Ministry of Finance and Economic Planning

Budget Framework Paper 2011/12-2012/13

April 2011

Contents

I. Introduction

The Budget Framework Paper (BFP) documents the macro-economic and fiscal policy stance of Government in fiscal year 2011-12 and over the medium term, and reflects the country's commitments encapsulated in the Economic Development and Poverty Reduction Strategy (EDPRS) and Vision 2020.

It sets out the Medium-Term Expenditure Framework (MTEF) 2011/12-2013/14 which has been revised to take account of changes in Government priorities as well as changing macroeconomic conditions both in the world at large and in the country in particular. These changing conditions present challenges as well as opportunities for the economic and social progress of the country. The Budget Framework Paper therefore presents highlights of the flexible policies that have been designed to respond to these challenges and opportunities.

The major objective of this BFP is to achieve the Government's commitment to medium-term fiscal consolidation through an accelerated domestic revenue mobilization and expenditure prioritization in order to narrow the fiscal gap.

The budget framework is also consistent with the Central Bank's (BNR) medium-term monetary policy framework, which is designed to provide adequate liquidity to promote sustainable growth and at the same time achieve single digit inflation over the medium term. It is also in line with the Government MTDS which ensures Rwanda's public debt is maintained at an appropriate and sustainable level.

Budget Framework Paper in outline

The first chapter reviews recent economic performance including budget implementation and outlook for fiscal year 2010/2011. Chapter 2 presents the Medium term macro-economic and Budget policy framework and medium-term trends in revenue and expenditure. Chapter 3 deals with the budget for 2011/2012 including financing, sectoral allocations. Chapter 4 discusses some policy issues and Chapter 5 discusses some possible risks to economic and budget implementation in 2011/2012. Chapter 6 draws some conclusions.

II. Economic Performance and Outlook for 2010/11

a) The Global Performance

Global economic activity according to the World Economic Outlook (WEO) continued to strengthen during the first half of 2010 at an annual rate of about 5.25%. Strong growth in emerging economies particularly China, India and Brazil led this recovery. This performance was about 0.5% higher than forecasted at the end of 2009. Global financial stability which suffered a major setback with the turmoil in sovereign debt markets during the second quarter of 2010, broadly improved in the second half of the year. However by the end of the 2010 pockets of vulnerability still persisted.

In 2011 global economic output is projected to expand by about 4.25%. This level is about 0.25% higher than predicted in October last year and reflects stronger –than-expected activity in the second half of 2010 as well as new policy initiatives in the USA that will boost activity this year. However recent uncertainties surrounding expected high petroleum and food prices could reduce output growth and put pressure on the recovery effort.

In Sub-Saharan Africa the economy is projected to have expanded by about 5% in 2010 compared to about 2.5% in 2009 during the financial crisis. For 2011 output is projected to grow by a further 5.5% reflecting the continuing global output growth. As in the case with the global outlook, high fuel and the resultant increases in food prices could reduce output growth in Sub-Saharan African countries.

b) The domestic Performance

This section presents an overview of domestic economic performance for 2010 as well as prospects for 2011.

The table 1 below shows real GDP performance for 2009 and 2010 and projections for 2011.

GDP 2009-2011: Price constants 2006 IN Billion RwF			
	2009	**2010 est.**	**2011 est.**
GDP	**2,187.8**	**2,351.1**	**2,515.7**
Agriculture	776.2	814.5	854.2
Food Crop	659.5	691.9	727.1
Export Crop	19.7	22.5	24.2
Industry	**300.8**	**326.0**	**349.4**
Mining and quarrying	10.8	9.7	10.5
Manufacturing	127.9	139.7	148.7
Construction	157.3	171.1	183.9
Services	**982.4**	**1,075.6**	**1,161.1**
Wholesale & retail trade, rest. & hotels	315.7	341.9	372.7
Transport, storage, communication	181.3	197.0	211.3
Finance & insurance,	53.5	66.1	76.4
Adjustments	**128.4**	**135.0**	**150.9**
Less: Imputed bank service charge	(29.5)	(34.8)	(40.2)
Plus: Taxes	158.0	169.7	191.1
Annual (%)age			
Growth	**2009**	**2010 est.**	**2011 proj**
GDP	**6.1%**	**7.5%**	**7.0%**
Agriculture	**7.7%**	**5%**	**4.9%**
Food Crop	9.4%	5%	5.1%
Export Crop	-15.3%	14%	8.0%
Industry	**1.4%**	**8%**	**7.2%**
Mining and quarrying	-17.9%	-11%	8.6%
Manufacturing	3.0%	9%	6.5%
Construction	1.4%	9%	7.4%
Services	**5.9%**	**9%**	**7.9%**
Wholesale & retail trade, rest. & hotels	**2.6%**	**8.3%**	**9.0%**
Transport, storage, communication	9.2%	8.7%	7.2%
Finance & insurance,	-4.1%	23.6%	15.5%
Adjustments	**9.4%**	**5.1%**	**11.8%**
Less: Imputed bank service charge	-6.2%	17.9%	15.5%
Plus: Taxes	6.1%	7.5%	12.6%

Source: MINECOFIN Projections

After a somewhat slower growth in 2009 reflecting the impact of the global financial crisis and the tight liquidity experienced in the country, a slight recovery has taken place in 2010. Real GDP growth is estimated at about 7.5 percent in 2010 compared to about 6.1% in 2009. Even though agriculture especially food crops continue to perform well reflecting the ongoing investments (fertilizer and improved seeds as well as land consolidation policies) growth in this sector at about 5% was lower than the 7.7% registered in 2009. Real GDP growth in 2010 was therefore led by growth in the industrial and services sectors.

In the industrial sector, the growth was led by manufacturing sub sector especially food processing which registered a growth of 9% as against 3% in2009.

Electricity, gas and water as well as construction performed well with growths of 15% and 9% respectively reflecting good recovery from 14.4% and 1.4% respectively in 2009. In the case of electricity, gas, and water, this sub sector continues to benefit from the ongoing investments by the Government. The recovery in construction was mainly due to the resumption of credit to this sub sector as well as completion of some public projects.

Growth in the services sector which reached 9% compared to about 5.9% in 2009, reflects the ongoing recovery in many sub sectors including financial services resulting in increase in profitability (finance and insurance) and the on-going investments in communication as well as the recovery in tourism and trade. Overall the recovery in output also reflected the slow recovery in the growth of private sector credit as well as the continued surge in imports. Regarding private sector credit there was an increase of about 11% compared to a decline of about 4% in 2009. With regards to imports these rose by about 8.5% compared to about 11% in 2009.

i. Projections for 2011

Growth in 2011 is likely to suffer from the world price increases in fuel and food prices. For the first half of 2011, real GDP growth is projected to slow down on account of a somewhat smaller food crops production in season A as a result of adverse weather conditions. Provisional estimates put real GDP growth for calendar year 2011 at about 7% driven primarily by the season B food crops production, construction activities and increased activities in the services sector particularly communication, banking and insurance and hotel and tourism.

ii. Consumer price inflation

Inflation in Rwanda has remained low in the last eighteen months. Year-on-year inflation fell to 0.2 percent in December 2010 from 5.7 percent in December 2009, well below the target of 7 percent for 2010. Low inflation in 2010 was driven by continuous low foreign inflation leading to low import prices, good domestic food harvest that kept food inflation very low, relatively stable nominal exchange rate against the major currencies, and modest increase in money supply.

For 2011, the rising global fuel and food prices as well as the lower than expected domestic food crops harvest poses significant threat to inflation. This is therefore projected to increase in 2011 to about 7.5 percent from 0.2 percent in 2010, reflecting mainly the first round pass-through effect of rising fuel and food prices. These pressures are already being felt as by the end of March inflation is estimated to have risen to 4 percent from 0.2 percent at end December 2010.

iii. Monetary and Exchange rate Developments

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

Broad money growth was strong—growing at 17 percent in 2010 compared to 15 percent in 2009—driven mainly by increases in net foreign assets which accounted for about 85 percent of the increase in total liquidity in the system. Thus, the banking system liquidity has been significantly improving, hence giving more confidence to banks in treasury management, while continuing to invest in short term instruments. However, growth in credit to the private sector was marginal in 2010—at 11.1 percent far lower than the 20 percent programmed.

Although the Central Bank achieved June and December 2010 reserve money targets as originally projected, controlling reserve money especially in the last quarter of 2010 was particularly challenging due to underestimation of the huge increase in monetization during the year as a result of rapid roll out of bank branches outside the capital city.

This resulted in a significant structural increase in cash in vault of commercial banks driving reserve money persistently high during the last quarter of the year.

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

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

iv. Financial sector performance

In general, banks remained well capitalized, with strong solvency, liquidity and improving asset quality in 2010. This has increased public confidence in the banking sector. The capital adequacy ratio of the banking system stood at 22.3 percent at end-December 2010, well above the regulatory capital of 10 percent for Tier 1 capital and 15 percent for total capital. Asset quality also improved during the year as non performing loans (NPLs) decreased from 13.1 percent in December 2009 to 10.8 percent in December 2010, leading to an increase in banks' profitability (return on equity and return on assets increased respectively to 10.2 percent and 1.8 percent from 5.5 percent and 1 percent at end 2009).

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

v. External sector performance for 2010

The recovery in the world economy led by the East Asian states notably China and India impacted positively on the performance of exports in the country. This impact was notably seen in the increase in volume of export products and the recovery of commodity prices. As a result total export earnings in 2010 amounted to US$ 298.3 million which was about US$ 105.6 million higher than registered in 2009. The performance was also about US$ 13 million higher than the US$ 285.5 million projected for this year.

All export commodities contributed to this performance. Coffee and tea production increased by 22% and 15%, respectively. In the case of coffee the yield of US$ 56.1 million was about US$18.8 million higher than the US$ 37.3 million achieved in 2009. Tea exports also fetched US$ 55.7 million which was US$ 7.5 million higher than the performance in 2009.

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

Total value of imports (fob basis) at US$1083.9 million in 2010 was about 8.5% higher than the US$ 997 million achieved in 2009. Imports of consumer goods which represented about 32% of total imports showed a volume increase of 30% over what was achieved in 2009. Within this category of imports pharmaceutical products, sugar, cereals (especially sorghum, maize wheat and rice), clothes and oils and fats accounted for the largest share. Capital goods especially machinery and equipment took a share of 25% of imports. Intermediate goods including cement and other construction materials as well as industrial raw materials accounted for about 27% of the total imports in 2010 .Energy imports which showed a volume increase of about 3% took a share of 15%.

In the area of services, despite the recovery in tourism receipts which rose from US$ 174.5 million in 2009 to US$201 million in 2010 higher outflows regarding freight, insurance and other charges associated with higher imports increased the expenditures in this area and registered an increase of about US$73.7 million compared to 2009.

Official current transfers registered a shortfall of about US$ 24.5million on account of delayed budget support disbursements. This shortfall together with the widening trade balance and increase in expenditures under services and income resulted in a widening of the current account deficit (including official grants) from US$ 372.5 million in 2009 to US$ 421.4 million in 2010.

Regarding the capital and financial account, this improved in 2010 and showed a balance of US$ 499.4 million as against a figure of US4 433 million in 2009. In the area of capital transfers, the disbursement of US$ 85 million by the Global Fund was the major source of the better performance. Private sector net investment flows at US$ 180.5 million were about US$ 20 million higher than realised in 2009. A drawdown of long term loans of US$129 million (including US$ 94 million for communication equipment and other assets) and FDI flows of US$ 63.7 million mostly for investment in the hotel and tourism sectors contributed to this increase in resource flows in 2010.

In the light of these increased flows, the balance of payments in 2010 closed the year with an overall balance of US$ 72.1 million compared to US$ 57.1 million achieved in 2009. In the original projection for 2010, a small deficit of about US4 4 million was projected.

The overall surplus allowed an increase in gross external reserves of the country as these rose by about US$70.2 million from US$ 737.2 million to US$ 813.3 million enough to cover about 5.6 months of goods and services compared to about 5.4 months at end 2009. The table 2 below shows the evolution of the trade balance in the period 2008 to 2010.

Table 2: Trade Balance Summary (US$ Millions)			
	2009	**2010**	**2011**
Exports, f.o.b.	**234.97**	**297.3**	**375.5**
of which: Coffee	37.29	56.1	67.7
Tea	48.27	55.7	71.2
Minerals	55.43	67.9	102.2
Imports, f.o.b.	**999.2**	**1,084.0**	**1,399.8**
of which: Capital goods	283.9	268.2	408.4
Intermediate goods	253.5	286.6	306.4
Energy products	135.7	158.2	231.8
Consumer goods imports	277.5	329.3	410.5
Trade balance	**-764.2**	**-786.7**	**-1,024.4**

Source: *NBR*

vi. External sector Projections for 2011

The balance of payments in 2011 is expected to continue to record a surplus, further boosting the reserves coverage. Tea exports would be supported by additional investments in the sector although volume of mining exports remains uncertain reflecting quality problems. Imports for capital goods would increase sharply along with the investments in strategic projects and energy and food imports would be affected by the rise in international oil and food prices. As a result, the current account (excluding official transfers) would deteriorate, though it is expected to improve rapidly over the medium term as the large investment projects come on line and the increase in domestic cereals production results in a fall of food imports. Several private investment deals, including in the services sector, would support a boost in foreign direct investment.

vii. Fiscal performance in 2010/2011

Fiscal performance in fiscal year the July 2010/ June 2011 was affected by delays in budget support grants disbursements, delays in completing tender processes for procurement and import revenue shortfalls arising from a shift in the origin of imports with an increasing share of imports coming from the EAC and COMESA regions as these attract lower taxes.

The table 3 below shows the projections for the July – December period of 2010 compared with provisional actual performance for the period. It also shows the original budget of 2010/2011 compared to the revised estimate.

Table 3: Current fiscal projections for the year 2010/11 (in billion RwF)

Category	July 2010-June 2011 Budget	July - Dec 2010 Proj	July - Dec 2010 Prov Act	July 2010-June 2011 Revised-Budget
Revenue and Grants	**826.0**	**432.5**	**420.8**	**844.2**
Total revenue	**479.7**	**219.7**	**226.6**	**471.7**
Tax revenue	**457.6**	**210.0**	**217.1**	**449.1**
Direct taxes	137.5	78.8	81.8	175.8
Taxes on goods and services	276.3	114.5	117.5	234.3
Taxes on international trade	43.8	16.8	17.9	39.0
Non-tax revenue	**22.1**	**9.7**	**9.5**	**22.6**
Total Grants	**346.4**	**212.8**	**241.4**	**372.5**
Budgetary grants	229.6	137.9	127.3	208.5
Capital grants	116.8	66.9	114.1	164.0
Projects	116.8	66.9	66.9	116.8
Total expenditure and Net Lending	**953.5**	**486.5**	**477.9**	**988.1**
Current expenditure	518.0	267.0	258.4	514.9
Capital expenditure	404.3	200.7	195.5	452.9
Net lending	31.2	18.8	24.1	20.3
Deficit (cash basis)	**-135.8**	**-40.1**	**-17.2**	**-155.1**
Financing	**135.8**	**40.1**	**17.2**	**155.1**
Foreign financing (net)	54.6	51.4	21.5	81.8
Domestic financing	81.2	33.9	0.8	73.3
TOTAL BUDGET	**984.0**	**483.7**	**449.1**	**984.0**

Source: MINECOFIN

viii. Resource mobilization

- ***Revenue collections***

For fiscal rear July 2010/ June 2011, the Government targeted an increase of RWF 94.6 billion in domestic revenue mobilization. This target was based on a much faster recovery of the monetized sector of the economy and an accelerated increase in revenue yield from the on-going administrative reforms. As a result of a slower recovery together with larger than projected revenue loss from trade with the EAC and COMESA region, and poor performance of profit taxes resulting from the financial crisis in 2009, total collections were revised downward to RWF 471.7 billion from RWF 479.7 billion originally projected.

The relatively poor performance was especially felt in the July-September 2010 period even though the total for the period was exceeded.

Total domestic revenue collections for the July-December period amounted to RWF 226.6 billion compared to RWF 219.7 billion projected. This showed an over-performance of about RWF 6.9 billion which was almost entirely due to improved collections from PAYE, domestic VAT and excise duties.

- ***Budgetary grants***

Budget support grants for the July-December period amounted to RWF 127.3 billion and were RWF 10.6 billion lower than the RWF 137.9 billion estimated.

The shortfall was mainly due to the non disbursement of the FTI education grant of US$ 35 million programmed for the last quarter of 2010.

ix. Expenditures

The performance of spending was affected by minor delays in completing tender processes especially in the July- September period which represents the first quarter of a new fiscal year. As a result, total expenditure and net lending at RWF 471.4 billion registered a shortfall in total spending of RWF 15.1 billion compared to RWF486.5 billion projected. Excess spending under wages and salaries, interest expenditure, domestic capital and net lending was more than offset by the lower spending under goods and services, transfers and exceptional expenditure and therefore contributed to the overall lower spending registered during this period.

In the case of excess spending under domestic interest payments which amounted to about RWF 1 billion this was due to delays in donor disbursements which necessitated additional sales of Treasury bills to the Commercial Banks to finance Government spending. The overspending of RWF 5.3 billion under net lending was the result of the soft loan of RWF 9.2 billion given to the Kigali Conference Centre (KCC) to allow work to continue on the project. There has been a delay in finalizing the financing arrangements in China. It is expected that this amount will be reimbursed when the finances are secured. The excess spending under domestic capital was primarily due to accelerated work on some of the power projects during this period.

Despite the shortfall in spending, outlays for priority expenditures in line with EDPRS priorities remained on track as the priority spending target of RWF 458.7 billion was exceeded by RWF 12.2 billion.

x. Deficit and Financing

The lower Government spending during this period was partly offset by the delays in donor budget support disbursements. As a result, the overall cash deficit at RWF 57.8 billion was about RWF 3.1 billion lower than the RWF 60.9 billion programmed. With net foreign loan financing of RWF 11.3 billion which was RWF 15.5 billion lower than projected on account of delays in project execution, the domestic cash requirement of Government in this period rose to RWF 46.4 billion compared to RWF 33.9 billion projected. This was financed with BNR overdraft as well as sales of Treasury bills to the Commercial Banks. As a result total domestic debt of Government which amounted to about RWF 177.8 billion (5.9 per cent of GDP) at end 2009, rose to RWF 218.9 billion (6.6 per cent of GDP) by end December 2010.

xi. Outlook for the remaining fiscal year 2010/2011

In line with the Government's objective of not crowding out the private sector by reducing its recourse to domestic financing, it decided to reduce its domestic borrowing by RwF 14 billion, which was compensated by top-up grants by the World Bank worth the same amount. Accordingly, the 2010/2011 budget was revised to reflect this but the total budget remained unchanged at RwF 984 billion. This reduction is expected to allow private sector credit to grow by about 6%.

III. Medium Term Macro-economic Framework and Budget Policies

Annex table 2 shows the details of selected macro-economic and financial indicators for the medium term.

Our Medium-Term Macroeconomic Framework is consistent with our EDPRS as well as the PSI program.

a) Real Sector

Real GDP is projected to grow on average by about 7.2% per annum over the five year period covering 2011-2015. The contribution from the agriculture sector is projected to average about 5.2% per annum led by food crops production especially cereals. This reflects the ongoing investments under the CIP through the provision of fertilizer and seeds, land consolidation and the increase in irrigated areas. The expected increase in cereals production (especially sorghum, maize wheat and rice) should lead to a reduction in imports of these food items in the medium-term and save foreign exchange.

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

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

b) Fiscal Sector

In the fiscal area, fiscal consolidation through increased domestic revenue mobilisation and expenditure prioritization to close the fiscal gap remain the key component in our medium-term fiscal strategy. Accordingly, the fiscal deficit (including grants) is projected to decline from about 1.8% of GDP in 2011/2012 to about 0.3% of GDP by 2014/2015. Over the same period, domestic revenues are projected to increase from about 13.9% of GDP in 2011/2012 to about 14.8% of GDP by 2014/2015. Consistent with the policy to reduce our dependency on donor aid inflows, donor budgetary grants are projected to decline from about 11.9% of GDP in 2011/2012 to about 9.1% of GDP by 2014/2015.

c) External Sector

With regards to the external sector, performance in the medium-term will be influenced by the global financial developments. However we will expect that the implementation of our comprehensive export strategy will show early results. Accordingly our total earnings from exports which have been projected at about US$ 376 million in 2011, will reach US$ 411 million in 2012 before climbing to about US$ 500 million in 2015.

Imports (fob) basis are also projected to increase from about US$11400 million in 2011 to about US$ 1579 million by 2015, reflecting our implementation of the ongoing strategic investment projects and the associated requirement of capital goods for these projects. Food imports in this period are however projected to decline in response to our Crops Intensification Program as our cereal production increases.

Mirroring our projected growth in imports to support our investment strategy, the current account deficit (including grants) which is projected at about 5.8% of GDP in 2011 is expected to rise to about 6.1% of GDP by 2013 before declining slightly to about 5.6% by 2015. Consistent with our private investment strategy we expect FDIs which at end 2010 amounted to about 0.8% of GDP in 2010 to reach about 1.4% of GDP by 2015. In the medium-term we aim to maintain official foreign exchange reserves at a level that will cover about 5 months of imports of goods and services.

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

d) Monetary and exchange rate policies

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

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

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

e) Financial sector

In the area of financial sector BNR is committed to ensure an orderly roll-out of the Umurenge SACCOs program to protect the stability of the financial system. To this effect, the BNR is committed to follow through carefully the requirements in Regulation on the Organization of Microfinance Activity (No. 02/2009), and ensure that key managers and directors of all MFIs (including SACCOs) that are granted licenses to lend, possess the minimum training and experience needed to identify, measure, control and oversee the risks associated with the operations of SACCOs.

IV. Medium term budget policy – 2011/12 to 2013/14

The 2011/12 budget and the medium term projections have been guided by the fiscal framework with declining grant resources from 11.3% of GDP in 2011/12 to 9.3% in the financial year 2013/14. While the total domestic revenue grows over the same period from 13.9% to 14.6%, this does not provide the much needed resources for investment. The medium term budget policy is therefore to increase resource allocation to investment projects that generate more impact on growth while keeping recurrent costs at nominal levels that can allow government institutions to provide credible services.

The major focus for the 2011/12 financial year and the medium term is to raise adequate resources for the completion of strategic investment projects that will allow forward and backward linkages to stimulate growth of other sectors. This is intended to leverage private sector financing of development projects while generating employment opportunities and furthering growth. Completion of the strategic investment projects also envisages the potential to increase exports while broadening the revenue base to generate more tax revenues.

Consistent with the EDPRS objectives, resource allocation for the 2011/12 financial year and the medium term has been predicated on the imperative of rural transformation and growth of exports as well as incomes through strengthening productive capacities and infrastructures. At the same time, resource allocation has targeted investing strategically in human development and social sectors while maintaining the momentum in good governance and improved public service delivery.

The section below will outline in more detail the expenditure plans for the financial year 2011/12 and the medium term.

a) Priorities for the Medium Term – Expenditures by Cluster and Sectors

The medium term budget framework is in line with Rwanda’s development strategies mainly EDPRS and Vision 2020. This is reflected in the four broad EDPRS clusters as follows:

a) ***Infrastructure Cluster****:* This cluster is viewed as the enabler and priority will be given to investments that have greater linkages, promote business environment and reduce the cost of doing business. The focus will be on energy generation and distribution projects, road construction and rehabilitation, and ICT development. Special attention will be put on regional infrastructure projects in transport, energy and ICT as well as the operationalization of the Fibre Optic Cable. Accelerating the on-going projects in energy through the energy roll-out plan especially to provide power to rural areas has been given greater attention. Implementation of Kigali city and districts master plans including the scaling-up of rural settlement programme (Umudugudu) will receive greater attention to facilitate planned urbanization and orderly provision of infrastructural facilities.

b) ***Productive Capacities Cluster****:* This cluster is critical to economic growth, employment and poverty reduction. The target will be rural transformation through enhancing agriculture supply, promoting agri-business, scaling-up systematic land registration and promotion of value addition for exports. Irrigation and marshland development will be scaled-up to provide resilience to unpredictable droughts and maintain steady supply and quality of agricultural produce. Special emphasis will be put on accelerated implementation of the pro-poor Vision 2020 Umurenge programme (VUP), implementing integrated development project (IDP) in all provinces and promotion of non-traditional export crops. Supporting small and medium enterprises will be strengthened and more attention will be given to promotion of business support services and cooperatives. Emphasis will be put on interventions to provide clean, secure and sustainable environment as well as increasing access and reliability of water supply in rural and urban areas. In addition to increasing quality and affordability of water, focus will also be put on activities that enhance solid waste management and rainwater collection.

c) ***Human Development and Social Cluster****:* This cluster is the foundation for national socio-economic transformation. The focus will be on improving the quality of life of the population with special emphasis on fully implementing the 9-year basic education, skills development through vocational training colleges, promoting ICT in education and strategic support to higher education. Focus will also been directed towards improving health of the people by intensifying the fight against infectious diseases, preventing and treating non-communicable diseases and reducing maternal, infant and child mortality. Family planning services will be enhanced in order to contribute to population control and the new health insurance policy implemented to make health financing more sustainable. A particular emphasis will be placed on improving quality of services provided and in generating evidence for planning and implementation through research efforts. Social protection interventions will mainly focus towards increasing the productive capacities of the vulnerable members of the society by providing employment and income generating projects while giving direct support to the physically handicapped and aged people.

d) ***Governance and Sovereignty Cluster****:* This cluster plays a key role in enhancing public service delivery, fostering good governance practices, providing access to judicial and legal services, protection of State sovereignty and ensuring security of persons and property as well as prevention of crimes. The progress made in national peace and security, public service delivery and good governance will be maintained and improved. Access to quality judicial and legal services will be improved through strengthening the Justice, Law and Order institutions. Community policing will be strengthened and the community programme of human rights and mediation courts promoted. Particular attention will be given to supporting institutions that promote integrity and the fight against corruption. More support will be given to Peace Keeping Missions in Sudan and to the EAC Peace Keeping Force to contribute to the regional and international peace keeping initiatives. Fiscal decentralization will be deepened consistent with the principles of the third phase of decentralization especially that of matching resources with expenditure assignments. Special attention will be given to strengthening public financial management (PFM) through implementation of the PFM reform strategy and the roll-out of the Integrated Financial Management System (SmartIFMS) to all budget agencies. Economic planning and forecasting will be improved through enhanced statistical systems and surveys that provide timely and accurate data. Focus will also be given to capacity development through targeted capacity building interventions designed on the basis of skills gaps.

The table 4 below shows resource allocation by clusters in comparison with the EDPRS target in 2012.

Table 4: Resource Allocation and comparison to EDPRS Target (RWF, billions)

EDPRS Cluster	2011/12 Budget	2012/13 Proj.	2013/14 Proj.	EDPRS Average
Infrastructure	242.8	223.8	231.7	135.6
Productive Capacities	199.7	230.6	257.3	114.6
Human Development & Social Sectors	340.1	360.8	372.7	235.2
Governance & Sovereignty	334.2	343.3	355.7	201.8
Total	**1,116.9**	**1,158.4**	**1,217.4**	**687.2**
As a share of Total Budget (%)				**2012 EDPRS Target**
Infrastructure	21.7	19.3	19.0	19.7
Productive Capacities	17.9	19.9	21.1	16.7
Human Development & Social Sectors	30.5	31.1	30.6	34.2
Governance & Sovereignty	29.9	29.6	29.2	29.4
Total	**100.0**	**100.0**	**100.0**	**100.0**

Source: *MINECOFIN*

Table 4 above illustrates resource allocation to the four EDPRS clusters over the medium term and shows how this compares with the EDPRS target at the end of the year 2012. Resource allocation to the Infrastructure cluster at 21.7% of the total budget allocation in 2011/12 is well above the EDPRS target of 19.7% in 2012. The resource allocation in the medium is gradually declining mainly due to limited information on projects over the three year time horizon considering that more than 80% of Infrastructure budget is funded through projects.

The allocation of budget to productive capacities is 17.9% in 2011/12 compared to 16.7% envisaged at the end of the year 2012, which is 1.2% above the projected share and maintains an increasing trend to about 21.1% of the total budget in the year 2013/14. This is mainly attributed to the scaling-up of investments in agricultural supply, agri-business, promotion of SMEs, post harvest handling and VUP Program.

The resource allocation to human development and social sectors at 30.5% is about 3.7% short of achieving the EDPRS target that was projected at 34.2% at the end of 2012. This shortfall has been largely caused by the enormous financing needs in the productive capacities and infrastructure sectors. The medium term projections for the cluster first increases but declines in the last year of the medium term expenditure framework mainly due to the financing of the global fund whose estimates is not available for the last financial year 2013/14.

The governance and sovereignty cluster takes a share of 29.9% of the total budget and is 0.5% above the EDPRS projected share at the end of 2012. The medium term trend of the cluster is very well aligned to the EDPRS objective of keeping the share of the sector at about 29% of the total budget to create savings for other highly demanding sectors particularly the productive capacities as well as human development and social sectors.

V. The Budget for Fiscal Year 2011/2012

The table 5 below gives a summary of the budget for fiscal year 2011/2012 compared to fiscal year 2010/2011. Annex 3 shows the resource envelope.

Table 5: Budget Projections 2010/2011 and 2011/2012 (in Billion RwF)		
	2010/ 2011	2011/2012
Revenue and grants	**844.2**	**993.9**
Total revenue	**471.7**	**538.4**
Tax Revenue	449.1	510.4
Non-tax revenue	22.6	28.0
Total Grants	**372.5**	**455.5**
Budgetary grants	208.5	271.2
Capital grants	164.0	184.4
Of which : Global fund	47.2	70.7
Total expenditure and net lending	**988.1**	**1062.8**
Current expenditure	514.9	557.9
Capital expenditure	452.9	503.3
Domestic	219.4	243.6
Foreign	233.5	259.8
Of which : Global fund	47.2	70.7
Deficit (cash basis)	**-155.1**	**-77.0**
Financing	**155.1**	**77.0**
Foreign (net)	81.8	64.5
Domestic	73.3	12.5
TOTAL BUDGET	**984.0**	**1116.9**

Source: *MINECOFIN*

The budget for fiscal year 2011/2012 is consistent with our medium the macro-economic frame-work. The budget's major objective is to improve fiscal consolidation as envisaged in the PSI. This will involve increase in revenue mobilization and prioritize expenditures with a view to reduce the fiscal deficit and the domestic financing.

In this regard the budget aims at achieving the following objectives:

- ✓ Increasing domestic resource mobilization by about 0.2 percent of GDP from 13.6 percent of GDP to 13.8 percent of GDP,
- ✓ Reduce total expenditure and net lending (excluding the expenditures funded by the Global Fund) by about 1.6 percent of GDP from 27.1 percent of GDP to 25.5 percent of GDP'.

- ✓ Reduce the overall budget deficit (including grants) from 4.4 percent of GDP in 2010/11 to 2 percent of GDP in 2011/2012.
- ✓ Reduce net domestic financing will from 2. 2 percent of GDP in 2010/2011 to 0.3 percent of GDP in 2011/2012.

In addition steps are being taken to broaden the coverage of project grants in fiscal operations of Government which can affect the future path of grants in fiscal consolidation. In this regard starting from 2011/2012, the budget will include grants related to the Global Fund spending by central Government which is expected to be sizable about RWF 70.7 billion (about 1.8% of GDP).

Total budget for 2011/2012 has been projected at RWF 1116.9 billion. This figure is RWF 132.9 billion higher than the revised total budget of RWF 984.0 billion. Recurrent spending has been estimated at RWF 557.9 billion as against RWF514.9 billion in 2010/2011, showing an increase of RWF 43 billion. Capital expenditure is also projected to rise from RWF 452.9 billion to RWF 503.3 billion in 2011/2012. In the case of net lending, the use of privatisation receipts from sales of Government shares in some public enterprises currently projected at RWF25 billion in fiscal year 2011/2012 to finance some priority expenditures is offsetting other expenditure under net lending. As a result the total allocation in 2011/2012 is projected to decline to only RWF1.6 billion from the net estimated figure of RWF20.3 billion in 2010/2011.

The overall cash deficit which in 2010/2011 amounted to RWF 155.1 billion is projected to decline sharply to RWF 77 billion in fiscal year 2011/2012. As a result of the reduction in the cash requirement of Government in 2011/2012, both foreign and domestic net financing also decline. Net foreign financing is projected at RWF 64.5 billion compared to RWF 81.8 billion in 2011/2012. The net domestic financing also declines sharply from about RWF 73.3 billion in 2010/2011 to RWF 12.5 billion. This decline in the domestic scene allows a much bigger increase in private sector credit in 2011/2012 than in 2010/2011 and is consistent with our objective of providing adequate credit facilities to the private sector for growth.

a) Resources

i. Domestic Revenue Projections

Total domestic revenue collections for fiscal year 2011/2012 have been projected at RWF 538.4 billion. Tax revenues will be expected to contribute RWF 510.4 billion whilst non tax revenue collections have been estimated at RWF 28 billion.

- **Tax revenue projections**

Regarding tax revenue projections, direct taxes will contribute RWF 199.9 billion compared to RWF 175.8 billion in 2010/2011, showing an increase of about 13.7 percent. PAYE and profit tax collections will lead the way in direct tax collections. Tax collections from domestic goods and services have been projected at RWF 270.5 billion showing an increase of about 15.4 percent over the RWF 234.3 billion collections in 2010/2011. Consumption taxes from excises and domestic VAY will provide by far the largest share. Taxes on international trade are projected to yield RWF 28 billion compared to RWF 22.6 billion in 2010/2011. This estimate reflects the expected losses resulting from changes in sources of imports with more imports coming from the EAC and COMESA regions. The increase therefore is based on the expected increase in the value of imports from the rest of the world and the expected depreciation of the currency vis-a-vis the US dollar in the fiscal year 2011/2012. The tax revenue projections do not a substantial adjustment to the tax regime. Rather they are underpinned by revenue administration measures that RRA plans to implement. These are as follows:

- **Revenue administration measures for 2011/12**

  - ✓ Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers. (Structural benchmark for end-January 2012).
  - ✓ Conduct a study to identify potential areas to widen the tax base and estimate the tax gap (structural benchmark for end-December 2011).
  - ✓ Introduce e-filing and payment to improve on time spent, reduce burden to taxpayers and service delivery.
  - ✓ Conduct customer satisfaction survey to inform our next areas of focus for strategic planning purpose.
  - ✓ Introduce new tax compliance risk assessment system (DTD) that will orient audit function to highly risk taxpayers.
  - ✓ Implement electronic single window system at customs that will allow parties involved in trade & transport to lodge standardized information & documents using a single point.
  - ✓ Establish a One-Stop-Border concept on Kagitumba and Rusumo border posts with 24 hours operations to facilitate cross border trade.
  - ✓ Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination.

- ✓ Fully automate collection of pension funds and RAMA and bring those out of the PAYE net into the system.

Furthermore the following tax policy measures are being proposed to help RRA achieve its revenue targets. These are:

- **Tax policy measures**

- ✓ Introduce gambling and royalty (on mining) taxes in 2011/12.

The revenue accruing from the implementation of these new measures is minimal in the first year.

- **Non tax revenue projections.**

In the case of non tax revenue the projection of RWF 28 billion is about 24 percent higher than the estimate of RWF 22.6 billion in 2010/2011. Administrative fees and charges including passport /travel document fees and visa and driving licence fees are expected to contribute the largest shares.

ii. Budgetary grants.

In the fiscal year 2011/2012, donor budget support grants have been estimated at RWF455.5 billion as against RWF 372.5 billion projected for fiscal year 2010/2011. This figure for 2011/2012 is about RWF 83 billion higher than 2010/2011. Budget support grants are expected to contribute RWF 271.2 billion compared to RWF 208.5 billion in 2010/2011 showing an increase of RWF 63 billion. Delayed disbursements from the AfDB and increased support from the EU in fiscal year 2011/2012 mainly account for the increase in budget support grants. Project support grants are projected to rise from RWF164 billion in 2010/2011 to RWF 184.4 billion in 2011/2012. The scaling up of disbursement from the Global Fund accounts for the largest share of the increase in capital grants.

b) Expenditure projections

i. Expenditure projections by economic classification

- **Wages and Salaries.**

The allocation of RWF 126.5 billion in 2011/2012 is about 5% higher than spent in 2010/2011. This allows a modest increase in remuneration of the civil service staff and also caters for the filing of some critical vacancies.

- **Goods and services.**

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

- **Interest Payments.**

An allocation of RWF16 billion is being made to cover Central Government's interest costs in fiscal year 2011/2012. This amount is only about 5% higher than the allocation in 2010/2011. The increase is required to cater for interest costs of some new external public loan disbursements in the new fiscal year. Regarding interest on domestic debt, the allocation is expected to decline slightly because the domestic borrowing requirement of Government is projected to decline sharply in fiscal year 2011/2012.

- **Transfers**

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

- **Exceptional Expenditure**

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

- **Capital Expenditure**

Outlays for capital expenditure are being increased by RWF50.4 billion as total spending rises from RWF452.9 billion in 2010/2011 to RWF 503.3 billion in 2011/2012.

The domestic portion rises from RWF219.4 billion in 2010/2011 to RWF 243.6 billion and shows an increase of RWF 24.2 billion. The major reason for the increase is the scaling up of some strategic investments in energy, transport and agriculture to accelerate growth, create jobs and reduce poverty. Areas that will benefit from the increase in funds include the energy roll out program, construction of hydropower stations, roads construction, export promotion projects, irrigation projects as well as various activities under the Crops Intensification Program of MINAGRI.

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

- **Net Lending.**

In the case of spending under net lending, the expected receipts of about RWF25 billion from the sale of some shares (initial public offers) in a select number public enterprises would offset some expenditures under this item. Accordingly despite the projected spending of RWF 26.6 billion in 2011/2012 with RWANDAIR accounting for RWF 17 billion of this amount, the offsetting with the expected receipts reduces the projected allocation to only RWF 1.6 billion compared to RWF 20.3 billion in fiscal year 2010/2011.

c) Details of Cluster and Sectors Priorities and allocations for the 2011/12 Fiscal Year

The preparation of the 2011/12 budget was characterized by key reforms in public finance managements systems especially the implementation of integrated financial management system (SmartIFMS) and the revision of the Chart of Accounts. The latter was mainly intended to make the budget and its execution as well as accounting more coherent and user friendly while at the same time complying with international standards. Implementing the revised Chart of Accounts has changed the functional classification of the budget to 10 sectors instead of 14 sectors using the former Chart of Accounts. Consequently, we have a new sector of Economic Affairs that covers former agriculture, trade and industry, fuel and energy, transport and communication and water and sanitation. Each of these sectors is classified under a specific sub-sector(s) under the sector of Economic Affairs. The allocation of resources for the 2011/12 budget and the medium term has therefore followed the classification of the revised Chart of Accounts.

The indicative budget ceilings for the financial year 2011/12 were issued together with the second budget call circular of December 8, 2010. The circular provided comprehensive guidelines for budget preparation including a list of activities that will be given priority in resource allocation. The ministerial budget consultations were held from February 21 to March 10, 2011 and the total envelope that was shared by all government institutions was **RWF 1,116.9 billion** (see annex 3). The following sub-section gives more detailed resource allocation in each sector as well as the key projects and programmes to be financed during the 2011/12 financial year.

Infrastructure Cluster

The infrastructure cluster covers the sectors of economic affairs as well as housing and community amenities. The budget allocated to the infrastructure cluster is RwF 242.8 bn and is about 21.7% of the total budget. Compared to the target of 19.7% in 2012, this is well above the target by 2%. The sector of economic affairs which covers fuel and energy, transport and communication constitute about 83% of the total cluster budget. Housing and community amenities covers housing development and community development and these constitute about 13% of the total cluster budget for the 2011/12 financial year. The allocation of resources to the cluster and its sectors is shown in the table 6 below:

Table 6: Infrastructure Cluster Resource Allocation (RWF, billions)

	Sectors	2011/12 Budget	2012/13 Proj.	2013/14 Proj.
1	**Infrastructure**	**242.8**	**223.8**	**231.7**
704	Economic affairs	199.6	178.0	183.0
706	Housing and community amenities	43.3	45.8	48.6
As a share of Total Budget (%)				
1	**Infrastructure**	**21.7**	**19.3**	**19.0**
704	Economic affairs	17.9	15.4	15.0
706	Housing and community amenities	3.9	3.9	4.0

Source: *MINECOFIN*

The key projects and programmes of the infrastructure cluster that have been allocated resources in the 2011/12 financial year are:

- Rehabilitation and extension of urban roads as well as rehabilitation of classified national road networks especially:
  - Kigali-Gatuna road (80km);
  - Kigali-Musanze road (80km);
  - Gitarama-Ngororero-Mukamira (103km);
  - Huye-Kitabi (53km);
  - Nyamitanga-Ruhwa-Ntendezi-Mwityazo road project (50km); and

- Kitabi-Crete Congo Nil-Ntendezi (30km);

- Rehabilitation and maintenance of existing roads through the Road Maintenance Fund (FER)
- Construction, upgrading and improvement of Kigali International Airport
- Finalization of detailed engineering design for Isaka-Kigali-Keza-Gitega-Musongati railway line
- Undertaking the East Africa Trade and Transport Facilitation project
- Energy Roll-Out Programme to increase access to power by the rural population
- Implementation of the high priority electrification projects phase 3
- Electricity access scale-up project
- Increase rural access to electricity through PPP
- Nyabarongo and Rukarara hydro power stations to increase power production
- Construction of micro hydro power stations to augment power supply
- Geothermal resource development project
- Substitution of wood/charcoal and improvement of biomas efficiency to save the environment
- Capacity charge, fuel subsidies and import duties to stabilize power supply
- Implementation of Biogas Project to substitute for Charcoal and save the environment
- Rehabilitation of Rwabuye fuel storage facility to increase capacity of fuel storage facilities and safeguard against fuel shortages and price instability
- Completion of the National Backbone Infrastructure and deployment of E-Government to operate a high-speed fiber-optic network infrastructure for districts and interconnect with the Kigali Metropolitan Network
- National Data Center for National Data Storage and cyber security to provide a proper, secure, reliable infrastructure for effective data processing
- ICT for private sector development and ICT for community development and awareness projects
- Border connectivity project to improve service delivery at borders and doing business

- Construction of Kigali Convention Center and strengthening of Rwandair
- Eradication of grass thatched houses “Nyakatsi program” and promotion of communal settlement (IMIDUGUDU)
- Rehabilitation and renovation of public buildings
- Implementation of development plans for cities and towns
- Implementation of integrated development projects (IDP Model Projects) in all provinces and Kigali city
- Constriction of public buildings and provision for tenant expropriations
- Implementation of umutura community infrastructure development project
- Support to Rwanda Broadcasting Agency
- Support to the Urban Housing Development Board
- Support to the Road Transport Development Board
- Support to the Energy, Water and Sanitation Authority

Productive Capacities Cluster

The productive capacities cluster is made of two sectors namely, economic affairs and environmental protection. The sector of economic affairs covers the former sectors of agriculture, trade and industry as well as water and sanitation and each of them is now classified under a specific sub-sector(s). The economic affairs sector comprises about 86% of the 2011/12 total cluster budget. The sector of environmental protection has remained a separate sector and comprises about 14% of the total resources allocated to the cluster for the 2011/12 budget.

The productive capacities cluster has been allocated RwF 199.7 bn and this represents 17.9% of the total budget for the 2011/12 financial year. Like the infrastructure cluster, the productive capacities have exceeded the projected EDPRS share in 2012 of 16.7% by 1.2%. The allocation of resources to the cluster and sectors is shown in the table 7 below:

Table 7: Productive Capacities Cluster Resource Allocation (RWF, billions)

	Sectors	2011/12 Budget	2012/13 Proj.	2013/14 Proj.
2	**Productive Capacities**	**199.7**	**230.6**	**257.3**
704	Economic affairs	172.0	202.5	227.6
705	Environmental protection	27.7	28.0	29.7
As a share of Total Budget (%)				
2	**Productive Capacities**	**17.9**	**19.9**	**21.1**
704	Economic affairs	15.4	17.5	18.7
705	Environmental protection	2.5	2.4	2.4

Source: *MINECOFIN*

The key projects and programmes that have been allocated resources in the 2011/12 financial year to finance productive capacities are:

- Immediate Action Irrigation project to facilitate steady agricultural supply
- Scaling up priority crop intensification through increased supply and distribution of fertilizers and seedlings
- National Strategic Food Reserve
- Agricultural Mechanization Programme;
- Land husbandry Hillside Irrigation and Water harvesting to increase productivity and commercialization of produce from hillside agriculture in targeted areas
- Gishwati Land and Water Management
- Development of Kirehe Watershed management project to improve household food and nutrition security
- One Cow One Family Project
- One Cup of Milk per Child
- Support to small stock development
- Kigali wholesale market for agriculture product

- Improving coffee production, productivity and quality
- Promotion of business services and cooperatives including the SACCO programme
- Construction of one pilot provincial industrial park
- Undertaking of statistical surveys including the national census, household income survey and manpower survey.
- Implementation of the export promotion programme
- Implementation of capacity interventions through the Capacity Building Fund to improve human resource capabilities
- Implementation of the Rural Sector Support Project to accelerate the pace of intensification and commercialization of agricultural production
- Systematic Land Registration Project
- Protecting the banks and catchment area of Nyabarongo
- Project to support Reforestation activities (PAREEF)
- Rural Water Supply and Sanitation Project (PEAMER)
- Water supply and sanitation in Nyamagabe and Nyaruguru districts (FEA)
- Support to the Rwanda Natural Resources Board and REMA
- Support to Rwanda Agricultural Board
- Support to the Rwanda Bureau of Standards to set up quality testing laboratories and ensuring sufficient access to technical equipment to comply with international standards

- **Human Development and Social Cluster**

The human development and social cluster covers the sectors of education, health, social protection and recreation, culture and religion. Education sector accounts for 50% of the total 2011/12 cluster budget while health gets 39%, social protection 9% and the remaining 2% goes to recreation, culture and religion.

The budget allocated to the human development and social cluster in the financial year 2011/12 is about RwF 340.1 bn and represents about 30.5% of the total budget. Compared to the EDPRS target of 34.2% in 2012, the sector is below the target by about 3.7%. However, resource allocations for subsequent year are envisaged to remain above 30% of the total budget. The allocation of resources to the cluster and sectors is shown in the table 8 below:

Table 8: Human Development and Social Cluster Resource Allocation (RWF, billions)

	Sector	2011/12Budget	2012/13 Proj.	2013/14 Proj.
3	**Human Development & Social Sectors**	**340.1**	**360.8**	**372.7**
707	Health	132.0	131.3	122.1
708	Recreation, culture, and religion	6.5	6.1	6.9
709	Education	170.5	190.2	206.8
710	Social protection	31.2	33.3	36.9
As a share of Total Budget (%)				
3	**Human Development & Social Sectors**	**30.5**	**31.1**	**30.6**
707	Health	11.8	11.3	10.0
708	Recreation, culture, and religion	0.6	0.5	0.6
709	Education	15.3	16.4	17.0
710	Social protection	2.8	2.9	3.0

Source: *MINECOFIN*

The key projects and programmes that have been allocated resources in the 2011/12 financial year to finance activities of the human development and social cluster are:

- Schools construction, teachers' salaries, capitation grant, schools feeding and text books in line with the 9 YBE programme
- TVET to promote vocational training and narrow the skills gap and employment challenges in the domestic market
- Support to UMWALIMU SACCO (Teachers' cooperative) to improve the welfare of teachers through loan schemes
- Support to finance higher education through cost sharing and development of infrastructure and laboratory equipments
- Implementation of One laptop per child program in primary schools and enhancement of ICT in secondary schools
- Implement Integrated Polytechnic Regional Centres.

- Implementation of the new health insurance policy through providing contribution to indigents to achieve full coverage of health insurance for the population
- Implementation of performance based financing for the health personnel and provision of salaries for health workers.
- Rehabilitation and expansion of King Faisal Hospital
- Completion of Kinihira and Ntongwe District Hospitals
- Accreditation of reference hospitals to improve quality of services and standards
- Procuring drugs and vaccines for hospitals and health centers
- Controlling infectious diseases especially Malaria through acquisition and distribution of mosquito nets as well as HIV/Aids and tuberculosis
- Acquisition of Health Equipment and District Ambulances
- Implementation of the Social Protection Strategy through scaling-up of VUP and FARG programmes
- Implementation of the demobilization and reintegration of ex-combatants programme
- Rehabilitation and extension of Gitagata Orphanage Center
- Construction of stadiums in Nyagatare, Huye and Ngoma districts
- Construction of the environmental museum in Karongi district
- Operationalization of Rwanda Bio Medical Center
- Support to Workforce Development Agency, Teacher Training Colleges and the Rwanda Education Board
- Support to National Museum, the Youth Council and the National Commission for the fight Against Genocide

- **Governance and Sovereignty Cluster**

The governance and sovereignty cluster comprise of 3 sectors namely, general public services, defense and public order and safety. Of the total budget allocated to the cluster in the year 2011/12, general public services gets 60%, and public order and safety gets 26% while defense gets the remaining 24%.

The budget allocated to the governance and sovereignty cluster in the financial year 2011/12 is about RwF 334.2 bn and is about 29.9% of the total budget. Compared to the EDPRS target of 29.4% in 2012, the sector is close to the target by about 0.5%. The medium term trend promises to create more savings from this cluster for the benefit of other clusters that are below the target particularly the human development and social cluster. The allocation of resources to this cluster and its sectors is shown in the table 9 below:

Table 9: Governance and Sovereignty Cluster Resource Allocation (RWF, billions)

		2011/12 Budget	2012/13 Proj.	2013/2014 Proj.
4	**Governance & Sovereignty**	**334.2**	**343.3**	**355.7**
701	General public services	199.6	200.4	199.0
702	Defense	81.9	83.9	88.6
703	Public order and safety	52.7	59.0	68.1
As a share of Total Budget (%)				
4	**Governance & Sovereignty**	**29.9**	**29.6**	**29.2**
701	General public services	17.9	17.3	16.3
702	Defense	7.3	7.2	7.3
703	Public order and safety	4.7	5.1	5.6

Source: *MINECOFIN*

The key projects and programmes that have been allocated resources in the 2011/12 financial year for the governance and sovereignty cluster are:

- Establishment of the Electronic Trading Platform and the National Investment Trust to promote secondary financial markets and leverage domestic savings
- Support to the operations of monetary policy for prudent fiscal and monetary management
- Transfers to the districts for operating costs (block grant)
- Debt and interest repayments
- Implementation of the Public Finance Management Reform Strategy
- Support for the functioning of the Rwanda diplomatic missions abroad

- Remuneration for the personnel of Judiciary, defense and national police
- Access to justice and capacity development for the judicial institutions
- Strengthening of institutional capacities in charge of internal security
- Construction and rehabilitation of buildings for Embassies
- Support to peace keeping operations in Sudan
- Deployment of the districts ICT infrastructure
- Implementation of ID projects and operationalization of the Smart Card
- Strengthen regional integration as well as regional and international cooperation
- Support for the functioning of executive and legislative organs

VI. Policy Issues for consideration

During the Ministerial budget consultations held from February 21 to March 10, 2011, all sectors presented their budget estimates and accordingly gave their justification. In some instances however, sectors presented additional requests that were over and above the provided ceilings by significant margins. This proved challenging because of the limited flexibility to make inter and intra-sectoral resource re-allocation. A number of other policy related issues also emerged from discussions and these are summarized below for Cabinet consideration:

a) Performance Bonus and Horizontal Step Promotion

Since 2006, the Government adopted a performance management system where the performance of civil servants is evaluated annually and performance bonus paid on the basis of performance. Similarly, civil servants that perform to the required standards are promoted on the basis of these evaluations at least one every three years. The recent findings by the Ministry of Public Service and Labour indicate that some agencies have not done performance evaluations for their staff. Additionally, the present requests by some institutions to allow payment of Arrears for performance bonus confirm this anomaly. It is proposed for Cabinet to endorse that where institutions fail to undertake performance evaluations to provide performance bonus to staff and undertake the required promotions, those benefits be forfeited due to adverse financial implications they can create to the Treasury when carried over to subsequent years. However responsible officers should be held accountable.

b) Resource Prioritization

As already mentioned, all sectors submitted budget requests that were way beyond the provided budget ceilings. This required sectors to reprioritize and be able to fit in the ceiling and sometimes sequencing of programmes and projects. However, some sectors and institutions have not been able to reprioritize and still keep a list of un-funded and under-funded programmes and projects after the budget consultations. Not surprisingly, some institutions bring back these unfunded activities as urgent and priority activities during budget implementation. The Cabinet is requested to adopt the proposal that where priorities emerge after the budget is approved and which do not constitute activities that were not foreseen at the time of preparing the budget or are urgent in nature to qualify for payment under impromptu budget line, the concerned institution to be required to propose re-allocations from its budget.

c) Authorization for subscription payments

It was noted during budget consultations that some agencies unilaterally make commitments to pay subscriptions to national, regional and international organizations. Some of the evidence presented as supporting documents for authorization included Minutes of the meetings attended by some Government officials or a Memorandum of Understanding. In most instances, it was difficult to present a cabinet decision or a ratified agreement to this effect. This practice is likely to constitute a source inefficient spending if permitted to prevail. It is proposed for Cabinet to endorse that all commitments to pay subscriptions to regional and international organizations be approved by Cabinet and supported by a Cabinet decision for payment otherwise be rejected.

VII. Risks to economic performance in fiscal year 2011/2012

The Government's economic policy and budget for fiscal year 2011/2012 have been formulated against the backdrop of external uncertainties. Of particular importance are the continuous global oil and food price increases and their impact on domestic economic performance. The underlying pressures from these sources are already beginning to show with inflation rising to about 4% by end March2011.The Government is monitoring the situation closely with a view to taking corrective measures should the need arise. The major objective here is to preserve macro-economic stability during the fiscal year.

VIII. Conclusion

The budget framework for 2011/12-2013/14 is built on the EDPRS foundations and a prudent macro-economic and fiscal framework. The medium term projections of donor grants are declining as a share of GDP while domestic revenues portray a positive trend. However, the decline in grants outweighs the growth in revenues and financing options are limited. This calls for targeting resource allocation to projects and programmes that have high impact on growth and employment, which has been the guiding principle of this framework. Based on our past performance and our medium term projections we expect that all the EDPRS targets will be achieved and in some cases be exceeding by the end of the year 2012 with the exception of human development and social cluster. The proposed budget framework will be augmented with private sector financing through innovative financing options in the framework of public-private partnership ventures.

Whilst the medium term budget policy is supportive of rapid growth, the expenditure policy will ensure a healthy economic stability and supportive of the private sector development. The Government is fully committed to achieving rapid growth while maintaining health macro-economic stability.

IX. Annexes

1. Annex I: Explanatory Note to the BFP 2011/12-2013/14
2. Annex II: Basic Macro Indicators 2007-2012
3. Annex III: Fiscal Projections for 2010/11 – 2013/14
4. Annex IV: EDPRS Sector Shares 2011/12 – 2013/14
5. Annex V (a) – (b): Mid-year budget execution tables for 2010/11
6. Annex VI (a) – (c): External borrowing and loan servicing projections
7. Annex VII (a) – (b): Domestic borrowing and loan servicing projections
8. Annex VIII (a) – (b): Public Enterprises Revenues and Expenditure Projections
9. Annex IX: Summarized CG Transfers to Districts for 2011/12 –2013/14
10. Annex X (a) – (b): Consolidated Districts Revenues and Expenditures for 2011/12 – 2013/14
11. Annex XI: Block grant allocation table for 2011/12