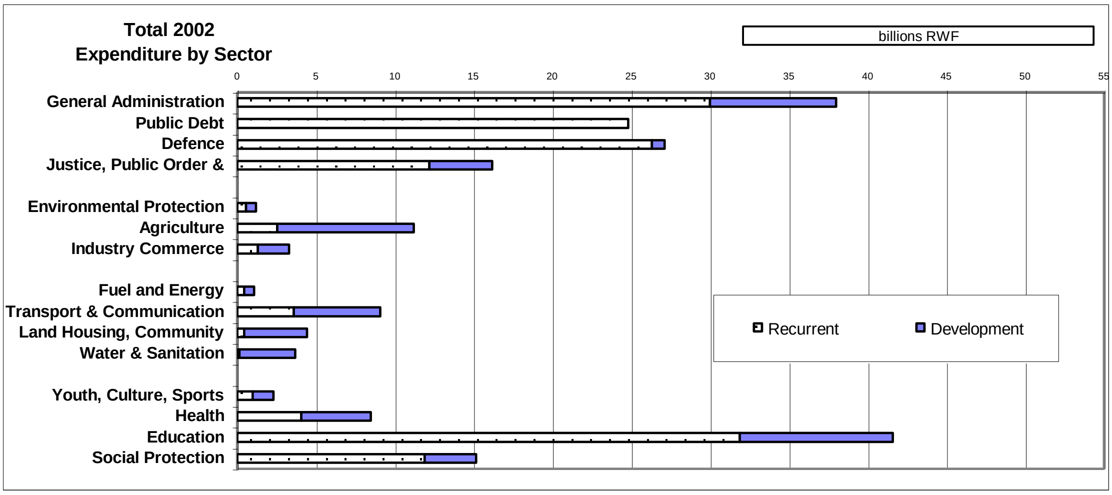
Table 10: Financing gaps identified in the National Investment Strategy for 2002-2007

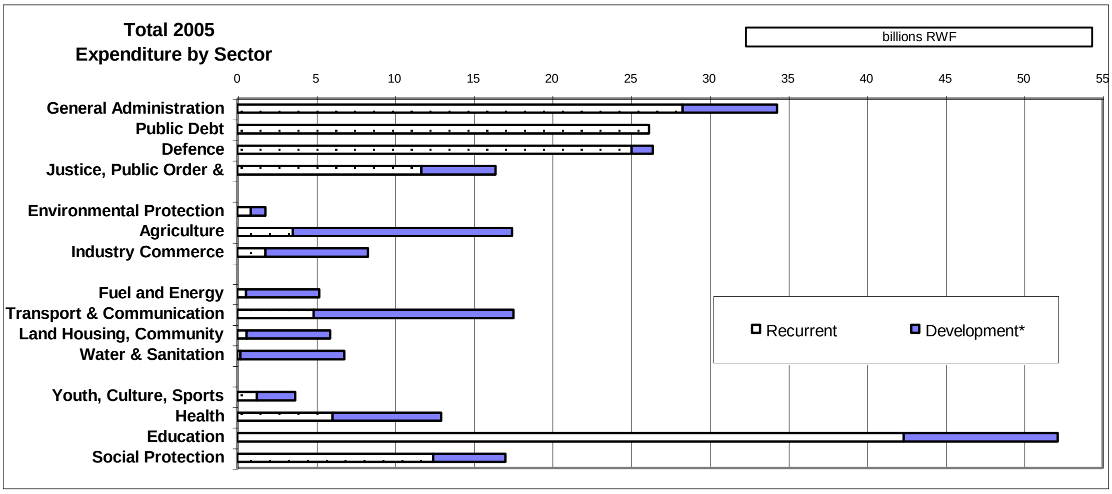
Gaps in financing resources (before contracting new loans), period 2002-2007	b RWF	% of programme
01 General Public Service	ns	ns
02 Defence (incl. demobilization)	ns	ns
03 Justice, Public Order, Safety	-6.8	25%
04 Environment	-0.5	9%
05 Agriculture		
06 Industry, Commerce, Tourism	-11.6	34%
07 Energy	-20.8	85%
08 Transport Communication	-19.1	26%
09 Land, Housing, Community Dev	-6.3	21%
10 Water & Sanitation	-12.7	34%
11 Youth, Culture, Sports	-9.6	68%
12 Health	-3.2	8%
13 Education		
14 Social (incl. reintegration)	-3.4	8%
Total	**-93.9**	**19%**

ns = Not significant
Source: National Investment Strategy (draft 1 August 2002)

On current projections, Rwanda's pattern of total expenditure between sectors does not vary significantly in the coming years (see **Charts 3 and 4**, comparing sectoral expenditure in 2002 and 2005). Part of the reason for this is that the preliminary ceilings for 2003-2005 are based on an increase in goods and services for <u>all</u> priority programmes of 18% per annum. No distinction was made within the priority programmes. It was proposed at the sector consultations that there may be grounds for rethinking the distribution of recurrent expenditure allocations. In particular, as the education sector has a large budget in 2002, an 18% increase gives it a much larger absolute increase (e.g. 2 billion in 2003) than a similar 18% increase in a sector like health, which has a smaller base in 2002.

Charts 3 and 4: Sector distribution of total expenditure 2002 and 2005



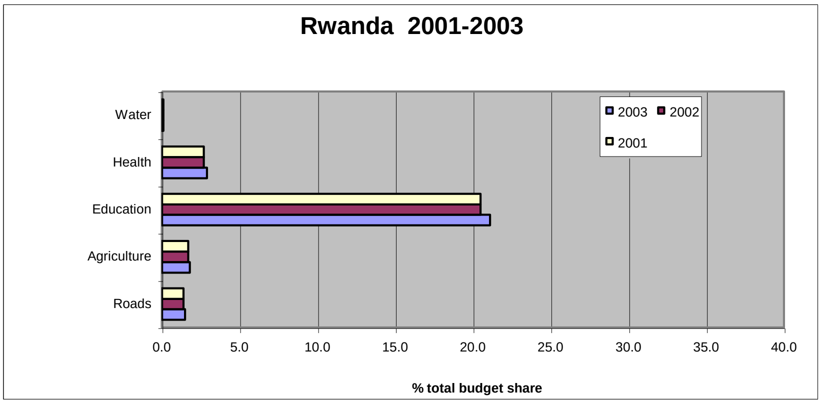


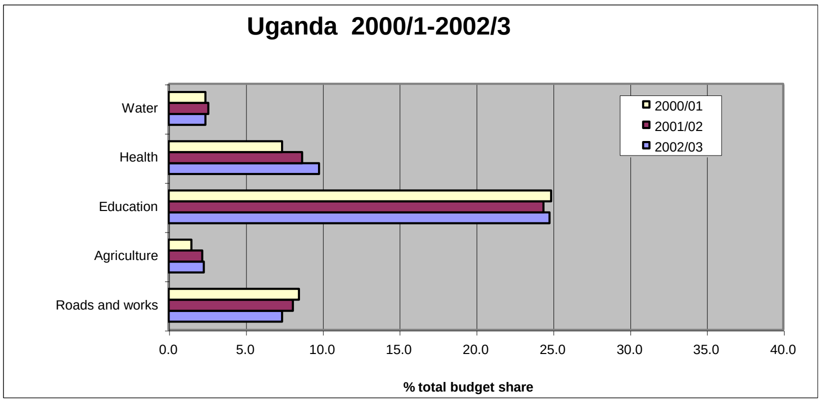
The low share of the health sector is a particular concern. Underfunding of the health sector was confirmed by Minisante at the sector consultations (understaffing of District hospitals, insufficient stocks of vaccines to counter disease outbreaks, insufficient funds to cover running costs of the University hospital – see **Annex A**), and it is recommended that the share of expenditure going to the health sector be increased.

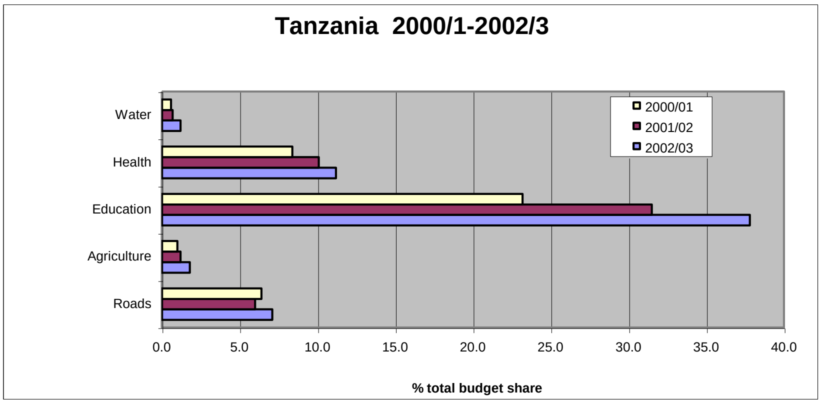
Rwanda's total health spending is significantly less than most other countries in the region. As shown in **Charts 5-7** comparing the recurrent expenditure allocations in selected sectors for Rwanda, Uganda and Tanzania), in Uganda and Tanzania health is allocated at least 10% of the recurrent budget, in contrast to Rwanda where it is currently only 4%, or about US$1 per capita per year. This seems particularly small when compared to the World Health Organisation's recommendations of reaching at least 12% of the government budget.

Charts 5-7 : Sectoral allocation of recurrent budget (Rwanda, Uganda and Tanzania)

(Sources: ODI Working Papers 163 and 165, April 2002; Minecofin estimates)







(c) Problems in expenditure disbursement

As shown in **Table 11** (taken from the National Investment Strategy), the provisional disbursement rate for development projects in 2001 (calculated by dividing the presently identified disbursements in the year 2001 by the amount voted in the Finance Law 2001) was only 69.8% of the 2001 Budget.

Table 11: Provisional Disbursement Rates for Development Budget 2001 by Sector

Implementation of the Development Budget 2001 (M RWF)

	Disbursem. 2001	Finance Law 2001	Implementation rate %
Budget funds	3 495	4 047	86.4%
External Grants	19 144	35 044	54.6%
External Loans	17 026	17 745	95.9%
Total	**39 665**	**56 835**	**69.8%**

Most of the disbursements of the Development Budget were made in the sectors of Agriculture, Education, Transports and General Public Services. Their global performance was above the average rate of execution of 69.8%. On the other hand, a very low performance was noted in the sectors of Defence & Demobilization, Environment, Justice & Public Order, Land & Housing, Water, Youth, Health and Social.

Reasons for low disbursement rates have been identified as follows:

- Lack of effective responsible unit in Ministry to prepare relevant project documentation and to follow-up the start-up and implementation of projects;
- Low legal enforcement and accountability
- Low ownership of project management and monitoring
- Lack of training of projects managers and accountants,
- Poor performance in fulfilment of project effectiveness, procurement, accountancy and requests of payment
- Lack of project physical and financial management at Line Ministry and central level, resulting in poor monitoring system,
- Donors' bureaucracy, procedures, delays, and sometimes different approaches in deciding on country priorities.
- Difficulties for the Government to pay on-time the necessary Counterparts Funds.

Cabinet is asked to endorse the following planned measures to increase absorption capacity and implementation rates for development projects:

- Maintaining a relative stability in the definition of sector / programme objectives and strategies, at least for the first step of PRSP implementation 2002-2010;
- Decentralizing the implementation and management of projects allowing a follow-up of activities close to the field;
- Training of Line Ministries and project managers for better management and follow-up of project implementation in order to take corrective measures as soon as necessary;

- Implementation of a regular, monthly monitoring system of project performance at disbursement and output levels, plus regular dissemination of summary tables to the Cabinet and to the interested institutions;
- Close follow-up of project implementation by CEPEX
- Change in Budget preparation method, targeting the expected and possible disbursements instead of the committed and programmed resources;
- Implementation of regular (quarterly) meetings with donors for the follow-up of project preparation and implementation, and the resolution of problems.

5. Policy Issues for consideration

During the sector consultations held between the Minister of Finance and Economic Planning and Ministers of line Ministries on 12-17 August 2002, a large number of policy issues with implications for the recurrent and capital budgets were raised, which must be brought to Cabinet's attention. These issues were reviewed at a separate meeting with Prefects of Provinces on 27 August, who also made some valuable contributions. The key issues, financial implications and recommended actions are summarised in **Annex A**.

It was clear from the sector consultations that all Ministries felt underfunded. Given that the resource framework does not allow for increased expenditure beyond the preliminary ceilings, any increases in a Ministry ceiling must be accompanied by either (a) a corresponding decrease elsewhere in the framework; or (b) identification of extra resources.

Cabinet is requested to deliberate on all of the issues presented in **Annex A**. In particular, they are asked to consider some of the most important issues are highlighted below.

(a) Policy on civil service salaries, housing and benefits

The civil service is normally entitled to an annual 3% statutory salary increment. This increase is given regardless of performance in the workplace. Mifotra is putting in place a "merit-based" system. It is also trying to "harmonise" salary scales between the civil service, executive agencies and projects to avoid distortions in the labour market. Given the low level of salaries in the civil service, the 3% increment is relatively insignificant (an increase of only Rwf 1,500 on a salary of Rwf 50,000 per month). However, the global impact of the increase is over Rwf 1 billion.

It is recommended to delay any increase in salaries pending an assessment of the merit system and the needs of the exercise to "harmonise" salary scales.

Concerning houses, Government is committed to the sale of Government houses, the value of which continues to fall as maintenance costs continue to rise. Procedures are now being designed for Cabinet consideration in the light of best international practice.

The Financial Sector Master Plan will consider, amongst other things, the most suitable forms of housing finance (between public and private sector) for Rwanda.

(b) Funding of national elections and referendum

The preliminary estimate for the national elections (Presidential and Legislative) and referendum on the Constitution is Rwf 6.7 billion. There are preliminary indications that donors are keen to help finance these events. Cabinet must consider the extent to which it wishes to be dependent on external support for such important activities.

(c) Recapitalisation of the Banque Commerciale du Rwanda

The Banque Commerciale du Rwanda (BCR) is critically in need of recapitalisation. It has recently reviewed its staffing structure and Government must consider the level of financing it is able to offer the BCR to make it a viable bank for potential privatisation. Preliminary indications suggest that around Rwf 5 billion may be required from Government. It is proposed to seek extra budget support from the World Bank to cover this item.

(d) Increased funding of health sector and "mutuelles de sante"

Analysis provided in Chapter 4 illustrated the relatively low share of the health sector expenditure in the Government Budget compared to neighbouring countries and international standards. At the same time, while health infrastructure is broadly satisfactory, Minisante indicate that the majority of health indicators are significantly worse than the Sub-Saharan average. It is recommended to redirect an extra Rwf 1 billion per year to the health sector. This should be focussed on strengthening District Hospitals, EPI (vaccination programme), malaria control, and health worker incentives.

In particular, extra funding is recommended for expansion of the "mutuelles de sante" scheme to the most destitute members of the community. The existing scheme has proved very successful in increasing usage of the health system. There are now 60 such pre-payment schemes, covering 50% of Districts, and managed by local authorities and management committees at the health centres.

(e) Seed programme

Rural development and agricultural transformation is the most important policy priority of the PRSP. Meeting the needs of the sector in terms of seeds, fertiliser, animal protection (including cattle and smallstock) remains a formidable challenge.

Seed programme: For 2003, a particular gap has been identified in the provision of seeds pending renewal of certain donor programmes. It is recommended that funds are provided in the development budget for 2003 to meet this shortfall.

(f) Expansion of Police Force

The Police propose an increase of 1,000 officers per year. However, the recurrent budget of the Police is already under severe pressure from ongoing activities as well as unforeseen extra work in exercises such as Gacaca, displaced persons in Gishwati, the volcanic eruptions in Nyiragongo.

It is recommended that recruitment of new staff is deferred for one year to improve the balance of wage to non-wage funding.

(g) Declaration of off-budgetary resources by agencies

An issue raised in several meetings was the lack of transparency in the non-budgetary resources collected by executive agencies such as KIST, RIPA, Bureau of Standards, ORTPN, ORINFOR, etc., in terms of fees and charges. These can form a substantial portion of the funding of such agencies.

It is recommended that details of the complete budget for all parastatals, commissions and executive agencies receiving grants in aid are presented as an annex to the Finance Law.

(h) Policy on Government vehicles

The lack of a clear policy on vehicle purchase is a perennial problem during budget preparation and execution. There continues to be substantial pressure to purchase new vehicles (for Provinces, Police, Protocol, Immigration and other essential services).

The following recommendations (also proposed in last year’s BFP) are proposed:

- A list of all vehicle requests to be prepared and prioritised for Cabinet consideration within an affordable ceiling;
- No new vehicle will be considered without the identification of an old vehicle to be retired/sold;
- The Ministry of Transport and Communication <u>must</u> prepare a position paper on management of the Government vehicle fleet as a matter of urgency.

(i) Policy on Government buildings

An issue raised frequently during the sector consultations was the need to purchase/construct buildings for Government agencies. Examples included the high costs of rent for foreign embassies abroad (Minaffet), renovation of buildings locally (Primature), and inadequate office space for some Ministries. On the other hand, it was highlighted that there are a number of unused Government buildings outside of Kigali, which could be used by some agencies/commissions now renting in Kigali. It is recommended that Minitraco prepare a position paper on the purchase/rent of Government buildings as a matter of urgency.

6. Summary of recommendations

The analysis of this paper shows that expenditure needs far exceed available resources, and that expenditure targeting (both recurrent and capital) need improvement. Any extra expenditures beyond the preliminary recurrent ceilings in Annex D can only be financed by reallocations from existing programmes, or by reallocating the limited increase in expenditure awarded to priority programmes. Even then, such reallocations are constrained, at least in the short term, by the large element of "fixed" expenditures that Government is already obliged to finance.

On the basis of the above analysis, Cabinet is requested to:

(a) Note the recommendations for new tax measures in Chapter 3;

(b) Authorise detailed discussions on the proposed expenditure framework;

(c) Endorse the proposed ceilings for recurrent expenditure in **Annex D**, subject to any revisions based on the recommendations and expenditure allocations for key issues raised in **Annex A** (especially those raised in the preceding section). For convenience, **Table 12** on the following page summarises the major additional expenditure requests and recommendations on their financing. The table also suggests additional financing measures for consideration by the Cabinet.

(d) Endorse the proposal that the budgets of parastatals, commissions, and executive agencies receiving grants in aid must detail their budgets, which will be considered alongside that of the Central Administration.

(e) Ensure strict discipline in preparation of Ministry/Province final budget submissions within the approved ceilings.

(f) Consider the National Investment Strategy which accompanies this paper.

Table 12: Summary of Extra Expenditure Requests for 2003 and Proposed Financing Measures

Ministry	**Request**	**Amount**	**Category of expenditure**	**Recommendation (Rwf bn)**
Nat. Assembly	Increase in deputies	0.35	Normal	**0.350**
Presirep	elections/referendum	6.70	Exceptional	**1.000**
	URC - National Summit	0.80		defer
	NSS - new passports for Immigration Dept.	4.00	Normal	**0.500**
	NSS - increased funding for External Security	0.20		defer
Primature	Rehabilitation	0.50		defer
Minaffet	Vehicles for Protocol office	0.10		defer
Minecofin	Recapitalisation of BCR	5.00	Net lending	**seek special donor financing**
	Strengthen RRA (for VAT collection)	0.20	Normal	**0.200**
Mifotra	CHR and housing fund	0.50		defer
	Harmonisation of salary scales (12.0 over 3 years)	4.00		defer
	Employment unit	0.26	Priority	**0.260**
Minaloc	National ID cards	4.00		seek donor
	Federation for the Handicapped	0.45		seek donor
	Orinfor - electric line for Karisimbi transmitter	0.50		seek donor
Minadef	New "production" programme	0.17		defer
Supreme Court	-	-		-
Mininter	1000 extra Police and Police running costs	0.50		defer
Minijust	ICT network for Parquets	0.06	Normal	**0.060**
Minagri	Seed distribution programme	0.30	Priority	**0.200**
	Agricultural Guarantee Fund	0.50		defer
Minicom	Strategic Food Reserve	?		defer
	Strategic Fuel Reserve	?		defer
Minitraco	Equipment for Road Maintenance Unit	?	Priority	**0.300**
Minitere	Arrears for land expropriation	0.89	Arrears	**use budget for arrears**
Minerena	-	-		-
Mineduc	Final arrears for teacher salaries	?	Arrears	**use budget for arrears**
	Increased wage bill for KIST	1.00	Exceptional	use non-budget resources (fees)
Mijespoc	Genocide memorial sites	0.42		seek donor
	National Youth Council	0.21		seek donor
Minisante	District Hospitals	1.00	Priority	**0.300**
	Vaccine programme	0.60	Priority	**0.300**
	CHK/CHUB training hospital	1.30		seek donor
	Subsided health care (malaria control)	0.20	Priority	**0.100**
	Benefits/allowances for doctors	1.00	Priority	**0.300**
Migeprofe	Gender Budget Initiative	-		seek donor
	District Funds for Women	?		use CDF
	TOTAL	**35.710**		**3.870**
	of which, additional priority			1.760
	Recommended additional financing measures			**Rwf (bn)**
Revenue				
	Difficult - forecast for new measures in 2003 may already be optimistic (given possible shortfalls in			-
Expenditure				
1.	Freeze civil service wages (but, reduces priority exp.by 1.3)			1.900
2.	Reduce increase on priority goods and services (except health) from 18% to 10% (but, reduces priority exp. by 1.7)			1.700
3.	??			
	TOTAL			**3.600**
	of which, priority reduced by			3.000
	N.B deviation from PRGF target for priority expenditure			-1.240

ANNEXES

A. Key Issues raised during sector consultations

B. Summary recurrent expenditure table by sector and sub-sector, 2002-2005

C. PRSP Priority Programmes

D. Recurrent expenditure ceilings, 2002-2005

E. Detailed Budgetary Framework, 2001-2005

ANNEX A: Key Issues raised during sector consultations

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
GOVERNANCE/ADMINISTRATION SECTOR			
NATIONAL ASSEMBLY			
1. Increase in number of deputies after national elections (from 74 to 100 or more) from July 2003			
➢ impact on salaries	-	➢ allow 50% increase in number of deputies, giving wage bill increase of Rwf 0.15 bn for second half of 2003	0.15
➢ impact on training & coordination	0.15	➢ allow increase of Rwf 0.1 bn	0.10
2. Rehabilitation, maintenance and other running costs	0.20	➢ allow increase of Rwf 0.1 bn	0.10
3. Creation of new Gender Commission	0.012	➢ include as priority item	0.012
PRESIREP			
4. Funds needed in 2003 for national elections			
➢ Referendum on Constitution	4.51	➢ submit action plan to donors for financing; Cabinet decision needed on source and level of Government funding	1.00 (Government contribution to 3 exercises)
➢ Presidential election	1.10		
➢ Legislative election	1.10		
5. Running costs for new office of Ombudsman	-	➢ allocated Rwf 0.17 bn in 2002; recommended to begin small	-
6. URC Commission – increases in civic education and a National Summit	0.80	➢ seek donor financing	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
PRIMATURE			
7. Plan to finish rehabilitation of 3 floors of Primature building	-	➢ defer pending "Plan of Action" for Government buildings to be prepared by Minitraco (see Minitraco section below)	-
8. Recurrent budget to increase due to ICT networking, "sonorisation" of the conference room, interpreters cabin and equipment for Directors	0.15	➢ defer given need to restrain growth in "normal" expenditures	-
MINAFFET			
9. Lack of adequate office space for Minaffet staff	-	➢ investigate rent of OBK building (to be considered in "Plan of Action" for Government buildings to be prepared by Minitraco)	-
10. Fleet of vehicles needed for Protocol office	-	➢ provide minimum fleet (for emergencies only); otherwise rent from private sector (which can use rent to maintain fleet)	-
11. Purchase of embassy buildings abroad would be more cost effective than renting	-	➢ consider in "Plan of Action" for Government buildings to be prepared by Minitraco	-
12. Expenditure arrears on embassies abroad; indicates underfunding of recurrent budget	-	➢ As requested in last year's BFP, Minaffet must prepare a strategy paper on the funding of embassies, including a detailed inventory of arrears	-
MINECOFIN			
13. Recapitalisation of BCR	-	➢ Make special arrangement for extra budget support from World Bank credit	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
14. Strengthen VAT Department of Rwanda Revenue Authority	-	➢ Small increase justified by importance of VAT collection	0.20
15. Lack of coordination amongst agencies collecting statistical information	-	➢ Minecofin to prepare position paper and recommendations for Cabinet on establishment of National Statistical Office	-
16. Weak information system for National Accounts	-	➢ Consider within next phase of support (EU funded) to Public Accounts Department	-
MIFOTRA			
17. Freeze wages for civil service pending implementation of a merit evaluation system	-	➢ withdrawal of 5% wage increase for non-military would save Rwf 1.9 billion	-1.9
18. Harmonisation of salary scales within civil service, executive agencies and projects	-	➢ draft proposal (submitted to Primature) estimates that Rwf 12.0 bn is required for complete harmonisation. to be phased over 3 years. Proposed to defer until resources available; donor financing should also be sought.	-
19. Consider introduction of motivating packages to retain quality personnel in civil service:			
➢ housing fund	-	➢ Appropriate forms of housing finance to be considered as part of Financial Sector Review;	-
➢ vehicle purchase scheme	-	➢ Mifotra to prepare position paper and recommendations to Cabinet	-
➢ salary advances	-	➢ Mifotra to prepare position paper and recommendations to Cabinet	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
20. Establish an "Employment Unit" (Observatoire de l'Emploi) to analyse trends in the labour market	0.26	➢ include as a priority item	0.26
21. Policy needed on reinsertion and reintegration of retrenched personnel	-	➢ Mifotra to prepare position paper and recommendations to Cabinet	-
MINALOC			
22. Production of new national identity cards	4.00	➢ very difficult to accommodate in Budget – will require donor support	-
23. Support to the Federation for the Handicapped	0.45	➢ very difficult to accommodate in the Budget	-
24. Orinfor can only access donor funds for a country-wide transmitter at Karisimbi if Government provide Rwf 0.5 bn to connect it	0.50	➢ Orinfor should request donors for extra support; should also consider introduction of cost recovery from Government agencies to improve financing	-
PROVINCES			
25. Accelerate new recruitment in Province administrations	-	➢ MIFOTRA to give priority to Province recruitment	-
26. Insufficient running costs in relation to number of staff	-	➢ MIFOTRA to review "cadre organique" with a view to reducing staff costs and improving balance of wage to non-wage expenditure	-
27. Inadequate office space in some Provinces	-	➢ See Minitraco "Plan of Action" for Government buildings	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
DEFENCE, LAW AND ORDER			
MINADEF			
28. Demobilisation/Reintegration	-	➢ Programme now agreed with World Bank and other donors; must be accelerated to consolidate national reconciliation and improve efficiency of army	-
29. New "production" programme	0.17	➢ Defer pending identification of extra resources	-
NSS			
30. Immigration Dept require funds for purchase of new passports	4.0	➢ Provide Rwf 0.50 billion as "start-up" financing, then generate revenue from sale of passports	0.50
31. Immigration Dept has received no vehicles since its inception	-	➢ Cabinet to consider granting a minimum (e.g. 3) vehicles to strengthen the Department	0.05
32. External Security recurrent budget under pressure due to acts of insecurity in the sub-region	-	➢ Cabinet to consider level of additional funding	-
SUPREME COURT			
33. Implementation of the Gacaca programme is performed by many agencies (e.g. CS, Minijust, Mininter, Minitraco, Minaloc). The financing of these activities needs clarification and coordination.	-	➢ Consider centralising the budget allocation for Gacaca activities (sensitisation, prisoner transport, etc.) under Cour Supreme and implementing the budget through a coordination committee ➢ Alternatively, split the Gacaca budget transparently between the relevant agencies involved in the programme	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
MININTER			
34. Budget under pressure due to unforeseen interventions in national priority programmes (Gacaca elections, displaced persons in Gishwati, Nyiragongo volcanic eruptions, etc)	Budget shortfall in 2001 was 0.8	➢ Cabinet to deliberate on efficiency of the Police within limited resources	-
35. Proposed expansion of Police Force by 1,000 per year	-	➢ as running costs for current Police Force are insufficient, new recruitment should be deferred for one year and priority given to increasing operational funds ➢ Mininter to draw up strategic plan for strengthening operations of Police Force	-
36. Lack of fire fighting equipment	-	➢ MININTER to draw up project proposal for potential donor financing in development budget	-
37. Funds needed for expansion of biogas and energy saving stoves in prisons	-	➢ Success of biogas projects indicates that such projects should continue to receive high priority in development budget	-
38. Overcrowding in city prisons has increased dangers of pollution	-	➢ MININTER to produce plan for construction of prisons outside towns to reduce risks of pollution; to be given priority in development budget over medium term	-
MINIJUST			
39. Running costs required for ICT network for Parquets after EU funding ends in 2002	0.06	➢ Include as a priority item	0.06

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
40. "Travaux d'interet general" - need to establish structure for following up prisoners serving "community service"	-	➢ Consider as priority for donor financing	-
PRODUCTIVE / INFRASTRUCTURE			
MINAGRI			
41. Seed distribution still needed after end of donor funded programme	-	➢ Government should subsidise seed distribution temporarily until commercial distribution network has been strengthened	0.20 (Dev.Budget)
42. Restocking of livestock is a priority towards provision of income, nutrition and fertiliser	-	➢ PRSP priority area - Cabinet to promote donor financing	-
43. Need to strengthen internal capacity for livestock vaccinations	-	➢ As above	-
44. Supervision of borders against livestock disease	-	➢ As above	-
45. Strengthening of farmer organisations	-	➢ As above	-
MINICOM			
46. Establishment of a Strategic Food Reserve	Dev Budget 0.10 Rec Budget 0.24	➢ Minicom to prepare position paper and recommendations for Cabinet, including analysis of potential impact on food prices	-
47. Stocking of Strategic Fuel Reserve	-	➢ Essential and perennial programme that needs priority attention	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
48. Payment of arrears for COMESA	-	➢ To be paid	Use arrears budget
49. Tourism sector – enclose Akagera Park and rehabilitate Akagera Hotel	-	➢ ORTPN to prepare position paper on future of Akagera Park with a view to attracting private investment for hotel	-
<u>**MINITRACO**</u>			
50. Purchase/maintenance of Government buildings	-	➢ MINTRACO should prepare "Action Plan" for purchase of Government buildings (including foreign embassies) to avoid high rents. Use of vacant Government buildings outside Kigali for some agencies/Commissions should be considered in the Plan.	-
51. Road maintenance unit requires machinery as private sector can not meet demands	-	➢ Include as priority item in Development Budget	0.30
52. Rehabilitation of major international roads require financing	-	➢ Minitraco to prepare "Road Sector Strategy" covering both main roads and feeder roads	-
53. Urban master plans are still needed for 12 urban centres (except Kigali and Kibuye)	-	➢ seek donor assistance	-
<u>**MINITERE**</u>			
54. Establishment of Rwanda Environment Management Authority (REMA)	-	➢ creation should only proceed if accompanied by corresponding reduction in budgets of Minitere and Minerena	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
55. Payment of arrears for land expropriation	0.75	➢ Minitere must propose policy on land expropriation	Use arrears budget
56. Lack of coordination over land allocation process		➢ Minitere to prepare position paper and recommendations for Cabinet on land allocation process	-
MINERENA			
57. Funds needed for rehabilitation of Mukungwa hydro-electric station from 9 to 12 MW	-	➢ seek donor financing	-
58. Study is required to show potential investors the benefits in exploitation of methane gas	-	➢ seek donor fnancing	-
PROVINCES			
59. Poor water supply is a key constraint in rural areas	-	➢ consider as priority item in financing from CDF	-
60. A plan for the maintenance of feeder roads is needed	-	➢ Minitraco should include feeder roads in sector plan for roads	-
61. Restocking of small animals should be given priority	-	➢ Consider as priority item in financing from CDF	-
62. Reforestation and swamp management require attention	-	➢ Minagri to give priority to these areas in District training programme	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
HUMAN AND SOCIAL DEVELOPMENT			
MINEDUC			
63. Arrears on teacher salaries	-	➢ Mineduc to submit final list of outstanding arrears	Use arrears budget
64. Management of "prêt-bourse" is very weak	-	➢ Mineduc to prepare position paper for Cabinet on recommended improvements to management of "prêt-bourse"	-
65. Lack of clarity in the extra-budget funds received by some education institutes	-	➢ all education institutes must submit full details of non-budgetary revenues, which shall be presented as an annex to the Finance Law	-
66. Wage bill for KIST has increased due to new recruitment	-	➢ KIST to use non-budget revenues (fees); ➢ Need to review recruitment policy	-
MIJESPOC			
67. Development/maintenance of genocide memorial sites	0.42	➢ seek donor financing as priority	-
68. Insufficient funds for National Youth Council (Le Conseil National de la Jeunesse)	0.21	➢ Solicit funds from the Reintegration Commission	-
69. Funding of Kavumu Youth Vocational Training Centre after UNDP funding ends	0.10	➢ Seek donor financing	-

KEY ISSUES	EXTRA EXPENDITURE REQUEST (Rwf billion)	RECOMMENDATION	AGREED INCREASE(+) DECREASE(-) (Rwf billion)
MINISANTE			
70. District Hospitals are severely underfunded	1.0	➢ Include as a priority item	0.30
71. Purchase of vaccines is needed to replace donor funded programmes; especially important for control of epidemics	0.6	➢ Include as a priority item	0.30
72. Funds needed for restructuring of CHK and CHUB as a training hospital	1.3	➢ Seek donor assistance	-
73. High costs of health care are preventing patients from using health services; worsened by end of certain donor programmes on malaria control	0.2	➢ Increase support to the collective health schemes ("mutuelles de sante"); emphasis to be given to malaria treatment	0.10
74. Low salaries of health workers (Rwf 49,000 per month for doctors) do not reflect their position and qualifications	1.0	➢ consider gradual increase in allowances pending review of salaries/ benefits	0.30
MIGEPROFE			
75. Funds needed for District Funds for Women after donor support ends	-	➢ consider as priority item in financing from CDF	-
76. DFID support for mainstreaming gender issues ends in early 2003	-	➢ seek donor financing to support "Gender Budget Initiative" especially the strengthening of statisitical analysis of gender in Ministries/Provinces	-

ANNEX B: Recurrent Expenditure by Sector and Sub-sector, 2002-2005

			Revised				% share of total			
Sector	**Sub-sector**		**2002**	**2003**	**2004**	**2005**	**2002**	**2003**	**2004**	**2005**
1. GENERAL PUBLIC SERVICES			**54.80**	**54.19**	**54.84**	**54.50**	**36.2%**	**33.6%**	**33.9%**	**32.9%**
	1.1 EXECUTIVE AND LEGISLATIVE ORGANS		8.05	7.78	7.35	7.22	5.3%	4.8%	4.6%	4.4%
	1.2 ECONOMIC / FINANCIAL MANAGEMENT & FISCAL AFFAIRS		14.96	13.79	13.34	13.11	9.9%	8.5%	8.3%	7.9%
	1.3 EXTERNAL AFFAIRS		2.89	2.75	2.60	2.55	1.9%	1.7%	1.6%	1.5%
	1.4 LABOUR AND EMPLOYMENT AFFAIRS		0.79	0.81	0.84	0.89	0.5%	0.5%	0.5%	0.5%
	1.5 GENERAL PLANNING AND STATISTICAL SERVICES		0.42	0.46	0.50	0.55	0.3%	0.3%	0.3%	0.3%
	1.7 PUBLIC DEBT TRANSACTIONS		24.80	25.38	26.64	26.17	16.4%	15.7%	16.5%	15.8%
	1.8 GENERAL PUBLIC SERVICES, N.E.C.		2.90	3.23	3.58	3.99	1.9%	2.0%	2.2%	2.4%
2. DEFENCE			**26.30**	**27.70**	**25.75**	**25.06**	**17.4%**	**17.2%**	**15.9%**	**15.1%**
	2.1 MILITARY DEFENCE		24.67	11.05	9.53	9.24	16.3%	6.9%	5.9%	5.6%
	2.2 CIVIL DEFENCE		0.10	0.11	0.13	0.14	0.1%	0.1%	0.1%	0.1%
	2.4 DEFENCE, N.E.C.		1.53	16.54	16.09	15.68	1.0%	10.3%	10.0%	9.5%
3. PUBLIC ORDER AND SAFETY			**12.19**	**12.52**	**11.77**	**11.70**	**8.1%**	**7.8%**	**7.3%**	**7.1%**
	3.1 POLCE AND SECURITY SERVICES		5.27	5.47	5.72	6.12	3.5%	3.4%	3.5%	3.7%
	3.3 LAW COURTS AND GACACA		4.75	4.77	3.90	3.50	3.1%	3.0%	2.4%	2.1%
	3.4 PRISONS		2.17	2.28	2.15	2.09	1.4%	1.4%	1.3%	1.3%
4. ENVIRONMENTAL PROTECTION			**0.56**	**0.66**	**0.76**	**0.88**	**0.4%**	**0.4%**	**0.5%**	**0.5%**
	4.1 POLLUTION ABATEMENT AND CONTROL		0.09	0.11	0.12	0.14	0.1%	0.1%	0.1%	0.1%
	4.2 BIODIVERSITY AND LANDSCAPE PROTECTION		0.37	0.44	0.51	0.59	0.2%	0.3%	0.3%	0.4%
	4.3 ENVIRONMENTAL PROTECTION, N.E.C.		0.10	0.11	0.13	0.15	0.1%	0.1%	0.1%	0.1%
5. AGRICULTURE			**2.56**	**2.83**	**3.16**	**3.54**	**1.7%**	**1.8%**	**2.0%**	**2.1%**
	5.1 AGRICULTURAL DEVELOPMENT		1.51	1.66	1.83	2.04	1.0%	1.0%	1.1%	1.2%
	5.2 LIVESTOCK AND FISHERIES		0.54	0.61	0.70	0.80	0.4%	0.4%	0.4%	0.5%
	5.3 FORESTRY		0.19	0.22	0.25	0.30	0.1%	0.1%	0.2%	0.2%
	5.4 AGRICULTURE, LIVESTOCK AND FORESTRY, N.E.C.		0.32	0.35	0.37	0.41	0.2%	0.2%	0.2%	0.2%
6. INDUSTRY AND COMMERCE			**1.32**	**1.45**	**1.61**	**1.80**	**0.9%**	**0.9%**	**1.0%**	**1.1%**
	6.1 MINING AND QUARRYING		0.07	0.09	0.10	0.11	0.0%	0.1%	0.1%	0.1%
	6.2 MANUFACTURING		0.47	0.52	0.59	0.66	0.3%	0.3%	0.4%	0.4%
	6.4 TRADE AND COMMERCE		0.34	0.39	0.44	0.51	0.2%	0.2%	0.3%	0.3%
	6.5 TOURISM		0.21	0.21	0.20	0.20	0.1%	0.1%	0.1%	0.1%
	6.7 INDUSTRIE ET COMMERCE, N.E.C.		0.23	0.25	0.28	0.32	0.2%	0.2%	0.2%	0.2%
7. FUEL AND ENERGY			**0.44**	**0.47**	**0.51**	**0.57**	**0.3%**	**0.3%**	**0.3%**	**0.3%**
	7.1 COAL & OTHER SOLID MINERAL FUELS		0.04	0.05	0.06	0.06	0.0%	0.0%	0.0%	0.0%
	7.2 NATURAL GAS AND PETROLEUM		0.09	0.10	0.11	0.13	0.1%	0.1%	0.1%	0.1%
	7.3 ELECTRICITY		0.17	0.20	0.23	0.26	0.1%	0.1%	0.1%	0.2%
	7.5 FUEL AND ENERGY, N.E.C.		0.13	0.12	0.11	0.11	0.1%	0.1%	0.1%	0.1%
8. TRANSPORT AND COMMUNICATION			**3.60**	**3.96**	**4.36**	**4.86**	**2.4%**	**2.5%**	**2.7%**	**2.9%**
	8.1 ROAD TRANSPORT		2.07	2.44	2.85	3.33	1.4%	1.5%	1.8%	2.0%
	8.2 FEEDER ROADS AND TRACKS		0.01	0.01	0.02	0.02	0.0%	0.0%	0.0%	0.0%
	8.4 WATER TRANSPORT		0.18	0.17	0.16	0.15	0.1%	0.1%	0.1%	0.1%
	8.6 COMMUNICATION		0.15	0.18	0.21	0.24	0.1%	0.1%	0.1%	0.1%
	8.7 BROADCASTING AND PUBLISHING		1.00	0.98	0.97	0.97	0.7%	0.6%	0.6%	0.6%
	8.8 TRANSPORT & COMMUNICATION, N.E.C.		0.19	0.17	0.16	0.15	0.1%	0.1%	0.1%	0.1%
9. LAND, HOUSING & COMMUNITY AMENITIES			**0.46**	**0.51**	**0.55**	**0.60**	**0.3%**	**0.3%**	**0.3%**	**0.4%**
	9.1 HOUSING DEVELOPMENT		0.27	0.28	0.29	0.30	0.2%	0.2%	0.2%	0.2%
	9.2 LAND AND COMMUNITY DEVELOPMENT		0.08	0.10	0.11	0.13	0.1%	0.1%	0.1%	0.1%
	9.3 STREET LIGHTING		0.11	0.12	0.15	0.17	0.1%	0.1%	0.1%	0.1%
10. WATER AND SANITATION			**0.15**	**0.17**	**0.19**	**0.22**	**0.1%**	**0.1%**	**0.1%**	**0.1%**
	10.1 WATER SUPPLY		0.15	0.17	0.19	0.22	0.1%	0.1%	0.1%	0.1%
11. YOUTH, CULTURE AND SPORTS			**0.98**	**1.06**	**1.15**	**1.27**	**0.6%**	**0.7%**	**0.7%**	**0.8%**
	11.1 SPORTS AND RECREATIONAL SERVICES		0.19	0.19	0.18	0.18	0.1%	0.1%	0.1%	0.1%
	11.2 ART AND CULTURAL SERVICES		0.36	0.42	0.48	0.55	0.2%	0.3%	0.3%	0.3%
	11.3 YOUTH AND OTHER COMMUNITY SERVICES		0.28	0.32	0.36	0.42	0.2%	0.2%	0.2%	0.3%
	11.4 YOUTH, CULTURE AND SPORTS N.E.C.		0.16	0.14	0.13	0.12	0.1%	0.1%	0.1%	0.1%
12. HEALTH			**4.07**	**4.65**	**5.31**	**6.08**	**2.7%**	**2.9%**	**3.3%**	**3.7%**
	12.1 PRIMARY & SECONDARY HEALTH CARE(BASIC HEALTH CARE)		0.91	1.04	1.19	1.35	0.6%	0.6%	0.7%	0.8%
	12.2 SPECIALISED HEALTH CARE(INCLUD TERTIARY HEALTH CARE)		1.75	1.98	2.25	2.55	1.2%	1.2%	1.4%	1.5%
	12.3 HEALTH CARE ACCESSIBILITY		0.25	0.28	0.31	0.35	0.2%	0.2%	0.2%	0.2%
	12.4 HEALTH, N.E.C.		1.15	1.35	1.56	1.82	0.8%	0.8%	1.0%	1.1%
13. EDUCATION			**31.89**	**34.82**	**38.33**	**42.35**	**21.1%**	**21.6%**	**23.7%**	**25.5%**
	13.1 PRE-PRIMARY AND PRIMARY EDUCATION		12.66	13.72	14.90	16.21	8.4%	8.5%	9.2%	9.8%
	13.2 SECONDARY EDUCATION		4.31	4.58	5.09	5.67	2.8%	2.8%	3.2%	3.4%
	13.3 TECHNICAL AND VOCATIONAL EDUCATION		0.03	0.04	0.05	0.05	0.0%	0.0%	0.0%	0.0%
	13.4 TERTIARY EDUCATION		11.91	13.16	14.55	16.18	7.9%	8.2%	9.0%	9.8%
	13.5 EDUCATION NOT DEFINABLE BY LEVEL		0.25	0.27	0.28	0.30	0.2%	0.2%	0.2%	0.2%
	13.6 SCIENTIFIC & TECHNOLOGICAL RESEARCH		0.46	0.51	0.58	0.65	0.3%	0.3%	0.4%	0.4%
	13.7 EDUCATION, N.E.C.		2.26	2.54	2.89	3.29	1.5%	1.6%	1.8%	2.0%
14. SOCIAL PROTECTION			**11.91**	**16.28**	**13.26**	**12.47**	**7.9%**	**10.1%**	**8.2%**	**7.5%**
	14.1 SOCIAL SECURITY & WELFARE		0.12	0.13	0.15	0.17	0.1%	0.1%	0.1%	0.1%
	14.2 GENDER PROTECTION		0.48	0.51	0.56	0.62	0.3%	0.3%	0.3%	0.4%
	14.3 ASSISTANCE TO VULNERABLE GROUPS		9.66	13.90	10.71	9.71	6.4%	8.6%	6.6%	5.9%
	14.4 SOCIAL PROTECTION N.E.C.		1.65	1.73	1.85	1.98	1.1%	1.1%	1.1%	1.2%
		TOTAL	**151.24**	**161.27**	**161.55**	**165.89**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

ANNEX C: PRSP Priority Programmes

PROTECTED (RING FENCED) PRIORITY PROGRAMME EXPENDITURE 2002 (excludes exceptional expenditure (Rwf million)		
	2001	2002
Programme	old defn.	new defn.
Internal Affairs	***3,521***	***5,322***
NATIONAL POLICE SERVICES	3,095	3,422
PRISONS	426	874
PROVINCES (see note 2)		1,026
Agriculture	***1,485***	***2,402***
AGRICULTURAL PRODUCTION	797	1,008
LIVESTOCK PRODUCTION	455	451
FORESTRY RESOURCES	77	141
SOIL CONSERVATION AND WATER SYSTEMS MANAGEMENT	107	73
AGRICULTURAL EXTENSION AND MARKETING	49	146
PROVINCES (see note 2)		583
Commerce	***437***	***1,042***
PROMOTION OF TRADE AND COMMERCE	177	67
INDUSTRIAL DEVELOPMENT AND ARTISANAL PROMOTION	260	465
EXPORT PROMOTION		241
PROVINCES (see note 2)		269
Education	***25,045***	***27,053***
PRE-PRIMARY AND PRIMARY EDUCATION	10,731	1,859
SECONDARY EDUCATION	4,629	599
TERTIARY EDUCATION	7,839	8,119
SCIENTIFIC AND TECHNOLOGICAL RESEARCH	275	463
INSTITUTIONAL SUPPORT		926
SPECIAL EDUCATION	10	
INSTITUTIONAL SUPPORT TO EDUCATION AND SCIENTIFIC AND TECHNOLOGICAL R	1,531	
BILINGUALISM	7	
PROGRAMME FOR FIGHTING AGAINST HIV/AIDS IN SCHOOLS	2	
PEACE EDUCATION	6	
GIRLS EDUCATION	14	
PROVINCES (see note 2)		15,088
Youth and Sports	***984***	***700***
CENTRAL SUPPORT SERVICES	300	
YOUTH MOBILISATION	70	50
LEISURE AND SPORTS PROMOTION	154	
CULTURAL PROMOTION	249	169
VOCATIONAL TRAINING	211	179
RESEARCH, ACQUISITION AND CONSERVATION OF THE NATIONAL HERITAGE		158
PROVINCES (see note 2)		145
Health	***5,180***	***5,438***
CENTRAL SUPPORT SERVICES	3,676	
SUPPORT TO SPECIALISED HEALTH CARE PROGRAMMES	754	
REINFORCING THE CAPACITY OF REFERENCE HOSPITALS AND EVACUATIONS	750	
PRIMARY HEALTH CARE		754
SPECIALIST CARE FOR MAJOR HEALTH PROBLEMS		1,680
DEVELOPMENT OF HEALTH STRUCTURES		101
IMPROVEMENT IN HEALTH MANAGEMENT SERVICES		1,155
PROVINCES (see note 2)		1,748
Transport and Communication	***388***	***2,451***
DEVELOPMENT AND MODERNISATION OF COMMUNICATION INFRASTRUCTURES	57	145
IMPROVEMENT IN TRANSPORT SERVICES	113	163
RATIONALISATION AND MANAGEMENT OF URBAN LAND	162	47
DEVELOPMENT OF TRANSPORT INFRASTRUCTURE (see note 2)	56	2,069
PROVINCES (see note 2)		27
Gender	***463***	***325***
INSTITUTIONAL SUPPORT	152	
SUPPORT PROGRAMMES FOR PROMOTION AND DEVELOPMENT OF WOMEN	211	192
PROMOTION OF GENDER IN DEVELOPMENT	40	47
PROMOTION OF SOCIO-ECONOMIC EQUITY	13	10
REINFORCEMENT OF INSTITUTIONAL CAPACITIES OF MIGEPROFE	47	
PROVINCES (see note 2)		75
Public Service	***85***	***448***
CIVIL SERVICE REFORM	85	380
EMPLOYMENT AND SOCIAL SECURITY PROMOTION		68
Lands and Resettlement	***328***	***627***
LAND PLANNING AND MANAGEMENT	53	328
PLANNING AND SUPERVISION OF HOUSING AMENITIES	249	183
CONSERVATION AND PROTECTION OF THE ENVIRONMENT	26	98
PROVINCES (see note 2)		19
Local Government (excl. depenses exceptionelles)	***1,761***	***6,133***
DECENTRALISATION	1,514	177
COMMUNITY DEVELOPMENT	30	78
SOCAIL REINSERTION	134	83
FAMILY REHABILITATION	5	14
MASS EDUCATION	78	107
PROMOTION OF CHILDRENS RIGHTS		16
PROVINCES (see note 2)		2,288
DECENTRALISATION (District transfers in recurrent budget)		1,370
COMMON DEVELOPMENT FUND (District transfers in development budget)		2,000
Energy and Water Resources	***304***	***365***
ENERGY	30	44
WATER AND SANITATION	126	131
MINING AND OTHER GEOLOGICAL PROGRAMMES	54	70
METHANE GAS UNIT	94	95
PROVINCES (see note 2)		25
TOTAL	**39,980**	**52,308**
note 1: includes Road Fund in 2002		
note 2: Province sub-programmes have been allocated to the major Ministry under each programme		

ANNEX D: Recurrent Expenditure Ceilings, 2002-2005

Recurrent Budget Ceilings by Ministry and Province (Rwf million)

	2001 Budget	2001 Revised Budget	2002 Ceiling BFP	2002 Budget	2002 Revised Budget	2003 Ceiling BFP	2004 Ceiling BFP	2005 Ceiling BFP
AN	906	906	905	1,307	1,307	1,263	1,217	1,214
PRESIREP	4,049	4,099	4,136	7,237	7,115	6,692	6,055	5,685
PRIMATURE	433	433	404	1,000	981	892	785	729
SUPREME COURT	708	1,508	2,342	2,587	2,562	2,535	1,607	1,105
MINADEF (2)	25,006	26,006	24,530	36,275	30,068	34,884	28,952	26,391
MININTER	4,554	4,854	4,861	5,747	5,734	6,167	6,436	6,827
MINAFFET	2,808	2,808	2,682	3,012	2,885	2,749	2,598	2,551
MINAGRI	1,706	2,075	1,651	2,112	2,067	2,288	2,544	2,847
MINICOM	687	687	672	1,078	1,078	1,130	1,233	1,363
MINECOFIN (1)	4,981	5,297	5,254	8,237	7,486	7,076	6,612	6,377
MINIJUST	1,646	1,666	1,427	1,775	1,815	1,833	1,867	1,932
MINEDUC	25,433	27,397	14,788	15,923	15,810	17,656	19,698	22,080
MIJESPOC	936	982	795	844	844	898	958	1,046
MINISANTE	4,147	5,063	2,884	3,691	3,691	4,214	4,811	5,497
MINITRACO	2,549	2,549	2,544	2,611	2,611	3,023	3,482	4,021
MIGEPROFE	451	463	343	402	402	426	454	495
MIFOTRA	373	450	409	687	652	646	674	718
MINITERE	406	579	521	821	789	857	923	1,014
MINALOC	7,794	8,516	17,171	8,109	8,298	9,423	10,363	11,135
MINERENA	397	462	444	479	469	505	547	602
Sub Total	89,974	96,803	88,763	103,934	96,665	105,154	101,819	103,628
Umutara			862	1,181	1,132	1,221	1,335	1,461
Ruhengeri			2,267	2,411	2,442	2,622	2,857	3,115
Gisenyi			2,238	2,355	2,391	2,557	2,776	3,017
Cyangugu			1,490	1,620	1,591	1,708	1,861	2,029
Gikongoro			1,459	1,521	1,634	1,761	1,925	2,105
Kibungo			1,611	1,753	1,832	1,985	2,178	2,392
Kigali-Ngali			2,111	1,974	2,073	2,232	2,437	2,663
Butare			1,797	1,846	1,841	1,991	2,181	2,393
Kibuye			1,278	1,618	1,617	1,748	1,915	2,100
Byumba			1,732	1,799	1,818	1,960	2,143	2,344
Gitarama			2,130	2,266	2,336	2,506	2,728	2,972
MVK			1,023	1,021	1,333	1,466	1,627	1,807
Sub Total			19,998	21,365	22,040	23,757	25,961	28,398
TOTAL	89,974	96,803	108,761	125,299	118,705	128,911	127,780	132,026

(1) Ceilings for Minecofin exclude payment of interest, net lending, debt and arrears.
(2) Ceilings for Minadef include Rwanda Demobilisation and Reintegration Programme

ANNEX E: Detailed Budgetary Framework, 2001-2005

Budgetary Framework, 2001-2005 (Rwf billion)

	2001 outturn	2002 revised budget	2003	2004	2005
Resources	**185.00**	**207.64**	**226.08**	**233.73**	**194.50**
Tax and non-tax revenue	86.20	101.74	117.00	127.90	136.50
Domestic financing	3.00	10.71	1.70	0.00	0.00
of which, HIPC interim		*10.70*			
of which, treasury bills	*3.00*	*0.01*	*1.70*		
Current grants - external	33.90	30.02	44.57	40.93	0.00
Capital grants - external	29.50	32.10	35.40	40.40	40.00
Current loans - external	15.40	15.67	8.11	7.50	0.00
Capital loans - external	17.00	17.40	19.30	17.00	18.00
Expenditure	**185.00**	**207.64**	**226.21**	**231.58**	**239.03**
Current	***107.30***	***126.31***	***136.51***	***135.18***	***139.53***
Wages (civil, military)	38.90	42.34	42.34	43.59	45.01
Goods and services	29.40	32.64	34.87	37.10	40.51
Interest payments	6.20	7.67	7.60	7.40	7.50
of which, domestic	*1.30*	*2.18*	*2.30*	*2.30*	*2.30*
of which, external	*5.00*	*5.48*	*5.30*	*5.10*	*5.20*
Transfers	15.10	21.15	23.11	25.15	27.41
Exceptional social exp.	17.70	22.51	28.59	21.93	19.10
Capital	***50.00***	***56.40***	***64.90***	***69.60***	***72.00***
Domestic	3.50	6.90	10.20	12.20	14.00
of which, Common Development Fund		*2.00*	*4.00*	*5.50*	*6.50*
External	46.50	49.50	54.70	57.40	58.00
Net lending	***0.60***	***1.00***	***1.00***	***1.00***	***1.00***
of which, recapitalisation of BRD			*1.00*		
Debt	***12.10***	***16.13***	***16.80***	***18.80***	***19.50***
External debt repayments	9.20	12.34	14.50	15.30	16.00
Domestic debt repayments	2.90	3.79	2.30	3.50	3.50
of which, treasury bills and arrears	*0.56*	*3.79*	*2.30*	*3.50*	*3.50*
of which, overdraft facility	*2.34*				
Domestic arrears	***15.00***	***7.80***	***7.00***	***7.00***	***7.00***
Domestic Fiscal Balance*	**-20.20**	**-26.98**	**-25.41**	**-15.38**	**-12.83**
Overall Budget Deficit (excluding grants)**	**-71.70**	**-81.97**	**-85.41**	**-77.88**	**-76.03**
Financing Gap	**0.0**	**0.0**	**-0.1**	**2.1**	**-44.5**

* domestic revenue (excl. grants) minus current expenditure (excl. external interest), minus domestic capital, minus net lending

** domestic revenue minus total expenditure (excluding debt and arrears)

ANNEX E: DETAILED BUDGETARY FRAMEWORK 2001-2005 (continued)

Recurrent Budget Grants					
DFID		12.98	13.23	9.96	
EU		12.21	11.93	12.18	
Sweden		1.03			
Bilaterals (demobilisation)		3.81	5.51	0.92	
HIPC Initiative		10.70	13.90	17.87	
Subtotal	**0.00**	**40.72**	**44.57**	**40.93**	**0.00**
Recurrent Budget Loans					
World Bank		13.98	2.68	3.60	
World Bank (demobilisation)		1.69	5.43	3.90	
ADB					
Subtotal	**0.00**	**15.67**	**8.11**	**7.50**	**0.00**
N.B. Exchange rate assumption:	Rwf/US$ =		477.10	487.18	

GDP ratios					
Nominal GDP (figures from PRGF)	754.3	825.2	906.4	998.8	1,050.0
Domestic revenue/GDP	11.4%	12.3%	12.9%	12.8%	13.0%
Expenditure(excl. debt and arrears)/GDP	20.9%	22.3%	22.3%	20.6%	20.2%
Priority expenditure/GDP	5.3%	6.1%	6.2%	6.3%	6.4%
Overall deficit/GDP	9.5%	9.9%	9.4%	7.8%	7.2%