REPUBLIC OF RWANDA

MINISTRY OF FINANCE AND ECONOMIC PLANNING

BUDGET SPEECH

FINANCIAL YEAR 2010/11

Theme: ‘Removing bottlenecks to exports of goods and services ”.

PRESENTED TO BOTH CHAMBERS OF THE PARLIAMENT OF THE REPUBLIC OF RWANDA ON JUNE 10, 2010

BY

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I. INTRODUCTION:

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

I have the honour to present to this august house the Government's budget and economic policy for the financial year 2010/2011.

1. This budget is the second one since Rwanda joined the East African Community Customs Union (EAC) on 1st July 2009 and aligned itself to the EAC budget calendar. The year 2010 also represents the third year in the implementation of our EDPRS. It also represents the first year of the newly concluded three year program with the International Monetary Fund (IMF) under the Policy Support Instrument (PSI) Vehicle. The budget I am about to present has been formulated against the backdrop of many challenges both on the global and on the domestic front.

2. The theme we have chosen for this budget is **"Removing bottlenecks to exports of goods and services"**. I have chosen this theme because there are still bottlenecks which need to be addressed for us to achieve our ambitious EDPRS objectives. Indeed, we need to address issues related to lack of infrastructure, lack of skills and a growing balance of payment deficit not only to ensure prosperity for all but also to reduce our dependency on external aid.

3. The budget statement is therefore structured as follows:

    a) First, I will briefly highlight the global economic outlook for 2010 and 2011 including the outlook for sub-Saharan countries and the likely impact on the domestic economy;

    b) Second, I will give a brief summary of recent economic development in fiscal year 2009/2010. The status of the EDPRS implementation will also be discussed briefly;

    c) Thirdly, I will present the Government's medium term macro-economic framework. This framework sets out briefly the objectives and policies for the next three year period;

    d) Fourthly, I will focus on the budget and economic policy for fiscal year 2010/2011 including the structural reform agenda.

II. THE GLOBAL OUTLOOK FOR 2010 AND 2011:

Honourable President of the Senate,
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4. After a global recession which saw a 0.5% contraction in GDP in 2009, world's GDP is expected to recover and grow by 4.5% in 2010 and around 4 to 4.5% in 2011 This recovery expected to be driven by the USA and Asian countries is characterized by (i) accelerated world trade, and (ii) increased industrial production and retail trade. However, many developed economies have accumulated high public debt and have to reduce their large deficits by reducing public spending. These measures may lower global demand which in turn may affect global growth rates. Cuts in their national budgets could also affect negatively allocations to external aid from which Rwanda benefits.

5. In sub-Saharan Africa, the economic slowdown observed last year looks set to be over, as the continent is expected to grow by 4.5% in 2010 and 5.7% in 2011 compared to only 2% in 2009. The recovery has been the result of a more expansionary macroeconomic policy adopted by these countries and the relative quicker recovery of the global economy. The main risks to this outlook and our domestic performance however are uncertainties in the developed economies with lower demand which could result in lower commodity prices of our key export crops as well as highly volatile financial markets.

III. RECENT ECONOMIC PERFORMANCE AND STATUS OF EDPRS IMPLEMENTATION:

A. GDP Growth:

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6. I now turn to the domestic economy. Economic activity slowed down in 2009 after a strong performance in 2008. The release from our National Institute of Statistics indicates that real GDP in 2009 grew at about 6% compared to about 11.6% in 2008. Nonetheless, real GDP growth of about 6% in 2009 was well above the sub-Saharan average of 2%. Growth in Rwanda in the first half of the year was driven by a strong performance of food crop production which grew at about 21%. This strong performance was due to the successful implementation of the Crop Intensification Program under which we saw an improvement in the distribution and use of fertilizer, use of better quality seeds and planting techniques as well as land consolidation. The performance of export crops (tea and coffee) was however disappointing as production declined by about 18% in 2009.

7. In the middle of 2009, the dual effects of the global recession and the tight domestic liquidity conditions impacted negatively on GDP growth. The areas most affected were the industrial and services sectors; indeed the industrial sector growth declined from 15% in 2008 down to 1% in 2009. Mining and quarrying as a sub-sector suffered from the decline in world demand and drop in international prices reduced local production. Activity in the construction sub-sector suffered from a reduction in bank credit facilities due to less liquidity and more nonperforming loans. The services sector grew by only 6% in 2009 compared to 15 % in 2008. Here again the global financial crisis and the tight domestic liquidity conditions affected restaurants and hotels performance as well as the financial subsector.

B. Inflation:

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

8. The consumer price index by end December 2008 had reached 22.3% and this reflected the sharp increases in world food and petroleum prices as well as the monetary expansion registered in 2007. By end 2009, however it has declined to 5.7% reflecting lower import prices of commodities, good performance of domestic food crops and the slower money growth. I am happy to say that inflation continues to fall and as at end April this year stood at 2.7 percent.

C. External sector performance:

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

9. I will now deal with our trade relations with the global market. The external current account deficit (including grants) that is the balance in our trade relationship with our trading partners in exports and imports of goods and services, increased from negative US$ 230 million (about 5% of GDP) in 2008 to negative US$ 381.5 million (about 7% of GDP) in 2009. Lower exports and higher imports contributed to this deterioration in the trade deficit.

10. In the case of exports, total earnings of about US$193 million in 2009 were US$74 million lower than our 2008 performance reflecting weaker global demand as well as a low domestic production. Coffee and tea volumes declined by 18% for coffee and 6% for tea. Coffee was hit in a double way as prices also declined by 4%. Export receipts from minerals also dropped by about 40% as both volumes dropped by 13% and prices dropped by 13 % compared to 2008.

11. Imports grew by 9% compared to 2008 reaching US$ 963 million. The joining of the East African Community Customs Union on 1st July 2009 and the resultant reduction of import barriers within the community led to a shift in direction of trade towards the East African Community and the COMESA free trade area. These contributed to the increase in imports especially consumer goods.

12. In services sector, tourism receipts declined by 6% translating into receipts of US 174.5 million as a direct impact of the global recession.

13. The shortfalls in export of goods and services receipts were more than offset by larger than expected current transfers and capital inflows which were US$32 million higher than in 2008. Private direct investment reached US$119 million compared to US$ 103 million in 2008. The key areas of investment were in communications, banking, hotels and tourism as well as minerals sectors. These together with the (SDR) allocation from the IMF of US$100.7 million contributed to Rwanda having an overall balance of payments surplus of US$139 million in 2009. This surplus translates into an increase in international reserves from 5 months of import coverage by end 2008 to 6.2 months by end 2009.

D. Fiscal performance:

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

14. I now turn to fiscal performance. In June 2009, Parliament approved a total budget of Rwf 838.0 billion; however by March 2010 an additional Rwf 35 billion were mobilized from additional budget support grants meant to help countries cope with the impact of the global financial crisis. There were also additional resources from domestic financing worth about Rwf 25 bn. As a result, total revised budget approved in March 2010 rose to RwF 899 billon.

15. With 75% of taxes and non-taxes collected by end April 2010, we are on track on our domestic revenues targets for 2009-10. Higher collections of direct taxes and some indirect taxes offset shortfalls in international trade taxes and non tax revenues. Efforts have been placed to decentralize tax administrative services in order to broaden the tax base and to increase compliance. As a result of various reforms undertaken by RRA in 2009, 1,257 new taxpayers were registered bringing the total number of taxpayers to 34,193 at end 2009.

16. Due to additional resources mobilized during the year, total outlays of Government which was estimated at Rwf 838 billion in the original 2009-10 budget was increased to Rwf 899 billion in the Revised Budget. The large share of additional spending was allocated to the upcoming Kigali Convention Centre and Rwandair as well as higher outlays for One Laptop per Child, Nine Year Basic Education, storage for agriculture, irrigation facilities and roads in Rubavu.

Honourable President of the Senate,
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17. The implementation of the 2009/2010 budget in the first nine months has been slow. Total expenditure at Rwf 601 billion was about Rwf 39 billion lower than the Rwf 640 billion projected for this period. I am however pleased to announce that spending has picked up considerably since end March 2010, and I am hoping that the budget will be implemented in full. Indeed with 93.9% of budget executed to date, spending in the priority areas has proceeded as envisaged in our EDPRS.

18. The gap between domestic resources and grants on the one hand and total expenditures and net lending on the other (also called the overall cash deficit including grants on gross basis) was estimated at Rwf 119.9 billion. This deficit was to be financed with external aid in the form of gross borrowings of Rwf 68.6 billion and domestic financing of Rwf 50.7 billion.

E. Key Achievements in the 2009/10 Financial Year:

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

19. I will now mention some few programs implemented as well as some results achieved in key sectors for the 2009/10 financial year:

a) Education:

i. The 9 year basic education was successfully implemented for the first year to scale-up access to education. About 3,086 Classrooms were constructed and equipped with 74,046 desks. This increased 9 year basic education gross enrolment rate of lower secondary by 35% and the number of pupils attending lower secondary education increased from 183,283 in 2008 to 247,459 in 2009. In addition 5,834 latrines were constructed in various schools to improve hygiene.

ii. Moreover, 40,008 teachers were trained in English language, this fiscal year, to enable schools to use English as the language of instruction and all Mathematics and Sciences teachers were given special training sessions due to the specific nature of their subject. We were also able to provide 1,624,000 textbooks in English to the 9 year basic education and 320,000 textbooks for secondary education.

iii. Payment of teachers' arrears that had accumulated from the past years is being made. Out of a submitted stock of Rwf 3.5 billion, RwF 1.8 billion has been processed for payment. Regarding the remaining Rwf 1.7 billion, Districts have been requested to provide all supporting documents to enable payment to be made. We have therefore provided about Rwf 2.0 billion in the 2010/11 budget to cater for this backlog as well as any outstanding remaining teachers' arrears.

iv. Technical and Vocational Training was given more attention as 100 trainers were trained in Singapore and Philippines while 316 teachers were trained locally in vocational training. Kicukiro Polytechnic was reconstructed while other Integrated Polytechnic Regional Centres were given equipments.

v. We have scaled-up our efforts in science and technology in line with our objective of promoting ICT in Education. We ordered 100,000 XO laptops and 65,000 laptops have already arrived and these are currently being distributed. 4,000 teachers were trained in ICT and 4,000 Computers distributed to secondary schools. Centres of Excellence in secondary education were equipped to support learning of science subjects and a new faculty of Architecture was put in place in KIST.

b) Health:

i. We stepped-up efforts in providing Health infrastructures and thereby increase access to health care. We started construction of 6 hospitals (Butaro, Masaka, Kirehe, Bushenge, Ntongwe and Kinihira Hospitals) and 7 health centres (Juru, Ngeruka, Mudende, Bugeshi, Mukoma, Bushenge, Nkombo). Furthermore, 45 maternities and 60 Health posts were constructed.

ii. We increased funding for Health equipment, drugs and materials to improve the quality of health care. Maternity equipments for CHUK, Muhima, Kibagabaga and Kanombe Hospitals were procured and mosquito nets as well as malaria drugs availed. We purchased an MRI for KFH, equipment for Butaro Hospital and constructed theatre room for Kirehe District Hospital.

iii. We have enhanced Health Transport to save the lives of our citizens especially pregnant women in rural areas. We bought 64 ambulances for 45 districts hospitals to supplement the existing ones.

iv. Itorero of the community health workers was operationalized as community health workers received 10,593 mobile phones. Emergency plan for fighting malnutrition is being implemented and funding for performance based financing increased to raise the performance of health care personnel.

v. We scaled up support to the poorest to ensure that they benefit from health insurance through Mutuelle. We paid all arrears owed by mutuelle to hospitals and approved a new policy which will prevent such accumulation in the future. In 2009, mutuelle utilization rate improved further from 81% in 2008 to 86%.

c) Agriculture:

i. MINAGRI scaled-up efforts to increase agricultural productivity through increasing financing for crop intensification program and increase land productivity per hectare. Over Rwf13 billion have been spent to procure fertilizers and seeds. This has been supported by land consolidation initiatives that have facilitated provision of extension services. About 254,000 hactares have been consolidated and 30,000 Metric tonnes (MT) of fertilizers utilized on priority crops. The resulting agriculture yield has substantially increased self-sufficiency in food production.

ii. Livestock development was enhanced through GIRINKA Program and this has been supplemented with construction of milk collection centres and provision of enhanced veterinary services. 10,000 new poor families have benefited from GIRINKA Program.

iii. MINAGRI increased the coverage of irrigated land through small scale irrigation projects especially in southern and eastern provinces. 144 ponds have been constructed in 8 districts of the Southern and Eastern provinces.

iv. MINAGRI also implemented the post-harvest program to ensure food security. Under this program, farmers have been able to store 7,000 MT of maize and 3,000 MT of beans. They have also been supported to minimize post-harvest losses by availing 114 shellers and 36 shelters.

d) Information Communication Technology:

i. Increased funding for the National Backbone project with a view to acquire affordable and reliable connectivity. The connection to the main route of Gatuna-Kigali for the international connectivity to the submarine cable has been done and at least 252 Kms have been completed in all districts. Work is on-going and the project is expected to be completed early next year.

ii. The first phase of the Kigali Metropolitan Network was completed and about 73 government institutions are already connected with fiber optic cable. The objective of the project is to provide broadband connectivity to all Government Institutions and buildings in Kigali City and further link them with all the Districts.

iii. Funding for the National Data Center was increased and about 90% of the required physical construction is now completed. This project will provide a secure, reliable and highly available physical infrastructure for effective data processing to match the needs of other ICT initiatives in pipeline.

iv. More work was has been done on Kalisimbi Project. The project objective is mainly to provide low cost, high-capacity communications to both rural and urban population. Most of the infrastructure works have been completed and the project is now entering the phase of deployment of services that will commence in the next financial year.

v. Funding for Telecenters was also increased to support and improve the delivery of public and private sector services. It will also enable rural people have access to ICT facilities. About 12 Telecenters are currently operational and 18 more are being equipped with IT equipments.

e) Transport:

i. MINIFRA undertook the maintenance, rehabilitation and extension of paved road network for Musanze-Rubavu, Gitarama-Ngororero, Ngororero-Mukamira and Kicukiro-Nemba.

ii. The maintenance and rehabilitation of gravel roads particularly for Nyanza-Kibuye, Kibungo-Ramiro, Maya-Rushaki-Muhambo and Brasserie-Nkora was also undertaken.

iii. Pursued rehabilitation and extension of Urban Roads especially upgrading Kigali City roads and Rubavu roads. About 37 km for Kigali City and 7 km for Rubavu town are currently under rehabilitation and are scheduled for completion in the next few months.

iv. Undertook development of infrastructures to promote external trade especially the One Stop Border Post at Gatuna, Rusumo and Electronic Cargo Tracking System.

f) Energy:

i. Executed the following high priority electrification projects and some of them are still on-going:

- Electrification of six districts that were not electrified: these are Ngororero, Gisagara, Nyamagabe, Bugesera, Kirehe and Kamonyi. Currently all the districts headquarters have electricity except Kamonyi that will get power in July 2010.
- Electrification of Mimuri and Rukomo in Nyagatare with 4500 new connections.
- Electrification of Kamutwa-Busasamana-Ryabizige in Rubavu District.
- Electrification of Nyagasambu in Rwamagana District.
- Electrification of Bumbogo in Gasabo District.
- Electrification of Nkombo Island in Rusizi District.
- Electrification of Ngarama-Mugere in Gatsibo District.
- Electrification of Kiruhura-Ruhashya-Rugogwe in Huye District.
- Electrification of Nasho in Kirehe District.
- Interconnection of MukungwaII and Rugezi MPP on National grid.
- Electrification from Matimba to Kagitumba in Nyagatare District.
- Procurement and installation of power transformer and 110kV equipment.

ii. Construction of micro-hydro power plants to produce more energy (16 MW) for rural electrification. These include Keya and Gashashi in Rubavu district and Nkora, Murunda and Cyimbili in Rutsiro district, Agatobwe and Nshili I in Nyaruguru, Mutobo and Mukungwa II in Musanze, Rugezi in Burera, Nyabahanga in Karongi, Janja and Musarara in Gakenke, Nyirabuhombohombo in Nyamasheke,

iii. Increasing power production through the construction of Rukarara Hydro Power of 9.5 MW as well as Nyabarongo Hydro Power for 27.5 MW. Rukarara is scheduled for completion by end July this year while Nyabarongo is scheduled for completion in early 2013.

g) Social Protection and Governance:

i. The VUP program was scaled up to an additional 30 sectors and 60 sectors in total are now implementing VUP. The Micro finance component of VUP was finalized and implementation is on-track.

ii. We conducted a Joint Governance Assessment and results indicated that about 86% of the population were happy with service delivery while 72% of the population rated Local Government Accountability and responsiveness of local leaders as very good.

iii. Increased the number of households in organized settlements in rural areas (IMIDUGUDU) from 22% in the year 2008 to 46.5% by April 2010. In this framework, about 1,233 households were moved from Gishwati (high risk zone) and resettled in Nyabihu and Rubavu districts.

F. Status of Implementation of the EDPRS:

20. The Government has shown its commitment in implementing the set goals in the Economic Development and Poverty Reduction Strategy (EDPRS) 2008-2012. It is therefore striving to achieve higher program performance, and consequently higher social and economic development. Since the financial year 2009/2010 is the third financial year in the implementation of the EDPRS, I would like to highlight key progress made to date in the implementation of the Economic Development and Poverty Reduction Strategy (EDPRS).

21. The report assesses progress made against planned actions in the EDPRS Results and Policy Matrix. This matrix is organized in 3 EDPRS flagship programs that are aligned to the three clusters namely the Economic, Social and Governance clusters that were established by the Leadership Retreat in Ferbruary 2009.

22. Between January 2008 to the first half of 2010, out of 383 policy actions that were assessed, 374 had been implemented. This shows an implementation rate of more than 97%, though some of these policy actions were implemented with delays compared to plans. In some areas, it was realised that some of the targets have been exceeded. In these areas the projections for the future were revised upwards.

(a) Economic cluster:

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

i. In the case of ***private sector*** issues, the major component not dealt with under the macro-economic performance discussion was progress made in improving the business environment ("Doing Business"). I will inform the house on the progress made so far when I deal with the structural reform performance and agenda.

ii. Regarding the ***infrastructure sector***, progress has been made in maintenance of national and district roads. The percentage of national roads in good condition has increased beyond the targeted 19% in 2009/10 to more than 20%, while the preliminary estimates show that percentage of district roads in good condition has also increased from a baseline of 15% to more than 30%, also in excess of the 28% targeted for in 2009/10.

iii. The number of electricity connections has also increased from 91, 332 in 2006 to 148,500 in 2009/10 compared to a target of 139,000 connections for this year. The installed capacity for electricity generation has increased from 45MW in 2006 to 84.5 MW in 2009/10.

iv. ***Agriculture*** sector has experienced renewed growth in the EDPRS period as I have mentioned earlier. Agriculture productivity and production have increased since the introduction of the crop intensification program. Yields in target districts have doubled or tripled in CIP areas. Fertilizer use in CIP target districts has also increased from 4kg/hectare to 8 kg/hectare. The area of land protected against erosion has increased by 25% since 2007 to more than 60%; we are on target to meet the EDPRS target of 100% protection against soil erosion.

v. In ***environment and natural resources***; percentage of national forest coverage has increased from 20% in 2007 to 21% in 2009/10.

vi. ***The ICT*** composite coverage network is now at more than 90% with the increased number of telecommunications operators following the introduction of Rwandatel and TIGO in addition to MTN that was already in the market. The competition has provided consumers with reduced cost of telecommunication services as subscription fee for mobile service was reduced down to zero francs, calling rates per minute was reduced by 32 % from Rwf 147 in 2003 to Rwf 100 in 2008. The mobile telephone coverage is 92% of the total population who can use telephone while the number of internet subscribers is at 157,570 this year.

(b) Social Cluster:

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

24. This cluster covers Health, Education, Social Protection, Youth and Water and Sanitation.

    i. ***In the health sector,*** some of the EDPRS targets for 2012 have already been achieved and our ambitions will be revised upwards accordingly. It is estimated from the Health Management Information System (HMIS) that the infant mortality rate has decreased from 86 to 62 per 1,000 live births (the initial target for 2012 is 62/1000).

    ii. The percentage of assisted births in an accredited facility has significantly improved from a baseline to an estimated 63.5% in 2009 well above the targeted 40% for 2009/10, already achieving the EDPRS target for 2012. The percentage of women aged 15-49 using modern contraceptive methods increased from a baseline of 10% in 2006 to an estimated 45% in 2009, exceeding the target of 32% set for 2009/2010.

    iii. Immunization coverage has increased to above 80% for all antigens by the end of 2009. On the indicator measuring the percentage of children using Long Lasting Insecticide Treated Nets (LLITN), significant progress was made, reporting a score of 60% in 2008 from a baseline of 16% in 2006. The utilization rate of primary health care services also increased from 70% to 86% in advance of the 80% target that was set for 2010.

    iv. ***In Water and Sanitation***; Rwanda has made significant progress towards achieving the Millennium Development Goals (MDGs) 2015 targets and the Vision 2020 target of 100% access to water. In 2009, an estimated 75% of population had access to clean drinking water and an estimated 58% had access to hygienic sanitation.

    v. ***In the education sector***, the major success story has been the launch of the nine year basic education program leading to significant increase in both enrollment and completion rates. The overall primary completion rate has increased from 52% in 2007 to 75% in 2009, with completion rate for girls higher at 78% compared to that of boys of 71%. The transition rate from primary to secondary school has also increased from 54% in 2008 to 88% in 2009.

vi. ***In the Social Protection sector***, the VUP program has been successfully scaled up to 60 sectors exceeding the targets. Of the households eligible for support, the percentage granted public works was targeted at 35% which was fully realized. The percentage of households eligible for support and granted direct support in VUP sectors has reached 100% exceeding the target of 60% that was set for 2009/10 fiscal period.

(c) Governance Cluster:

25. The governance cluster brings together four sector working groups related to the areas of Public Financial Management (PFM), Justice, Reconciliation, Law and Order (JRLO), Decentralization, Community Participation, Empowerment, Transparency and Accountability (DCPETA), and Capacity Building and Employment Promotion (CBEP).

i. ***In the area of Public Finance Management***; a new Public Financial Management Reform Strategy 2008-2012 was completed in September 2008 together with a detailed Action Plan for 2009-10 and approved by Cabinet in December 2008. Seven PFM indicators and related policy actions were subsequently incorporated in the EDPRS.

ii. Work on improving the Medium Term Expenditure Framework (MTEF) and budget classification has been carried out as well as the technical and functional requirements, for the development of the Integrated Personnel and Payroll Information System (IPPIS).

iii. Government agencies representing 30% of all budget agencies have submitted internal audit report, hence, the 25% target has been met, and the Office of the Auditor General (OAG) has audited more than 60% of the reported government expenditure. As regards procurement processes, 86% of the tenders have been competitively or justifiably awarded. A government portfolio unit has furthermore been established to analyze the fiscal risks posed by Government Business enterprises more effectively.

iv. Following the introduction of Gender Based Budgeting at the beginning of 2009, Gender budgeting statements were submitted by four pilot sectors (Education, Health, Infrastructure and Agriculture) during the 2010/2011 budget preparation exercise.

v. ***In the Justice, Reconciliation, Law and Order (JRLO) sector*;** the targeted percentage increase in the number of cases processed by the courts in 2009/10 was 20%, and to date there has been a 47% increase. The processing of corruption cases by the National Public Prosecution Authority (NPPA) now stands at 79% in line with the target for this year, from 47% in 2006. Access to Justice was improved with 14 Access to Justice Bureaus made operational and 4 more expected by June 2010. The commercial case backlog has been eliminated following the introduction and functioning of commercial courts.

vi. ***Decentralization, Citizen Participation Empowerment, Transparency and Accountability***; Itorero program has been successfully scaled up to more than 90,000 people. There has also been regular conduct of citizen report and community score cards surveys as as well as joint governance assessment, important tools in assessing governance and service delivery.

vii. ***In the Capacity building and employment promotion sector*;** The internship program for young graduates has been initiated with more than 120 graduates being taken on board in the first intake. A consolidated National Training Plan has also been developed and is being implemented.

(d) Integration of Cross-cutting issues:

i. **Regarding regional integration**, a number of key criteria has been met, namely: aligning the fiscal year to that of the East African Community (EAC), aligning laws with EAC and Common Market for Eastern and Southern Africa (COMESA) laws. Positive impacts have been felt in terms of a wider choice of goods and lower prices resulting from lower costs of imports for the consumers, the access to wider markets for producers, as well as enhanced trade facilitation procedures and price advantages for goods produced in the region (compared to goods produced outside the customs union) for importers and exporters.

ii. **With regard to environment and climate change**; important common tools have been applied such as the EIA (environment impact assessment) in order to mitigate impact of different interventions on environment. The use of Environment impact assessments as tools to assess the environmental impact of projects was institutionalized by publishing EIA sectoral guidelines for fuel stations, slaughter-houses and tanneries, and 65 projects out of 109 submitted for certification received certificates by Rwanda Environment Management Authority

iii. **Concerning gender**; guidelines for gender-based budgeting have been developed and some sectoral submissions for the 2010/2011 budget reflected these policies. A national gender profile was established as a baseline to guide the planning process in all sectors. By law N° 51/2007 of 20/09/2007, a Gender Monitoring Office in charge of monitoring the quality of gender mainstreaming in various institutions was created.

iv. **In relation to HIV/AIDS**; all the 30 districts have been supported to incorporate HIV/AIDS as appropriate into the district integrated planning tools such as Medium Term Expenditure Frameworks (MTEF) and Annual Work Plans (AWP).

v. **And regarding Social inclusion**, Solidarity camp for street children was carried out and many of them were enrolled in primary schools whilst some were retained in their families. Regular monitoring of the implementation of the convention related to child rights is being conducted.

26. Monetary and Exchange Rate Policies in 2009:

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

27. Monetary policy implemented by BNR in 2009 addressed the persistence of high inflation from 2008 as well as the tight liquidity conditions experienced during the year. The global food and fuel crises in 2008, posed a number of additional challenges to monetary policy implementation in Rwanda. This episode was followed by a domestic liquidity crunch which started in late 2008 and continued into the first half of 2009. This liquidity crunch was caused by a mismatch of maturity between short term deposits and long term loans aggravated by significant withdrawals of

two large institutional depositors. This resulted in a sharp decline in the growth of commercial banks' credit to the private sector.

28. The Government responded to this situation by putting in place a combination of measures to improve the liquidity situation and stimulate private sector credit. These measures included (i) reducing the reserve requirements of banks from 8% to 5% in February 2009; (ii) allowing holders of Treasury bills to cash them in as they matured during the year; (iii) availing a new facility managed by BNR to match long term credits given by banks with government deposits; (iv) reducing the Key Repo Rate (BNR lending rate) from 9% to 7%.

29. These monetary policy measures helped to improve the liquidity conditions. The sharp reduction in deposits following the liquidity tightening pushed commercial banks to increase deposit rates significantly, making real interest rates positive so as to attract deposits. As a result, the average commercial bank deposit rate rose from 5.9% in early 2008 to 8.5% by end 2009. Customers responded positively as total bank deposits which had dropped to Rwf367 billion at end March 2009, rose rapidly to Rwf 450 billion by end 2009. This rise in deposits allowed private sector credit to start to recover towards end 2009. Despite this late recovery, total private sector credit declined in 2009 by about 2% compared to 2008, whereas it had increased by 39% in 2008 compared to 2007.

30. Regarding exchange rate policy, the nominal value of the Rwandan franc to the dollar remained very stable as the Rwandan franc depreciated by only 2.8% in 2009. However, the "real effective exchange rate" which reflects the real purchasing power of the dollar in the Rwandan economy after adjusting for inflation indicated a depreciation of 8.3% in 2009. This increase allowed greater competitiveness of our exports.

IV. MEDIUM TERM MACROECONOMIC FRAMEWORK:

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

31. After this discussion of the recent economic performance, I now turn my attention to the Government's medium term macroeconomic framework which was recently agreed with the International Monetary Fund. I am glad to announce that Rwanda qualified for graduation from the previous Poverty Reduction Growth Facility to the Policy Support Instrument. This graduation signals that we have become a mature reformer that can be trusted to take adequate macro-economic policies. The Policy Support Instrument will be for the period of July 2010 to June 2013.

32. In line with our EDPRS, the overriding economic objective in the medium term is to sustain real GDP growth rates of 7 to 8% per year. During this period, we will aim at consolidating our macroeconomic stability by :
    - Establishing a sustainable fiscal position, with strong revenue efforts needed to reduce the country's aid dependency and the fiscal deficit;
    - Strengthening monetary and exchange rate policies to ensure low and stable inflation;
    - Pursuing structural reforms to deepen the financial sector, diversify the export base and improve the business climate.

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

33. Achieving our growth objectives certainly requires strong efforts to remove structural bottlenecks such as (i) lack of infrastructure, (ii) low agriculture productivity and (iii) low levels of skills. Addressing these constraints will also play a key role in promoting a strong growth of exports of goods and services as well as improve our country's competitiveness.

34. I now want to outline key highlights of these strategic investments which are at the heart of our medium term development plan:

    - We intend to broaden energy access by increasing household grid connections from 6% to 16% by 2013. This 16% will cover ALL public health centres and administrative offices, and connect half of all schools in the country.

- Completion of the Fiber Optic Program will provide broadband wireless technology for up to 100,000 users by mid-2010, and connect Rwanda to the undersea cables by 2010. This will reduce cost of connectivity by 90% compared to the current use of satellite technology.

- We are committed along with the Governments of Burundi and Tanzania to start the construction of an international railway line. This project will reduce the cost of transportation for imports and exports and play a key role in promoting trade with the region and beyond.

- We are also building a new airport at Bugesera that conforms to international standards and has the capacity to turn the country into an East and Central African gateway. We are making significant investments to ensure that this new airport is serviced by a strong national air carrier, Rwandair. Indeed, Rwandair will provide much needed links for high-value exports and business and leisure travellers.

- We are constructing a convention center together with a five-star hotel, in order to tap into the lucrative convention and business tourism markets. Construction has already started in 2009 and the centre is expected to be open for business by end 2011.

A. Output growth:

35. These strategic investment projects are in line with our pillars embedded in our EDPRS and are designed to ensure that growth is equally shared by all and with special emphasis on poverty reduction and job creation. Consistent with this strategy, we expect our GDP per capita (in nominal terms) to increase from US$ 510 fiscal year 2008/2009 and reach US$ 650 by fiscal year 2012/2013 and exceed our US$900 per capita objective by 2020.

36. More specifically in 2010-11, we expect overall real GDP to grow by 7.6% compared to the 6% achieved in 2009-10. This growth will be led by the services and industrial sectors, the sectors hardest hit by the global downturn last year. Agriculture will also play a pivotal role as it continues to benefit from large investments in fertilizer, improved seeds and extension services. This sector is therefore projected to grow by 7.8% in 2010-11. Food crops will maintain its strong performance with a growth of about 8.6 % whilst coffee and tea are expected to recover from a contraction of about 5% in 2009-10 to a positive growth of about 7% in 2010-11.

37. We expect a rebound in the industry sector with an average growth of 7.3% in 2010/2011; this will be driven by a recovery of minerals production from a contraction of about 5% in 2009/2010 to a positive growth of 7.6% in 2010/2011 due to the increased demand for minerals on international markets driven by a restored global economy. The construction sector is also expected to rebound to a projected 8.5% growth.

38. The services sector is also projected to grow faster and reach 7.6% 2010/2011. This reflects a rebound in general economic activity as well as the recovery of the tourism and finance sub-sectors and increased investment in telecommunication.

B. External Sector Policies:

39. Consistent with our medium term growth objectives averaging 7 to 8 % per annum, our external current account deficit (including grants) which stood at US$ 381 million (or 7.3% of GDP) in 2009 will be expected to widen slightly to US$450 million (or 7.9% of GDP in 2010) and further to US$536 million (or 8.8% of GDP) in 2011. However by 2013 it will be expected to recover and decline back to US$ 310.3 million (or 4.3% of GDP).

40. The projected widening in 2010 and 2011 is the result of required increased imports needed for the investment plans referred to earlier on. Imports will be expected to rise from US$963 million in 2009 to US$1.3 billion in 2011 before declining to US$ 1.2 billion by 2013. As a result of the high level of imports, the balance of payments will be expected to close in the medium term years with small deficits which will be financed with some draw down of international reserves. However, we expect that gross official reserves will remain on average at a safe minimum coverage of 4 to 4.5 months of imports.

41. In line with our objectives and based on the planned investments we expect our exports of goods and services to increase significantly. They will also be boosted by the recovery of global demand and increased domestic productivity. Total receipts from exports are projected to increase from US$ 193 million in 2009 to US$ 240 million in 2010 and to US$ 360.7 million by 2013.

42. Regarding coffee, volume exported is expected to rise from about 15,000 tonnes in 2009 by about 33% in 2010 and further by about 23% in 2011. As a result of recovery in global prices receipts will also increase from US$ 37 million in 2009 to US $ 52 million in 2010 and to US$62 million by 2011. Volume of exports for tea which amounted to about 18,700 tonnes in 2009 is projected to rise by about 8% in 2010 and by about 16% in 2011. Receipts will also rise from US$ 48 million in 2009, to US$ 55 million in 2010 and to US$ 65 million by 2011.

43. The recovery of the minerals sector as mentioned earlier is expected to show in both volume and value increases. Total earnings from the sector are projected to rise from US$ 55 million in 2009 to US$ 63 million in 2010 and to US$ 75 million by 2011.

44. In the area of services, the contribution of receipts from tourism will be important. The expected recovery should lead to increases in receipts from about US$ 174 million in 2009, to US$ 206 million in 2010 and US$ 237 million in 2011. By 2013, tourism receipts will be expected to have reached about US$313 million due to the expected investments in the airport, the Convention Centre, Rwandair and improved services by the private sector.

45. Foreign direct investment and other capital inflows are also expected to recover from US$143.3 million per annum in 2009 to US$ 160 million per annum by 2013. This will be due mainly to improved investment and business climate and a recovery of the global economy. External aid in the form of grants is projected to decline slightly from US$ 804 million in 2009 to US$ 790 million by 2013, as the country reduces its dependence on donor aid through increases in domestic revenue mobilization.

C. Monetary and Exchange Rate Policy:

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

46. The National Bank of Rwanda is committed to making monetary and exchange rate policies more proactive to respond to our dynamic economy in order to maintain adequate international reserve levels as well as low inflation. It will also ensure that there is enough liquidity for the private sector to thrive. In this vein, it will aim at keeping inflation at 7% by end 2010 and at 5% over the medium term. This is consistent with a gradual recovery in domestic, regional and world economies as well as current expectations of oil and food price developments.

47. BNR will continue to use reserve money as the anchor of its monetary program. The monetary program for fiscal year 2010/2011 will seek to accommodate the Government's financing requirement for the budget without "crowding out" the private sector. Reserve money and broad money are projected to grow in line with nominal GDP growth. This means that they will grow on average by 12.4 % in 2010 and in 2011.

48. Growth of deposits in response to the net liquidity impact of budget spending estimated at 2% of GDP during 2010/2011 and higher interest rates paid by the commercial banks to private sector depositors are expected to increase private sector deposits significantly to allow substantial increases in private sector credit. In the next 18 months, private sector credit has the potential to grow by about 30% and this would sustain expected economic growth rates.

49. In the coming fiscal year, BNR will make greater use of the two monetary policy instruments it has: (i) exchange rate flexibility and (ii) interest rate to sterilize any excess liquidity in the economy in order to keep inflation low.

D. Fiscal Policy and the 2010-2011 Budget:

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

50. Our fiscal policy in the medium term will seek to balance the competing objectives of meeting our growth and poverty reduction objectives as envisaged in the EDPRS whilst preserving our medium term fiscal and debt sustainability stance.

51. Our revenue targets are ambitious as we plan to double our domestic revenue collections by 2013-2014. We also project to maintain Government spending at levels required by our EDPRS. Our fiscal strategy envisages systematic prioritization of expenditures. Donor grant finance is projected to decline gradually as domestic revenue increases. Our Public Finance Management reforms that I will shortly present will also continue to guarantee accountability and value for money going forward.

52. The 2010-11 Budget is characterized on the revenue side by an increase in domestic revenues but a decline in external grants. On the expenditure side, recurrent expenditures have been capped to provide room for additional resources for key investments. Consequently, domestically financed capital expenditures have increased significantly. Financing of the fiscal deficit will come mainly from drawdown of reserves and issuance of domestic debt instruments through T-Bills and bonds.

53. Total domestic revenues for the period 2010/11 are estimated to rise to about Rwf 479 billion compared to Rwf 385.1 in the 2009/10 revised budget. The total grants for 2010/11 are projected at RwF 346.3 billion, external project loans at about RwF 62.9 billion while domestic financing is estimated at about Rwf 95 billion. The total budget resources for 2010/11 are thus estimated at RwF 984.0 billion.

1. Domestic Revenue Mobilization:

54. As mentioned earlier, domestic revenue targets are ambitious as we project to increase from Rwf385billion in 2009-10 (or 12.2% of GDP) to Rwf 479billion (or 13.6% of GDP) in 2010-11 and reach Rwf 727 billion by 2013/2014 or 14.5% of GDP. In 2010-11, tax revenue will contribute Rwf 457 billion whilst non tax revenue will yield Rwf 22 billion.

1.1. Tax Revenues:

55. In 2010-11 regarding tax revenue collections, we expect direct taxes to contribute Rwf 179 billion, taxes on goods and services will yield Rwf 238 billion whilst taxes on international trade will bring in Rwf 41 billion.

56. Even though our revenue targets are ambitious, there will not be major changes in taxation policy with exception of taxes to the telecommunication and petroleum sectors. Indeed, Government is proposing to remove VAT on mobile handsets and import duty on SIM Cards to increase penetration of telecommunication services to the lower segments of our population. On the other hand, to better align with taxes in the EAC we will continue to progressively raise excise duty on airtime, this time increasing it from 5% to 8% which will generate an additional RwF 2 billion.

57. In the case of petroleum taxes, the current ad valorem excise duty rate is to be replaced by a specific tax of RwF 250 per litre of diesel and RwF 283 for petrol. The VAT on petroleum products shall also be removed and the resulting tax implication is revenue neutral. This once again is to align to the EAC practices.

58. Concerning EAC tax regime, following recent consultations of the Ministers of Finance of the EAC member states the following was agreed:

    i. Member states will strive to progressively reduce the number of goods on the list of sensitive products so as to limit exceptions to reflect the realities on the ground.

    ii. Member states agreed that too many products are currently outside the Common External Tariff bands and this is to be rectified.

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

        a. Motor vehicles for public transport of more than 25 persons: CET from 25% to 10% to boost public transport.

        b. Motor vehicles for transport of goods with gross vehicle weight exceeding 5 tonnes and below 20 tonnes: CET from 25% to 10% to bost transport sector since Rwanda is a land locked country.

        c. Motor vehicles for the transport of goods with gross vehicle weight exceeding 20 tonnes: CET from 25% to 0%.

        d. Tractors: CET from 25% to 10%.

        e. Construction materials imported by registered investors with projects of at least USD 1.8 Million: CET at 5%.

        f. Cement: CET from 35% to 25% to boost the construction sector.

g. Wheat grains: CET from 35% to 0% to promote the wheat milling industry.

1.2. Tax Administration:

59. We also endeavour to undertake ambitious reforms in tax administration. The aim is to (i) widen the tax base and (ii) reduce the cost of compliance for the private sector especially Small and Medium Enterprises.

    1. To improve RRA services to the taxpaying community, improve tax education and widen the tax base, RRA will fully automate district offices in Kigali City and provinces by March 2011.

    2. Review the existing non-tariff barriers to streamline free flow of trade in the community. A positive step in this direction is the move towards single border posts along major entry points of Rusumo, Gatuna and Kagitumba.

    3. Review the customs tariff targeting areas that will reduce the costs of doing business within the community.

60. In addition to these measures we will authorize RRA to collect contributions to Caisse Sociale and RAMA on their behalf. This measure will reduce the burden of compliance for taxpayers as they will queue only once to fulfil their various obligations; it will also help RRA broaden its tax base by bringing into the tax net potential taxpayers who make their social security and health insurance contributions but do not pay their taxes.

61. With regards to the structure of taxation, I want to state that currently about 75% of tax revenues come from consumption taxes (excise duties and VAT) and PAYE. This is consistent with our social objective of letting the richer in society pay more taxes than the poor. We expect that this structure will continue to perform well.

1.3. Non Tax Revenue:

62. The projected amount of Rwf 22.1 billion to be collected in fiscal year 2010/2011 under non tax revenue is Rwf 6.3 billion higher than in 2009/2010. This reflects the expected increased payments of dividends and higher collections from administrative fees and charges including visa and passport fees.

63. I am therefore confident that the domestic revenue targets though ambitious will be achieved as they are underpinned by our projected economic recovery in the coming fiscal year as well as RRA's ongoing tax administration measures.

2. Expenditure Policies:

64. The total budgeted outlays for 2010/11 are projected at Rwf 984 billion, which is about 27.8% of the total GDP for the period. Total recurrent expenditures are estimated at Rwf 540.6 billion, which is 55% of the total budget while development expenditures are projected at RwF 404 billion comprising 41% of the total budget. Total net lending and arrears are respectively estimated at Rwf 31.2 billion and Rwf 8 billion respectively and they both comprise 4% of the total budget.

2.1. Recurrent Spending:

2.1.1. Wages and salaries:

65. Within an envelope of Rwf 540.6 billion for recurrent spending for 2010/2011, wages and salaries will take up 22% or Rwf120 billion compared to Rwf108 billion in 2009/2010. This amount will not only allow some increase in salaries but will also finance recruitment of additional teachers and other professionals such as medical specialists, engineers, lawyers, accountants and financial analysts for the civil service.

2.1.2. Goods and Services:

66. The allocation for goods and services is being raised by 8% from Rwf112.3 billion in 2009/2010 to Rwf 120.9 billion. The increased allocation will allow funding for school feeding program, purchases of various items required for service delivery such as textbooks and other education materials and laptops (one laptop per child program) for MINEDUC and drugs, mosquito nets and other accessories for MINISANTE.

2.1.3. Interest Payments:

67. Outlays for interest expenditure have remained stable at 1.3% of the total budget or RwF 13.5 billion. Interest on external debt will take Rwf 4.6 billion, whilst interest on domestic debt takes Rwf 8.9 billion. The domestic debt portion will mainly be used for interest payments on the treasury bills that Government will sell to get the financing required to implement the expenditure policies.

2.1.4. Transfers and Subsidies:

68. Transfers and subsidies are allocated an amount of Rwf 195.5 billion in fiscal year 2010/2011. This allocated amount will fund various transfers and subsidies to the districts for their running costs as well as other outlays for education capitation grants, and transfers to the various health centres and community health programs. In addition this allocation will finance the running costs of the various tertiary institutions and transfers to semi-autonomous agencies. Other items to be funded under this allocation include social protection outlays and Government subscriptions to international organizations.

2.1.5. Exceptional Expenditure:

69. Regarding exceptional spending the allocation is being raised from about Rwf 55 billion 2009/2010 to Rwf 67 billion in 2010/2011. The major reason for the higher allocation is the scaling up of spending for Peace-Keeping Operations and Elections. The FARG subsidy is being raised from Rwf 18 billion to Rwf 19 billion. PKO is also being increased from Rwf20 billion to Rwf 31 billion but this will be matched with equivalent revenues from AU. Likewise the estimate for the conduct of the forthcoming elections is being increased from Rwf 5.1 billion to Rwf 9 billion to cater for the Presidential and local elections to be held during the next fiscal year. Allocation to GACACA Courts has diminished due to phasing out of this program.

2.2. Capital Expenditure:

70. The allocation for capital expenditure increased significantly by 11% from Rwf 356 billion to Rwf 404 billion. This was driven exclusively by domestically financed capital which increases from Rwf161 billion to Rwf224.3 billion whilst the externally financed portion declines from Rwf195 billion to Rwf179 billion. The increase in the domestically financed budget is due to allocations to key investment already highlighted. The allocated amount also includes transfer into the Common Development Fund (CDF) which is being raised from Rwf 44 billion in 2009/2010 to Rwf 48.2 billion in 2010/2011. The decline in the externally financed capital budget reflects the donor policy to switch donor assistance from project finance to program sector budget support.

2.3. Net Lending:

71. The budgetary allocation under net lending is being reduced from Rwf 38.2 billion in the 2009-10 revised budget to Rwf 31.2 billion. This is because the large increase in 2009-10 was caused by a "one off" soft loan of Rwf 18.2 billion awarded to the company executing the Kigali Convention Centre as well as Rwf12 billion borrowing for RWANDAIR. The projected outlays for 2010/2011 include Rwf 25 billion for RWANDAIR to purchase assets and avail working capital.

3. Budget Deficit and Financing:

72. The overall cash budget deficit including grants estimated at Rwf 119.3 billion (or 3.8% of GDP) in 2009/2010 will be expected to rise slightly to Rwf 157.9 billion (4.5% of GDP)in 2010-11 before declining sharply to Rwf 28.2 billion (0.6 % of GDP) by fiscal year 2013/2014. These projections reflect accelerated domestic revenue projections as well as prioritized lower spending.

73. The 2010-11 deficit will be financed from gross foreign flows (project loans) amounting to Rwf 62.9 billion and gross domestic finance of Rwf 95 billion. Of the domestic finance amount, Rwf 59 billion will come from draw-down of bank deposits whilst Rwf 35.9 billion will represent gross yield from sales of treasury bills and bonds.

V. KEY PRIORITIES TO BE FUNDED IN THE 2010/11 FINANCIAL YEAR:

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

74. The following priority activities will be funded in the financial year 2010/11:

(a) Education:

For education RWF 155 billion has been allocated for the following key programs:

i. Scale-up schools construction, provide adequate resources for teachers' salaries, capitation grants and schools feeding programs to effectively execute the 9 Year Basic Education program and increase access to education;

ii. Promote vocational training through TVET and create skills that suite local needs to stimulate industrial growth ;

iii. Support higher education infrastructure and laboratory equipments to increase quality of higher education;

iv. Payment of teachers' arrears and establishing a mechanism to resolve the problem in a sustainbale manner.

v. Procure textbooks for primary and secondary education to increase the quality of education.

vi. Scale-up One Laptop per Child Program in primary schools, solar panels and desktops in secondary schools to promote ICT in education.

(b) Health:

For the health sector, Rwf 97 billion is being proposed as the Government's contribution to support the following key programs:

i. Support the Mutuelle Programme to promote health insurance and increase access to health care for the population;

ii. Support performance based financing programme for health personnel remuneration and better value for money in health spending;

iii. Increase funding for procurement of drugs and vaccines;

iv. Strengthen the fight against Malaria through acquisition and distribution of more mosquito nets;

v. Support acquisition of Health Equipment and District Ambulances to increase the quality of health care;

vi. Completion of construction of Kinihira, Bushenge and Ntongwe District Hospitals;

(c)Agriculture:

Agriculture has been allocated Rwf64.8 billion to fund the following key programs:

i. Increase funding for the One Cow per Family Program to fight extreme poverty. The program is targeting to reach 20,000 poor families in the 2010/11 financial year.

ii. Scale-up Land husbandry Hillside Irrigation and Water Harvesting program to overcome agricultural supply targeting to irrigate at least 500 hactares of land and terrace 1,500 hactares of hillside.

iii. Implement the post-harvest program and the National Strategic Food Reserve to increase food security. We plan to set up 20,000 MT metallic silos in the most grain productive zones.

iv. Implement the Agricultural Mechanization Programme in partnership with farmer's cooperatives. We plan to support farmers' cooperatives in each marshalland to access at least one tractor.

v. Strengthen crop intensification by increasing distribution of fertilizers and coffee seedlings. At least 450,000 hactares will be consolidated and utilize fertilizers as well as improved seeds. 28 million of coffee seedlings will be prepared and planted on consolidated land.

(d) Trade and Industry:

The trade and industry sector has Rwf 63 billion for its programs which include the following:

i. Expand financial services and credit access through SACCO Umurenge whilst ensuring that they comply fully with financial regulations.

ii. Strengthen rural investment through targeted financing from CDF to high impact projects.

iii. Implement the Small and Medium Enterprises Policy to widen the tax base, fast-track value addition and create off-farm job opportunities.

(e) Energy:

For the energy sector Rwf77 billion has been allocated to:

i. Scale-up the Electricity Access Roll-Out Programme to increase access to power in both urban and rural areas. At least 65,000 households are planned to get access to electricity in the 2010/11 financial year.

ii. Continue the ongoing high priority Government electrification projects mentioned earlier.

iii. Continue the construction of Nyabarongo power plant (27 MW) and finalize Rukarara (9.5 MW) hydro power station to increase power generation capacity.

iv. Complete the ongoing micro hydro power project to increase generation capacity in rural areas.

v. Support RECO to rent diesel generation capacity from Aggreko.

vi. Implement different renewable energy projects including institutional and domestic Biogas Projects to substitute for Charcoal and save the environment.

(f) Transport:

The transport sector has Rwf 98 billion to:

i. Continue the rehabilitation and extension of classified paved road network: Kigali-Ruhengeri, Butare-cyangugu (lot3: ntendezi-crete Congo-Nil), Multinational (lot 3: Rusizi-Ntendezi-Mwityazo), Butare-cyangugu (lot1: Butare- Kitabi) and Kigali-Gatuna.

ii. Continue the rehabilitation and extension of urban roads in Kigali city, Rubavu and Rusizi towns. 103 km are planned for rehabilitation in Kigali city, 5.3 km in Rubavu town and 6 km in Rusizi town.

iii. Continue the rehabilitation and extension of gravel roads especially for: Byimana-Buhanda-Kaduha; Cyakabiri-Nyabikenke-Ndusu; Mudasomwa-Gisovu; kazabe-Rutsiro-Gashubi; Rwamagana-Zaza; Pindura-Bweye; and Kibugabuga-Ruhuha.

iv. Rehabilitation and extend rural feeder roads to provide rural farmers with easy access to markets for their produce;

v. Undertake the rehabilitation of Kigali International Airport;

vi. Finalize the study for Bugesera Airport and the ISAKA - KIGALI Railway Line;

(g) Information Communication Technology:

The information and communication sector has an allocation of Rwf28 billion to:

i. Finalize and deploy the National Backbone Infrastructure. A total of 2,300km of fiber cable shall be deployed connecting over 230 institutions in all 30 Districts and all Rwandan boarders with the main cities. The infrastructure will support various e-applications such as e-health, e-education and other government applications. The infrastructure will also have extra capacity to be used by other telecom operators.

ii. Optimization of Kigali Metropolitan and Wibro Network. This will enable faster and secure connectivity to enable converged services (voice, data and video) in all Government institutions in Kigali.

iii. Finalize works on Kalisimbi infrastructure, Installation of IT equipments and deployment of services.

iv. Continue the works on National Data Center for National Data Storage and security to provide secure and effective data processing facilities for the Government and private sector.

v. Undertake the border connectivity project to improve service delivery at borders and improve doing business.

vi. Continue with the construction of Kigali Convention Center and Strengthening of Rwandair.

vii. Deployment of ICT infrastructure to all districts. This is enhancement of ICT infrastructure such as local area network in all Districts' administration office to improve their service delivery.

(h) Social Protection and Governance :

The allocation of Rwf 239 billion to this sector will allow the sector to:

i. Accelerate poverty reduction by increasing VUP activities from the present coverage of 60 sectors to 90 sectors in the 2010/11 financial year.

ii. Strengthen Fiscal Decentralization in Local Governments by strengthening their revenue mobilization capacity, increasing fiscal transfers and providing capacities in public finance management.

iii. Continue to support FARG programmes with a view to support vulnerable households and individuals to graduate from poverty.

VI. STRUCTURAL REFORM PERFORMANCE AND THE MEDIUM TERM AGENDA:

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

75. I will now present our structural reform program for the medium term.

76. The Government is cognizant that formulating sound macroeconomic policies will not bring prosperity unless accompanied with strong structural reforms. These actions are expected to improve the business climate for the private sector and improve accountability and effectiveness by strengthening public financial management.

i. Public Financial Management Reforms

77. At end 2008, Cabinet approved of the Public Financial Management and Reform Strategy as well as the detailed Action Plan for the period 2008-2012. The reform agenda has been focusing and will continue to focus on:

- **Economic Management:** Public Expenditure Reviews are conducted in 7 key sectors. These reviews evaluate the impact and efficiency of government programs in providing service delivery to the public. They in turn influence expenditure allocations and priorities for budgeting and national planning.

- **Public Procurement:** 2010-2011 is the last year for RPPA to award tenders; by then budget agencies will be expected to award their own tenders as large as they may be. RPPA will be able to focus solely on its role as a regulator and an enabler of capacity building for all public agencies. In order to ensure sustainable capacity building efforts, arrangements are being made to establish a Procurement Training Centre at the School of Finance and Banking in partnership with an international institution.

- **Internal Audit:** Capacity to conduct sound internal audits which strengthen public financial management has been constrained especially at the decentralized level. We will review the number of auditors at the decentralized level as well as their reporting line. Internal auditors will be trained in payroll, Value for Money as well as Systems and Risk-based audits. Audit committees will also be established in key budget agencies by June 2011.

- **IT Improvement- SMARTGOV Implementation:** An upgraded system will be introduced in all budget agencies in 2010-2011. This automated system will have core modules such as budgeting, payables, receivables and general ledger. This system has better control systems, for instance all budget agencies will use automated purchase orders; this will prevent institutions from making commitments with no funds and will prevent further accumulation of arrears. The new system will also facilitate financial reporting and therefore ease production of consolidated financial statements.

- **Fiscal Decentralization:** Fiscal decentralization reforms will focus on improving the working relations between central ministries and districts on planning and budgeting. Financial reporting requirements of facilities such as schools and health facilities will also be streamlined. Finally, the law determining local taxes will also be revised the facilitate tax collection and tax compliance at the decentralized level.

ii. Financial Sector Development

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

78. No country can develop without a vibrant financial sector which underpins growth and employment. In 2009, significant progress was made in deepening the financial sector. The number of people using formal financial services rose to 2 million from 1.4 million in 2007. BNR also licensed 1 new commercial bank, 10 new microfinance institutions and 22 new commercial bank branches, bringing the total number of bank branches in the country to 105 despite the liquidity constraints in 2009. I can assure the country that the banks in Rwanda are sound.

79. In 2010-2011 our first private credit reference bureau will become operational. With it, Banks will have access to credit ratings of individuals. This will reduce the risks of awarding loans to previously bad creditors. As you know in finance lower risks normally leads to lower lending rates. This will therefore play a role in reducing the gap between our depositing rates and our lending rates which remain relatively high for the private sector.

80. In the area of payment systems, BNR is actively modernizing payment systems in the country. The Rwanda Integrated Payments Processing System will allow automatic transactions between banks as well as the much needed introduction of online payments. This will facilitate financial transactions of citizens as they will be able to pay for their taxes, social security obligations and many other public services from the comfort of their homes or offices. Debit cards for Rwandans have started being produced locally by our single switch operators. Plans for the next fiscal year entail drastic scaling up of the number of ATMs in the country and of the number of holders of ATM cards. To limit cash transactions, Point of Sales will also be widely distributed widely. Finally holders of international credit and debit cards will be able to use them in any Rwandan ATMs.

iii. Improvement to the Business Environment

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

81. Rwanda has over the past few years set in motion an ambitious yet achievable reform agenda to improve the business climate. This has led Rwanda to obtain the top global reformer status in the 2010 World Bank Doing Business Report. Rwanda is currently ranked 67th out of 183 countries becoming the first sub-Saharan country to achieve this position. However we strongly feel that we can achieve an even better score as there are still bottlenecks to investment which can be addressed.

82. To promote private sector business and improve our DB score we have cut down the procedure to register a business to one which can be fulfilled in one day. Moreover, full business registration (incl. access to TIN number) is now fully operational. This means that a company may be incorporated remotely or abroad without necessarily being in Rwanda.

83. A Prime Ministerial order enforcing time limits for the delivery of construction permits and instituting sanctions for failure to deliver has started being enforced. Average time has reduced from 210 days to less than 30 days to obtain a construction permit. For Kigali City, a One Stop Centre for construction permits has been established and housed in Nyarugenge district offices to ensure the time prescribed by the client charter is respected

84. A semi-automated single window at Customs has been put in place to be implemented at Gikondo, Airport, Gatsata and Kabuye oil depots this year. A fully automated system including outer stations and all border posts is scheduled for 2011. Efforts are also underway to establish an electronic single window. This will facilitate trade as traders and customs clearing agents will be able to clear goods remotely and online.

85. Amendment to the taxation code has allowed small and medium taxpayers with a turnover of less than Rwf 200million to file PAYE and VAT quarterly.

iv. Debt Management Strategy

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

86. At end 2005, Rwanda reached the completion point of the Enhanced HIPC Initiative and benefitted from debt cancellation amounting to about US$ 1.2 billion. As a result, the total external debt of Rwanda which stood at about US$ 1.5 billion at end 2005, declined to about US$ 0.5 billion by end 2006. Since then, the Government has implemented a prudent debt management policy in order not to fall into a "debt distress" situation again. For this financial year, the debt stock stands at USD 736.6 Million and has increased slightly due to contracted loans for some strategic development projects but remains at sustainable levels.

87. Government however recognizes that given the developmental needs of the country particularly the urgent demand to invest in infrastructure, it cannot continue to rely solely on grant and concessional financing modalities. Therefore there will be circumstances where non concessional finance may be required.

v. Export Promotion Strategy

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

88. I have already mentioned the need for an accelerated growth of our exports of goods and services in order to close the huge trade gap. Our current dependency on grants to sustain our current account is unsustainable in the long-term and the Government is determined to reverse this situation.

89. Our key priority is to exploit all opportunities for higher exports of goods and services both in traditional and non traditional areas. Government will prepare a comprehensive National Export Diversification Strategy as well as an action plan to help improve exports. The strategy will focus on increasing the value added of existing export sectors and developing new products and services which will be cantered around the following six clusters:
    - Dairy processing
    - Fruits and vegetables processing
    - Silk
    - Specialized tourism (including business tourism)
    - Mining services and
    - Information technologies.

90. The strategy will also aim at addressing bottlenecks to make local products more competitive (both locally and for exports).

VII. CONCLUSION AND CHALLENGE TO THE NATION

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

91. The budget and economic policy for fiscal year 2010/2011 has thrown two challenges. These are that our export base is LOW and by implication our tax base is also LOW. We therefore depend on donor assistance to fill these gaps. Oblivious of this situation, the Government has embarked on the ambitious investment program to improve infrastructure and enhance productive capacity that will promote an accelerated growth. This is a challenge to us Rwandans to rise up and meet this challenge by producing more of better quality products for export to enable us close the huge foreign exchange gap and thereby also increase our domestic resource mobilization. This budget provides the right foundation for this to be achieved.

92. I hereby recommend the Government's budget and economic policy for fiscal year 2010/2011 and medium term as well as the accompanying draft tax laws to you for approval so that we can implement our development agenda.

I Thank You.

ANNEX 1: SUMMARY BUDGET TABLE

2009/2010 and 2010/2011 Budget Ressource Envelope and Main Expenditures		
	July2009/June 2010 Revised	**July2010/June 2011 Proj**
RESOURCES		
Domestic revenue	**385.1**	**479.6**
Tax revenue	369.3	457.5
Non-tax revenue	15.8	22.1
Domestic financing	**50.7**	**95.0**
Sale of treasury bills	9.9	35.9
Use of BNR deposit	40.8	59.1
Grants	**394.5**	**346.3**
Budget support grants	268.1	229.5
Capital grants	126.4	116.8
Loans	**68.6**	**62.9**
Project loans	68.6	62.9
Total resources	**899.0**	**983.8**
	July2009/June 2010 Revised	**July2010/June 2011 Proj**
EXPENDITURES		
Recurrent budget	**495.8**	**540.6**
Wages and salaries	108.2	120.4
Purchases of goods and services	112.3	120.9
Interest payments	13.4	13.5
Domestic	8.6	8.9
External	4.8	4.6
Amortization	17.0	23.3
Domestic	11.7	15.0
External	5.3	8.3
Transfers	190.2	195.5
Exceptional expenditure	54.7	67.0
Development budget	**356.4**	**404.0**
Externally financed	195.0	224.3
Domestically financed	161.4	179.7
Net lending	**38.4**	**31.2**
Arrears	**8.4**	**8.0**
Total expenditures	**899.0**	**983.8**