September 2002
IMF Country Report No. 02/204
Corrected: October 2002

Rwanda: 2002 Article IV Consultation and Requests for a New Poverty Reduction and Growth Facility Arrangement and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries—Staff Report; Staff Statement; and Public Information Notice and Press Release on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2002 Article IV consultation with **Rwanda** and Requests for a New Poverty Reduction and Growth Facility Arrangement and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, the following documents have been released and are included in this package:

- the staff report for the 2002 Article IV consultation and Requests for a New Poverty Reduction and Growth Facility Arrangement and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries, prepared by a staff team of the IMF, following discussions that ended on **May 13, 2002**, with the officials of Rwanda on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 5, 2002**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a staff statement of **July 24, 2002** updating information on recent economic developments.

- a Public Information Notice (PIN) and a Press Release **summarizing the views of the Executive Board as expressed during its July 24, 2002 discussion** of the staff report that concluded the Article IV consultation.

The document(s) listed below have been or will be separately released.

Statistical Annex

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to Publicationpolicy@imf.org.

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International Monetary Fund
Washington, D.C.

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RWANDA

Staff Report for the 2002 Article IV Consultation and Requests for a New Poverty Reduction and Growth Facility Arrangement and for Additional Interim Assistance Under the Enhanced Initiative for Heavily Indebted Poor Countries

Prepared by the African Department

(In consultation with the Fiscal Affairs, Legal, Monetary and Exchange Affairs, Policy Development and Review, Statistics, and Treasurer's Departments)

Approved by José Fajgenbaum and Masood Ahmed

July 5, 2002

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EXECUTIVE SUMMARY

- Rwanda's performance under the 2001 program under the PRGF was broadly satisfactory. Quantitative performance criteria for end-December 2001 were substantially met. Despite slippages in the structural reform schedule, achievements in structural performance were substantial. Good performance in agriculture contributed to real GDP growth estimated at 6.7 percent in 2001, while annual average inflation remained subdued at 3.4 percent.

- Fiscal performance exceeded program targets, as the revenue-to-GDP ratio exceeded projections and overruns on current spending were minor. With lower-than-anticipated project implementation rates, spending on the capital budget was limited, and the overall fiscal deficit (excluding grants) was kept at 9.5 percent of GDP—0.9 percentage point better than programmed. The fiscal performance in the first quarter of 2002 suggests that the agreed year-end targets for 2002 are attainable.

- Growth in monetary aggregates was faster than programmed in 2001 and during the first quarter of 2002, as the central bank (NBR) delayed action. The NBR acted aggressively in money markets to tighten liquidity conditions, beginning in May 2002.

- The situation of the banking system has remained precarious, with approximately 40 percent of all loans classified as nonperforming at end-2001. The authorities are developing a restructuring plan to address the problems of a large bank. Once the Fund staff has agreed on the appropriateness of the restructuring plan, the program will be modified to reflect resource requirements.

- The authorities have finalized a poverty reduction strategy paper (PRSP). The program for 2002–03 supports the poverty reduction strategy formulated in that document. Macroeconomic stability is a key fiscal objective, with emphasis on augmenting the domestic revenue base. The structural reform agenda emphasizes improvements in the financial administration and in governance and transparency, as well as in the troubled financial sector and its supervision.

- Rwanda's financial program for 2002 and 2003 is fully financed by a mix of grants, loans, and debt relief. Access to Fund resources is programmed at a nominal level of 5 percent over the three-year PRGF period, as financing has shifted to more concessional loans and to grants in order to limit the deterioration in debt sustainability indicators. Gross reserves are programmed to cover more than 5.9 months of imports, a level judged sufficient to weather most conceivable risks. The authorities request additional interim relief under the enhanced HIPC Initiative.

I. INTRODUCTION

1. On December 22, 2000, the Executive Board approved Rwanda's request for a third annual arrangement under the Poverty Reduction and Growth Facility (PRGF) in an amount equivalent to SDR 28.56 million (35.7 percent of quota), at which time the Board also decided that Rwanda had reached the decision point under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. On October 10, 2001, the Executive Board amended the PRGF arrangement, extending the commitment period through April 30, 2002. The final review was not, however, completed, as a result of delays in reaching agreement on the 2002 budget and the medium-term fiscal framework. The program expired with the last semiannual drawing of SDR 9.52 million undisbursed, and interim relief under the HIPC Initiative lapsed.

2. In their letter to the Managing Director (Appendix I), the authorities describe objectives and policies through 2004 and request Executive Board approval for support of the new three-year program under the PRGF arrangement, as well as for additional HIPC Initiative interim relief through July 31, 2003.[1] Access under the PRGF is limited to 5 percent of quota, as more concessional IDA resources will be used to accommodate the larger budget deficits resulting from the implementation of critical transitional programs and to limit the increase in the net present value (NPV) of debt-to-exports ratio. The disbursement of the Fund's second interim assistance will be SDR 0.838 million, covering 71.8 percent of Rwanda's principal obligations falling due between August 1, 2002 and July 31, 2003. A memorandum of economic and financial policies (MEFP) for 2002–04 is included in Appendix I. Prior actions for issuance of documents to the Board, as well as proposed structural performance criteria and benchmarks for the first two reviews, are set out in Table 6 of the Attachment I, and the set of quantitative performance criteria and benchmarks for the remainder of 2002 is presented in Table 5 of the Attachment I. A technical memorandum of understanding (TMU) detailing the program targets and reporting requirements is also attached to Appendix I.

3. The most recent Article IV consultation was concluded on December 20, 2000. At that time, Directors commended Rwanda for having achieved a continued level of low inflation and relatively robust economic growth but expressed concerns that macroeconomic policy targets had been missed despite the remedial measures taken by the authorities. Rwanda's core economic data are largely adequate for program monitoring, although, as

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[1] A mission to conduct the discussions visited Kigali during March 25–April 8, 2002. The mission comprised Mr. Georgiou (AFR-head), Mr. Finger (AFR), Mr. Gottschalk (AFR-EP), Mr. Ioannou (PDR), and Ms. Linares (AFR-Administrative Assistant), and was joined for substantial parts by Mr. Fajgenbaum (AFR) and Mr. Meyers (AFR). Discussions were completed in Washington during May 2–13, 2002. The staff team comprised Mr. Meyers (AFR-head), Mr. Finger, Mr. Gottschalk, and Mr. Ioannou. Mr. Fajgenbaum participated substantially in the discussions. Mr. Farah, the Fund's Resident Representative in Kigali, worked closely with the Fund teams on both occasions.

noted below, there remains ample room for improvement. Rwanda's relations with the Fund and the World Bank are summarized in Appendices II and III; statistical issues are described in Appendix IV; selected social and demographic indicators are presented in Appendix V; and on overview of actual and planned disbursements under the old and new PRGF-supported programs is given in Appendix VI. The authorities' poverty reduction strategy paper (PRSP) along with the joint staff assessment (JSA) and statistical appendix are being issued separately to the Board.

II. Developments Under the Program in 2001

A. Security and Political Developments

4. **The process of regularizing Rwanda's social, political, and security relations has proved to be extraordinarily complex**. Eight years after being torn by genocidal spasms, Rwanda is still confronting the formidable challenges of nation building—creating democratic institutions, reestablishing regular judicial processes, ensuring civil rights, and consolidating domestic security. During 2001, local elections were held (up to the provincial level), a commission charged with drafting a new constitution (for submission to popular referendum in 2003) commenced work, and 258,000 judges were elected and began training to conduct traditional (*gacaca*) courts to resolve the cases of more than 100,000 prisoners accused of involvement in the genocide. A transition is also continuing in the area of civil rights, and, in a test of the boundaries of freedom of expression and political dissent, former President Pasteur Bizimungu and a number of his supporters were charged with threatening state security and detained. Security remained a major issue—in May 2001, troops were mobilized to face antigovernment rebels reportedly based near Rwanda's borders. At the same time, the government continued to back a rebel movement, the RCD-Goma, operating in the eastern part of the Democratic Republic of the Congo. The RCD-Goma was not party to an agreement between the Congolese government and Uganda-backed rebels, but efforts are continuing to resolve this conflict.

B. Recent Economic and Financial Developments and Program Performance

5. Although the PRGF arrangement expired without the completion of the second review under the third annual arrangement, **significant progress was achieved under the PRGF-supported program**. Public administration was strengthened, and budgeting was more tightly focused on supporting growth and reducing poverty. Under the program, substantial action was taken to rebuild economic and social infrastructure, and government intervention in the economy was reduced, including the elimination of exchange rate and price controls and the taking of initial steps in privatization and trade liberalization. In 2001, in line with the interim PRSP (I-PRSP) and backed by the international community, postgenocide gains were consolidated. Building on this consolidation, a PRSP that places this effort in a comprehensive medium-term framework has now been produced (PRSP to be issued; and Section IV, below).

6. **Performance under the 2001 program under the PRGF was broadly satisfactory**. Quantitative performance criteria for end-December 2001 were substantially met (8 out of 10

criteria).[2] Achievements in structural performance were also considerable—a system for monitoring poverty-related spending was developed, a value-added tax (VAT) was introduced, the National Bank of Rwanda (NBR) introduced weekly foreign exchange auctions, the Office of the Auditor General was strengthened, tax audits and taxpayer compliance were improved, a revised schedule of fees for government services was introduced, arbitration awards were enforced, and initial steps were taken in offering 51 percent of Rwandatel (the telecommunications company) to a strategic investor. However, a number of challenges remain—the Organic Budget Law and supporting financial instructions will only come into effect next year (see para. 47), the review of tax waivers and exonerations will be followed up by a more comprehensive analysis of exonerations under investment agreements and law (para. 45), all salary allowances in cash and in kind are slated to become subject to taxation with the 2003 budget, the collection performance on tax assessments needs to be improved, and further strengthening of the courts system is needed.

C. Macroeconomic Performance, Policies, and Developments

7. **Macroeconomic performance during 2001 was strong**. Real GDP grew by 6.7 percent, as a favorable climate stimulated agricultural output and external transfers, equivalent to 11.2 percent of GDP, spurred manufacturing, construction, transportation, and communications activities (Table 1 and Figure 6). Despite weak international prices for coffee and tea and plummeting prices for coltan in midyear, production for export also contributed modestly to growth in Rwanda's small (9 percent of GDP) export sector. With food in increased supply, the agricultural component of the consumer price index fell, and at end-2001, the consumer price index declined by 0.2 percent on an annual basis. Prices for nonfood items, however, increased by 3.8 percent relative to end-2000.

8. With GDP growth robust, **fiscal performance was stronger than envisaged in the program**. The revenue-to-GDP ratio rose from 9.7 percent in 2000 to 11.4 percent in 2001, compared with a targeted 10.8 percent (Table 2). In this regard, collections of income taxes and taxes on international trade were strong, and VATs were on-target while nontax revenue fell just short of the projected level. With only minor overruns on primary current spending (equivalent to 0.2 percent of GDP on goods and services and exceptional outlays[3]), and with domestically financed capital expenditure on target at 0.5 percent of GDP, primary expenditures amounted to 14 percent of GDP, and the primary deficit was limited to

[2] Issues related to concessionality of external borrowing and to external arrears are discussed in para. 16.

[3] Exceptional outlays were related to spending on higher education and transitional items, including support for victims of the genocide and orphans, the new constitutional commission, and the election and training of judges for the *gacaca* courts.

2.7 percent of GDP.[4] The performance objective on social spending was met. As donor-financed projects were at 6.2 percent of GDP,[5] 0.7 percent of GDP below projection owing to implementation delays, and as interest payments were equivalent to 0.8 percent of GDP, **the overall fiscal deficit** (excluding grants) **was equivalent to 9.5 percent of GDP—nearly 1 percentage point lower than targeted.**

9. Including official grants and taking into account repayments of outstanding domestic obligations (see para. 19), external arrears (see para. 16), and adjustments for movements in government noncore accounts and transitory balances,[6] **the deficit on government financial operations on a cash basis amounted to a deficit of RF 36.5 billion (4.8 percent of GDP) in 2001**. With the receipt of RF 39.5 billion in external financing, including RF 16.3 billion in budgetary loans, along with RF 2.1 billion in borrowing from the nonbank private sector, net government borrowing from the banking system was reduced by RF 5.1 billion (0.7 percent of GDP).

10. **Fiscal performance in the first quarter of 2002 was consistent with achieving the program targets set for end-2002**. With collections generally on target, revenue amounted to RF 25.1 billion (12.2 percent of GDP on an annualized basis). Savings on wages and salaries during January–March 2002, resulting from unfilled civil service vacancies, and limited transfers, were offset by accelerated spending on goods and services, including for defense purposes. As expected, no external budgetary support (except for HIPC Initiative interim relief grants) was received during the first quarter, and government operations were financed, in part, by credit from the domestic banking system.

11. Although the strong fiscal performance in 2001 led to a reduction in the banking system's net claims on government, **broad money expanded by 10 percent during the year—well beyond the 6.7 percent programmed**. Largely fueled by foreign-assistance-related foreign currency inflows, the net foreign assets of the banking system ended the year at about US$18 million above the program target (equivalent to 7 percent of beginning-of-period broad money) (Table 3). As the reduction in banking system credit to government offset only part of the expansionary effect of this inflow, the NBR tightened monetary policy, beginning in August 2001 with a 2¼ point increase of its rediscount rate to 13 percent; this slowed credit expansion during the remainder of the year. Foreign exchange inflows during the last quarter of the year were not, however, fully sterilized.

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[4] An adjusted primary balance, excluding exceptional spending, was set as a performance criterion for the 2001 program. The primary deficit under the program definition was equivalent to 0.1 percent of GDP, 0.2 percentage point better than targeted.

[5] As reporting on foreign-financed investment is incomplete, capital outlays are estimates derived from available information.

[6] Noncore government accounts comprise all accounts outside the treasury accounts. They include ministerial imprest and project accounts.

12. **An easing in the monetary stance during the early months of 2002 led to a substantial expansion in the monetary base.** With external budgetary transfers expected mainly in the last quarter of 2002, the NBR provided net financing for government operations through April 2002 amounting to RF 7.7 billion (5.8 percent of beginning-of-period broad money). The effect of this action was compounded by lowering the rediscount rate to 11.5 percent and by limiting the NBR's intervention in the money market. In view of the sharp increase in reserve money, the NBR tightened its monetary policy at end-May 2002, as it acted aggressively to withdraw liquidity from the system through the issuance of 90-day government securities and through money market interventions, as well as through the resetting of the rediscount rate to 13 percent on June 14, 2002.

13. **In February 2001, the NBR introduced weekly foreign exchange auctions.** The auction system functioned smoothly throughout the year, as the divergence between the exchange rate quoted by commercial banks and the informal market rate narrowing substantially throughout the year to a 3 percent margin.

14. **The situation of the banking system remained precarious in 2001, with approximately 40 percent of all loans classified as nonperforming at year's end.** After accounting for required loan provisions, several banks did not, on occasion, meet the minimum capital requirements.[7] Following a serious deterioration during 2001, the NBR placed one of these banks under provisional control in April 2002.[8] Following the completion of an on-site inspection, the NBR reached an agreement on the restructuring and recapitalization of another bank—one of the largest commercial banks. Progress was made in strengthening the NBR's bank supervision department. Some progress was also made in addressing the problems of a large microfinance institution, as a restructuring plan was developed with the assistance of the World Bank.

15. **The deterioration in the balance on external trade was limited to US$12 million** in 2001, as a sharp decline in export prices for tea (down by 16 percent) and coffee (22 percent lower) was largely offset by export volume increases and falling petroleum prices (Table 4). The larger trade deficit, however, was compensated for by a significant improvement in the services balance that resulted from reductions in spending on embassies abroad and lower technical assistance. **The deficit on the external current account therefore remained broadly unchanged at about 16 percent of GDP** (excluding official transfers), and 7 percent after such transfers. At the same time, a substantial improvement in capital and financial inflows facilitated a US$21 million increase in gross official reserves.

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[7] In addition, the aggregate solvency ratio at end-2001 was 7 percent, as two of the six commercial banks did not meet the minimum ratio of 8 percent.

[8] The government holds just under 50 percent shareholding in this bank. The nonperforming loans are linked both to credits extended prior to genocide and to real estate investments that soured with the progressive reduction of nongovernmental organizations (NGOs) and donor presence at the end of the 1990s.

Box 1. Structural Conditionality

Status of structural conditionality under earlier programs

With the implementation of the reform of fees for governmental services, the authorities fully completed all but two prior actions that remained outstanding under the program that expired at end-April 2002. The outstanding actions are the following: the stocktaking of government bank accounts and the transmittal to the Fund of movements on extrabudgetary and off-budget accounts. Substantial progress has also been made here—the authorities engaged a private auditor to carry out the stocktaking and a preliminary study has been transmitted to the Fund. A final study is in preparation.

Similarly, all but two of the structural performance criteria for the final review of the expired program have been met. The issuing of financial instructions has been delayed into next year (see para. 47) given that the revision of the Organic Budget Law, on which the instructions await, has been blocked due to broader constitutional concerns. Progress in the elimination of waivers and exemptions from import duties and taxes has been considerable (see MEFP, para. 12). A full review remains outstanding and is now scheduled to be completed by June 2003.

Regarding structural benchmarks, the target for tax collection within one month of assessment was missed and has since been dropped because it proved unrealistic in hindsight (MEFP, para. 13). Improvements in the tax base of the tax on professional remuneration were delayed—the authorities intend to implement the reform effective January 2003. Deadlines for two other benchmarks, the establishment of a commercial court and a tax court, as well as the privatization of Rwandatel, slipped as the timetable proved overly ambitious. Both objectives are likely to be completed in 2004.

Coverage of structural conditionality in the current program

The program provides for three prior actions as conditions for the publication of Executive Board Documents; one structural performance criterion for the first review; two structural performance criteria for the second review; and seven structural benchmarks. Two of the prior actions—the enactment of a revised budget and bringing the monetary base in line with the program objectives—are designed to ensure the feasibility of program implementation. The third prior action, the issuance of guidelines for the financial administration of domestic obligations, is key to strengthening transparency in the process for clearing government domestic arrears. The structural performance criteria relate to the 2003 budget, and the completion of commitments under the 2001 program.

Of the seven structural benchmarks, four are directed at addressing problems in the precarious situation of the banking system (paragraph 14) and will have a direct and significant impact on the macroeconomy. The remaining three structural benchmarks are key steps to improve the financial administration: setting out that reporting will be extended in line with the stepped-up decentralization will ensure monitorability in the fiscal accounts; integration of extrabudgetary and off-budget activities into the budget will be key to improving governance and follows up on a comprehensive study in this regard; and quarterly publication of financial operations will be an important step towards improving transparency.").

Relevant structural measures not included in the 2002–03 program, but covered by other agencies

- **privatization:** specific steps toward the privatization of Rwandatel, two tea factories, and progress in installing private management at Electrogaz (World Bank);
- **administrative reform:** preparation of a financial accountability action plan and the continued implementation of the medium-term expenditure framework (World Bank); and
- **composition of spending:** spending in the education, health, and agricultural sectors at agreed levels (World Bank).

16. Since the last Board discussion, Rwanda fell into arrears to the International Fund for Agricultural Development (IFAD) (US$0.2 million) and the Arab Bank for Economic Development in Africa (BADEA) (US$1.3 million). In both cases, however, the arrears were cleared within a six-week period and were explained as having resulted from lapses in communication and administration that have now been addressed. In addition, in April 2002, a loan was contracted with a multilateral creditor with a grant element of 45 percent. The Rwandan authorities have since requested an extension in the maturity of the loan, in order to bring it to the minimum concessionality threshold.

17. With the balance of payments and domestic prices stable, **the Rwanda franc depreciated by 5 percent in real effective terms during 2001,** following a 10 percent depreciation in 2000 (Figure 5).

D. Governance and Structural Reforms

18. **Substantial improvements were made in governance during 2001**. The Office of the Auditor General was strengthened, enabling it to complete the audits of the accounts for 2000 of 27 public sector entities including eight ministries, during 2001. In addition, the audits of the accounts for 1999 of five ministries were discussed in a meeting of the parliament's Budget Committee that was open to all parliamentarians, with the press in attendance.[9] Complementing this effort, public accountants (*comptables publics*) were established in all line ministries during 2001, and they will begin filing quarterly reports during 2003. The program structure of the budget clearly identifies poverty-related spending, including designated priority programs reflecting the PRSP objectives, that facilitated the monitoring of priority spending in 2001. Nonetheless, weaknesses in the integration of capital and current budgets remain to be addressed through the strengthening of the CEPEX system. The decentralization of the expenditure recording system will improve monitoring capacity by allowing ministries to directly follow their own accounts. In addition, substantial action was taken to strengthen the system for public tenders (Appendix I, para. 9).

19. **Steps forward were also taken to address issues related to exceptional payments. Regarding the large stock of domestic arrears** accumulated, mainly during the time of the genocide and the period immediately following, **the Auditor General completed an assessment of revised claim submissions**, which amount to RF 40 billion (5.3 percent of GDP) and reflect corrections for accounting errors and new claims; the Auditor General found that RF 31 billion (4.1 percent of GDP) of the claims met regular tests for validation. However, taking account of the extraordinary circumstances under which some obligations were incurred, as well as the related loss of original documentation and social obligations, the government relaxed qualification norms, and an interministerial Committee of Secretaries General has recognized also other claims. **Regarding spending on the reintegration of armed groups returning from neighboring countries during 1999–2001,** which was

[9] A parliamentary committee is reviewing the final report on the 2000 audits and access to both the 1999 and 2000 reports will be opened to the public before year's end.

questioned in the Auditor General's report on the 1999 accounts of the Ministry of Defense, **the authorities provided Fund staff with detailed expenditure data** indicating that over 60,000 members of the former national army and other armed groups returned during the period in question, with the inflow declining sharply during the second half of 2001.

20. **Structural reform efforts in fiscal administration were accompanied by significant reforms in the financial sector**. In February 2001, the NBR introduced weekly foreign exchange auctions; these have functioned smoothly, as noted in para. 13. To improve recovery on nonperforming loans collateralized by real estate guarantees, the Ministry of Justice reinstated the *voie parée* (accelerated loan recovery procedure), which had been suspended in 1997 owing to widespread abuse, as the authorities viewed the strengthening of legal institutions to be sufficient to preclude the renewal of abuses. In addition, an arbitration center has been made operational, and it has been granted legal status; banking supervision by the NBR has improved; a training program, supported by a resident MAE expert, has begun; and a review of lending procedures of commercial banks has been completed, with remedial action planned to begin shortly.

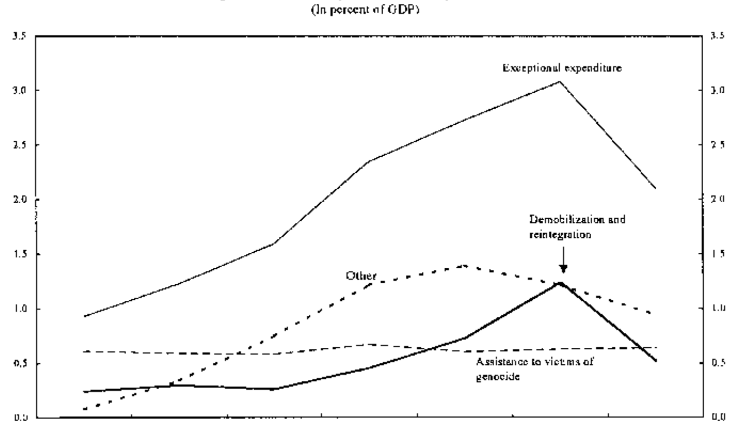
21. While progress on privatization has been slower than envisaged, **12 companies were privatized during 2001.** Regarding Rwandatel, the telecommunications parastatal, an advisor is being recruited to manage the privatization process over the next 15 months. **Civil service reform is also moving forward, and, with the implementation of the new provincial organizational structure in process, redeployment within and between provinces is expected to be completed by January 2003.**

III. Report on the Discussions

22. Rwanda has made significant progress in rebuilding its economic and financial institutions and in reestablishing economic growth since the genocide. However, about 60 percent of the population lives below the poverty line, HIV/AIDs is endemic, private sector investment is extremely limited, and the long-run macroeconomic stability remains to be achieved. The authorities have now finalized a PRSP (PRSP to be issued; see Section IV) that sets outs a coherent and comprehensive medium- to long-term strategy for alleviating poverty, and achieving a high and sustainable rate of economic growth.

23. Policy discussions focused on accommodating the substantial spending associated with government social priorities, including for demobilization, reintegration and reeducation, *gacaca* courts, constitutional reform, decentralization of government, education assistance, and assistance to victims of the genocide (see para. 30 and

Figure 1. Rwanda: Exceptional Fiscal Outlays, 1998-2004
(In percent of GDP)



Source: Rwandese authorities; and Fund staff estimates and projections.

Figure 1). With spending on these activities set to increase substantially over the next two years, the authorities had initially viewed that a widening of the fiscal deficit that would occur in the absence of additional steps would be acceptable. Following extensive discussions with Fund staff on the impact of larger prospective deficits on macroeconomic stability, the authorities recognized that, unless steps were taken to adequately strengthen the domestic resource base, the associated sharp increase in the fiscal deficit would pose a significant threat to macroeconomic stability. At the same time, in financing the deficits, the authorities risked a substantial deterioration in debt sustainability. In resolving these issues, the authorities identified revenue measures that constrained the expansion of the deficit and limited access to PRGF resources, shifting external financing to more concessional IDA resources.

A. Medium-Term Outlook

24. In line with the above-noted agenda, the medium-term macroeconomic objectives under the program are to (i) achieve annual real GDP growth of at least 6 percent; (ii) limit annual average inflation to 3 percent, or less; and (iii) maintain gross international reserves equivalent to about six months of imports.

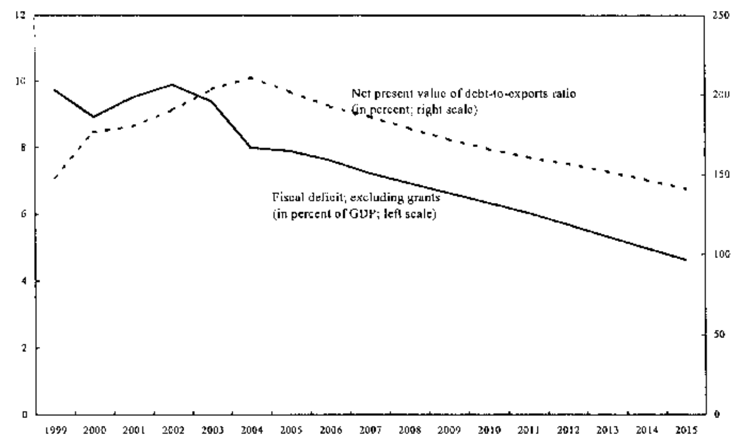
25. For the next 12 months, the authorities have set fiscal and monetary policies in line with these objectives and have developed a focused plan of structural measures that would enable them to move forward expeditiously on the strategy set out in the PRSP.

26. Given Rwanda's population growth rate of about 3 percent, these objectives would yield modest but significant increases in per capita real income over the medium term. With about 80 percent of the population living in rural areas, agriculture has been identified as the key focus for productivity increases and related economic growth. Prospects for this sector will benefit from the ongoing privatization of the tea industry, improvements in infrastructure, and further development of horticulture. In order to attain the economic growth objectives, investment will need to rise by about 2 percentage points between 2001 and 2005. Given Rwanda's low saving rates, the role of foreign savings is expected to remain important over the medium term. Nevertheless, improved soundness and competition in the banking sector, continued privatization, especially in commercial agriculture, and gradual increases in per capita income are expected to gradually raise private sector savings. In view of the authorities' commitment to fiscal consolidation, government savings are also expected to improve over the medium term. This improvement will largely derive from a strengthening of the domestic revenue effort. In addition to specific revenue-raising measures—in the areas of value-added and excise taxes—this will be achieved through the enlargement of the formal economy and efficiency gains in tax administration.

27. The design of the above-mentioned reforms in financial administration and the prioritization of government expenditure take into account the protection of social expenditure and the most vulnerable. In this context, the overall fiscal deficit (excluding grants) is expected to decline from 9.5 percent of GDP in 2001 to 8 percent in 2004. Similarly, the fiscal balance including grants is projected to tighten from a deficit of 1.1 percent of GDP in 2001 to a surplus of 0.1 percent in 2004.

28. **Over the medium term, external imbalances are expected to gradually fall.** The current account deficit, excluding grants, is expected to decline from 17 percent of GDP in 2002 to 13.5 percent in 2004. In addition to the impact of prudent macroeconomic policies, the privatization program in the tea sector and ongoing rehabilitation of the coffee sector is expected to strengthen the export base and new export products will be developed. Furthermore, Rwanda's export capacity is expected to improve in view of the proposed structural reforms in the areas of economic and physical infrastructure, tariffs, and regional integration. The financing need during this period would amount to US$125 million on average per year. Balance of payments support commitments from the World Bank and debt relief from the enhanced HIPC Initiative are expected to cover the financing needs. The narrowing of the external current deficit, combined with efforts to substitute grants for loans, is expected to allow Rwanda to reduce the ratio of NPV of debt to exports from 180 percent[10] in 2001 to 150 percent by 2014 (see Figure 2 and Table 6).

Figure 2. Rwanda: Fiscal Deficit and NPV of Debt, 1999-2015



Sources: Rwandese authorities; and Fund staff estimates and projections.

B. The Program for 2002–03[11]

Fiscal policies

29. **The authorities have targeted a limiting of the overall fiscal deficits to 9.9 percent of GDP in 2002 and to 9.4 percent in 2003.** Corresponding to this objective, the deficit on domestic fiscal operations[12] will be limited to RF 26.9 billion (3.3 percent of GDP) and RF 25.4 billion (2.8 percent of GDP) in 2002 and 2003, respectively. The fiscal program aims to strengthen the revenue-to-GDP ratio to 12.2 percent of GDP in 2002 and

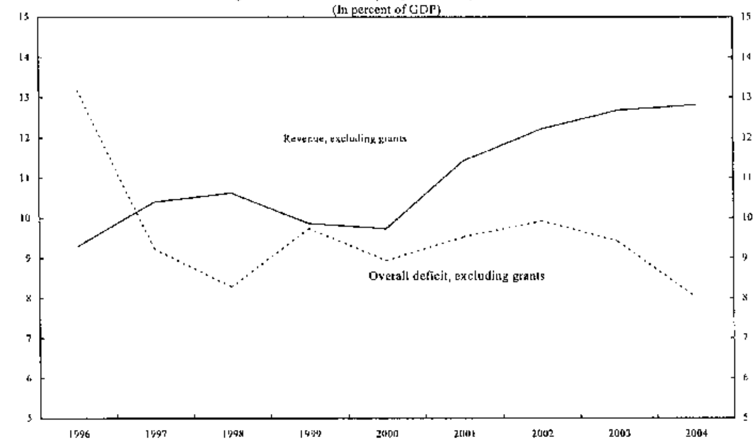
[10] Reflecting the assumed delivery of unconditional HIPC Initiative assistance at the decision point.

[11] For monitoring purposes, the program period will be set from July 1, 2002 to June 30, 2003.

[12] The domestic fiscal balance is defined as the difference between revenue (excluding grants) and the sum of current expenditure (excluding external interest payments), domestically financed capital spending, and net lending.

12.7 percent in 2003, a critical step toward achieving sustainability (Figurc 3). Discussions on suitable approaches for achieving these targets reflected the authorities' recognition that, following the substantial measures taken in preceding years, resistance to further change was building. In order to achieve this target, the VAT rate will be raised from 15 percent to 17 percent, and customs duties will be shifted, in line with preliminary proposals for the common external tariff for the Common Market for Eastern and Southern Africa (COMESA) free trade area, with effect from July 1, 2002. At that time, it will be announced that the corporate income tax rate will be reduced from 40 percent to 35 percent. Beginning on January 1, 2003, the authorities will introduce a new tax on the sale of new and used cars, subject all salary allowances, in cash and in kind, to the tax on professional remuneration and, unless revenue improvements in performance through October 2003 indicate objectives can be achieved without further rate action, return the excise tax rate on beer to 57 percent.

Figure 3. Rwanda: Tax Bouyancy and deficit, 1996-2004 1/
(In percent of GDP)



Sources: Rwandese authorities, and Fund staff estimates and projections.

1/ Shaded area indicates projections.

30. Budgeted spending in 2002 fully accommodates the priority-spending program outlined by the authorities and allows for real increases for government administration.[13] Priority spending is substantially expanded this year, to a large extent on account of the government's decentralization efforts. As of 2002, districts will receive substantially more autonomy, and budgetary resources will be allocated to them on a systematic basis. Budgetary allocations include transfers to the recurrent district budgets, as well as outlays for the newly created Common Development Fund (CDF), which administers resources for capital projects at the district level. Apart from the districts, provinces will administer a larger share of public expenditure. Some priority programs, in areas such as internal affairs, agriculture, and commerce, will receive substantially more funding as a result. The program also accommodates virtually all proposed outlays under the exceptional spending label, with increases mainly in support of stepped-up efforts in the areas of demobilization and reintegration (see para. 48). In addition, the communal justice system has been revived to address genocide-related cases (see MEFP, para. 27), and it will receive a substantial increase in funding for administration of its first year of full operation. Funding for the newly created AIDS Commission and the new Office of the Ombudsman, along with spending in areas such

[13] The priority-spending program reflects the priority areas for poverty-related spending as set out in the PRSP.

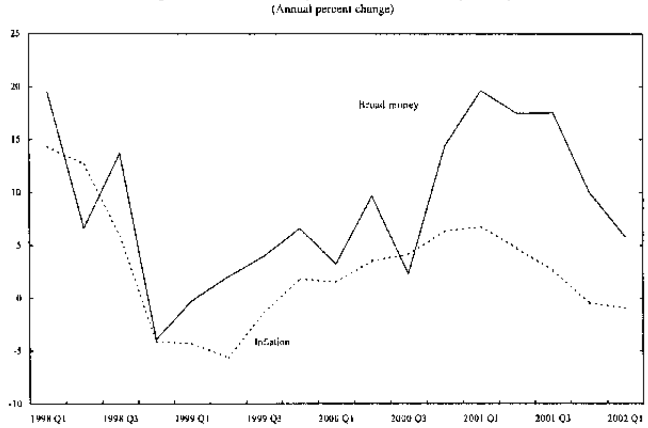
as higher education, human rights, and national reconciliation promotion will also increase. Moreover, the program provides RF 0.6 billion for humanitarian assistance for the victims of the volcanic eruption at Goma in early 2002. Reflecting these increases, and given also increases in general administration costs, total expenditure is budgeted to rise from 21 percent of GDP in 2001 to 22.1 percent in 2002, and is programmed to stay at that level in 2003. Current spending will increase by 1 percentage point of GDP (to 15.2 percent) in 2002 and grow broadly in line with nominal GDP in 2003. Budgeted capital expenditure, reflecting capacity constraints on implementation, would increase from 6.6 percent of GDP in 2001 to 6.8 percent in 2002 and 7.2 percent in 2003. At the same time, the authorities have initiated actions to improve capital expenditure planning, implementation, and monitoring.

31. **The fiscal program provides for the continued settlement of outstanding domestic obligations and a reduction in domestic borrowing; in addition, it reflects drawings on concessional external financing and HIPC Initiative debt relief.** Net payments on outstanding nonfinancial domestic obligations are budgeted at the equivalent of about 1 percent of GDP in 2002 and 2003 (see MEFP, para. 3). At the same time, the government's borrowing from the domestic banking system will be reduced by 1.1 percent of GDP in 2002, followed by a stabilization of domestic indebtedness in 2003.

Monetary and financial sector policies

32. **The staff and the authorities were in agreement that monetary policy for 2002-03 should aim at limiting inflation and appropriately building net foreign assets.** Given the surge in monetary aggregates at end-2001, broad money growth in 2002, at about 7 percent, has been targeted below nominal GDP growth, in order to avoid an inflationary impulse (see Figure 4). Based on this objective, growth targets for reserve money, assuming a constant money multiplier, have been set to anchor the monetary program. The NBR will further strengthen its monitoring of monetary developments, including through the development of weekly forecasts for reserve money. The exchange rate will continue to be market determined.

Figure 4. Rwanda: Broad Money Growth and Inflation, 1998:Q1-2002:Q1
(Annual percent change)



Sources: Rwandese authorities; and Fund staff estimates and projections.

33. **The authorities are aiming their reforms in the financial sector at improving banking system soundness.** Policies supporting this objective include implementing an accelerated loan recovery system, strengthening the capacity of the NBR's banking supervision department, and improving the capacity of the judicial system through, inter alia, the establishment of commercial courts. Furthermore, in view of a recent review of weaknesses in the lending procedures of banks, the NBR will, in consultation with the

Bankers' Association, develop a plan to enhance the quality of credit information and the recovery of nonperforming loans. The IMF and the World Bank will provide technical assistance for this effort, including through a Financial Sector Assessment Program (FSAP) and financial sector review.

34. **The authorities are also acting aggressively to address the problems of a major commercial bank in which the government is a major shareholder**. In this regard, the NBR recently appointed a new board of directors and management for the bank, which it placed under the supervision of a provisional controller. Furthermore, the authorities have contracted outside experts to advise on restructuring options for the bank and are consulting with Fund and World Bank staffs on an appropriate action plan. Given the early stage of work in addressing the problems of the bank, the fiscal program for 2002–03 does not include provisions for the resolution of this situation. Policy commitments under the program associated with the restructuring plan will be agreed with Fund staff in the period ahead.

35. **The authorities have indicated their desire to strengthen their anti-money laundering (AML) measures and to step up efforts to combat the financing of terrorism (CFT).** Their responses to a recent AML/CFT questionnaire, circulated by the IMF and the subsequent analysis of these responses, indicate significant weaknesses in this area, which the authorities have undertaken to address under their governance program. As a first step, the NBR and the Ministry of Justice plan to develop jointly, with the assistance of AML experts, a road map setting out required technical assistance and major milestones. In addition, to ensure the proper use of Fund resources by the NBR, **the authorities will put in place within the NBR adequate safeguards in the areas of control and governance**.

External sector policies

36. **Developments in the external sector under the program during 2002–03 will largely reflect the impact of exogenous factors, including the plunge in the price for coltan and the continued weakness in prices for coffee and tea.** The external current account deficit (excluding grants) is projected to widen from 16.4 percent of GDP in 2001 to 17 percent in 2002 and to decline to 15.7 percent in 2003. The overall balance of payments deficit (excluding program grants) is expected to reach US$120 million and US$109 million in 2002 and 2003, respectively. After taking into account the needed foreign exchange reserve buildup of US$11 million in 2002, the remaining financing needs will be covered by balance of payments support from the World Bank, IMF, United Kingdom, European Union, Sweden, a multidonor fund for demobilization and reintegration, and debt relief from Paris Club and non-Paris Club creditors. Regarding the Paris Club, the consolidation period, under the May 2001 rescheduling agreement, expired in April 2002. It is assumed that additional debt relief from Paris Club creditors on Cologne terms will be provided following approval of the new PRGF arrangement. The deadline for completing bilateral agreements under the previous rescheduling agreement has been extended to September 30, 2002.

37. **At end-2001, Rwanda's stock of debt is estimated to have been at about US$1.3 billion (before HIPC Initiative relief), with an NPV of debt-to-exports ratio of 180 percent (after HIPC Initiative relief)**. About 89 percent of this debt is owed to

multilateral creditors (Table 6), with the remainder divided between Paris Club and non-Paris Club creditors. Largely reflecting lower exports than envisaged at the time of the decision point, the ratio of the NPV of debt to exports, after the benefits of the enhanced HIPC Initiative debt relief, would increase to 190 percent in 2002 and to 204 percent by 2003. This ratio is expected to decline to 150 percent in 2014.

38. Rwanda's outstanding credit to the Fund is estimated at US$84.3 million, or 83.8 percent of quota, in 2001 (Table 8). It is expected that Fund credit outstanding will decline to 68 percent of quota by 2005. The amount represents 35 percent of exports of goods and nonfactor services and about 28 percent of gross official reserves. Rwanda is expected to service its debt to the Fund without problems, given its past track record. The ability to repay the Fund will be further enhanced by the proposed limitation on the contracting of new nonconcessional loans, the provision of HIPC Initiative relief during the interim period and after the completion point by the Fund and other creditors, and the projected gradual reduction of the fiscal and external current account deficits. In this regard, the authorities are requesting additional interim assistance from the Fund to cover part of their debt service obligations in the period until July 2003, broadly the time at which the authorities are expected to reach the completion point under the enhanced HIPC Initiative.

Trade and exchange rate policies

39. Rwanda agreed in April 2002 to join the Free Trade Area (FTA) under COMESA by the end of 2004, following an assessment of the consequences of the tariff reduction program on Rwanda's industry and fiscal operations. Rwanda has provided trade preferences to reciprocating countries in the COMESA region. In 2002, Rwanda lowered its intra-COMESA tariffs to 20 percent of the most-favored-nation (MFN) rates and agreed to reduce them further to 10 percent in 2003 and expects to phase them down to zero by January 2004. The FTA is expected to be transformed into a customs union by end 2004 with the adoption of a common external tariff. In July 2002, some MFN import tariffs will increase in line with the preliminary proposal for COMESA's common external tariff, with bands at 0, 5, 15, and 30 percent. As a result, the average tariff rate is expected to rise from around 11 to 14 percent.

40. **Rwanda's trade regime is relatively open** with a score of 3 on the trade restrictiveness index score (in a scale of 10, with 10 indicating the most restrictiveness). Rwanda has made some progress in reducing the level and dispersion of tariff rates and there are currently no explicit nontariff barriers. Over the medium term, Rwanda's trade restrictiveness index could be further reduced to 2 but the final outcome will depend to a large extent on developments vis-à-vis COMESA, namely, the adoption of the common external tariff.

41. **Rwanda's foreign exchange system is market determined with the NBR occasionally intervening to smooth out disturbances.** The formal foreign exchange market in Rwanda is dominated by commercial banks and foreign exchange bureaus. Since January 2001, weekly foreign exchange auctions for banks have been introduced, which supply a predetermined amount of foreign exchange on a marginal price basis. Furthermore,

exchange rate regulations have been liberalized to allow larger withdrawals from foreign exchange accounts.

42. The managed float exchange rate system is suitable for Rwanda given the country's limited export base and the risks associated with capital flows over the longer term. Rwanda's large current account deficit is financed largely through foreign donor support, including loans. Given that donor support is subject to the risk of a sudden reversal and the ability to contract more loans constrained by the already weak debt sustainability indicators, the managed float system appears to be suitable for Rwanda's current circumstances. In light of these factors, the further accumulation of reserves envisaged by monetary policy aims at avoiding a disorderly adjustment in the exchange rate, caused by potential disruptions in foreign aid or further terms of trade shocks.

43. The large current account deficit does not signal weaknesses in Rwanda's external competitiveness caused by a misaligned exchange rate. In fact, the real effective exchange rate (REER) has depreciated since 1999 and during the same period export volumes have increased rapidly (albeit, for reasons not entirely related to enhanced competitiveness). While Rwanda is a landlocked country and thus subject to higher transportation costs (MEFP, para. 18), overall, external competitiveness does not appear to be adversely affected by the current exchange rate system.

Structural reforms

44. **The authorities, building on recommendations from Fund technical assistance missions, have set out a focused action plan for improving economic governance, strengthening the administration of public finances, and supporting the decentralization of government that reflects priorities identified in the PRSP**. In particular, the plan includes steps to improve budget administration, increase transparency and accountability, strengthen economic institutions, and introduce the legislation and regulations required to ensure efficient, rule-based governance (see MEFP, paras. 41 to 57).

45. **To improve the comprehensiveness, efficiency, and transparency of the administration of public finances, the authorities intend to introduce on July 1, 2002 explicit (written) guidelines determining eligibility and priority for payment of outstanding domestic obligations (MEFP, para. 33)**. In addition, appropriate action will be taken in following up on the study on extrabudgetary and off-budget accounts; a comprehensive review of tax exonerations and incentives under tax laws and investment agreements will be conducted; a mechanism for monitoring borrowing by district governments, on a monthly basis, will be developed; and government financial data will be published, following the Government Finance Statistics (GFS) format, on a monthly basis.

46. **The authorities have set out a number of actions that will be taken to improve the government's capacity to monitor and control expenditures during 2002–03**. These actions will include the government's plans to expand the existing expenditure management system to cover local levels, while improving the internal audit and public accounting systems of all government levels. Special attention will be given to tracking

poverty-related expenditure in all government levels, consistent with the commitments under the enhanced HIPC Initiative. These steps will be accompanied by the establishment of a reporting system to evaluate periodically the delivery of government policies as proposed under the PRSP. In this context, the medium-term expenditure framework (MTEF) will be extended to provide for wider consultation among all levels of government during budget preparation. Moreover, parliament will deepen its involvement in this process. The authorities also plan to further strengthen the Office of the Auditor General and to make available to the public the audit reports for 1999 and 2000 by end-2002.

47. **The authorities' plans for establishing a clear legal basis and well-defined rules and regulations for financial operations include the adoption of the Organic Budget Law, the Law on Management of Public Accounts, and supporting financial regulations and instructions**. Conflicts between certain elements in these laws and other legislation would be eliminated under the new constitution that is being drafted. However, if the adoption of the new constitution is delayed, the government plans to submit to parliament laws modified to contain those elements that are consistent with existing legislation by June 30, 2003.

48. Beyond fiscal administration and economic governance, **the authorities plan to expedite action on the agendas for demobilization and reintegration and civil service reform**. The demobilization and reintegration program, which is being supported by the World Bank and other donors, will substantially reduce the size of the Rwandese army, provide service allowances to returnees from the former armed forces, and assist former members of armed groups in the Democratic Republic of the Congo (DRC) to return to normal roles in society. In addition, some members of the militias operating in the DRC will be integrated into the Rwandese army (see MEFP, para. 27). The demobilization and reintegration program is being accelerated in order to improve the quality of the civil service and the delivery of government services, as well as to consolidate national reconciliation and support stability in the Great Lakes region. Program implementation will be safeguarded by a monitoring mechanism set in place by the World Bank that will continuously track the provision of assistance to ex-combatants and to provincial offices and communities. In addition, ex-post surveys will be conducted regularly to verify the appropriateness of the end-use of program funds, and regular financial reports will be prepared. The Office of the Auditor General is planning to audit the 2002 accounts of this project as part of the work program for next year. Reforms in the civil service area will include the completion of the new civil service structure for the districts and the computerization of the human resource management system.

49. On **other structural reforms,** the authorities envisage the acceleration of the privatization program and regional integration. In the period ahead, the authorities, in consultation with World Bank staff, will complete the pilot privatization of tea factories, bring Rwandatel (the telecommunications company) to the point of sale, and put Electrogaz (the electricity and water company) under private sector management. These measures will go a long way toward reducing the cost of doing business in Rwanda. Furthermore, the authorities plan to develop a specific timetable for divesting government shares in the financial sector.

IV. THE PRSP PROCESS

50. Following a national consultative process, **Rwanda published a PRSP** (to be issued) that is intended to form the basis of Rwanda's national planning effort over the next decade and provides a comprehensive framework for the coordinated action of communities, the private sector, civil society, and external donors. The PRSP focuses on six broad areas: rural development and agricultural transformation, human development, economic infrastructure, governance, private sector development, and institutional capacity building. A joint assessment of the PRSP by the World Bank and Fund staffs will be issued.

Box 2. Rationale and Social Impact of the Set of Revenue Measures

Value-added tax (VAT) increase in two steps from 15 percent to 18 percent

The VAT increase was chosen in part because it is a simple measure to implement. Eighteen months after the successful introduction of the VAT, the revenue administration and the VAT-registered entities will be easily able to administer the first step of the chosen rate increase. At the final level of 18 percent, to be reached in January 2004, Rwanda will be right on the regional average. While the VAT is not a progressive tax per se, the negative social impact is nevertheless estimated to be small, since the majority of trade among the rural poor, who can be largely characterized is dependent on subsistence agricultural activity, is not subject to the tax; however, some unavoidable impact will be felt, owing to the effect on petroleum products and, thus, transportation.

Reducing the corporate income tax

With the reduction to 35 percent, the corporate income tax will also move to the regional average. The main objectives were to reduce the incentive for tax evasion by applying the lower rate, as well as to put Rwanda on a level playing field with its neighbors regarding the attraction of foreign investment. As the corporate income tax applies only to businesses with annual turnover of above RF 15 million, this measure will not directly affect the poor.

Reforming the tax on professional remuneration (TPR)

The TPR reform is envisaged to broaden the base of this tax, which largely applies to private sector professionals and civil servants. Fringe benefits, currently tax free, would be captured, along with ordinary salary. It is being considered that, at the same time the base is broadened, the rate structure will be adjusted to be compatible with the corporate income tax rate. The poor are not directly affected by the policy change since they fall below the income threshold for application of the TPR.

Adoption of the common external tariff structure of COMESA

Adjustment of the tariff structure to the common external tariff of COMESA was chosen as a revenue measure in the broader context of Rwanda's plans to fully join the free trade area of COMESA by 2004. In the long term, this policy will increase the market for Rwandan products and thus allow for greater economies of scale and increase the country's attractiveness for foreign investment. The social impact of raising the tariffs will be limited, as Rwanda was a relatively closed economy and its small amount of imports is skewed toward intermediate and finished products. The negative impact on the majority of the poor would thus not be pronounced, with the possible exception of the effect of the measure on imported petroleum and, thus, on transport.

Reforming excise taxation

The authorities have designed Rwanda's excise taxes to be highly progressive by applying them only to luxury products. The increase in taxation on industrial beer and the introduction of a progressive excise tax on cars (differentiated by engine size) will have; at the same time, these measures will generate very limited negative social impact valuable resources that can be used for pro-poor spending. An excise tax on cellular phones and airtime was considered, but its introduction was postponed. While it was recognized to be a progressive tax measure, the fact that large parts of the country are not linked by a fixed-line network and thus have to rely on wireless networks for telecommunications caused the Rwandan authorities to delay action.

51. **The program for 2002–03 provides for all priority spending identified by the authorities**. While the initial plans for 2002 included additional outlays for the next stage of demobilization and the capital budget, the reductions reflected in the agreed fiscal program are associated with administrative delays and capacity constraints unrelated to the program.

The agreed revenue measures are unlikely to have a major negative social impact. In supporting expanded, pro-poor spending, revenue measures were focused on progressive taxes, where possible. Box 2 above provides a summary analysis of the impact of these measures.[14]

V. Staff Appraisal

52. Operating under difficult conditions, **Rwanda has made significant progress toward creating a foundation for sustainable and robust economic growth and for a reduction in poverty**. The circumstances in which the policy reforms and institution building have supported this progress have been extraordinary—encompassing a massive reintegration effort, the establishment of safety nets for the surviving victims of the 1994 genocide, and the reconstitution of a national polity, including by seeking appropriate resolutions in cases against those accused of genocide and by setting in place democratic institutions. During 2001, the holding of local elections, the initiation of work on a new constitution, and the training of judges for *gacaca* courts will be built on the restored macroeconomic stability and administrative strengthening achieved with PRGF-supported programs during 1998–2002. While the search for a just and durable end to the security situation continues, thereby redirecting resources that could otherwise be used to create productive capacity, the government has embarked on an ambitious demobilization and reintegration program supported by the World Bank and other donors.

53. **Performance under the PRGF-supported program for 2001 was broadly encouraging**. GDP growth was strong, and inflation, partly reflecting good weather, was limited, while the increase in official reserves was better than targeted. The observation of quantitative performance criteria for end-December 2001 contributed to this strong performance and reflects an important improvement in program implementation relative to 2000. While some of the progress during 2001 and early 2002, including the stocktaking of government accounts, the introduction of revised fees for government services, improvements in the performance of the Rwanda Revenue Authority (RRA), completed audits of key government ministries, the institution of new organizational structures for the civil service, the adoption of a code for civil servants, and the strengthening of the National Tender Board (NTB), was realized with substantial delays, these actions, taken together, form a good record and a strong basis for moving forward.

54. **The program for 2002–03 supports the achievement of the growth and poverty reduction objectives set out in the PRSP**. In particular, a strengthened revenue effort under the program provides resources to finance a critical stage in the authorities' program of nation building, while further moving government finances toward sustainability, as a limited increase in the deficit on domestic operations in 2002 will be reversed in 2003. To achieve the revenue targets, the program builds on the improved capacity of the RRA, raises the VAT

[14] As noted in Box 1, fees for government services were revised in 2002. Although the revisions applied to some education and health services, most fees are for nonsocial services.

rate toward the regional average, and aligns tariff rates in a way that will facilitate full integration into the COMESA free trade area and ensure consistency with the eventual COMESA common external tariff. The improvement envisaged in revenue buoyancy is appropriately ambitious and the expenditure program fully encompasses the priority actions needed to achieve a social, political, and economic transformation. In this regard, constitutional reform, the decentralization of government, and the concurrent strengthening of governance represent one coherent bold step toward establishing a sustainable and efficient foundation for the economy. At the same time, spending focused on *gacaca* courts, demobilization and reintegration, reeducation, and assistance to genocide victims, addresses critical social needs and moves strongly in the direction of poverty reduction, consistent with the PRSP. The fiscal program provides for positive, although limited, real growth in other spending.

55. **The continued strengthening of government financial administration**, which is featured in the program for 2002–03, **is critical for ensuring that resources are used appropriately and efficiently in realizing PRSP and program objectives**. The introduction of guidelines for determining the qualification of domestic liabilities for settlement and the establishment of a submission deadline will be important steps in this direction. Improvements in the process for establishing and monitoring government bank accounts, the incorporation of off-budget accounts, the strengthening of the budgeting process, the extension of the government accounting system to cover provincial and district administrations, and enhancements in monitoring and controlling the capital budget will also contribute importantly to strengthening the financial administration. Improved accountability through the continued strengthening of the Office of the Auditor General and the publication of audit reports and data on current government financial operations will also play a key role in this effort.

56. **Monetary policy during the program period is to be guided by the objective of establishing low inflation as a norm**. In light of the more rapid than targeted monetary expansion during 2001, broad money growth in 2002 will be held below that for nominal GDP. Attaining this objective, while ensuring the appropriate availability of credit to the private sector, will be facilitated by a reduction in government indebtedness to the banking system, supported by external inflows. Given the projected timing for external inflows, the program entails a reduction in official reserves during the first part of 2002, along with the extension of central bank financing to cover government operations. Given the associated risks, the NBR will need to closely monitor liquidity movements in the system and move aggressively to tighten conditions, primarily through intervention in the money market, when needed.

57. In these circumstances, **prompt action to resolve the difficulties of the commercial banking sector will be vital to the success of the program**. Placing a seriously troubled bank under the provisional control of the NBR was an important first step in safeguarding the assets of that bank and limiting potential recourse to fiscal resources. The adoption of a strategy to fully address the problems of the bank, in consultation with the World Bank and Fund staffs, will set the stage for improving the overall efficiency of the banking sector. In this regard, the NBR plans to improve banking supervision, enhance the quality of credit

information available to banks, and strengthen the capacity of the judicial system are welcome steps. To this end, the authorities are taking full advantage of the MAE resident advisor posted at the NBR.

58. Although the current account deficit is projected to decline substantially over the medium term, **Rwanda's extremely narrow export base and continued dependence on external financing leave the external balance of payments highly vulnerable to external shocks**. The design of program policies, which limits inflation and links external financing to a coherent and tightly focused transition program while maintaining appropriate exchange rate determination, reflects the importance of ensuring that relative price shifts, including as a result of externally financed demand for nontradables, do not undermine market incentives to establish productive export-oriented activities. The diversification and expansion of the export base will also be supported by privatization efforts, including to further develop commercial coffee and tea operations.

59. While noting the authorities' commitment to take necessary steps to eliminate difficulties encountered in meeting debt service payments on a timely basis, the staff urges the authorities to strengthen their debt management.

60. **Rwanda maintains an exchange system free of restrictions on payments and transfers for current international transactions**. The current floating exchange rate system has served the country well, given its exposure to terms of trade shocks and its limited diversification of exports. The authorities are committed to intervening in the foreign exchange market solely for the purpose of smoothing out market disturbances and not to offset underlying market trends. The current level of the exchange rate is considered to be broadly compatible with economic fundamentals, as reflected in part by the narrowing spread with the informal market rate.

61. **Macroeconomic statistics suffer from many weaknesses**, especially in the areas of national accounts, government finance, and balance of payments. Although some initial steps have been taken to address identified issues, further strengthening remains a priority. The Fund has provided technical assistance as part of this effort, and additional assistance in the fiscal area is being planned, including on tax policy.

62. **The authorities have made progress toward the completion point triggers under the HIPC Initiative.** Macroeconomic performance has been satisfactory and a strong program has been agreed for 2002–03. While there have been some delays in the area of structural reforms, the authorities, with the support of the World Bank, are expected to finalize the pilot privatization of two tea factories in the near future. In the area of education, the target for net primary school enrollment has been met, and 12 teacher-training colleges are currently under construction. Community participation in support of primary and secondary education is being implemented through the IDA-financed Community Reintegration and Development Project. In the health sector, the authorities have surpassed the minimum target for equipping district health centers. Under its national policy adopted in 2002, the government also identified the reduction of morbidity and mortality due to malaria and HIV/AIDS, as well as the reduction of infant and maternal mortality as priorities in the

health sector. The government has also made good progress in implementing the coordination of public, private, and NGO health providers. Regarding gender, the government has prepared a Gender Action Plan with priority programs for women in the areas of education and health sectors. The government has also taken measures to eliminate all forms of discrimination against women.

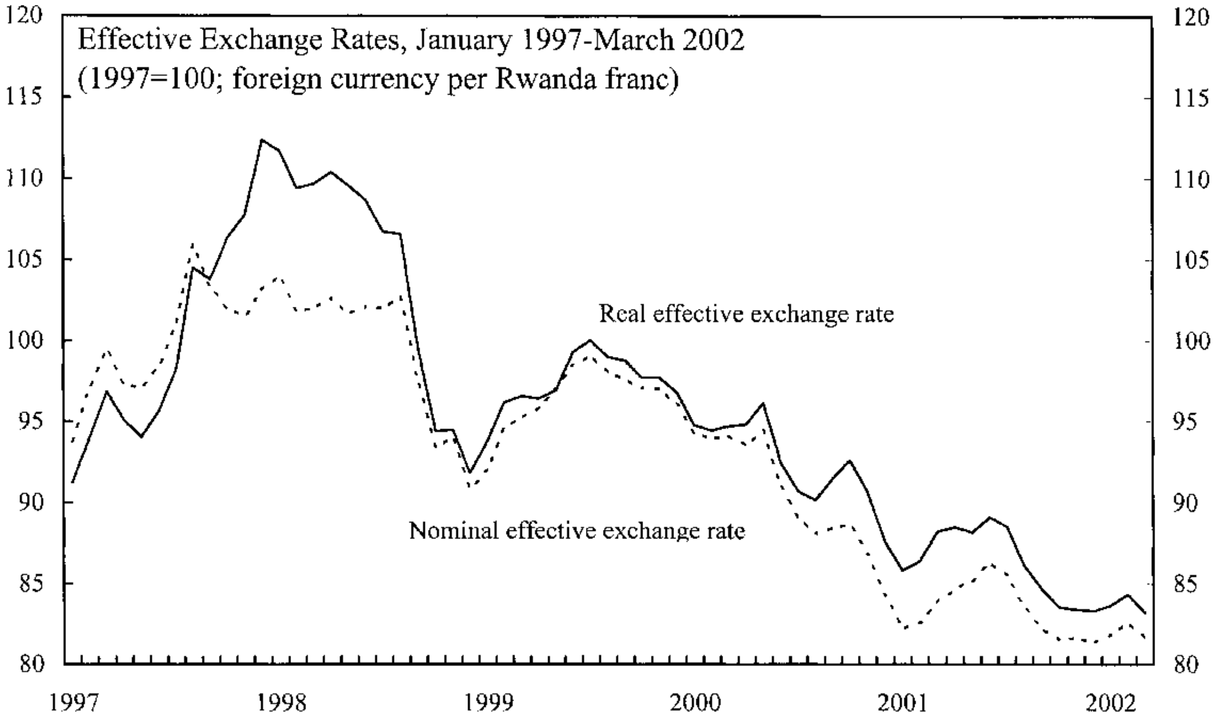
63. **The authorities have presented an ambitious but realistic policy program**, for which they request support under a new three-year PRGF arrangement. Their strong performance during 2001, together with the substantial progress on the structural reform agenda, demonstrated a heightened level of commitment. The thorough discussions on the program underscore the authorities' desire to own the program and to implement it with determination. The finalization of the accompanying PRSP provides the opportunity to place the macroeconomic program in the context of a comprehensive strategy for achieving Rwanda's national objectives. Although there are risks associated with the complex and ambitious social transformation planned for the period ahead, the fundamental importance of these tasks clearly warrants their undertaking. With the sound implementation of its poverty reduction and growth strategy, including the macroeconomic policies outlined in this program, Rwanda is set to continue on a path of sustained and high economic growth and the attainment of external viability.

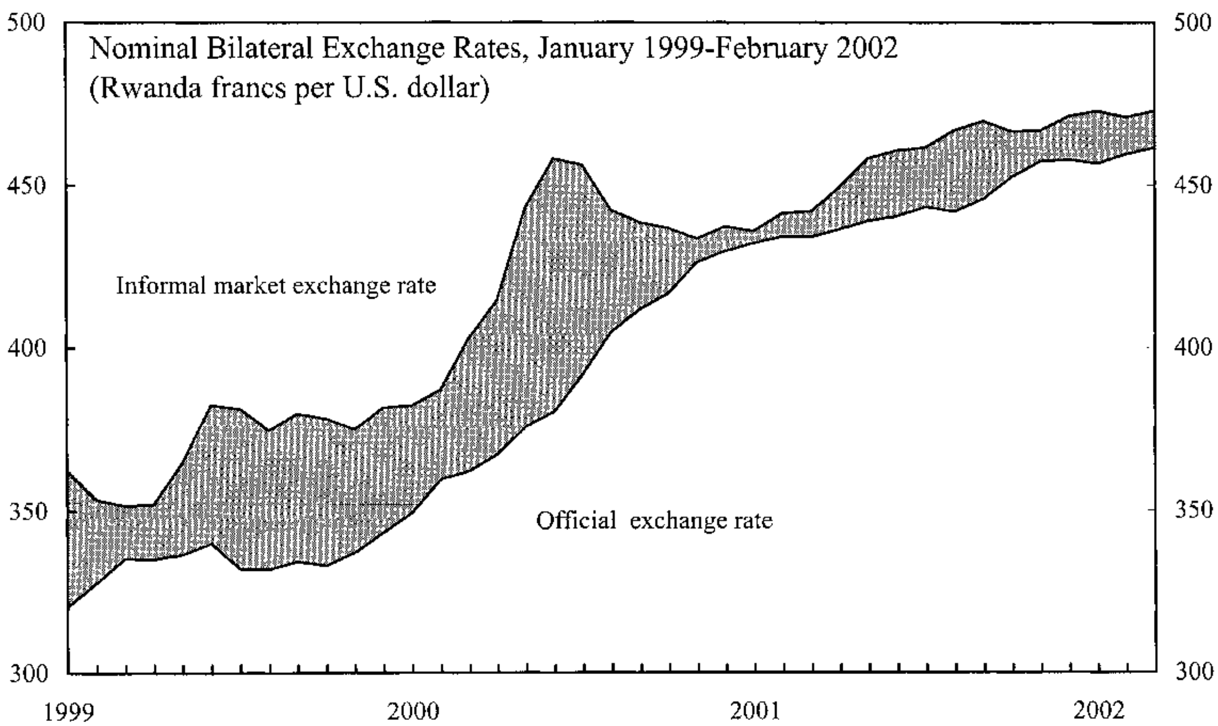
64. **The staff recommends the approval of the proposed three-year PRGF arrangement** in the amount of SDR 4 million. The limitation of access under the PRGF to 5 percent of quota reflects the availability of grants and highly concessional external credits, which will complement the Fund resources in meeting Rwanda's financing requirements.

65. **The staff supports the authorities' request for additional interim assistance under the HIPC Initiative**, given the existence of satisfactory assurances by creditors.

66. The staff recommends that the next Article IV consultation with Rwanda be held on the standard 12-month cycle.

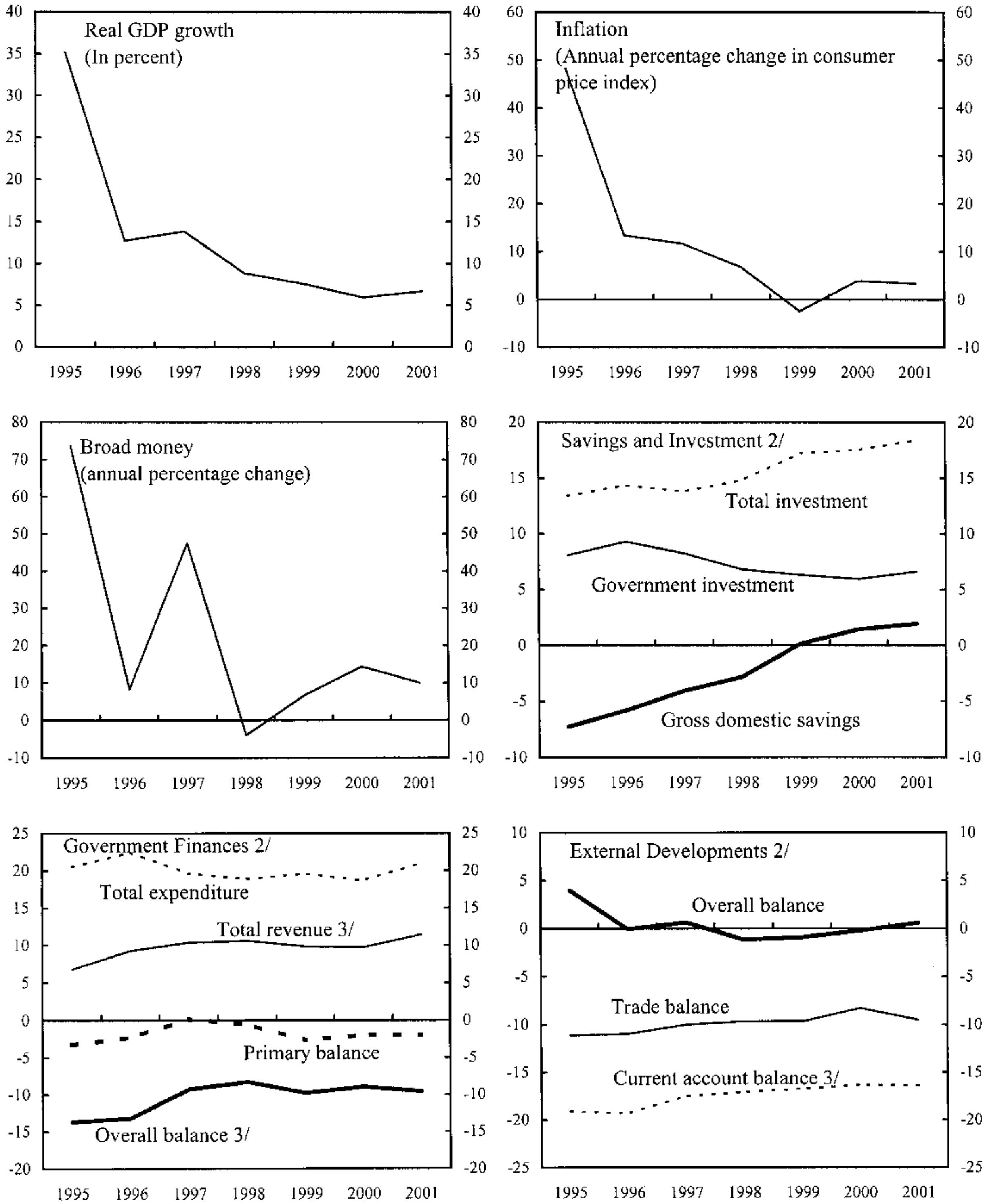
Figure 5. Rwanda: Exchange Rates





Sources: Rwandese authorities; and IMF, Information Notice System.

Figure 6. Rwanda: Selected Economic and Financial Indicators, 1995-2001



Source: Rwandese authorities; and Fund staff estimates.
1/ In percent of beginning of period of stock of broad money.
2/ In percent of GDP.
3/ Excluding grants.

Table 1. Rwanda: Selected Economic and Financial Indicators, 1995-2004

	1995	1996	1997	1998	1999		2000		2001		2002	2003	2004
					Prog.	Est.	Prog.	Est.	Rev. Prog.	Est.	Program		
					(Annual percentage changes, unless otherwise indicated)								
Output and prices													
Real GDP growth	35.2	12.7	13.8	8.9	5.0	7.6	5.2	6.0	6.2	6.7	7.3	6.1	6.2
GDP deflator	51.3	10.9	15.6	2.2	2.0	-3.5	1.1	3.3	4.3	0.2	1.9	3.5	3.7
Consumer prices (period average)	48.2	13.4	11.7	6.8	-2.5	-2.4	4.0	3.9	4.0	3.4	2.0	3.0	3.0
Consumer prices (end of period)	38.4	8.7	16.6	-6.0	2.5	2.1	6.5	5.8	0.0	-0.2	3.0	3.0	3.0
External sector													
Export, f.o.b. (in U.S. dollars)	56.8	22.9	50.0	-31.0	13.6	-3.3	11.7	44.7	2.2	4.0	-16.9	12.1	13.7
Imports, f.o.b. (in U.S. dollars)	-47.2	9.9	30.1	-7.8	-5.4	-2.7	9.5	-3.6	-0.2	6.4	0.5	3.2	2.6
Export volume	21.3	39.4	13.4	-8.9	25.1	12.8	12.2	19.7	8.9	36.7	-13.8	6.5	5.2
Import volume	-49.8	4.8	38.3	3.3	-8.6	-4.8	3.8	-14.2	8.0	11.0	-0.4	2.9	1.5
Nominal effective exchange rate (end of period; depreciation -)	-54.8	3.8	12.3	-11.9	8.6	5.7	-9.3	-12.3	...	-3.4	...	...	...
Real effective exchange rate (end of period; depreciation -)	-39.7	8.6	26.9	-18.3	7.6	5.4	-9.8	-9.6	...	-4.9	...	...	...
Terms of trade (deterioration -)	22.6	-15.9	40.6	-15.2	-12.3	-16.1	-5.7	7.6	1.5	-20.7	-4.5	5.1	6.9
Government finance													
Revenue	283.4	70.5	47.3	13.7	7.6	-3.6	10.4	7.9	22.1	25.5	16.9	14.0	11.3
Total expenditure and net lending	161.3	37.1	15.1	7.1	17.0	7.7	5.4	4.2	24.7	20.0	15.5	9.6	3.9
Current expenditure	89.7	32.7	14.6	17.6	13.5	14.2	-0.4	3.8	18.8	20.4	16.6	7.3	-1.4
Money and credit 1/													
Net domestic assets 2/ 3/	3.2	-7.4	35.1	-6.0	10.3	10.0	-0.4	-6.7	7.4	-1.8	1.3	...	...
Domestic credit 2/ 3/	15.3	-2.6	42.1	9.9	7.5	12.9	1.4	0.8	10.1	1.1	0.7	...	...
Government 2/ 3/	-34.4	-2.8	18.8	1.0	1.0	8.0	-1.9	-9.5	2.2	-4.3	-7.0	...	...
Economy 2/	49.7	0.2	23.3	8.9	5.6	4.8	3.2	10.3	7.9	5.4	7.6	...	...
Money and quasi money (M2)	73.7	8.2	47.5	-3.9	5.0	6.6	6.3	14.4	6.7	10.0	6.9	...	...
Reserve money	43.1	21.5	14.6	-11.0	5.0	13.5	-6.3	-6.4	4.6	9.1	6.3	...	...
Velocity (ratio of GDP to M2; end of period)	5.3	6.1	5.5	6.3	6.6	6.2	6.2	5.9	6.1	5.7	5.9	...	...
Interest rate (one-year savings deposits, in percent; end of period)	12.0	11.0	11.4	10.0	9.8	10.1	9.7	11.6	...	10.2	...	...	...
					(In percent of GDP, unless otherwise indicated)								
National income accounts													
National savings (excluding official transfers)	-5.6	-4.9	-3.6	-2.2	-0.2	0.5	-1.1	1.2	1.2	2.0	1.8	3.5	6.3
Of which: private (including public enterprises)	0.0	-1.0	-2.6	-0.8	2.0	3.9	1.5	4.2	4.3	4.9	4.9	5.8	6.8
Gross investment	13.4	14.4	13.8	14.8	15.6	17.2	15.7	17.5	17.1	18.4	18.8	19.3	19.8
Of which: private (including public enterprises)	5.3	5.1	5.5	8.0	8.0	10.9	9.0	11.6	9.8	11.8	12.0	12.2	12.4
Government finance													
Total revenue	6.8	9.3	10.4	10.6	10.5	9.9	10.2	9.7	10.8	11.4	12.2	12.7	12.8
Total expenditure and net lending	20.5	22.5	19.6	18.9	20.3	19.6	19.6	18.7	21.2	21.0	22.1	22.1	20.8
Capital expenditure	8.1	9.3	8.2	6.8	7.7	6.3	7.0	6.0	7.3	6.6	7.0	7.3	7.6
Current expenditure	12.4	13.2	11.5	12.1	12.6	13.3	12.6	12.6	13.7	14.2	15.2	14.8	13.3
Primary fiscal balance 4/	-3.3	-1.8	0.3	0.0	-0.7	-2.2	-0.1	-0.6	-0.3	-0.1	-0.2	0.7	1.2
Domestic fiscal balance 5/	-4.5	-2.9	-0.3	-1.3	-3.7	-3.8	-2.8	-2.6	-2.7	-2.7	-3.3	-2.8	-1.3
Overall balance (payment order)													
Including grants	-2.4	-5.8	-2.5	-3.0	-5.4	-3.8	-5.5	0.1	-4.3	-1.1	-1.1	-0.6	0.1
Excluding grants	-13.7	-13.2	-9.2	-8.3	-9.8	-9.7	-9.3	-8.9	-10.4	-9.5	-9.9	-9.4	-8.0
External sector													
External current account balance													
Including official transfers 6/	-3.0	-6.7	-9.5	-9.6	-5.9	-7.4	-8.4	-5.0	-4.9	-6.5	-11.3	-11.5	-10.3
Excluding official transfers	-19.0	-19.3	-17.4	-17.0	-15.8	-16.7	-16.8	-16.3	-15.9	-16.4	-17.0	-15.7	-13.5
External debt (end of period) 7/	82.2	80.4	61.6	58.3	61.2	65.3	77.5	72.1	76.1	77.3	73.2	66.8	60.7
Net present value of external debt													
(in percent of exports of goods and nonfactor services) 8/	987.9	790.1	423.5	588.3	...	148.1	...	176.5	...	180.2	190.3	203.5	210.7
Scheduled debt-service ratio													
(in percent of exports of goods and nonfactor services)	59.0	40.9	27.1	33.5	...	47.6	...	33.8	...	27.4	31.4	27.4	26.6
Gross reserves (in months of imports)	3.3	2.7	4.0	4.6	5.1	4.7	4.9	5.2	5.1	5.7	5.9	6.2	6.2
					(In millions of U.S. dollars, unless otherwise indicated)								
Overall balance of payments	51.2	-0.9	11.7	-22.8	-112.5	-17.2	-122.3	-4.1	-40.7	10.1	-120.1	-108.6	-108.1
External arrears	61.5	78.9	97.3	48.1	0.0	54.1	0.0	60.2	0.0	22.3	7.3	0.0	0.0
External financing gap 9/	0.0	0.0	0.0	0.0	145.6	0.0	149.4	0.0	69.8	0.0	0.0	0.0	0.0
External debt (end of period) 7/	1,063.0	1,111.9	1,137.9	1,159.3	1,254.3	1,261.6	1,375.2	1,305.1	1,346.8	1,315.9	1,295.1	1,268.4	1,244.5
Gross official reserves	99.7	106.6	153.4	169.5	183.5	174.2	174.8	190.6	186.6	212.1	223.6	236.6	241.5
Memorandum items:													
Nominal GDP (in billions of Rwanda francs) 1/	339.1	424.1	558.3	621.3	677.0	644.9	686.8	705.7	774.6	754.3	825.2	906.4	998.8
Nominal exchange rate (period average; per U.S. dollar)	262.2	306.5	302.4	312.3	330.5	333.9	...	389.7	...	443.0	...	...	...
Domestic debt (end of period; in percent of GDP)	...	...	15.8	13.7	10.5	10.5	8.7	8.7	7.2	7.0	6.2	5.4	4.7

Sources: Rwandese authorities; and staff estimates and projections.

1/ All numbers are based on current exchange rates.
2/ As a percent of the beginning-of-period stock of broad money.
3/ The 2001 rates of growth assume that the excess external budgetary support at end-2000 would be used in its entirety to finance additional social expenditure during 2001.
4/ Revenue excluding grants; minus current expenditure except interest due and except exceptional expenditure.
5/ Revenue excluding grants; minus current expenditure (excluding external interest), domestically financed capital expenditure, and net lending.
6/ For program years: without incorporating undisbursed budgetary grants
7/ After rescheduling. On a disbursed basis, including arrears, rescheduling, and new debt.
8/ Based on assumptions about expected new borrowing. For illustrative purposes, the numbers are shown as if HIPC Initiative assistance had been delivered unconditionally as of 1999. The exports denominator is calculated using a three-year backward looking average.
9/ Financing gap after taking into account identified financing expected during the course of the year.

Table 2. Rwanda: Operations of the Central Government, 1998-2004

	1998	1999	2000	2001 1/		2002				2003	2004
				Prog.	Est.	Mar. Prel. Est.	June Proj.	Sep. Prog.	Dec. Prog.	Prog.	Prog.
	(In billions of Rwanda francs)										
Revenue and grants	99.0	102.1	132.4	130.8	149.5	35.9	72.8	120.8	173.5	194.9	209.3
Total revenue	66.0	63.6	68.7	83.9	86.2	25.1	48.5	74.4	100.7	114.9	127.9
Tax revenue	62.6	60.4	65.3	76.8	79.5	20.6	42.1	65.6	89.5	97.9	107.8
Direct taxes	18.3	15.8	18.5	22.9	24.5	7.0	14.1	21.2	27.6	30.4	34.2
Taxes on goods and services	28.5	33.6	35.2	40.7	41.0	10.3	21.2	33.9	47.5	52.0	57.1
Taxes on international trade	15.8	11.0	11.6	13.2	14.0	3.2	6.7	10.4	14.4	15.5	16.5
Nontax revenue	3.4	3.2	3.3	7.1	6.7	4.5	6.4	7.1	7.8	7.5	8.0
Measures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.7	3.4	9.5	12.2
Grants	33.0	38.5	63.7	46.9	63.3	10.7	24.4	46.5	72.7	80.0	81.3
Budgetary grants	3.5	14.8	39.5	11.7	33.9	2.7	8.3	22.4	40.6	44.6	40.9
Of which : HIPC Initiative assistance	0.0	0.0	0.0	11.0	10.6	2.7	4.9	8.6	10.7	13.9	17.9
Capital grants	29.5	23.7	24.2	35.2	29.5	8.0	16.1	24.1	32.1	35.4	40.4
Total expenditure and net lending 2/	117.4	126.4	131.7	164.2	158.1	42.1	86.8	134.3	182.6	200.2	208.0
Current expenditure	75.3	86.0	89.2	106.0	107.4	28.6	58.5	91.3	125.2	134.3	132.5
Of which : priority	17.5	25.1	28.5	40.0	40.1	10.2	21.7	35.5	50.3	56.1	62.9
Wages and salaries	28.9	34.4	36.6	39.2	38.9	9.7	20.2	30.9	41.7	42.3	43.6
Civil	12.3	17.2	20.5	23.1	22.8	5.7	12.4	19.2	26.1	28.0	30.0
Defense	16.6	17.2	16.1	16.2	16.2	4.0	7.8	11.7	15.5	14.3	13.6
Purchases of goods and services	25.5	26.8	23.9	28.3	29.4	9.0	16.4	24.0	32.3	34.1	36.2
Civil	14.9	17.0	16.1	19.4	20.4	5.8	10.3	17.0	24.3	25.3	26.8
Defense	10.6	9.8	7.8	8.9	9.0	3.2	6.1	7.0	8.0	8.8	9.4
Interest payments	5.7	5.4	6.5	6.6	6.2	1.7	3.3	5.0	7.6	7.6	7.4
Domestic debt (due)	2.3	2.4	2.0	1.6	1.3	0.3	0.6	0.9	2.2	2.3	2.3
External debt (due)	3.4	2.9	4.5	5.0	5.0	1.4	2.7	4.1	5.4	5.3	5.1
Transfers	9.3	11.5	11.0	15.2	15.1	4.1	9.1	15.1	21.1	22.4	24.2
Exceptional expenditure	5.8	7.9	11.3	16.7	17.7	4.1	9.4	16.2	22.5	27.9	21.0
Of which : demobilization/reintegration/reeducation	1.5	1.9	1.8	3.7	3.4	0.7	1.2	4.0	6.0	11.2	5.2
Capital expenditure	42.3	40.8	42.0	56.8	50.0	13.5	27.9	42.1	56.4	64.9	74.5
Of which : priority	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	4.0	5.5
Domestic	2.5	5.3	1.5	3.6	3.5	1.1	3.1	5.0	6.9	10.2	12.2
Of which : Common Development Fund (CDF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0	2.0	4.0	5.5
Foreign	39.8	35.5	40.5	53.2	46.5	12.4	24.8	37.1	49.5	54.7	62.3
Net lending	-0.2	-0.4	0.5	1.4	0.6	0.0	0.5	0.9	1.0	1.0	1.0
Primary balance 3/	-0.3	-14.4	-4.3	-2.5	-0.8	1.3	-0.4	-0.6	-1.2	5.9	11.7
Domestic fiscal balance 4/	-8.2	-24.4	-18.0	-22.1	-20.4	-3.1	-10.9	-18.7	-26.9	-25.3	-12.6
Overall deficit (payment order)											
Including grants	-18.4	-24.4	0.7	-33.5	-8.5	-6.2	-14.0	-13.4	-9.1	-5.3	1.3
Excluding grants	-51.4	-62.8	-63.1	-80.4	-71.9	-16.9	-38.3	-59.9	-81.9	-85.3	-80.0
Adjustments 5/	-21.5	-2.9	-4.3	-36.2	-25.2	-1.2	-2.0	-6.0	-18.2	-7.0	-7.0
Change in arrears 6/	-22.2	-2.0	1.2	-36.2	-31.7	0.3	-2.0	-6.0	-18.2	-7.0	-7.0
Domestic	-3.9	-4.0	-1.9	-10.0	-15.0	0.3	-2.0	-6.0	-7.8	-7.0	-7.0
External	-18.3	2.0	3.0	-26.2	-16.7	0.0	0.0	0.0	-10.4	0.0	0.0
Noncore government accounts 7/	0.7	-0.8	0.6	0.0	4.5	-0.7	0.0	0.0	0.0	0.0	0.0
Transitory accounts 8/	0.0	0.0	-3.5	0.0	1.1	-0.8	0.0	0.0	0.0	0.0	0.0
Other 5/ 9/	0.0	0.0	-2.6	0.0	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy 10/	1.3	0.3	-1.0	0.0	2.7	1.2	0.0	0.0	0.0	0.0	0.0
Deficit (-) (cash basis)	-41.2	-27.5	-2.6	-69.7	-36.5	-8.6	-16.0	-19.5	-27.3	-12.2	-5.7

Table 2. Rwanda: Operations of the Central Government, 1998-2004 (concluded)

	1998	1999	2000	2001 1/		2002				2003	2004
			Est.	Prog.	Est.	Mar. Prel. Est.	June Proj.	Sep. Prog.	Dec. Prog.	Prog.	Prog.
					(In billions of Rwanda francs)						
Financing	41.2	27.5	2.6	39.1	36.5	8.6	16.0	19.4	27.3	12.2	5.7
Foreign financing (net)	39.2	20.5	15.5	31.0	39.5	2.5	6.3	25.3	38.2	12.9	9.2
Drawings	21.9	29.0	22.9	31.4	33.3	4.3	8.7	28.8	36.6	27.3	24.5
Budgetary loans	11.6	17.2	6.5	13.4	16.3	0.0	0.0	15.8	19.2	8.1	7.5
Project loans	10.3	11.8	16.4	18.0	17.0	4.3	8.7	13.0	17.4	19.2	17.0
Amortization	-7.0	-11.8	-10.4	-11.6	-9.2	-2.7	-5.8	-8.7	-12.2	-14.5	-15.3
Exceptional financing	24.2	3.3	3.0	11.1	15.4	0.8	3.4	5.2	13.8	0.0	0.0
Domestic financing	2.0	7.0	-12.9	8.2	-3.0	6.1	9.7	-5.9	-10.9	-0.6	-3.5
Banking system (monetary survey) 11/	1.0	7.9	-9.9	2.6	-5.1	4.1	6.7	-7.8	-9.1	-0.7	-3.5
Of which : HIPC Initiative assistance subaccount 12/	...	...	...	...	-3.8	-4.6	...	...	...	...	...
Nonbank sector (including, CSR repayment) 13/	1.0	-0.9	-3.0	5.6	2.1	2.0	3.0	2.0	-1.7	0.0	0.0
Financing gap (+)	0.0	0.0	0.0	30.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:					(In percent of GDP, unless otherwise indicated)						
Revenue and grants	15.9	15.8	18.8	16.9	19.8	4.3	8.8	14.6	21.0	21.5	21.0
Revenue, excluding grants	10.6	9.9	9.7	10.8	11.4	3.0	5.9	9.0	12.2	12.7	12.8
Total expenditure and net lending	18.9	19.6	18.7	21.2	21.0	5.1	10.5	16.3	22.1	22.1	20.8
Current expenditure	12.1	13.3	12.6	13.7	14.2	3.5	7.1	11.1	15.2	14.8	13.3
Of which : wage bill	4.7	5.3	5.2	5.1	5.2	1.2	2.5	3.7	5.1	4.7	4.4
goods and services	4.1	4.2	3.4	3.7	3.9	1.1	2.0	2.9	3.9	3.8	3.6
defense/security	4.4	4.2	3.4	3.2	3.3	0.9	1.7	2.3	2.9	2.5	2.3
Of which: priority expenditure (recurrent)	2.8	3.9	4.0	5.2	5.3	1.2	2.6	4.3	6.1	6.2	6.3
exceptional expenditure	0.9	1.2	1.6	2.2	2.3	0.5	1.1	2.0	2.7	3.1	2.1
Capital expenditure	6.8	6.3	6.0	7.3	6.6	1.6	3.4	5.1	6.8	7.2	7.5
Domestic fiscal balance	-1.3	-3.8	-2.6	-2.9	-2.7	-0.4	-1.3	-2.3	-3.3	-2.8	-1.3
Primary balance											
Including exceptional expenditure	-0.6	-2.6	-2.0	-2.0	-2.0	-0.2	-0.8	-1.4	-2.0	-1.3	0.3
Excluding exceptional expenditure	0.0	-2.2	-0.6	-0.3	-0.1	0.2	0.0	-0.1	-0.2	0.7	1.2
Overall deficit (payment order)											
Including grants	-3.0	-3.8	0.1	-4.3	-1.1	-0.8	-1.7	-1.6	-1.1	-0.6	0.1
Excluding grants	-8.3	-9.7	-8.9	-10.4	-9.5	-2.1	-4.6	-7.3	-9.9	-9.4	-8.0
Nominal GDP (in billions of Rwanda francs)	621.3	644.9	705.7	774.6	754.3	825.2	825.2	825.2	825.2	906.4	998.8

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Program numbers refer to EBS/01/169 (9/26/01).
2/ Expenditure figures for 1999 do not include arrears recently identified.
3/ Excluding exceptional social expenditure, defined as total revenue (excluding privatization proceeds) minus noninterest current expenditure minus domestically financed capital expenditure.
4/ Revenue excluding grants; minus current expenditure, domestically financed capital expenditure and net lending; excluding external interest.
5/ A negative sign indicates an adjustment consistent with higher actual expenditure on a cash basis than on a recorded payment order basis.
6/ A negative sign indicates a reduction. Arrears are shown here in a fiscal accounting sense, which may deviate from the definition of the technical memorandum of understanding (TMU) used for benchmarks and performance criteria.
7/ A negative sign indicates net expenditure out of the noncore government accounts.
8/ A negative sign indicates a net deposit buildup.
9/ Main elements in 2000: the correction of an accounting error involving RF 2.3 billion in European Union aid; changes in vault in cash at the Rwanda Revenue Authority (RRA); and the reimbursement of an unpaid transfer. In 2001: changes in vault cash at the RRA.
10/ A negative number implies a discrepancy that is consistent with underestimation of financing.
11/ In 2000, net credit to government was redefined to exclude the accounts of autonomous public agencies.
12/ Assistance from IMF only.
13/ CSR = Caisse Sociale du Rwanda.

Table 3. Rwanda: Monetary Survey, 1999-2002 1/
(In billions of Rwanda francs)

	1999	2000	2001 2/								2002			
	Dec.	Dec.	Mar.		June		Sep.		Dec.		Mar.	Jun.	Sep.	Dec.
			Prog.	Est.	Prog.	Est.	Rev. Prog.	Est.	Rev. Prog.	Est.	Prel. Est.	Prog.	Prog.	Prog.
Monetary authorities														
Net foreign assets	25.5	35.7	25.3	48.3	24.4	45.6	40.5	45.2	33.8	51.3	39.3	33.0	50.9	59.0
Foreign assets	57.6	78.4	72.7	89.2	73.5	84.5	79.0	84.4	77.5	97.1	84.2	77.4	94.8	102.4
Foreign liabilities	32.1	42.6	47.4	40.9	49.0	38.9	38.5	39.2	43.7	45.8	44.9	44.4	43.9	43.4
Net domestic assets	14.9	2.1	13.5	-13.6	15.2	-3.1	-2.0	-5.8	5.8	-10.0	4.5	9.3	-10.7	-15.1
Domestic credit	31.7	23.3	36.6	3.8	38.3	15.3	15.8	13.2	24.0	13.0	23.7	29.3	9.8	5.9
Government (net)	30.5	20.2	29.7	4.9	29.7	14.3	15.9	11.1	22.8	16.2	21.3	24.5	10.0	7.1
Claims	50.7	43.5	46.8	43.5	46.8	45.1	43.5	46.2	43.5	43.5	45.5	48.5	43.5	43.5
Of which: overdraft	7.2	0.0	4.2	0.0	4.2	1.7	0.0	2.8	0.0	0.0	2.6	2.0	2.0	0.0
Deposits (excluding autonomous bodies)	20.2	23.3	17.1	38.6	17.1	30.8	27.6	35.1	20.6	27.3	24.3	24.0	33.5	36.4
Public nongovernment deposits (-)	-1.8	-1.1	-1.8	-1.1	-1.8	-1.0	-1.0	-0.8	-1.1	-1.3	-1.1	-1.1	-1.1	-1.3
Nongovernment credit	3.0	4.2	8.7	0.0	10.4	1.9	1.0	2.9	2.2	-1.9	3.5	5.9	0.9	0.2
Private sector	1.0	1.4	1.0	1.7	1.0	1.8	1.5	1.8	1.4	1.9	1.9	1.5	1.5	1.5
Public enterprises	0.2	0.1	0.2	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Commercial banks	1.8	2.6	7.5	-1.8	9.2	0.0	-0.6	1.0	0.7	-3.9	1.5	4.3	-0.7	-1.4
Other items (net; asset +)	-16.8	-21.2	-23.1	-17.4	-23.1	-18.4	-17.8	-19.0	-18.1	-23.0	-19.2	-20.0	-20.5	-21.0
Reserve money	40.4	37.8	38.8	34.7	39.6	42.5	38.5	39.5	39.6	41.3	43.9	42.3	40.2	43.9
Currency in circulation	21.5	22.6	23.0	22.4	23.4	24.7	23.5	22.8	24.5	25.8	24.2	26.8	25.1	28.5
Commercial bank reserves 3/	16.8	12.3	13.7	10.1	14.1	15.0	12.1	13.8	11.8	10.7	16.0	12.7	12.7	12.4
Nonbank deposits	2.1	3.0	2.1	2.2	2.1	2.8	2.9	2.9	3.3	4.8	3.7	2.8	2.4	3.0
Commercial banks														
Net foreign assets	16.9	28.1	26.0	29.9	26.3	25.3	27.1	26.6	28.5	29.7	29.5	28.6	27.5	26.4
Foreign assets	18.7	31.5	28.3	33.6	28.5	30.6	32.4	30.5	33.8	34.3	36.1	34.6	34.0	32.9
Foreign liabilities	1.8	3.3	2.2	3.7	2.2	5.2	5.3	3.9	5.3	4.6	6.6	6.0	6.5	6.5
Reserves	16.8	12.3	13.7	10.1	14.1	15.0	12.1	13.8	11.8	10.7	16.0	12.7	12.6	12.4
NBR deposits	14.3	10.3	11.0	7.5	11.5	12.3	9.6	10.9	9.3	7.9	13.2	10.2	10.2	10.1
Required reserves 3/	8.5	7.3	7.5	7.0	7.6	8.6	8.1	8.3	7.8	8.4	8.8	8.2	8.7	8.6
Excess reserves	5.9	2.9	3.6	0.5	3.9	3.7	1.5	2.6	1.5	-0.5	4.4	2.0	1.5	1.5
Cash in vault	2.5	2.0	2.6	2.6	2.6	2.7	2.5	2.9	2.5	2.8	2.8	2.5	2.4	2.3
Net credit from NBR (rediscount; liability -)	-1.8	-2.6	-7.5	1.8	-9.2	0.0	0.6	-1.0	-0.7	3.9	-1.5	-4.3	0.7	1.4
Domestic credit	64.2	74.3	69.4	73.4	72.5	78.2	79.9	80.0	83.7	79.4	77.8	85.9	89.7	89.8
Central government (net)	3.7	4.1	2.6	4.5	2.6	3.3	4.2	3.9	4.1	3.0	2.1	1.4	1.4	3.0
Credit	7.7	7.3	7.7	7.3	7.7	7.3	7.3	7.7	7.3	8.0	9.3	7.0	7.0	8.0
Deposits	4.0	3.1	5.2	2.8	5.2	4.0	3.0	3.8	3.1	5.0	7.2	5.6	5.6	5.0
Public enterprises	0.7	0.7	0.7	1.1	0.7	1.1	0.8	1.0	0.7	0.8	1.7	0.9	0.9	0.9
Private sector	59.7	69.4	66.2	67.8	69.2	73.8	74.8	75.2	78.9	75.5	74.0	83.6	87.4	85.9
Other items (net; asset +)	-16.4	-19.4	-13.7	-18.9	-13.9	-19.8	-21.0	-22.1	-24.0	-22.9	-20.6	-20.0	-22.0	-22.0
Deposits	79.7	92.6	88.0	96.4	89.7	98.7	98.7	97.3	99.3	100.7	101.2	103.0	108.5	108.0
Private	66.7	78.5	73.9	81.5	75.3	81.1	83.1	81.6	84.5	84.4	84.1	85.7	91.0	90.3
Public (nongovernment)	13.0	14.2	14.1	14.9	14.4	17.6	17.6	15.7	14.9	16.4	17.1	17.3	17.5	17.7

Table 3. Rwanda: Monetary Survey, 1999-2002 1/ (concluded)

	1999 Dec.	2000 Dec.	2001 2/ Mar. Prog.	2001 2/ Mar. Est.	2001 2/ June Prog.	2001 2/ June Est.	2001 2/ Sep. Rev. Prog.	2001 2/ Sep. Est.	2001 2/ Dec. Rev. Prog.	2001 2/ Dec. Est.	2002 Mar. Prel. Est.	2002 Jun. Prog.	2002 Sep. Prog.	2002 Dec. Prog.
Monetary survey														
Net foreign assets	42.4	63.9	51.3	78.3	50.7	71.0	67.6	71.9	62.3	81.0	68.8	61.6	78.4	85.4
Net domestic assets	60.9	54.3	61.8	42.7	64.5	55.2	57.5	51.1	64.9	50.4	60.3	70.9	57.6	54.2
Domestic credit	94.1	94.9	98.5	79.0	101.5	93.5	96.3	92.3	106.9	96.3	100.0	110.9	100.2	97.1
Central government (net)	34.2	24.3	32.3	9.4	32.3	17.6	20.1	15.0	26.9	19.2	23.4	25.9	11.4	10.1
Public nongovernment deposits (-)	-1.8	-1.1	-1.8	-1.1	-1.8	-1.0	-1.0	-0.8	-1.1	-1.3	-1.1	-1.1	-1.1	-1.3
Public enterprises	0.9	0.8	0.9	1.2	0.9	1.2	1.0	1.1	0.8	1.0	1.9	1.0	1.0	1.0
Private sector	60.7	70.9	67.2	69.5	70.2	75.6	76.3	77.0	80.3	77.4	75.9	85.1	88.9	87.4
Other items (net; asset +)	-33.2	-40.6	-36.7	-36.3	-37.0	-38.2	-38.8	-41.1	-42.1	-45.9	-39.7	-40.0	-42.5	-43.0
Broad money	103.3	118.2	113.1	121.0	115.2	126.2	125.1	123.0	127.2	131.3	129.1	132.6	136.0	139.5
Currency in circulation	21.5	22.6	23.0	22.4	23.4	24.7	23.5	22.8	24.5	25.8	24.2	26.8	25.1	28.5
Deposits	81.8	95.6	90.1	98.6	91.8	101.5	101.6	100.2	102.7	105.5	104.9	105.8	110.9	111.0
Of which: foreign currency deposits	18.4	25.5	25.5	26.7	26.0	25.7	27.8	28.2	28.5	27.9	28.3	27.6	27.0	26.4
Net foreign assets	-5.4	20.7	8.8	28.8	14.1	29.3	23.4	27.3	-1.9	14.5	-7.8	-7.4	5.3	3.3
Net domestic assets	11.1	-6.3	2.2	-13.3	-7.3	-14.9	-6.1	-12.2	9.4	-3.4	14.5	12.4	5.3	2.9
Domestic credit	12.9	0.8	7.8	-11.0	-0.9	-8.2	-5.0	-8.7	10.2	1.1	17.3	13.8	6.4	0.7
Government (net)	8.1	-9.6	4.2	-17.7	-2.9	-16.1	-14.1	-18.8	2.2	-4.3	11.5	6.6	-2.9	-7.0
Economy	4.8	10.4	3.4	6.6	1.9	7.9	9.1	10.1	8.0	5.4	5.8	7.2	9.4	7.6
Other items (net; asset +)	-1.7	-7.2	-5.6	-2.3	-6.4	-6.7	-1.2	-3.5	-0.8	-4.5	-2.8	-1.4	-1.1	2.2
Broad money	5.7	14.4	11.0	15.5	6.8	14.4	17.2	15.1	7.5	11.1	6.7	5.0	10.6	6.2
Net foreign assets	-11.1	50.4	6.7	62.9	33.5	83.8	58.4	86.1	-3.4	26.8	-12.1	-13.2	9.1	5.4
Net domestic assets	21.8	-10.8	9.5	-24.6	-9.6	-23.0	-10.2	-28.7	20.7	-7.3	41.1	28.4	12.8	7.5
Domestic credit	15.4	0.9	8.7	-12.8	-0.9	-8.8	-5.2	-10.0	12.7	1.4	26.5	18.7	8.6	0.9
Government (net)	29.9	-28.9	15.4	-66.2	-8.8	-50.3	-42.7	-57.6	10.6	-21.0	147.7	47.3	-24.0	-47.5
Economy	8.5	18.0	5.8	11.1	3.2	13.0	14.6	15.1	13.4	9.1	10.1	12.0	14.9	13.0
Other items (net; asset +)	5.4	22.4	7.4	7.0	19.0	24.1	3.3	33.5	2.3	13.1	9.4	4.6	3.3	-6.3
Memorandum items:														
Currency/broad money ratio	20.8	19.1	20.3	18.5	20.3	19.5	18.8	18.6	19.3	19.7	18.7	20.2	18.5	20.4
Reserve money annual growth	13.5	-6.4	9.8	-1.7	6.9	14.7	8.6	6.5	4.6	9.1	6.2	-3.5	-5.1	6.2
Reserve money (PC/Structural benchmark definition) 4/	...	...	...	...	...	...	...	...	...	41.4	42.5	...	...	...
Reserves/deposits	50.7	40.9	44.0	36.0	44.2	43.1	39.0	40.6	39.9	41.0	43.3	41.1	37.0	40.6
Money multiplier	2.6	3.1	2.9	3.5	2.9	3.0	3.2	3.1	3.2	3.2	2.9	3.1	3.4	3.2
Velocity of broad money (end of period)	6.2	6.0	...	...	...	...	...	...	6.1	5.7	...	...	...	5.9
Velocity of broad money (period average)	6.4	6.4	...	...	...	...	...	...	6.3	6.0	...	...	...	6.1
Net open position of the NBR	21.0	34.8	25.3	48.1	24.4	44.4	40.5	44.5	33.8	51.2	38.8	33.0	50.9	59.0
Net open position of commercial banks	3.0	3.6	0.5	3.4	0.3	0.9	-0.7	-0.8	0.0	1.9	1.5	1.0	0.5	0.0
Nominal GDP (in billions of Rwanda francs)	644.9	705.7	...	...	...	...	...	...	774.6	754.3	...	...	...	825.2

Source: National Bank of Rwanda (NBR).

1/ December 1999 estimates are calculated at the then-program exchange rate of $1=RF 330.5. December estimates for 2000 are calculated at the then-program exchange rate of $1=RF 411.0. Actual and program figures for 2001 are calculated at the 2001 program exchange rate of $1=RF 415.5. The December 2001 estimate and program figures for 2002 are calculated at the 2002 program exchange rate of $1=RF 457.9.

2/ Program numbers are based on EBS/00/264 (12/12/00); revised program numbers are based on EBS/01/169 (9/26/01).

3/ The reserve requirement was reduced in July 1998 from 12 percent to 10 percent, and from 10 percent to 8 percent in July 2000.

4/ The definition of reserve money as performance criterion (PC) or structural benchmark differs from the definition used for the monetary program by excluding the deposits of a defunct savings bank, import deposits, and dormant accounts.

Table 4. Rwanda: Balance of Payments, 1994-2004
(In millions of U.S. dollars, unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
								Est.		Prog.	
Exports, f.o.b.	32.2	50.4	62.0	93.0	64.1	62.0	89.8	93.3	77.5	87.0	98.9
Of which: coffee	17.4	38.8	43.2	45.3	28.1	26.5	22.5	19.4	22.6	28.9	37.6
tea	5.8	3.8	9.3	20.6	22.8	17.5	24.3	22.7	23.6	24.8	26.2
Imports, f.o.b.	367.4	194.1	213.3	277.4	255.7	248.8	239.8	255.2	256.5	264.7	271.7
Trade balance	-335.2	-143.7	-151.3	-184.5	-191.5	-186.7	-150.1	-161.8	-179.0	-177.7	-172.8
Services (net)	-105.6	-123.7	-127.8	-145.6	-159.1	-143.0	-141.4	-118.7	-120.8	-120.1	-108.9
Income (net)	-5.5	4.7	-14.1	-17.9	-6.6	-11.4	-15.4	-20.3	-24.6	-25.4	-20.4
Of which: interest on public debt 1/	-11.6	-14.6	-13.7	-13.5	-12.4	-10.2	-12.9	-12.2	-12.2	-11.6	-11.0
Current transfers (net)	391.7	223.0	200.1	171.7	167.0	198.3	216.6	190.7	124.0	106.8	91.5
Private	44.5	15.8	26.5	25.0	18.3	18.2	11.0	21.7	23.0	24.4	25.9
Public 2/	347.2	207.2	173.6	146.7	148.7	180.1	205.6	169.0	101.0	82.5	65.6
Of which: HIPC Initiative grants	...	...	...	...	...	...	...	23.9	10.5	...	...
Current account balance (including official transfers)	-54.6	-39.6	-93.1	-176.3	-190.2	-142.9	-90.2	-110.2	-200.4	-216.4	-210.6
Current account balance (excluding official transfers)	-401.8	-246.9	-266.7	-323.0	-338.9	-323.0	-295.8	-279.2	-301.4	-298.8	-276.2
Capital account	6.9	93.5	90.0	115.9	95.1	70.9	62.0	70.1	68.8	74.3	82.9
Capital transfers	6.9	93.5	90.0	115.9	95.1	70.9	62.0	66.5	68.8	74.3	82.9
Debt forgiveness	...	...	...	...	...	...	...	3.6	...	...	...
Of which: principal not yet due forgiven	...	...	...	...	...	...	...	3.6	...	...	...
Financial account	-3.5	-19.0	23.3	44.6	51.5	63.9	43.4	73.3	11.4	33.5	19.6
Direct investment	...	2.0	2.2	2.6	7.1	1.7	8.1	4.6	4.8	5.0	5.7
Public sector capital (long term)	-15.9	25.9	34.6	40.8	46.5	51.8	31.6	50.9	11.1	10.0	3.6
Long-term borrowing 3/	7.0	50.7	53.8	64.0	68.9	86.9	58.1	75.3	37.3	40.2	34.9
Principal not yet due, rescheduled	...	...	...	...	...	...	...	8.8	...	...	...
Scheduled amortization 4/	22.9	24.8	19.2	23.2	22.4	35.2	26.6	20.8	26.2	30.3	31.4
Principal not yet due	...	...	...	...	...	...	...	12.4	...	...	...
Other capital 5/	12.4	-47.0	-13.6	1.2	-2.1	10.4	3.7	17.8	-4.5	18.5	10.3
Capital and financial account balance	3.4	74.5	113.3	160.5	146.6	134.8	105.4	143.4	80.2	107.8	102.6
Errors and omissions	7.2	16.4	-21.1	27.5	20.8	-9.1	-19.2	-23.1	...	...	...
Overall balance	-44.1	51.2	-0.9	11.7	-22.8	-17.2	-4.1	10.1	-120.1	-108.6	-108.1
Financing	44.1	-51.2	0.9	-11.7	22.8	17.2	4.1	-10.1	-27.3	-11.6	-0.3
Change in net foreign assets of central bank 3/ (increase -)	9.0	-46.7	-17.2	-29.2	3.8	10.1	-9.8	-10.8	-5.0	-11.6	-0.3
Net credit from the Fund 6/	...	-13.5	1.3	-18.1	-13.8	-20.8	-14.0	-1.5	5.8	0.1	3.0
Disbursements/purchases	...	-13.5	...	-20.5	-16.1	-29.3	-25.1	-12.1	-0.7	-1.4	-1.4
Repayments/repurchases	...	...	1.3	2.4	2.4	8.5	11.1	10.6	6.5	1.5	4.5
Change in gross official reserves (increase -)	-3.7	-34.9	-7.0	-26.3	...	24.6	8.6	-9.3	-10.8	-11.7	-3.4
Change in other foreign liabilities (increase +)	12.7	1.7	-11.5	15.1	17.6	6.3	-4.4	...	...	...	...
Change in arrears (decrease -) 7/	35.1	-4.5	18.1	17.5	-58.2	-2.7	5.4	-37.9	-22.3	...	...
Accumulation	35.1	15.9	18.1	17.5	15.0	6.5	6.4	2.9	...	...	...
Reduction	...	20.4	...	...	73.2	9.2	1.0	40.8	22.3	...	...
Exceptional financing 8/	...	...	...	...	77.2	9.7	8.4	38.6	...	...	...
Cancellation	...	...	...	...	17.9	1.0	1.0	13.4	...	...	...
Stock of arrears	...	...	...	...	16.6	...	...	12.8	...	...	...
Current debt service	...	...	...	...	1.2	1.0	1.0	0.6	...	...	...
Rescheduling	...	...	..	...	53.8	8.8	7.5	25.2	...	...	...
Stock of arrears	...	...	...	...	51.1	...	...	21.8	...	...	...
Current debt service	...	...	...	...	2.8	8.8	7.5	3.4	...	...	...
Financing need 9/	...	...	...	...	...	...	...	...	147.4	120.2	108.5
Of which: identified financing	...	...	...	...	...	...	...	...	147.4	120.2	108.5
United Kingdom	...	...	...	...	...	...	...	...	27.7	27.7	20.4
European Union	...	...	...	...	...	...	...	...	26.1	25.0	25.0
HIPC Initiative grants	...	...	...	...	...	...	...	...	12.4	29.1	36.7
World Bank	...	...	...	...	...	...	...	...	33.6	17.0	15.4
Exceptional financing (assumed) 10/	...	...	...	...	...	...	...	...	29.8	9.8	9.0
Financing gap 11/	...	...	...	...	...	...	...	...	...	...	...
Memorandum items:											
Current account deficit (in percent of GDP)											
Excluding official transfers	-53.3	-19.1	-19.3	-17.5	-17.0	-16.7	-16.3	-16.4	-17.0	-15.7	-13.5
Including official transfers	-7.2	-3.1	-6.7	-9.5	-9.6	-7.4	-5.0	-6.5	-11.3	-11.4	-10.3
Gross official reserves 6/	51.2	99.7	106.6	153.4	169.5	174.2	190.6	212.1	223.6	236.6	241.5
Gross official reserves (in months of imports of goods and services) 1/	1.8	3.3	2.7	4.0	4.6	4.7	5.2	5.7	5.9	6.2	6.2
Overall balance (in percent of GDP)	-5.8	4.0	-0.1	0.6	-1.1	-0.9	-0.2	0.6	-6.8	-5.7	-5.3
Total external debt	1,012.6	1,063.0	1,111.9	1,137.9	1,159.3	1,261.5	1,305.0	1,315.8	1,295.1	1,268.4	1,244.5
Total external debt (in percent of GDP)	134.4	82.2	80.4	61.6	58.3	65.3	72.1	77.3	73.2	66.8	60.7
Scheduled debt service (in percent of exports of goods and services) 6/	72.7	59.0	40.9	27.1	33.5	47.6	33.8	27.4	31.4	27.4	26.6
NPV of debt after HIPC assistance (in percent of exports of goods and services) 12/	1,362.6	987.9	790.1	423.5	588.3	148.1	176.5	180.2	190.3	203.5	210.7

Sources: Rwandese authorities; and staff estimates and projections.

1/ Including interest due to the IMF.

2/ Includes project grants, disbursed budgetary and HIPC grants, and humanitarian and technical assistance. Undisbursed budgetary and HIPC grants are included in the financing need.

3/ Includes project loans and budgetary loans that have already been disbursed. Undisbursed budgetary assistance in the form of loans is included in the financing need.

4/ Excluding IMF.

5/ Other capital includes long-term private capital, commercial credit, the change in the net foreign assets of commercial banks, and unrecorded imports.

6/ Assuming a 5 percent access under the new PRGF arrangement.

7/ The program assumes clearance of all outstanding arrears (including old arrears to non-Paris Club creditors) in 2002.

8/ Paris Club rescheduling on Cologne terms during 2001 was delayed for administrative reasons. The assumed exceptional financing by Paris Club creditors during 2002 is recorded in the financing need.

9/ Includes budgetary grants and loans that have been committed and are expected to be disbursed during the course of the year.

10/ Treatment of current debt service by the Paris Club on Cologne terms and comparable treatment by non-Paris Club creditors.

11/ The financing gap refers to the difference between the overall balance and the identified financing (actual and expected).

12/ Based on assumptions about expected new borrowing. For illustrative purposes, the numbers are shown as if HIPC assistance had been delivered unconditionally as of 1999. The exports denominator is calculated using a three-year, backward-looking average.

Table 5. Rwanda: Fiscal Impact of the HIPC Initiative, 2001-04

	2001	2002	2003	2004
HIPC Initiative assistance given	(In billions of Rwanda francs)			
Interest due before HIPC Initiative debt relief 1/	5.0	5.4	5.3	5.1
HIPC Initiative relief on interest (as a result of stock-of-debt operation only)	0.0	0.0	0.7	0.7
Interest due after HIPC Initiative debt relief	5.0	5.4	4.6	4.4
Amortization due before HIPC Initiative debt relief 1/	9.2	12.2	14.5	15.3
HIPC Initiative relief on amortization (as a result of stock-of-debt operation only)	0.0	0.0	3.0	2.6
Amortization due after HIPC Initiative debt relief	9.2	12.2	11.5	12.7
HIPC Initiative relief provided as grants	10.6	10.7	13.9	17.9
HIPC Initiative relief provided as exceptional financing	0.1	0.1	0.0	0.0
Total HIPC Initiative debt relief	10.7	10.8	17.6	21.2
Memorandum items:				
Other donor flows	101.9	109.0	97.9	92.2
Total net external flows (net external financing less debt service due)	98.5	102.2	95.8	92.9
Priority and exceptional government expenditures	(In percent of GDP)			
Baseline pre-HIPC Initiative debt relief expenditure projections	5.1	5.1	5.1	5.1
Post-HIPC Initiative debt relief expenditure projections	7.7	8.8	9.3	8.4
Memorandum items:				
Revenues	11.4	12.2	12.7	12.8
Domestic debt	7.0	6.2	5.4	4.7
Overall fiscal balance before HIPC Initiative debt relief	-9.5	-9.9	-9.4	-8.0
Overall fiscal balance after HIPC Initiative debt relief	-9.5	-9.9	-9.3	-7.9

2/ Average total social spending during 1998-2000 is 3.6 percent of GDP.
Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Excludes IMF assistance.

Table 6. Rwanda: External Public Debt and Debt Service, 1995-2004
(In millions of U.S. dollars, unless otherwise indicated; end of period)

	1995	1996	1997	1998	1999	2000	2001 Est.	2002 Proj.	2003 Proj.	2004 Proj.
Total external debt outstanding 1/	1,063.0	1,111.9	1,137.9	1,159.3	1,261.6	1,305.1	1,315.9	1,287.8	1,268.4	1,244.5
Multilateral	854.9	899.2	927.4	1,017.3	1,094.8	1,137.1	1,169.4	1,142.4	1,121.3	1,095.6
Of which: IDA	500.7	520.1	557.5	642.7	691.1	723.5	714.8	704.3	692.3	679.5
IMF	26.3	24.2	40.4	56.4	75.9	85.8	84.3	78.1	78.1	75.2
Bilateral	188.6	193.4	201.4	142.1	166.1	167.4	145.9	144.7	146.4	148.3
Paris Club 2/	92.6	94.3	93.7	57.2	73.0	73.1	74.2	75.5	76.9	78.2
Non-Paris Club	96.0	99.0	107.7	84.9	93.1	94.3	71.7	69.2	69.5	70.0
Commercial 3/	19.5	19.3	9.1	0.0	0.6	0.6	0.6	0.6	0.6	0.6
Debt service after rescheduling 4/	39.3	34.1	39.1	33.2	44.1	42.1	39.6	37.5	33.6	37.8
Principal	24.8	20.4	25.6	20.8	33.9	29.2	27.4	25.2	22.0	26.8
Interest	14.6	13.7	13.5	12.4	10.2	12.9	12.2	12.2	11.6	11.0
Debt service after HIPC assistance 4/	39.3	34.1	39.1	33.2	44.1	42.1	15.5	14.4	3.1	4.0
Principal	24.8	20.4	25.6	20.8	33.9	29.2	10.7	9.7	2.0	2.8
Interest	14.6	13.7	13.5	12.4	10.2	12.9	4.8	4.7	1.1	1.2
Memorandum items:										
Total debt stock (in percent of GDP)	82.2	80.4	61.6	58.3	65.3	72.1	77.3	72.8	66.8	60.7
Debt service after rescheduling (in percent of)										
Exports of goods and services	59.0	40.9	27.1	29.9	39.0	28.1	24.9	26.2	21.3	21.5
Government revenue 5/	44.6	26.5	20.3	15.7	23.2	23.9	20.4	17.3	13.9	14.4
Government current expenditure and net lending	14.8	11.0	10.8	8.8	11.7	12.5	11.1	9.6	8.0	8.9
Debt service after HIPC (in percent of:)										
Exports of goods and services	0.0	0.0	0.0	0.0	0.0	0.0	9.7	10.0	2.0	2.3
Government revenue 5/	0.0	0.0	0.0	0.0	0.0	0.0	8.0	6.7	1.3	1.5
Government current expenditure and net lending	0.0	0.0	0.0	0.0	0.0	0.0	4.3	3.7	0.7	0.9
Net present value (NPV) of debt (in percent of exports of goods and services) 6/	987.9	790.1	423.5	588.3	148.1	176.5	180.2	190.3	203.5	210.7

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ On a disbursed basis, including arrears.
2/ All Paris Club debt is pre-cutoff-date debt.
3/ Refers to loans by commercial creditors that were guaranteed by Paris Club creditors.
4/ Including IMF.
5/ Excluding grants.
6/ On a post-HIPC Initiative basis and based on assumptions about expected new borrowing. For illustrative purposes, the numbers are shown as if HIPC Initiative assistance had been delivered unconditionally as of 1999. The exports denominator is calculated using a three-year, backward-looking average.

Table 7. Rwanda: External Financing Requirement and Sources, 1994-2004
(In millions of U.S. dollars, unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Resource balance	-440.8	-267.4	-279.0	-330.0	-350.6	-329.8	-291.5	-280.6	-299.8	-297.8	-281.7
Exports goods and services	47.5	66.6	83.5	144.0	111.0	113.1	149.6	159.2	143.0	158.0	176.3
Imports goods and services	488.3	334.0	362.5	474.0	461.7	442.9	441.1	439.8	442.8	455.8	458.0
Noninterest current account (excluding official transfers) 1/	-390.2	-232.3	-253.0	-309.5	-326.5	-312.8	-283.0	-266.9	-289.2	-287.2	-265.2
Scheduled interest	-11.6	-14.6	-13.7	-13.5	-12.4	-10.2	-12.9	-12.2	-12.2	-11.6	-11.0
Capital and financial account 2/	-3.4	-53.3	-51.6	8.1	3.4	-32.1	-34.0	-30.3	-25.9	-6.8	-15.3
Scheduled amortization	-22.9	-24.8	-19.2	-23.2	-22.4	-35.2	-26.6	-20.8	-26.2	-30.3	-31.4
Other capital	19.5	-28.6	-32.4	31.3	25.8	3.0	-7.4	-9.5	0.3	23.5	16.0
Increase in net official reserves (excluding IMF -)	9.0	-33.2	-18.5	-11.1	17.6	30.9	4.2	-9.3	-10.8	-11.7	-3.4
IMF repurchases/repayments	...	...	1.3	2.4	2.4	8.5	11.1	10.6	6.5	1.5	4.5
Changes in arrears (decrease = -)	35.1	-4.5	18.1	17.5	-58.2	-2.7	5.4	-37.9	-22.3	...	...
External financing requirements	-361.1	-337.9	-317.4	-306.1	-373.7	-318.4	-309.1	-346.1	-353.8	-315.8	-290.5
Disbursements-Existing	361.1	337.9	317.4	306.1	296.6	308.7	300.6	298.7	206.4	197.0	183.5
Grants (project and nonproject)	354.1	300.7	263.6	262.6	243.8	251.0	267.6	235.5	169.8	156.8	148.6
Project (Public Investment Program)	6.9	93.5	90.0	115.9	95.1	70.9	62.0	66.5	68.8	74.3	82.9
Nonproject3/	347.2	207.2	173.6	146.7	148.7	180.1	205.6	169.0	101.0	82.5	65.6
Loans (project and nonproject)	7.0	50.7	53.8	64.0	68.9	86.9	58.1	75.3	37.3	40.2	34.9
IDA	7.0	35.6	43.8	57.2	51.1	61.6	38.1	56.5	24.9	26.8	23.3
Project	7.0	5.3	26.4	37.9	21.1	23.6	22.0	25.6	24.9	26.8	23.3
Nonproject 4/	...	30.3	17.4	19.3	30.0	38.0	16.1	30.8	...	...	...
Other multilateral banks	...	15.1	10.0	6.8	17.8	25.3	20.0	18.8	12.4	13.4	11.6
Project	...	...	...	...	10.6	11.8	20.0	12.8	12.4	13.4	11.6
Nonproject	...	15.1	10.0	6.8	7.2	13.5	...	6.0	...	...	...
Purchases from IMF	...	-13.5	...	-20.5	-16.1	-29.3	-25.1	-12.1	-0.7	...	...
Exceptional financing (signed)	...	...	...	...	77.2	9.7	8.4	38.6	...	...	...
Principal not yet due rescheduled 5/	...	...	...	...	...	...	...	8.8	...	...	...
Disbursements- Expected	...	...	...	...	...	...	...	...	117.6	110.4	99.4
Grants	...	...	...	...	...	...	...	...	76.5	93.4	84.0
Project (Public Investment Program) 6/	...	...	...	...	...	...	...	...	...	...	...
Nonproject	...	...	...	...	...	...	...	...	76.5	93.4	84.0
Loans	...	...	...	...	...	...	...	...	41.1	17.0	15.4
IDA	...	...	...	...	...	...	...	...	33.6	17.0	15.4
Project (PIP) 6/	...	...	...	...	...	...	...	...	...	...	...
Nonproject	...	...	...	...	...	...	...	...	33.6	17.0	...
Other multilateral banks (excl. IMF)	...	...	...	...	...	...	...	...	7.5	...	...
Project	...	...	...	...	...	...	...	...	...	...	...
Nonproject	...	...	...	...	...	...	...	...	7.5	...	...
Disbursements from IMF 7/	...	...	...	...	...	...	...	...	...	-1.4	-1.4
Exceptional financing (assumed)	...	...	...	...	...	...	...	...	29.8	9.8	9.0
Available financing	361.1	337.9	317.4	306.1	373.7	318.4	309.1	346.1	353.8	315.7	290.5
Residual financing gap 8/	...	...	...	...	...	...	...	...	...	...	...

Sources: Rwandese authorities; and staff estimates and projections.

1/ Excludes budgetary and HIPC grants already disbursed, and humanitarian and technical assistance.
2/ Excludes project grants and loans and budgetary loans that have already been disbursed.
3/ Includes disbursed HIPC grants, as well as grants in the form of humanitarian and technical assistance. Budgetary and HIPC grants not yet disbursed are listed under the expected financial support.
4/ Budgetary loans not yet disbursed are listed under the expected financial support.
5/ Reflects the debt rescheduling agreement with the Saudi Fund for Development.
6/ All project grants and loans are not programmed financing, and, hence, they are recorded under "existing disbursements".
7/ Includes expected IMF disbursements under the new PRGF arrangement.
8/ A negative sign implies a financing gap.

Table 8. Rwanda: Indicators of Capacity to Repay the Fund, 1998-2006 1/
(In millions of SDRs, unless otherwise indicated)

	1998	1999	2000	2001 Est.	2002	2003	2004	2005	2006
					Projections				
Fund credit outstanding (end of period) 1/									
In millions of SDRs	40.1	55.3	65.9	67.1	62.5	62.4	60.0	54.5	44.0
In millions of U.S. dollars	56.4	75.9	85.8	84.3	78.1	78.1	75.2	68.3	55.3
In percent of quota	67.4	69.0	82.2	83.8	78.0	77.9	74.9	68.0	54.9
Fund obligations	2.9	7.3	9.5	9.1	5.7	1.6	4.0	7.1	10.8
Fund total charges and interests	1.1	1.1	1.1	0.8	0.5	0.4	0.4	0.4	0.4
Existing drawings	1.1	1.0	1.1	0.8	0.5	0.4	0.4	0.4	0.3
Prospective drawings	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund total repayments/repurchases	1.8	6.2	8.4	8.3	5.2	1.2	3.6	6.7	10.5
Existing drawings	1.8	6.2	8.4	8.3	5.2	1.2	3.6	6.7	10.5
Prospective drawings	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Fund credit outstanding in percent of:									
Exports of goods and nonfactor services	50.8	67.1	57.4	53.0	54.6	49.5	42.7	34.8	25.4
Total external debt 2/	4.9	6.0	6.6	6.4	6.0	6.2	6.0	5.6	4.7
Gross official reserves	33.3	43.6	45.0	39.8	34.9	33.0	31.1	27.5	21.3
Fund obligations in percent of:									
Exports of goods and nonfactor services	3.5	8.8	8.4	7.2	5.0	1.3	2.8	4.5	6.3
External debt service 2/	11.8	22.6	29.8	29.1	15.8	4.7	10.7	16.7	24.2
Gross international reserves	2.4	5.7	6.5	5.4	3.2	0.9	2.1	3.6	5.3
Memorandum items:									
Exports of goods and nonfactor services (in millions of U.S. dollars)	111.0	113.1	149.6	159.2	143.0	158.0	176.3	196.6	217.4
Gross official reserves (in months of imports of goods and nonfactor services)	4.6	4.7	5.2	5.7	5.9	6.2	6.2	6.2	6.2

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Includes the prospective disbursements under the new three-year PRGF arrangement of SDR 4.0 million (5 percent of quota). All numbers are before HIPC assistance.
2/ After rescheduling.

July 3, 2002

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, DC 20431
U.S.A.

Dear Mr. Köhler,

1. Rwanda has strived over the past eight years to addressing the rent in the social fabric and immense surge in poverty engendered by the genocide of 1994. The challenges faced in this endeavor have no precedence in history. Nonetheless, our eventual success in providing a better future for our nation is ineluctable.

2. Following the genocide in 1994, our immediate priorities were the restoration of peace, the resettlement of the internally displaced and of returned refugees, the promotion of national reconciliation, and the revival of the economy. In the interim, we have largely succeeded in restoring peace and the vast majority of refugees have returned and resettled. By end-1999, over three million internally displaced persons and refugees had been permanently resettled.

3. We have set as our goals: reconstruction, national reconciliation, peace, stability, good governance and poverty reduction. We have made some noteworthy achievements toward those ends, including empowering the Rwandan people through a process of decentralization and democratization. The National Assembly adopted a decentralization law in November 2000 and local elections were held in March 2001. Judges, who will preside over community-based judicial processes (Gacaca) to try those suspected of having committed crimes, were elected in October 2001 and are currently being trained.

4. There is an extraordinary urgency in our actions to reduce poverty. The share of households living below the poverty line, estimated at 53 percent in 1993, rose to 70 percent in 1994 and, as some progress has been made, now stands at 60 percent. But, in addition to the usual considerations in targeting poverty, for Rwanda a significant and rapid decline in poverty will be a key element in securing national reconciliation; while creating new and more productive employment is critical to creating a future for a generation of young that has suffered beyond normal limits. We have finalized and issued a Poverty Reduction Strategy Paper (PRSP), detailing priority objectives and an action plan for their achievement. This PRSP focuses on the areas of rural development and agricultural transformation, human resource development, economic infrastructure, governance, private sector development and

institutional capacity building. The PRSP underpins our policy program for the period ahead, including the macroeconomic and financial policies to be supported under a new arrangement from the IMF.

5. During the next years, Rwanda will embark on a sweeping national transformation: democracy will be rooted, including through a referendum on a new constitution and elections at the national level during 2003, reconciliation critical to sustaining a common national interest will be forged, and resources that had been claimed by conflict will be turned to building a better future. The achievement of these goals will depend on steady and efficient implementation of a coordinated action plan, whose key elements are set out in the PRSP.

6. We recognize clearly that the achievement of our objectives will depend critically on the establishment of a sound macroeconomic foundation. The three-year ESAF/PRGF arrangement that was approved by the Fund's Executive Board of Directors in June 1998, and which was extended to end-April 2002, provided a framework for our efforts to that end. Our record under that framework has been successful in broad terms. With successive years of strong economic growth, in 2000 we were able to re-attain the real GDP level of 1990. We plan to improve on that record in the period ahead. We have also made strides in checking inflation and have substantially rebuilt official reserves. Despite our capacity limitations, we have made progress in improving structural efficiency through reforms in the exchange and trade regime, financial administration, tax policy, privatization and the civil service.

7. The Government, in collaboration with DfID, is currently carrying out a poverty and social impact assessment (PSIA). We intend to discuss the findings of the PSIA with the staff of the IMF and the World Bank and with other key stakeholders later this year. The PSIA findings and subsequent discussions will be taken into account in reviewing possibilities for accommodating supplemental grant income that may become available within the fiscal and monetary policies set out in the attached MEFP.

8. The attached memorandum of economic and financial policies (MEFP) reviews the implementation of the 2001 program and lays out the objectives and policies that the government intends to pursue during 2002, and for the medium term. In support of these objectives and policies, the Government of Rwanda requests the approval of a new three-year PRGF arrangement with access in an amount equivalent to SDR 4 million (5 percent of quota) and the extension of additional interim relief from the Fund to cover part of its debt service obligations to the Fund during the period August 1, 2002 to July 31, 2003 under the HIPC Initiative. We would therefore request the disbursement of a first loan in an amount equivalent to SDR 574 thousand upon approval of the new PRGF arrangement. The remaining SDR 3.426 million would be disbursed in six equal amounts equivalent to SDR 571 thousand, each available upon completion a review. The limited access requested reflects the foreign reserve cover already in place and the availability of complementary concessional financing. We understand that consideration by the Executive Board of Rwanda's requests for approval of a follow-up PRGF arrangement will be subject to the fulfillment of a number of prior actions, as indicated in the attached MEFP, Table 6.

9. The Government of Rwanda will continue to provide the Fund with such information as the Fund requires in assessing Rwanda's progress in implementing the policies described in this letter and the attached memorandum. Moreover, Rwanda will continue to consult with the Fund on its economic and financial policies, in accordance with the Fund's policies and practices on such consultations.

Yours sincerely,

/ s /
François Kanimba
Governor
National Bank of Rwanda

/ s /
Donald Kaberuka
Minister of Finance and
Economic Planning

Memorandum of Economic and Financial Policies of the Government of Rwanda for 2002–04

I. Performance Under the 2001 Program

1. Rwanda's economic performance during 2001 was broadly in line with the objectives set under the PRGF-supported program. Favorable climatic conditions supported increased agricultural production; income from coltan mining contributed to domestic demand, especially in the first half of 2001 and, along with substantial external transfers, contributed to growth in construction and services output. Overall, real GDP grew by 6.7 percent during 2001, compared with the targeted 6 percent. Falling food prices, associated with increased local supply following a drought in 2000, helped to moderate consumer price increases. Accordingly, inflation fell from 3.9 percent in 2000 to an average of 3.4 percent in 2001—some 0.4 percentage points above the program target. The external current account deficit (excluding official transfers), at 16.4 percent of GDP in 2001, was roughly unchanged from the 2000 level largely as increased private sector saving was offset by an expansion in the public investment. In the first quarter of 2002, preliminary information indicates that mining receipts have contracted following a collapse in prices of coltan in mid-2001, while export earnings from coffee and tea prices continue to limited by historically low international market prices.

2. The fiscal outcome in 2001, as measured by the primary fiscal deficit, was 0.2 percent of GDP better than programmed, as stronger-than-projected revenue collections more than offset expenditure overruns. Consistent with this, the overall fiscal deficit was limited to 9.5 percent of GDP, compared with the 10.4 percent target under the program, as spending delays on foreign-financed capital expenditure added to gains on the current balance. Receipts from income and profit taxes, international trade taxes, and excise taxes were higher than projected reflecting, in part, improved tax administration. However, nontax revenue collections, particularly from public enterprises, fell somewhat short of expectations. Given the strong revenue performance, it was possible to increase public spending beyond the level foreseen under the program while maintaining the agreed fiscal stance. There were some increases in nonpriority spending due to a number of urgent demands including minor overruns in military spending associated with the withdrawal of troops from the Democratic Republic of the Congo (DRC). The performance criterion on social spending was met, with social expenditure marginally higher than the program floor. The strong revenue performance allowed for a modest increase in exceptional expenditure (0.2 percent of GDP), mostly for tertiary education.

3. Payments to clear overdue government obligations during 2001 were equivalent to 2 percent of GDP, and exceeded the program target by 0.7 percent of GDP. Obligations settled included remuneration due to teachers, local government employees, police and soldiers (equivalent to 0.8 percent of GDP), and arrears for energy, petroleum, transport, the tea parastatal and treasury bonds. At the same time, the stock of pre-2000 obligations presented to the Auditor General for verification, rose from RF 27 billion (3.6 percent of GDP) to over RF 40 billion (5.3 percent of GDP), as initial tallies were revised and new

claims, reflecting the continued return of refugees and growing confidence in the process, emerged. Following review, the Auditor General established that required documentation had been submitted for RF 31 billion (3.7 percent of GDP) of the claims submitted. For the remaining RF 10 billion, and other subsequent claims, for which some required documentation is not available, the government has charged a committee of senior administrators (the PRGF Committee) with establishing acceptable standards, reflecting dislocations and losses in the period following the genocide. The government remains committed to settle its arrears in an orderly manner and to take any steps necessary to avoid the re-emergence of arrears in future.

4. Although a miscommunication regarding the payment schedule led to minor delays in debt service payments during December 2001, commitments on avoiding new arrears on external debt service have been substantially met. The government is continuing its efforts to strengthen external debt management and intends to observe agreements reached with external creditors.

5. Regarding monetary developments, the net foreign assets (NFA) of the National Bank of Rwanda (NBR) at end-2001 exceeded the floor set under the program by over RF 7 billion (0.5 months of imports). Reflecting both the strong fiscal performance and the impact of grant inflows, net credit to government was substantially reduced, and more than met program targets. With credit to the private sector growing by 9.1 percent, however, the fall in the net domestic assets of the banking system did not fully offset net foreign inflows and broad money grew by 10.0 percent (current exchange rates), exceeding the 6.6 percent growth that had been targeted.

6. In moving to tighten monetary policy in the second half of 2001, an increase in the discount rate by the NBR to tighten monetary conditions led to a substantial compression in activity in the interbank market, reflecting a skewed liquidity position among banks. In response, the NBR temporarily relaxed its policy stance while moving to address the underlying issue. While this revitalized the interbank market, it led to a buildup in bank reserves and thus to an expansion in reserve money, which is currently being addressed.

7. Regarding exchange rate developments, the Rwanda franc depreciated by 3.4 percent in nominal effective terms in the official market in 2001, and by 4.9 percent in real effective terms. The exchange rate premium in the parallel market trading remained below 5 percent during most of 2001, indicating that the introduction in February 2001 of weekly foreign exchange auctions by the NBR has led to improved efficiency and transparency in this market.

8. There has been progress in carrying out the agenda of structural measures adopted under the program (Box 1 and Table 1). The difficulty of the task at hand should not be underestimated. Thus, despite strong commitment and concerted effort, work is still in progress in some areas that were targeted for implementation, including the issuance of financial instructions in accordance with the organic budget law, which is awaiting

supporting legislation that will modify the roles of the Auditor General and of the *Cours des Comptes*.

9. In strengthening public financial administration and its institutions we have made some significant strides forward. A presidential decree issued on January 2, 2002 put the arbitration center on a firm legal basis. A draft decree giving legal status to the National Tender Board (NTB) was submitted to the cabinet for consideration on June 15, 2002 and is expected to be issued by September 2002. This step caps a comprehensive training program for decentralized tender boards in ministries, public institutions, provinces, and districts that was completed in December 2001. The National Tender Board has started to monitor their tendering activities to assure quality control. Financial and commercial courts, as specialized chambers of the Provincial Court, will be put in place, beginning with pilots in Kigali, Butare, and Ruhengeri, by December 2003.

10. We have, similarly, taken some important steps towards improving financial controls, transparency and accountability. An external audit group has submitted the draft of a comprehensive study of government bank accounts to government. Detailed analysis of these accounts has highlighted extrabudgetary and off-budget account movements, and has been followed up by appropriate legal action. Off-budget receipts, including privatization proceeds and revenue from frequency allocations, have been brought on budget, and the activities funded from these sources are now allocated through the Treasury account.[1] During 2001, public accountants were established in all line ministries, and will begin filing quarterly reports during March 2003. A beginning has been made in developing a central government internal audit system—some auditors have been put in place within the line ministries, and with the help of the Auditor General's office, a procedural manual has been developed and some auditors have been trained.

11. The office of the Auditor General has continued to expand and broaden the scope of its activities. Audits of the 2000 accounts of 27 public sector entities, including 8 ministries, were completed in December 2001 and submitted to the President, the Speaker of the National Assembly, and the Chief Justice of the Supreme Court. A parliamentary committee is currently reviewing the reports and it is expected that they will be discussed in a meeting of the Budget Committee open to all parliamentarians and the public by end-September 2002. The government will make access to audits of five ministries for 1999 by the Auditor General's Office freely available to the public before year-end.[2]

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[1] Exceptions are limited to revenues collected for the road fund, which, although budgetary, are deposited in a separate account at the BNR operated by the Treasury, and fees collected by hospitals and schools.

[2] Information that might compromise national defense will be obscured in the version of the audit of the Ministry of Defense open to the public. A complete text version of the audit will be made available to key stakeholders.

12. Substantial headway has also been made in reinforcing revenue administration and in eliminating departures from appropriate application of tax laws. Discretionary exemptions from direct and indirect taxes, mainly to donors and NGOs, have been largely eliminated, and a database has been established for tracking the tax expenditures from customs duties and the VAT associated with the implementation of existing policies. In addition, procedures are being implemented to verify that goods brought into Rwanda on a duty free basis under existing policies are in fact used for the stated purposes.[3]

13. The Rwanda Revenue Authority (RRA) significantly improved its performance during 2001: targets for voluntary declaration and tax payment compliance rates for profit taxation have improved (largely meeting a program benchmark), declaration rates for small and medium-sized enterprises exceeded the target, and tax declarations of large companies largely were on-track. The rate for profit tax collections within a month of assessment lagged, however, behind the 50 percent target for much of the year due to legally established payment periods, as well as capacity constraints of the public notary, which have now been addressed. The reform of the personal income tax (TPR) has been further delayed, due to a number of technical issues.

14. On the expenditure side, a number of steps have been taken to strengthen budget implementation and monitoring. However, the system is still in its initial stages and more progress needs to be made. A circular is being prepared defining more specifically the scope of work of the auditors and the procedural manual will soon undergo refinement. To improve monitoring capacity, the expenditure recording system has been decentralized to central government ministries allowing ministries to directly follow their own accounts.

15. Civil service reform is advancing with the implementation of the new provincial organigrams. Redeployment within each province has been completed, and redeployment between provinces is expected to be completed with some delay in January 2003. Preparation of organigrams for the districts is in the initial stages, and there will be a need to revisit the central government organigrams to adequately reflect changes due to the decentralization exercise.

16. While slower than had been envisaged, some gains have been registered in the privatization agenda—12 companies were privatized in 2001. In addition, the government has reached agreement with the World Bank on the privatization process for Rwandatel and the recruitment of an advisor is under way. With this, it is estimated that Rwandatel's privatization will be completed in 15 months. An advisor was recruited for the pilot privatization of the two tea factories, in collaboration with the World Bank in October 2001 and a call for bidders is expected shortly. Progress has been made toward putting Electrogaz, the utility company, under private management: the pre-qualification phase for bidders has

[3] Preliminary information indicates that some of the food entering Rwanda on a duty-free basis is ultimately sold in domestic markets.

been completed and five bidders have been short listed; and, as the terms of the management contract have been agreed with the World Bank, it is expected that the bidding and subsequent selection process can be completed by December 2002.

17. A number of significant landmarks were realized in financial sector structural reforms (see Box 1). The Arbitration Center was granted legal person status in January 2002 and began operations. To enable loan recovery from real estate guarantees, the Office of the Public Notary was opened in accordance with the new civil service organigrams (*cadres organiques*). At the same time, the accelerated loan recovery procedure (*voie parée*), which had been suspended in 1997, was reinstated in November 2001. In microfinance, strategic audits were completed for the UBP—the major microfinance agency—by March 2001 and a restructuring plan was been agreed with the World Bank. While the government has decided, in principle, to restart the CHR (Caisse Hypothecaire du Rwanda), further action will reflect the findings of a financial sector study that is being undertaken in collaboration with the World Bank.

Box 1. Financial Sector Reforms Completed Under the 2000/01 Program

Action	Planned Implementation	Implementation
• The commercial banks to continue with the restructuring plans agreed in the first half of 2000.	12/31/2000	On time
• Conduct with MAE assistance a review of all banks lending procedures, and make recommendations to banks and implement them.	12/31/2001	On time
• The office of the public notary will be fully operational, in accordance with the new organigrams.	8/31/2001	On time
• The diagnostic/strategic audit of the UBP—the major microfinance vehicle in Rwanda	12/31/2000	3/31/2001
• An agreement will be reached on an appropriate restructuring plan, in consultation with the World Bank	3/31/2001	12/31/2001
• A new diagnostic audit of the Caisse Hypothéquaire du Rwanda (CHR) and an action plan for CHR's restructuring /privatization will be adopted	3/31/2001	5/23/2001

18. In the banking system, central bank supervisors found that about 40 percent of outstanding loans from commercial banks at end-September 2001 were nonperforming and, as a consequence, a number commercial banks will need to add to their capital. A substantial share of the nonperforming loans, largely extended after 1994, are related to real estate investments hurt by the scaling down of activities in Rwanda by NGOs and international aid organizations, and transportation projects hit by the imposition of axle weight restrictions on trucks transiting Tanzania and Kenya. However, the incidence of nonperforming loans in other sectors suggests that additional factors may have contributed to the buildup in problems, including a post-1994 decline in the effectiveness of the legal system in commercial and banking matters that has undermined loan compliance and enforcement. In light of this, efforts to address these problems will be sustained in the period ahead.

19. The first full Poverty Reduction Strategy Paper (PRSP) was issued on June 21, 2002, building on wide consultations that were successfully held at the grass-roots level and on a host of comments received after having widely circulated a full draft of the paper.

20. Although some delays have been experienced, progress has been made in regularizing relations and implementing agreements reached with external creditors. Outstanding arrears (US$5.5 million) to the OPEC Fund were cleared during the last quarter of 2001. Regarding the Paris Club agreement signed in May 2001, which provided for a topping up of debt relief to Cologne terms, due to an administrative delay, payments have continued on the basis of the Naples agreement signed in 1998 (with the exception of Austria, which informed the authorities that any amounts paid would be deposited into a suspense account). Following the resolution of these difficulties in mid-April 2002, a further extension of the deadline for the conclusion of bilateral agreements has been requested. The Paris Club agreed to extend the deadline for the conclusion of bilateral agreements to September 30, 2002 and we are committed to concluding these negotiations by the revised deadline. We have also requested an extension of the consolidation period from the Paris Club to enable the provision of debt relief under Cologne terms. A decision by the Paris Club is pending, subject to approval of the new PRGF arrangement by the Executive Board. As regards non-Paris Club creditors, an agreement was reached with the People's Republic of China in November 2001 providing for the cancellation of its outstanding arrears, as well as for part of its remaining stock of debt, amounting to US$16.3 million. We remain committed to reaching rescheduling agreements with the remaining non-Paris Club creditors on terms that are at least as favorable as those provided by the Paris Club creditors.

II. Medium-Term Policy Framework

21. Strong economic growth and stable macroeconomic conditions are keystones in the effort to transform the Rwandan economy. Increased productivity, the creation of an educated, healthy, and fully employed workforce, and the progressive eradication of poverty are our goals. In achieving these, the elements critical to supporting a dynamic, market-oriented economy will be set firmly in place: (i) enabling public institutions, including a commercial chamber in the court system, regulatory agencies, and strengthened government financial administration; (ii) a well-focused public expenditure program supported by sustainable revenue and financial policies (iii) an energized private sector that will include public enterprises slated for privatization; (iv) a sound and competitive banking system; (iv) reliable and efficient utilities; and (v) rehabilitated economic infrastructure. This national effort will be further strengthened by a progressive deepening of the regional economy, including through our participation in COMESA and through other bilateral and multilateral initiatives.

22. In line with this approach and given our population growth rate of 3 percent, Rwanda's macroeconomic policies will need to assure that real GDP grows by at least 6 percent a year, while keeping inflation in check (with an annual average of about 3 percent), the external current account improves steadily to a sustainable position, and appropriate steps are taken to reduce vulnerability to shocks, including by maintaining an

adequate level of gross official reserves. In this regard, the government aims to bring its debt to a sustainable level by targeting a net present value (NPV) of debt-to-exports ratio of below 150 percent over the medium and long term.

23. Over the medium term, government saving will be strengthened substantially with the overall fiscal deficit limited to 9.9 percent of GDP in 2002, and falling to 9.4 percent in 2003, and 8.0 percent in 2004. Targeted improvements in public institutions, in the health and competitiveness of the financial system, and in regional integration will progressively improve the benefit accrued from moving from the informal to the formal sector and thus extend the tax base and contribute to improved revenue collections. Added to this, revenue measures and continued improvements in tax administration will contribute to strengthening the government's revenue base. Tax policy will be designed to be pro-poor and to facilitate private sector development for growth and poverty reduction. Furthermore, following the completion of transitional programs including Gacaca, demobilization, and decentralization, associated spending will no longer be required and deficits will fall substantially. The government, in collaboration with DfID, is currently carrying out a poverty and social impact assessment (PSIA). We intend to discuss the findings of the PSIA with the staff of the IMF and the World Bank and with other key stakeholders later this year. The PSIA findings and subsequent discussions will be taken into account in reviewing possibilities for accommodating supplemental grant income that may become available within the fiscal and monetary policies set out in the following paragraphs.

24. Improvements in the revenue base will be accompanied by increased efficiency and refined prioritization in the expenditure program. Budget design, implementation, monitoring, and reporting will be strengthened. In particular, budgeting will reflect the priorities identified in the PRSP, encompass public expenditure management at the central, province, and district level, and provide for necessary accountability.

25. A sound monetary program will accompany the fiscal program. While maintaining a firm ceiling on the growth of broad money, monetary programs will also be consistent with an ample expansion of credit to the private sector, and the maintenance of a comfortable foreign reserve cover of six months of imports.

III. The Economic Program for 2002

26. In line with the medium-term objectives outlined above, the program for 2002 aims at avoiding a further deterioration in the macroeconomic imbalances and taking further steps toward poverty reduction. The macroeconomic targets are (i) achieving real GDP growth of 7.3 percent; (ii) limiting inflation to about 3 percent; and (iii) maintaining the gross international reserves cover at about 5.9 months of imports.

A. National Transformation and the Economy

27. Key national initiatives toward decentralization, demobilization, and reconciliation will set the context for the economic program for 2002. Under the demobilization initiative, 20,000 soldiers will be demobilized by 2004, 15,000 ex-FAR personnel already in

Rwanda will receive a recognition of service allowance, and 25,000 ex-combatants returning from the Democratic Republic of the Congo will be reintegrated into the Rwandese society—5,000 of them into the army. In parallel, the total size of the armed forces will be substantially reduced by 2005. The traditional court system, GACACA, will be re-established on a major scale to promptly resolve, at the community level, the cases of more than 100,000 persons detained following the genocide, and prison conditions will be improved. Also included in the initiatives will be the preparation of a new constitution and for national democratic elections during 2003. Within this framework, and consistent with the policies set out in the PRSP, resources will be refocused to productive activities and on creating a strong economic base at the community level. This effort will build on the achievements noted in section I of this memorandum, and be supported by the macroeconomic and structural policies set out in the following sections.

28. An established social safety net is critical to assuring the equitability and sustainability of economic policies. At present, the safety net is targeted to the needs of orphans and for assistance to the victims of the genocide. Transfers for the latter will be funded through the Fund for the Victims of the Genocide, which will continue to receive a budgetary allocation equal to 5 percent of domestic revenues. During 2002, the government will conduct a systematic review of the resources required to provide basic support for orphanages and orphans, and those required to meet its commitments to the victims of the genocide. The full assessment will be provided to parliament, along with a report on resources currently available to meet these needs, including from international donors.

B. Macroeconomic Policies

Fiscal policy

29. The overall fiscal deficit of 9.9 percent of GDP targeted for 2002 balances the resource requirements for implementing national initiatives and supporting core government activities against the need to achieve macroeconomic stability in the near term and in assuring sustainability over the medium and long term. As part of this effort, a limited number of revenue measures will be implemented, following parliamentary ratification on July 1, 2002: (i) in order to promote production, the government will announce that the corporate income tax rate will be reduced from 40 percent to 35 percent; (ii) at the same time, the VAT rate will be increased from 15 percent to 17 percent—moving toward the regional average and strengthening the revenue base; and (iii) in line with the strategy of strong regional economic relations, import tariff rates will be aligned with the preliminary proposal for the COMESA common external tariff, with rates set of 0, 5, 15, and 30 percent.

30. The revenue base will be further strengthened during 2003–04 by the introduction, beginning on January 1, 2003, of a tax on in-kind benefits under the professional income tax, and the introduction of an excise tax on new and used cars. In addition, in the event that increased consumption levels during June–October 2002 do not credibly establish the likelihood that excise tax objectives for 2003, as discussed with the Fund staff, will be achieved, the excise tax rate for beer will be returned to the 2001 level with effect from January 1, 2003. Additional steps required to achieve revenue objectives, including a

possible further increase in the VAT rate or equivalent nontariff measures, will be implemented beginning in 2004. These key measures will be supported by the continued strengthening of the Rwanda Revenue Authority and complemented by a comprehensive study of exemptions and incentives granted under the law and through investment agreements. Any required modification to tax concessions, based on the findings of that study, will be implemented as soon as feasible. A summary listing of core targeted policies and administrative improvements can be found in Table 3 of this memorandum.

31. The strengthened income stream will allow government to implement its program of social, priority, and exceptional spending,[4] as identified in the PRSP, and progressively strengthen core government administration while meeting its fiscal targets. Reflecting the positions set out in the PRSP, the new Common Development Fund—a fund earmarked for capital projects identified and implemented at the district level, the road fund, and expenditures for employment and social security promotion have been classified as priorities, while central support services have been reduced in importance. Given the limited administrative capacity at the district level, however, the CDF will be phased in more gradually than initially planned. The budget also provides for funding activities key to nation building: demobilization/reintegration, decentralization, and community reconciliation noted in paragraph 27.

32. In the area of capital expenditure, the government has reviewed the implementation capacity of the investment budget in recent years and on that basis determined a realistic target for such spending in 2002 and beyond, which is also consistent with the macroeconomic goals under the program. The 2002 fiscal program will increase capital expenditure to 6.8 percent of GDP, compared with an estimated 6.6 percent for 2001. Such outlays are expected to increase to 7.5 percent of GDP by 2004. In order to improve spending efficiency, the government plans to strengthen the development coordination agency (CEPEX) with the assistance of the World Bank.

33. As the settlement of outstanding government obligations incurred prior to 2000 is an important element in the overall strategy for establishing social unity and in restoring financial solvency in key areas of the private sector, additional payments to clear such obligations will continue during 2002–04. As the documentation normally required for establishing the validity of some recognized claims has been lost, it has been necessary in some cases to establish exceptional procedures for payments authorizations. In strengthening those procedures, detailed policy guidelines have been developed that provide the basis for determining the qualification and priority of claims for payment without discretion. Beginning on July 1, 2002, authorizations to settle these domestic obligations will be based solely on these guidelines. Furthermore, it has been decided that, in order to clearly establish

[4] The elements covered under these programs are spelled out in the accompanying Technical Memorandum of Understanding.

and limit the extent of pre-2000 obligations, June 30, 2003 will be set as a deadline for lodging new claims.

Monetary policy

34. For 2002, the target for broad money growth has been set in line with nominal GDP growth of 9.4 percent, while taking into account the larger-than-targeted money growth in 2001. Targets for developments in the monetary base have been established in line with this. As reserve money growth exceeded the target trajectory during the first quarter of 2002, the NBR has recently tightened its stance, both through money market interventions and as signaled through an increase in the discount rate, following a formula recently established by the NBR, from 11.5 percent to 13 percent, on June 14, 2002. In this regard, the NBR will quickly absorb excess liquidity in banks in the period ahead in order to limit volatility in the money multiplier and to maintain monetary control.

35. The level of gross international reserves of the NBR attained at the end of 2001 corresponded to an import cover 5.7 months. In light of Rwanda's continuing susceptibility to external shocks and the volatility of aid flows, the NBR will aim to improve its net foreign assets position by some US$16.5 million (0.4 months of import cover). In line with its foreign exchange budget (*plan de trésorerie*), the NBR will adjust the volume of foreign currency offered at its weekly foreign exchange auctions accordingly, and allow for the necessary exchange rate adjustments to clear the market. Net credit to government provided by the NBR will decline by RF 9 billion, 7 percent of beginning-of-period broad money, as external financing will permit government to eliminate its overdraft and accumulate deposits at the central bank. These policies are consistent with a 13 percent growth of credit to the private sector.

36. Regarding the NBR's foreign exchange transactions between auctions, the current system of exchange rate determination will be reviewed with a view to ensuring that deviations from the market rate are kept at a minimum.

External sector

37. The external current account deficit (excluding official transfers) is expected to deteriorate slightly, reaching about 17.0 percent of GDP in 2002. This deterioration is for the most part the result of a sharp reduction in mining receipts and the continued depressed levels of coffee and tea prices in international markets. Over the medium term, the current account deficit is expected to decline to about 13.5 percent of GDP by 2004, as a result of fiscal consolidation, improved domestic productivity, and greater export capacity. Reflecting the changing market incentives that will accompany the likely gradual reduction in aid dependence and support the improvement in the current account balance, real exchange rate adjustments are anticipated. Over the medium term, import growth will moderate, reflecting some domestic substitution, and exports will diversify as a result of the regional trade strategy. Rwanda reduced its import tariffs on COMESA products by 80 percent in January 2002, and will enter the COMESA free trade area by the end of 2004.

38. Trade diversification will be essential for attaining a lasting reduction in external imbalances. Exports are expected to benefit from the gradual recovery of prices but, more importantly, from new policy initiatives. The new strategy on coffee, currently under preparation, envisages the gradual substitution of subsistence production with a market-based system. Coffee quality will be improved through the construction of washing stations, higher yielding varieties will be planted, and fertilizer use expanded, in conjunction with training for farmers. Tea production will benefit from the privatization of tea factories. With coltan exports, largely dependent on world market developments, subdued, the development of horticulture including flowers, bananas, pulses, and tubers will contribute to the expansion. With the return of peace to the region, tourism could also prove an important source of foreign exchange.

39. The authorities are working closely with creditors to assure necessary financing for the macroeconomic program for 2002. In order to limit the deterioration in the NPV of debt-to-exports ratio, grants and highly concessional credits will be substituted for loans (including project loans) to the full extent possible. In any case, the commitment to contract only concessional debt will remain in place. In this regard, the OPEC Fund has been asked to extend the maturity of an already contracted loan in order to meet the agreed concessionality threshold.

40. The financing plan for 2002 assumes that budgetary grants, including HIPC interim assistance, will be disbursed as expected and that rescheduling agreements will be reached with all creditors. A request for additional interim assistance from the Fund is being submitted together with the request for a new PRGF arrangement. The government has regularized all nonreschedulable arrears to creditors. The government will redouble its efforts to reach rescheduling agreements with all non-Paris Club bilateral creditors at terms which are as favorable as those provided by the Paris Club creditors and to ensure the participation of all creditors in the enhanced HIPC Initiative. Upon successful approval of the new PRGF arrangement, the Paris Club will decide on whether to provide additional debt relief on Cologne terms.

C. Enabling Public Institutions

Decentralization

41. Decentralization of government to the provincial and district level will reinforce accountability, refine the focus of government spending, and improve the delivery of public services. The legal framework for fiscal decentralization was largely established during 2000–01.[5] Additional legislation adopted in early 2002 established the revenue base and financial management for district governments. As the full implementation of the

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[5] Law No. 43/2000, *Organization and Functioning of the Province*; Law No. 04/2001, *Organization and Functioning of the District*; Law No. 05/2001, *Organization and Functioning of Urban Authorities*; Law No. 07/2001, *Organization and Functioning of the Town of Kigali.*

framework will depend on effective communication between levels of government and an ongoing adaptation of responsibilities and resources, the central government is taking steps to ensure that provincial and district governments report the necessary information.
During 2002, the government will seek funding to extend the expenditure recording system to the level of the provinces—where the system will also be available for use by District governments. The central government will also give priority to obtaining financial support for training needed to strengthen the public accounting and internal audit functions for central government ministries, provincial administrations, and district governments.

42. For 2002, districts will provide provincial administrations with information on the resources available to them, and their respective expenditure requirements. Preparation of the budget for 2003 will reflect consultations between the central government and the districts, reconciling the expenditure requirements of the various districts with available resources, including transfers from the central government. Beginning in 2004, representatives of the various levels of government will jointly provide to parliament an assessment of the strengths and weaknesses of the existing legal framework, and an assessment of the measures needed to resolve outstanding problems, particularly as regards ensuring an equitable allocation of resources across district governments.

Strengthening formal sector institutions and governance

43. Strengthening the legal framework and institutions is critical to extending the benefits of formal sector participation and increasing productivity. To this end, the Ministry of Justice is working to set in place a fully operational commercial court by 2003. In the near term, the Ministry of Justice will strengthen the operational capacity of the Arbitration Center in order to facilitate the settlement of commercial disputes. Having granted a status of legal person to the Arbitration Center in 2001, training for judges is now under way.

Civil service reform

44. A well-organized, trained, and motivated civil service is essential for ensuring that public resources are appropriately and efficiently used and that public services are provided promptly and at a good quality. In moving forward in the reform of the civil service, new organigrams are being completed for the provincial level of government, and organigrams for the district level will follow. We are similarly reviewing the organization of central line ministries. Computerization of the complete human resource management process remains a priority and the full integration of the information systems of the line different ministries has been targeted for end-2002. Moreover, improving the quality of the civil service is a government priority.

Administration of public finances

45. Initiatives to strengthen the administration of public finances aim at improving the effectiveness and efficiency in the use of government resources and, by creating a reliable system for monitoring and accountability, assuring that public finances are applied as directed under the budget and the laws. Given this, a wide-ranging program of activities to

enhance the transparency of government policies and practices, many of which also meet government commitments under the HIPC Initiative to improve the capacity to track poverty-related expenditures, is being undertaken at all levels of government.

46. As an immediate step in this direction, the government intends to follow up on actions taken during 2001 and early-2002. In this regard, monitoring of government finances, as reported in the monetary survey, will be reviewed and, if necessary, revised based on the final report of the auditor on government bank accounts and off-budget account movements. Any relevant additional off-budget revenue and spending identified under the study will be brought into the 2003 budget. In the meantime, new guidelines for the opening, closing, and monitoring of government bank accounts are being implemented.

47. Strengthening the legal framework that guides the administration of public finances is, thus, a priority. As part of this effort, the government has completed a draft Organic Budget Law; and a draft Law on the Management of the Public Accounts. A legal framework supporting the operations of the National Tender Board, including procurement regulations, has been submitted to the cabinet for consideration. A process to elaborate a new law on the Supreme Court is in preparation and its adoption is expected by December 2002. With the passage of this legislation, it is expected that the National Assembly would approve the Organic Budget Law and the Law on the Management of Public Accounts by June 2003. In the event that the needed legislation is delayed, modified laws containing those elements of the Organic Budget Law and the Law on the Management of Public Accounts consistent with existing legislation would be submitted to the National Assembly no later than June 2003. Additional steps will be taken during 2002–03 to strengthen the legal framework, including the development of draft legislation to create a formal appeals process for taxpayers, and a comprehensive bill of taxpayer's rights. The establishment of both a tax and commercial chambers within the court system will be given priority during the program period and draft legislation establishing the public accounting mechanisms and a public investment regulatory framework will be presented to the Cabinet by June 2003. The latter will facilitate the complete integration of the development and ordinary budgets by 2004.

48. Further strengthening the activities of the Public Accounts and internal audit functions (*Inspecteur Géneral des Finances*) are also critical for creating the capacity to monitor and control expenditures. To this end, an inventory of assets will be completed for all central government line ministries by end-March 2003, subject to the availability of technical assistance. This inventory will, subsequently, be expanded to capture government assets held by provinces, public enterprises, and acquired as part of project implementation.[6] In addition, building on work recently completed by the African Development Bank (AfDB), a fully implemented chart of accounts for all central government agencies is being targeted

[6] The census of government assets will not cover military assets, or land holdings where the legal status has not been determined. Assets acquired as part of project implementation are to be auctioned off and the revenues credited to the Treasury Account.

for completion by end-2003, with similar accounts for provincial and district governments to be ready by end-June 2004.

49. These steps will also allow government to improve both the range and quality of information on government activities available to the parliament and the public. To this end, statistics of government financial operations will be published following the Government Finance Statistics (GFS) format on a quarterly basis, beginning in October 2002, based on September 2002 statistics. In addition, the budget for 2003 will be expanded to include information on budget allocations and (estimated) expenditures for the two previous fiscal years, consistent with established good practice. For 2003, budget materials available to parliament and the public would include: (i) a statement of tax expenditures associated with both existing policies and any new policies included in the budget; (ii) a functional classification for past expenditures and those implied in the proposed budget; (iii) a preliminary statement of assets and liabilities for all levels of government; and (iv) financial statements of public enterprises. For 2004, materials would be expanded to include (v) a consolidated statement of the expenditure obligations, resources, and budgets of the Provincial and District governments; (vi) a fiscal risk assessment; (vii) consolidated district budgets; (viii) a statement of consolidated government equity holdings; (ix) integration of current and capital budgets; and (x) a list of all contingent liabilities, including those arising from the decentralization process. Achieving these objectives will be facilitated by technical assistance from supporting partners, including the IMF.

50. To avoid any accumulation of new arrears, the government is committed to further improvements in the cash budgeting process. The budget for 2002 designates certain expenditures—including those identified as important for poverty reduction as priority areas to be protected from any compression of expenditures in the event of a shortfall in resources, compared with amounts allocated in the budget. During 2002, the government will design and implement a cash budget system consistent with these objectives, including quarterly expenditure ceilings and commitment controls to avoid any accumulation of new arrears. In addition, to assure that contingent liabilities are consistent with government priorities as set out in the PRSP, with immediate effect, new government loan guarantees will be extended only on the basis of loan-specific budget authorizations.

D. Energizing the Economy: Privatization, Utilities, Infrastructure, and Regional Integration

51. In close cooperation with the World Bank, the privatization secretariat will continue to execute its existing privatization strategy. Entities targeted for privatization and/or private management include the electric utility (Electrogaz), telecommunications (Rwandatel), and tea factories and estates. The privatization secretariat will also report on a monthly basis on its privatization receipts and its use of funds.

E. Financial Sector Reforms

52. Strengthening financial sector institutions is another critical element in improving productivity, extending the benefits of participation in the formal economy, and providing the resources needed to finance emerging private sector initiatives at appropriately low cost (a summary of core financial sector reforms is provided in Table 4). In particular, concerted action is currently required to address the problems of Rwanda's banking sector. Given the difficult circumstances of Rwanda's post-genocide recovery, a number of banks have accumulated substantial nonperforming loans. This problem is particularly severe in the case of one especially exposed bank. Recognizing the importance of promptly addressing this bank's problems, the NBR placed it under provisional control in May 2002 and appointed external advisors to develop a plan for its restructuring by year-end. While the details of the restructuring plan remain under development, the NBR-appointed controller has limited new loans extended by that bank to any single borrower to no more than RF 50 million, with effect from May 31, 2002 and external oversight has been strengthened in order to safeguard the bank's capital. The restructuring plan will be developed in consultation with the staffs of the World Bank and the IMF and understandings on the appropriateness of proposed steps would be reached with IMF staff before budgetary resources are committed. When the restructuring plan for this bank has been developed, further policy commitments will be agreed with IMF staff under the program.

53. Addressing the larger problem of nonperforming loans is critical to the establishment of the conditions, including an appropriate legal framework for credit recovery, under which the banking system will be able to provide credit widely and on reasonable terms. In light of this, the NBR is discussing working with the Ministry of Finance, the Ministry of Justice, and the Bankers' Association to identify ways to improve loan recovery. In this regard, an Action Plan detailing specific steps to be taken will be completed by December 2002, with implementation to begin in January 2003.

54. Presently, loan collection will be aided by the reinstatement of the accelerated loan recovery procedure (*voie pareé*). It is expected that, given recent improvements in the judicial system, past abuses of this procedure will not be repeated. In addition, the NBR is strengthening its Risks and Unpaid Debts Unit, which centralizes the credit information related to delinquent borrowers, in order to improve the quality of credit information. In the period ahead, the NBR will confer with the Bankers' Association on ways in which information on credit quality could be shared with commercial banks. The NBR intends to fully explore possibilities for fostering loan compliance.

55. While the above mentioned measures focus on the strengthening of borrower discipline, a financial sector study commissioned with the help of the World Bank aims at exploring ways to strengthen the overall financial sector and to develop Rwanda's capital market. An important question to be addressed is how to proceed with the high level of nonperforming loans in the banking system. The study will try to evaluate whether the establishment of an asset recovery vehicle in some form would be appropriate. This question will also be investigated within a Financial Sector Assessment Project jointly conducted by the staff of the World Bank and the Fund. In this regard, it should be emphasized that such an

asset recovery vehicle should aim to avoid causing moral hazard or burdening the budget. On the basis of the studies noted above, a strategy to improve the management of the high volume of nonperforming loans will be formulated by June 2003 and an Action Plan will be in place by September 2003. Implementation of this plan is to begin in January 2004. Regarding the development of Rwanda's capital market, the financial sector study will investigate—among other options—whether a specialized housing bank can make a contribution toward accumulating long-term capital. Current plans to recapitalize the Caisse Hypothecaire du Rwanda (CHR) and to convert it into a housing bank have been postponed so that the results of this study can be reflected in decisions on moving forward.

56. Substantial progress has been made in the past year to strengthen banking supervision in Rwanda. The NBR will build on this progress and conduct three full-scope examinations in 2002 and another four in 2003. It is expected that at the end of December 2003, the present training program conducted with the assistance of a MAE resident advisor will be completed and that beginning in 2004 each bank will be subject to a full-scope examination each year. During 2002, the off-site supervision process will also be strengthened significantly. The scope of supervision will be extended to micro-finance operations and a Micro-Finance Supervision Unit in the NBR will be established by December 2002. Regarding the ongoing update of the prudential instructions, it is expected that in 2003 two new prudential instructions are going to be issued; one will specify the work required from independent auditors of commercial banks and the other will specify the public disclosure of the commercial banks' financial information. In addition, a new accounting plan for commercial banks is going to be developed, which is going to take effect in January 2004.

57. As existing legislation and institutional structure for preventing money laundering does not currently meet recently established guidelines, the government has requested technical assistance in drafting adequate legislation, and in training and setting up an enforcement unit at the NBR.

IV. Program Coordination and Monitoring

Performance criteria, benchmarks, and reviews

58. The program supported by the new three-year PRGF arrangement will be monitored on a continuous basis with quantitative and structural performance criteria, benchmarks, and indicative targets. The first review of the program will be based on quantitative benchmarks at end-September 2002, quantitative performance criteria for end-December 2002 and a structural performance criterion and structural benchmarks through January 1, 2003, and will be carried out in conjunction with reaching understandings on a new budget for 2003 and on a restructuring plan of a specified commercial bank. The second review will be based on performance of quantitative benchmarks as of end-March 2003, to be set at the time of the first review, and quantitative and structural performance criteria and benchmarks through end-June 2003, and will be completed by mid-September 2003. Quantitative performance criteria will include floors on net foreign assets of the NBR and on recurrent priority spending as well as ceilings on reserve money, net credit to government by the banking system, the domestic fiscal deficit, new non-concessional external debt, short-term external

debt, the accumulation of new external payment arrears except for external arrears that are subject to debt-rescheduling negotiations (to be monitored on a continuous basis), and on the net accumulation of domestic arrears. All external borrowing except for the Fund disbursements will be on concessional terms, defined as loans having a grant element of at least 50 percent. A complete list of quantitative and structural performance criteria and structural benchmarks is included in Tables 5 and 6, respectively. The attached Technical Memorandum of Understanding lays out the details of program design and terminology.

Table 1. Rwanda: Structural Reforms Undertaken Under the 2000/01 Program

Action	Timing
Civil service reform	
• Publish the prime ministerial decree of the *cadres organiques.*	11/30/2000 (Done 3/31/2001)
• Complete job descriptions and *cadres organiques* for all prefectures.	3/31/2001 (Done 5/11/2001)
• Enforce procedures for hiring of teachers, enforcing also qualification criteria.	11/1/2000 (Done 1/15/2001)
• Develop a plan for gradual increase of qualified teachers and phasing out of *occasionnels* in line with enrollment and pupil-teacher targets.	3/31/2001 (Done 1/31/2001)
• Adopt civil servants' code submitted to parliament.	1/1/2001 (Done 7/2001) [1]
• Complete the organigrams *(cadres organiques)* reform through:	
o Cabinet approval of decentralized organigrams.	9/30/2001 (Done)
o Completion of redeployment within each province.	10/31/2001 (Done)
o Provision for adequate resources for redeployment between ministries and provinces.	Budget Law 2002 (Done)
Privatization	
• Establish a realistic timetable with the assistance of the World Bank for the privatization of remaining companies in government's privatization plan.	3/31/2001 (Done)
Budget preparation, implementation, monitoring, and control	
• Revise the RRA's plan outlining improvements to be made in tax administration. The plan should incorporate specific benchmarks and timetable for implementation.	12/31/2000 (Done)
• Ensure that regulations and procedures on enforcement of tax collection, as well as suspension of enforcement, are strictly followed.	12/1/2000 (Done)
• Develop a system for monitoring poverty-related expenditures on a monthly basis.	1/1/2001 (Done)
• Ensure that adequate reporting mechanisms and budgetary controls are put in place for monitoring the expenditure budgets of prefectures.	12/31/2001 (Partly done) [2]
Governance	
• Complete the audits of the 1999 accounts of the Ministries of Public Works, Transport, and Communication; Energy, Water, and Natural Resources; Defense; and Education.	12/1/2000 (Done 3/31/2001)
• Complete the audit of the 1999 accounts of the Ministry of Health.	5/31/2001 (Done)
• Prepare a monitorable action plan for further strengthening the Auditor's General Office, including inter alia by recruiting qualified staff and training and by preparing a strategy and timetable for delivering a full audit of public accounts annually.	2/28/2001 (Done)
• To ensure transparency and fairness in the tendering process, there will be no soliciting of bids only from the list maintained by the National Tender Board (NTB).	12/1/2000 (Done)
• Establish widely publicized and legally effective rules that exonerate the government from paying for expenditure committed outside the existing financial regulations.	3/31/2001 (Done)

Table 1. Rwanda: Structural Reforms Undertaken Under the 2000/01 Program

Action	Timing
• To ensure transparency and fairness in the tendering process, the availability of the minutes of the NTB will be advertised in the tender announcements.	5/31/2001 (Done 7/2001)
• Strengthen capacity at the NTB, line ministries, and local levels to adequately monitor, analyze, and audit the tendering process, before decentralizing the tendering process.	9/30/2001 (Done 12/2001)
• Submit the public accounts for 2000 to the *Cours des Comptes*.	9/30/2001 (Done 11/2001)
• Incorporate extrabudgetary projects and transactions, including voluntary contributions to national defense and their use, into the budget.	Budget Law 2002 (Done [3])

[1] Passed by parliament but pending Supreme Court clearance and publication.

[2] Adequate reporting formats have been put in place—remaining steps are addressed in Box 6

[3] Voluntary contributions to national defense were brought into the revised 2001 budget. In addition, some extrabudgetary and off-budget activities that were identified by the audit reports for four ministries' 1999 accounts were brought into the 2002 budget.

Table 2. Rwanda: Financial Administration and Governance—Core Actions To Be Taken During 2002–04

Actions	Timing
Budget preparation, implementation, monitoring, and control	
• Continue the process of capacity building in public debt monitoring and management with assistance from Debt Relief International (DRI), with a view to producing a plan by end-December 2002.	12/31/2002
• Develop and implement a mechanism to ensure that all borrowing by district governments is reported to the central government on a monthly basis.	12/31/2002*
• Adopt Organic Budget Law and Law on Management of Public Accounts	6/30/2003
• Prepare financial instructions as provided for by the relevant laws in order to promote effective expenditure control, subject to the availability of technical assistance.	6/30/2003
• Improve the capacity of CEPEX and line ministries to gather data on disbursements from donors and expenditures on projects.	2002–03
• Incorporate relevant extrabudgetary and off-budget projects and transactions identified by the stocktaking exercise into the budget to the extent appropriate.	Budget Law 2003*
• Expand materials provided to parliament and public on annual budget to include:	
functional classification, financial statements for public enterprises, consolidated district budget, statement of consolidated government equity holdings, and integrate recurrent and development budgets.	2003 budget* 2004 budget*
• Improve budget monitoring, producing flash reports within 3 weeks of end-month, functional classification of budget implementation on a quarterly basis, and quarterly reports on development budget and province and district implementation.	6/30/2002–3/31/2003
• In the area of expenditure reporting, implement and enforce reporting requirements for provinces and districts, extend SIBET system to provinces and districts, subject to the availability of external funding.	6/30/2002–12/31/2003
• Implement the Chart of Accounts reforms for central government, line ministries, provinces, and districts.	12/31/2003–12/31/2004
• Complete a comprehensive review of all tax exonerations, exemptions and incentives under tax laws, and investment agreements; and remove and/or modify such special treatment based on appropriate analysis.	6/30/2003 [1]
• Modify the set of tax and import duty concessions in accordance with the findings of the study.	12/31/2003*
Governance	
• Authorizations for settlement of domestic arrears will start to be based solely on explicitly established guidelines—determining qualification and priority of payment of outstanding government obligations—for payment without discretion.	7/1/2002*
• Start publishing statistics of government financial operations following the Government Finance Statistics (GFS) format on a quarterly basis.	10/30/2002*
• The Auditor General will initiate and complete the audits for the 2001 accounts of 9 line ministries, three provinces, at least three districts and a number of foreign-financed development projects.	12/31/2002*
• The Auditor General will inter alia audit the execution of the 2002 accounts of the demobilization/reintegration project.	12/31/2003*
• Continue the expansion of the Auditor General's office with the goal to audit each line ministry annually by 2005.	12/31/2005*
• Issue the decree covering public tendering.	9/30/2002

Table 2. Rwanda: Financial Administration and Governance—Core Actions To Be Taken During 2002–04

Actions	Timing
• To ensure transparency and fairness in the tendering process, an appeals board provided for by the law, will be set up with some members from civil society the National Tender Commission will include some members from civil society.	6/30/2003
• Issue the decree covering public tendering.	9/30/2002
• Put in place regulations applying to blacklisted suppliers of the government.	12/31/2002
• Establish a Code of Ethics for civil servants.	12/31/2003*
Other	
• Establish a Tribunal de Commerce and a Tribunal Fiscal.	12/31/2004
• Develop a taxpayer appeals process and adopt a Bill of Taxpayer's Rights.	12/31/2003*
• Publish progress report on PRSP implementation.	6/30/2003*

* New measure.

[1] Some steps toward the review of exemptions and waivers have been taken, and discretionary waivers and exemptions have been eliminated. However, a full review of the existing body of legal provisions of waivers and exemptions along with a timetable of their elimination is still pending.

Table 3. Rwanda: Core Revenue Measures To Be Taken During 2002–04

Action	Timing
Customs duty	
• Develop further the data management system of customs—with a goal to improve the usage of customs valuation data for enhancing the possibilities of risk-based controls and, ultimately, to increase revenue performance.	12/31/2003
• Align the import tariff structure with the COMESA common external tariff structure and start collecting at the revised rates.	7/01/2002*
Income tax	
• Reform the tax on professional remuneration (TPR) law to make all salary allowances in cash and in-kind fully subject to TPR. Pass the reform in form of an amended TPR law and start collecting according to the new law.	1/1/2003[1]
• Announce the reduction in the corporate income tax rate from 40 to 35 percent with effect for the 2002 profits	7/1/2002*
• Amend the corporate income tax law with a provision regarding thin capitalization in order to limit interest deductions.	12/31/2003
Excises	
• Introduce and start collecting an excise tax on sales of new and used cars, applying 5, 10, and 15 percent of the sales price, respectively, on sales of vehicles with engine sizes of less than 1500 cc, between 1500 cc and 2500 cc, and above 2500 cc.	1/1/2003*
• Implement tax stamps for cigarettes.	7/31/2002
• Revoke the decrease in the beer excise tax rate and start collecting again at a rate of 57 percent, if revenue collection during June–October 2002 does not meet target, as set out in the. Technical Memorandum of Understanding	1/1/2003*
VAT	
• Raise the rate of VAT from 15 to 17 percent and start collecting at the new rate	7/1/2002*
Other measures	
• Complete the reform of the taxpayer identification numbers (TIN) that ensures that each business taxpayer is assigned a unique identifiable number across the VAT, Income Tax and Customs departments	12/31/2002

* New measure.

[1] The scope of the measure was broadened. The original measure planned for 6/30/2001 was to submit the changed law to parliament.

Table 4. Rwanda: Core Financial Sector Reforms To Be Taken Under the 2002–04 Program

Action	Timing
• Continued strengthening of bank supervision: recruitment and training supervisors, reorganizing the supervision department, and computerizing the bank supervision process	Ongoing
• Conduct full audits of three banks	2002
• Conduct full audits of four banks	2003*
• Begin carrying out on site inspection of all banks every year.	2004
• Establishment of a Micro-Finance Supervision Unit	12/31/2003*
• A new accounting plan for commercial banks to be implemented	12/31/2003*
• Prepare an action plan to improve the legal framework for banking and to facilitate improved loan recovery	12/31/2002
• Conduct a financial sector study	10/30/2002
• Restructuring plan for one identified commercial bank will be agreed with the World Bank and the IMF.	2002
• Implement the action plan to improve credit information quality	1/31/2004
• Strengthen capacity of Arbitration Center	2002–2004
• Action plan to address money laundering to be formulated	3/31/2003
• An agreement will be reached on the treatment of government arrears to the Caisse Sociale du Rwanda (CSR).	12/31/2002
• A comprehensive plan for the restructuring of CSR will be adopted.	12/31/2002

* New measure.

Table 5. Rwanda: Quantitative Performance Criteria and Benchmarks, 2001-03

(In billions of Rwanda francs, unless otherwise indicated)

	2001				2002				2003	
	Mar.*	Jun.**	Sep.**	Dec.*	Mar. prel.	Jun.*** Proj.	Sep.**	Dec.*	Mar.***	Jun.***
	(Performance criteria on test dates*; quantitative benchmarks**; and indicative targets***)									
Net foreign assets of the NBR (floor on stock) 1/										
Actual (program exchange rate)	48.3	45.6	45.2	46.6	39.3	...	...	...	...	...
Adjusted program	40.4	33.8	39.4	39.0	...	...	...	...	...	...
Program	24.3	23.9	40.3	33.6	n.a.	33.0	50.9	59.0	58.6	52.6
Reserve money (ceiling on stock) 2/										
Actual	34.7	42.5	39.5	41.3	40.5	...	...	...	...	...
Program	38.8	39.6	38.5	39.6	n.a.	40.3	38.1	41.9	40.4	43.7
Net credit to the government by the banking system (ceiling on stock) 3/										
Actual	9.4	17.6	15.0	19.2	23.4	...	...	...	...	...
Adjusted program	17.1	22.9	21.2	21.7	...	...	...	...	...	...
Program	33.3	32.8	20.3	27.1	n.a.	26.0	11.5	10.1	9.9	9.8
Domestic fiscal balance (floor on cumulative flow since the end of the previous year) 4/										
Actual	-0.5	-8.7	-13.0	-20.4	-3.1	...	...	...	...	...
Adjusted program	...	...	...	...	...	...	...	...	...	...
Program	...	...	...	...	n.a.	-11.0	-18.7	-26.9	-6.3	-12.7
Recurrent priority spending (floor on cumulative flow since end of previous year) 5/										
Actual	7.4	17.0	28.3	40.1	10.2	...	...	...	...	...
Program	6.0	14.5	28.3	40.0	n.a.	21.7	35.5	50.3	14.0	28.1
New nonconcessional external debt (ceiling on flow) 6/										
Actual	0.0	0.0	0.0	9/	...	...	...	...	...	...
Program	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 7/										
Actual	0.0	0.0	0.0	0.0	...	...	...	...	...	...
Program	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Stock of outstanding nonreschedulable external arrears (ceiling on stock) 8/										
Actual	0.1	1.1	0.0	0.6	...	...	...	...	...	...
Program	0.0	0.0	0.0	0.0	n.a.	0.0	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on cumulative net accumulation since end of previous year)										
Actual	-5.4	-3.8	-4.9	-15.0	0.3	...	...	...	...	...
Program	0.0	0.0	-5.3	-10.0	n.a.	-2.0	-6.0	-7.8	-1.8	-3.5
	(Indicative targets)									
Broad money (ceiling on stock)										
Actual	122.2	127.8	125.3	131.3	129.3	...	...	...	...	...
Program	n.a.	n.a.	n.a.	n.a.	n.a.	133.1	136.8	140.5	143.1	146.2
Exceptional spending (floor on cumulative flow since end of previous year)										
Actual	3.3	8.1	12.9	17.7	4.1	...	...	...	...	...
Program	n.a.	n.a.	n.a.	n.a.	n.a.	9.4	16.2	22.5	7.0	14.0
Memorandum item:										
Expected budgetary support (in millions of U.S. dollars)	n.a.	n.a.	n.a.	n.a.	5.9	17.9	81.4	128.2	27.6	55.2

Sources: Rwandese authorities; and Fund staff estimates and projections.

1/ Net foreign reserves are defined, for this purpose, consistent with the definition of the Special Data Dissemination Standard (SDDS) template, as external assets readily available to, or controlled by, the National Bank of Rwanda (NBR) net of external liabilities of the NBR. Pledged or otherwise encumbered reserves assets including, but not limited to, reserve assets used as collateral or guarantee for third-party external liabilities are to be excluded.

2/ Until 2001 indicative target; from 2002 onward performance criterion/quantitative benchmark. The definition of reserve money changed in 2002, as specified in the Technical Memorandum of Understanding (TMU).

3/ From December 2000 onward, the definition of net credit to government by the banking system has been changed to exclude public nongovernmental deposits.

4/ The domestic fiscal balance is defined as domestic revenue (excluding grants and privatization proceeds) minus current expenditure (excluding external interest due) and domestically financed capital expenditure on a payment order basis, minus net lending.

5/ According to the TMU. Definition of this aggregate has changed each year.

6/ Ceiling on new nonconcessional external debt with original maturity of more than one year, as defined in the TMU.

7/ Ceiling on change in outstanding stock of external debt (excluding normal import-related credits) owed or guaranteed by the central government, local government, or the NBR with original maturity of up to and including one year.

8/ This is a continuous performance criterion, implying that the stock of outstanding nonreschedulable external arrears is expected to be constantly kept at zero throughout the program period. In the past, the performance criterion referred to the stock of nonreschedulable external arrears at the respective review dates and was complemented by a continuous performance criterion on the nonaccumulation of new nonreschedulable arrears.

9/ An OPEC Fund disbursement was made in 2001:Q4, on the basis of a loan agreement signed in 1999. The loan met the concessionality requirement laid out in the TMU at the time of the agreement, but not at the time of the disbursement. The issue is awaiting clarification from the Legal Department.

Table 6. Rwanda: Proposed Structural Conditionality Until the Second Review of the PRGF-Supported Program, 2002–03

Action	Timing	Status[1]
• Ratify a revised 2002 budget in parliament reflecting the understandings reached during the program discussions; including the following elements: ○ import tariff bands at 0, 5, 15, and 30 percent in line with initial CET; ○ VAT rate increased from 15 percent to 17 percent; and ○ reduction in the corporate income tax rate from 40 percent to 35 percent, announced.	7/1/02	Prior action [2]
• Bring reserve money to or below indicative ceiling for end-June 2002.	6/30/02	Prior action [2]
• Issue guidelines determining qualification and priority for payment of outstanding government obligations for payment, eliminating discretion.	7/1/02	Prior action [2]
• Enact a budget for 2003, which specifically contains the following elements: ○ excise tax on sales of new and used cars, with rates of 5, 10, and 15 percent, depending on engine size (less than 1500 cc, 1500 cc to 2500 cc, and above 2500 cc), on vehicle sales. ○ reform the tax on professional remuneration (TPR) law to make all salary allowances in cash and in kind fully subject to the TPR. Pass the reform in form of an amended TPR law.. ○ Revoke the decrease in the beer excise tax rate and start collecting again at a rate of 57 percent, if revenue collection during June-October 2002 does not meet the target set out in the TMU..	1/1/03	Structural performance criterion first review
• Finalize restructuring plan for a specified commercial bank consistent with understandings with IMF staff.	9/30/02	Structural benchmark first review
• Start publishing statistics of government financial operations, following the Government Finance Statistics (GFS) format, on a quarterly basis.	10/31/02	Structural benchmark first review
• Incorporate any extrabudgetary and off-budget projects and transactions identified by the recent stocktaking exercise into the budget to the extent appropriate.	12/31/02	Structural benchmark first review
• Develop and implement a mechanism to ensure that all borrowing by district governments is reported to the central government on a monthly basis.	12/31/02	Structural benchmark first review
• To improve the management of the large volume of nonperforming loans, commission a comprehensive financial sector study, togethe with the World Bank.	Tenders to be awarded no later than 7/31/02	Structural benchmark first review
• Conduct full audits of three banks.	12/31/02	Structural benchmark first review
• Ensure that the National Bank of Rwanda, the Ministry of Finance and Economic Planning, the Ministry of Justice, and the Bankers' Association will jointly prepare an action plan to improve the legal environment to facilitate stronger loan recovery.	12/31/02	Structural benchmark first review
• Prepare financial instructions as provided for by the relevant laws in order to promote effective expenditure control.	7/31/03	Structural performance criterion second review
• Complete a comprehensive review of all tax exonerations, exemptions and incentives under tax laws and investment agreements; and remove and/or modify such special treatment, based on appropriate analysis.	6/30/03	Structural performance criterion second review

[1] The disbursements of the second and third loan under the new PRGF arrangement are conditional upon completion of the first and second reviews, respectively.

[2] Prior actions for publication of Executive Board documents.

Technical Memorandum of Understanding Between the Government of Rwanda and the International Monetary Fund

July 3, 2002

1. This memorandum outlines the understandings between the Rwandese authorities and the IMF mission with regard to the definitions of the quantitative and structural performance criteria, and quantitative benchmarks and indicators for the three-year Poverty Reduction and Growth Facility (PRGF) arrangement. It also sets out the modalities and data reporting requirements for monitoring the program.[1]

2. There have been revisions since the last version of the Technical Memorandum of Understanding (TMU). In the area of the monetary program, changes include newly set performance criteria and benchmarks on reserve money replacing the previously set targets on net domestic assets of the banking system; a new definition of reserve money and net credit to government; and a changed adjustment mechanism. Changes to the fiscal program include a new definition for the fiscal balance target and a changed adjustment mechanism.

I. Target Variables under the Program

A. External Budgetary Support

3. **Definition:** External budgetary support is defined as all official external grants (including all expected or received HIPC Initiative-related grants) and loans, except for grants and loans related to the development budget. In case a program is over financed (negative financing gap), programmed external budgetary support refers only to that level of external budget support needed to close the financing gap to exactly zero at the time of the agreement.

B. Net Foreign Assets of the National Bank of Rwanda (NBR)

4. **Definition**: Net foreign assets of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to, or controlled by, the National Bank of Rwanda (NBR) net of external liabilities of the NBR. Pledged or otherwise encumbered reserves assets including, but not limited to, reserve assets used as collateral or guarantee for third party external liabilities, are to be excluded. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate. Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia,

[1] A summary of reporting requirements is provided in Table 1.

use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

5. **Target and adjustments**: The program sets a floor on net foreign assets of the NBR (as a performance criterion or benchmark depending on the test date). In case of higher than programmed inflows of external budgetary support, excess amounts are targeted to be saved as reserves. The program floor on net foreign assets will thus be increased by any positive difference between actual and programmed budgetary support inflows.

6. **Reporting requirement**: Data on foreign assets and foreign liabilities of the NBR will be transmitted to the African Department of the IMF on a weekly basis within seven days of the end of each week; data on external budgetary support will be transmitted on a monthly basis within three weeks of the end of each month. Data on the NBR's foreign exchange liabilities to commercial banks (held as required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

C. Net Credit to Government (NCG)

7. **Definition**: Net credit to government from the banking system is defined as the difference between:

(a) credit to government from the banking system, including credit to central government, provinces and districts, outstanding central government debt instruments; government debt to the NBR incurred as a result of the 1995 devaluation (RF 9 billion) and the overdraft to the prewar government (RF 2 billion), and

(b) total government deposits with the banking system, including central government (including the fund for assistance to genocide survivors), provinces and districts, project accounts, counterpart funds, *fonds publics affectés*, and privatization proceeds with the NBR. The central government comprises treasury and line ministries.

8. NCG is not affected by credit to or deposits of public enterprises and autonomous public agencies.

9. **Reclassifications**: The reclassification described in **Annex B** (EBS/00/264, Appendix I)—for the reclassification of deposits with the NBR of the 15 newly identified autonomous public agencies—affect net credit to the government from the banking system.

10. **Target and adjustments**: The program sets a ceiling on NCG (as performance criterion or benchmark). In case of higher than programmed inflows of external budgetary support, excess amounts are targeted to be saved as government deposits. The program ceiling on NCG will thus be decreased by any positive difference between actual and programmed budgetary support inflows.

11. **Reporting requirement**: Data on net credit to central government (showing separately treasury bills and government bonds outstanding, other government debt, and

central government deposits) will be transmitted on a monthly basis within three weeks of the end of each month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies.

D. Reserve Money

12. **Definition**: Reserve money for the monetary program is defined as currency in circulation, reserves in deposit money banks (excluding National Bank of Rwanda (NBR) borrowing from deposit money banks on the money market but including cash in vault held by commercial banks), deposits of public enterprises (including Caisse Sociale de Rwanda (CSR) and other autonomous public agencies (*dépôts des établissements publics assimilés à l'état*), deposits of nonbank financial institutions, and deposits of the private sector (*autres sommes dues à la clientèle* are included in reserve money).

13. **Corollary**: Borrowing by the NBR from the commercial banks on the money market will from now on be included under the net domestic assets of the NBR. More specifically, borrowing by the NBR from the commercial banks on the money market will be netted out from commercial bank borrowing from the NBR. However, for balances with respect to deposit money banks, the money market balances of the NBR will only be excluded from reserve money supply when they are excluded from use in meeting reserve requirements.

14. **Definition**: The definition of reserve money as performance criterion or benchmark will exclude from the above definition the deposits of the Caisse d'Épargne du Rwanda (C.E.R.) with the NBR, the import deposits placed at the NBR (*cautions à l'importation*), and the dormant accounts. However, the import deposits are only excluded from this definition up to a maximum amount of FR 150 million, and the maximum amount for the deductible C.E.R. deposits is RF 1 billion. Reserve money will be computed as a centered three-week average, including the last two weeks of a given month and the first week of the following month.

15. **Target and adjustments**: The program sets a ceiling on reserve money (as performance criterion or benchmark). If the required reserve ratio of the NBR is lowered, the NBR will be expected to absorb the excess liquidity that this change creates. Therefore the reserve money target of the NBR will be adjusted by the absolute change in the ratio times the deposit base of the commercial banks.

16. **Reporting requirement**: Data on reserve money will be transmitted to the African Department of the IMF on a weekly basis within seven days of the end of each week. This transmission will include a weekly balance sheet of the NBR which will show all items listed above in the definitions of reserve money.

E. Broad Money

17. **Definition**: Broad money is defined as the sum of currency in circulation, deposits in commercial banks and non-bank deposits in the NBR.

18. **Target**: There is no performance criterion or benchmark on broad money but given its key influential role on inflation, it will be followed closely as an indicative target.

19. **Reporting requirement**: The balance sheet of the NBR will be transmitted on a weekly basis within seven days of the end of each week. The balance sheets of the commercial banks, including the monetary survey, will be transmitted monthly within three weeks of the end of each month. The monthly transmission will also include a monthly balance sheet for the NBR which will show all items shown also in the weekly balance sheet for the NBR.

F. Ceiling on Contracting or Guaranteeing by the Central Government, Local Governments, or the NBR of New Nonconcessional External Debt with Original Maturity of More Than One Year

20. **Definition:** This performance criterion applies to the contracting or guaranteeing by the central government, local governments, or the NBR of new nonconcessional external debt (as specified below) with original maturity of more than one year, including commitments contracted or guaranteed for which value has not been received. The term debt shall be understood as defined in the Executive Board decision No. 6230-(79/140) adopted August 3, 1979, as amended by Decision No. 11096-(95/100) of October 25, 1995 and Decision No. 12274-(00/85) adopted August 24, 2000. Debt rescheduling and restructuring are excluded from the criterion. Included are financial leases and other instruments giving rise to external liabilities, contingent or otherwise, on nonconcessional terms. In determining the level of concessionality of these obligations, the definition of concessional borrowing shall apply. Concessional debt is defined as having a grant element of 50 percent or more. For loans with a maturity of at least 15 years, the 10-year average commercial interest reference rates (CIRRs) published by the OECD should be used as the discount rate for assessing the level of concessionality, while the 6-month average CIRRs should be used for loans with shorter maturities. To both the 10-year and the 6-month averages, the following margins for differing repayment periods should be added: 0.75 percent for repayment periods of less than 15 years; 1 percent for 15–19 years; 1.15 percent for 20–29 years; and 1.25 percent for 30 years or more. The performance criterion is defined to exclude the use of Fund resources.

21. **Reporting requirement**: Details of all new external debt, including government guarantees, will be provided on a monthly basis within three weeks of the end of each month.

G. Ceiling on Change in Outstanding Stock of External Debt, Owed or Guaranteed by the Central Government, Local Governments, or the NBR with Original Maturity of Up To and Including One Year

22. **Definition:** The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with respect to Foreign Debt adopted on August 24, 2000. Excluded from this performance criterion are normal import-related credits.

23. **Reporting requirement**: Data on debt and guarantees by central government, local governments, or NBR will be transmitted, with detailed explanations, on a monthly basis within three weeks of the end of each month.

H. Domestic Fiscal Balance

24. **Definition**: The domestic fiscal balance is defined as domestic revenue (excluding grants and privatization proceeds) minus current expenditure (excluding external interest due) and domestically financed capital expenditure on a payment order basis, minus net lending.

25. **Target and adjustments**: The program sets a ceiling on the domestic fiscal deficit, i.e. a floor on the domestic fiscal balance (as performance criterion or benchmark). As an adjustment, any shortfall in expenditure under the World Bank led demobilization and reintegration program will be used to reduce the deficit target, i.e. will be added to the target for the domestic fiscal balance.

26. **Reporting requirement**: Data on domestic revenue, current expenditure, domestically financed capital expenditure and net lending will be transmitted, with detailed explanations, on a monthly basis within three weeks of the end of each month.

I. Recurrent Priority Expenditure (Table 2)

27. **Definition**: Central government recurrent priority expenditure is defined as the sum of those outlays in the recurrent budget that the government has identified as priority spending in line with the PRSP process. Table 2 provides the list of budget lines under this definition.

28. **Target**: The program sets a floor on recurrent priority expenditure (as performance criterion or benchmark).

29. **Reporting requirement**: Data on priority expenditure, at the same level of detail as in Table 2 will be transmitted on a monthly basis within three weeks of the end of each month.

J. Exceptional Expenditure (Table 3)

30. **Definition**: Exceptional expenditure is defined as the sum of those outlays in the recurrent budget that the government has identified as exceptional. Table 3 provides the list of budget lines under this definition.

31. **Target and adjustments**: As an indicative target, the program sets a floor on exceptional expenditure. There will be a downward adjustment in case of shortfalls in spending on the World Bank-led demobilization and reintegration program.

32. **Reporting requirement**: Data on exceptional expenditure, at the same level of detail as in Table 3, will be transmitted on a monthly basis within three weeks of the end of each month.

K. Net Accumulation of Domestic Arrears

33. **Definitions**: Net accumulation of arrears for any given calendar year is defined as the difference between

> gross accumulation of new domestic arrears within the calendar year of consideration, cumulative from 1 January to 31 December, as measured as the difference between payment orders and actual payments, and
>
> gross repayment during the calendar year of consideration of any arrears outstanding at 31 December of the preceding year, including repayment of the preceding year's float and repayment of older arrears in accordance with the government guidelines.

34. **Target**: The program sets a ceiling on the net accumulation of domestic arrears, with a negative target thus representing a floor on net repayment (as performance criterion or benchmark).

35. **Reporting requirement**: Detailed data on repayment of domestic arrears and the remaining previous-year stock of arrears will be transmitted on a monthly basis within three weeks of the end of each month.

L. Stock of Outstanding Nonreschedulable External Arrears Owed by the Central Government or the NBR

36. **Definition**: Nonreschedulable external arrears are defined as the sum of arrears owed by the central government or the NBR to multilateral creditors and, if any, nonreschedulable arrears, to bilateral official and commercial creditors.

37. **Target**: The program sets a continuous performance criterion on the non-accumulation of nonreschedulable external arrears.

38. **Reporting requirement**: Detailed information on repayment and/or refinancing (including the terms of refinancing) of arrears will be transmitted on a quarterly basis within three weeks of the end of each quarter. The Fund will be notified immediately in case of incurrence of any nonreschedulable external arrears.

II. Understanding on Level of Beer Excise Tax Rate

39. The excise tax rate on beer will be raised to 57 percent effective January 1, 2003, in case the amount of beer excise tax collection between 1 June and 31 October 2002 is below RF 3.0 billion.

III. Other Data requirements for Program Monitoring

A. Public Finance

40. **Reporting requirement**: Monthly data on external budgetary support with a breakdown of loans by creditor and grants by donor and domestic nonbank financing of the budget (including treasury bills and government bonds held by the nonbank public) will be transmitted on a monthly basis within three weeks of the end of each month; quarterly data on the implementation of the development budget with detailed information on the sources of financing will be transmitted on a quarterly basis within three weeks of the end of each quarter; public sector external and domestic scheduled debt service and payments will be transmitted on a monthly basis within three weeks of the end of each month. The Rwanda Revenue Authority will transmit any updated census results of small and medium enterprises (including the economic characteristics of these enterprises and their estimated annual sales).

B. Monetary Sector

41. **Reporting requirement**: The following data will be transmitted on a monthly basis within three weeks of the end of the month: the individual balance sheet and consolidated balance sheets of deposit money banks (*situation monétaire des banques*); the monetary survey (*situation monétaire intégrée*); disaggregated data on "other items net" of the NBR and deposit money banks; required reserves and excess reserves of individual commercial banks, showing separately foreign exchange held as required reserves with the NBR; nonperforming loans of individual commercial banks; required and actual provisioning of impaired assets for individual banks; capital adequacy ratio for individual commercial banks and a weighted average for all commercial banks.[2]

C. Public Enterprises

42. **Definition**: The financial statements and bank deposits of the key public enterprises (including Rwandatel, Electrogaz, Ocircafé, Ocirthé, and ONP) will be monitored under the program.

43. **Reporting requirement**: The financial accounts (including profit and loss accounts, balance sheets, and annual reports when published) of key public enterprises (including Rwandatel, Electrogaz, Ocircafé, Ocirthé, and ONP) will be transmitted to the African Department of the Fund within four weeks on a semi-annual basis or as the accounts become available. The statement of these enterprises' bank deposits (bank by bank) will be transmitted to the African Department of the Fund on a quarterly basis within four weeks of the end of each month.

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[2] Detailed data account by account on central government (including ministries), other public agencies, and public enterprises accounts with the NBR and each commercial bank will be transmitted on a quarterly basis within for 4 weeks of the end of the quarter.

D. External Sector

44. **Reporting requirement**: The following buying, selling, and average exchange rates will be transmitted on a **weekly basis within seven days of the end of each week**: (i) intervention exchange rates used in NBR's operations with the commercial banks; (ii) the exchange rates used in interbank transactions among the commercial banks; (iii) the average of (i) and (ii); (iv) the exchange rates for transaction in banknotes at the commercial banks; (v) the same for foreign exchange bureaus; and (vi) the parallel (black) market exchange rates. All these exchange rates will be calculated on the basis of daily buying and selling rates; the average exchange rates will be calculated on the basis of a simple average of the daily buying and selling rates. The NBR will report weekly on the difference between the parallel market rate (buying and selling) and the weighted weekly average rates of NBR intervention in the interbank market for purchases and sales, respectively.

45. The following data will be provided on a monthly basis within four weeks of the end of each month:

- The amount of foreign exchange held by commercial banks with the NBR as required reserves
- net open foreign exchange position of each commercial bank and foreign exchange bureau, and the calculation method;
- foreign exchange intervention by the NBR on interbank market;
- imports, sales, and purchases of foreign exchange banknotes by commercial banks;
- sales and purchases of foreign exchange banknotes by foreign exchange bureaus.

46. Export and import data, including volumes and prices, will be transmitted on a monthly basis within four weeks of the end of each month; other balance of payments data including the data on services, official and private transfers, capital account transactions, and the repatriation of export receipts will be transmitted on a quarterly basis within four weeks of the end of each quarter.

E. Real Sector

47. **Reporting requirement**: Monthly disaggregated consumer price indices for Kigali (NBR), urban areas (Ministry of Finance), and rural areas (Ministry of Finance) will be transmitted on a monthly basis within four weeks of the end of each month; any revisions to gross domestic product by sector estimates will be transmitted within three weeks of the date of revision.

IV. Electronic Data Reporting

48. **Reporting requirement**: The following data will, where feasible, be made available through electronic format (Excel) and e-mailed to the African Department of the Fund:

(i) Monetary data and exchange rates:

Monthly balance sheet of the NBR, summary balance sheet of the commercial banks, individual balance sheets of the commercial banks, details of public sector deposits with commercial banks, details of commercial banks' loan provisioning and capital adequacy, monthly data on foreign exchange operations of commercial banks and the NBR, and net open foreign exchange positions. These data will be transmitted within three weeks of the end of the month.

Weekly balance sheet of the NBR will be transmitted within seven days of the end of each week.

Weekly data on NBR interventions on the money market (*appel d'offres*) both to inject and to absorb liquidity, including the maturity and the due date of the transactions, the amounts offered, demanded, and allocated (by bank, in millions of Rwanda francs), the maximum, minimum, marginal, and average interest rates offered, and the interest payments (by bank, in Rwanda francs). These data will be made available within seven days after the end of the week.

Weekly data on recourse to the discount window (*prise en pension*), including the period of borrowing, the discount rate, and the amount (by bank, in Rwanda francs). These data will be made available within seven days after the end of the week.

Weekly update of the monthly treasury plan (*plan de trésorérie*) for foreign exchange reserves at the NBR. These data will be made available within seven days after the end of the week.

Weekly data on exchange rates, including foreign exchange auctions by the NBR, the amount of foreign exchange offered, demanded, and allocated (by commercial bank, in U.S. dollars and Rwanda francs), and the minimum, maximum, marginal, and average exchange rate offered. These data will be made available within seven days after the end of the week.

Daily balance by commercial bank of amounts outstanding from money market interventions to absorb liquidity (*appel d'offres–ponction*), to inject liquidity (*appel d'offres–injection*), under the discount window (*prise en pension*) and any other credit facility of the NBR, respectively. These data will be made available within seven days of the reported date.

Weekly balance of the subaccount for HIPC Initiative assistance from the IMF at the NBR. The data will be provided within seven days of the end of the week.

(ii) Fiscal "flash" report, including detailed lists of priority and exceptional expenditure. These data will be transmitted within three weeks of the end of the month.

(iii) Detailed export and import data; and

(iv) Detailed CPI data.

V. Program Monitoring Committee

49. **Definition**: The Interministerial Technical Committee, composed of senior officials of key ministries and the National Bank of Rwanda shall meet once a month and be responsible for monitoring the performance under the program, informing the IMF staff regularly about progress on program implementation, and transmitting supporting information necessary for program monitoring.

50. **Reporting requirement**: The names of the Interministerial Technical Committee shall be communicated to the IMF no later than the date of submission of the authorities' request for support of the three-year PRGF-supported program to the Executive Board of the IMF or the start of a new annual arrangement. The Interministerial Technical Committee shall provide to the IMF staff a progress report on the program implementation on a monthly basis within two weeks of the end of each month.

/ s /
François Kanimba
Governor
National Bank of Rwanda

/ s /
Donald Kaberuka
Minister of Finance and
Economic Planning

ANNEX B. RECLASSIFICATIONS

The following reclassification of data has been made to the monetary survey:

Reclassification of the deposits of 15 additional autonomous public agencies: In tables presented by the IMF prior to November 5, 2000, deposits of the central government with the NBR included deposits of 15 autonomous agencies. As of November 6, 2000 these deposits will be itemized separately in a category called "public nongovernment deposits," but will still be included in the domestic credit of the NBR.

Table 1. Rwanda: Summary of Reporting Requirements

Status	Variable or Table	Reporting Frequency	Reporting delay from end of period covered	Report data electronically
	A. Monetary and Foreign Exchange			
PC	Net foreign assets NBR	Weekly	Seven days	Yes
PC	Reserve money	Weekly	Seven days	Yes
PC	Net credit to central government	Monthly	Three weeks	Yes
Table	Monthly balance sheet of the NBR	Monthly	Three weeks	Yes
Table	Summary balance sheet of the commercial banks	Monthly	Three weeks	Yes
Table	Individual balance sheets of the commercial banks	Monthly	Three weeks	Yes
Table	Details of public sector deposits with individual commercial banks	Quarterly	Three weeks	Yes
Table	Details of commercial banks' loan provisioning and capital adequacy	Monthly	Three weeks	Yes
Table	Monthly data on foreign exchange operations of commercial banks, the NBR, and foreign exchange bureaus	Monthly	Three weeks	Yes
Table	Net open foreign exchange positions of commercial banks and foreign exchange bureaus	Monthly	Three weeks	Yes
Table	Exchange rates	Weekly	Seven days	Yes
	B. Debt			
PC	New external government borrowing	Monthly	Three weeks	
PC	Stock of short-term external government debt	Monthly	Three weeks	
	C. Fiscal			
PC	Domestic arrears (repayment of the end-of-year stock of arrears and accumulation of new arrears)	Monthly	Three weeks	Yes
PC	External arrears	... [1]	...	Yes
OV	External budgetary support	Monthly	Three weeks	Yes
Table	Fiscal data (revenue, expenditure,[2] priority expenditure, exceptional expenditure, wage bill)	Monthly	Three weeks	Yes
Table	Development budget implementation	Quarterly	Three weeks	Yes
Table	Scheduled debt service and payments	Quarterly	Three weeks	Yes
	D. Public enterprises			
Table	Public enterprises financial statements	Semi-annual	Four weeks	
Table	Public enterprises bank deposits	Quarterly	Four weeks	
Table	Estimated and actual tax payments of the public enterprises	Quarterly	Four weeks	
	E. Civil service			
OV	Size of the civil service (core civil service and teachers)	Monthly	Three weeks	Yes

Table 1. Rwanda: Summary of Reporting Requirements

Status	Variable or Table	Reporting Frequency	Reporting delay from end of period covered	Report data electronically
	F. Balance of payments			
Table	Export and imports	Monthly	Four weeks	Yes
Table	Detailed Balance of Payments	Quarterly	Four weeks	
	G. Prices			
OV	CPI Kigali (NBR), urban, and rural (Mineconfin)	Monthly	Four weeks	Yes

1/ The authorities will notify immediately the Fund in case of incurrence of any nonreschedulable external arrears.

2/ On commitment basis (*engagement)* and on payment order basis (*ordonnancement*); the provision of fiscal data is based on the Aflash≅ reporting (aggregate and by ministry).

PC = performance criterion or quantitative benchmark;

QI = quantitative indicator;

OV= other variable.

Table 2. Rwanda: Recurrent and Capital Priority Expenditure, 2002
(In millions of Rwanda francs)

	2002
Internal affairs	5,322
National police services	3,422
Prisons	874
Provinces 2/	1,026
Agriculture	2,402
Agricultural production	1,008
Livestock production	451
Forestry resources	141
Soil conservation and water systems management	73
Agricultural extension and marketing	146
Provinces 2/	583
Commerce	1,042
Promotion of trade and commerce	67
Industrial development and artisanal promotion	465
Export promotion	241
Provinces 2/	269
Education	27,053
Pre-primary and primary education	1,859
Secondary education	599
Tertiary education	8,119
Scientific and technological research	463
Institutional support	926
Provinces 2/	15,088
Youth and Sports	700
Youth mobilization	50
Cultural promotion	169
Vocational training	179
Research, acquisition, and conservation of the national heritage	158
Provinces 2/	145
Health	5,438
Primary health care	754
Specialist care for major health problems	1,680
Development of health structures	101
Improvement in health management services	1,155
Provinces 2/	1,748
Transport and Communication	2,451
Development and modernization of communication infrastructures	145
Improvement in transport services	163
Rationalization and management of urban land	47
Development of transport infrastructure 3/	2,069
Provinces 2/	27
Gender	325
Institutional support	
Support programs for promotion and development of women	192
Promotion of gender in development	47
Promotion of socio-economic equity	10
Provinces 2/	75
Public service	448
Civil service reform	380
Employment and social security promotion	68
Lands and resettlement	627
Land planning and management	328
Planning and supervision of housing amenities	183
Conservation and protection of the environment	98
Provinces 2/	19
Local government (excluding exceptional expenditure)	6,133
Decentralization	177
Community development	78
Social reinsertion	83
Family rehabilitation	14
Mass education	107
Promotion of children's rights	16
Provinces 2/	2,288
Decentralization (district transfers in recurrent budget)	1,370
Common development fund (district transfers in development budget) 4/	2,000
Energy and water resources	365
Energy	44
Water and sanitation	131
Mining and other geological programs	70
Methane gas unit	95
Provinces 2/	25

Source: Rwandese authorities.

1/ All programs are classified as recurrent expenditures, except where marked.

2/ Province sub-programs have been allocated to the major Ministry under each program.

3/ Includes Road Fund.

4/ As part of capital expenditure.

Table 3. Rwanda: Composition of Exceptional Expenditure, 2002
(In millions of Rwanda francs)

	2002
Exceptional expenditure	22,510
Demobilization/Reintegration/Reinsertion	5,900
Supplies for prisoners	1,300
GACACA	
GACACA Sensibilization, Ministry of Justice	50
Health insurance GACACA members	652
GACACA jurisdictions	1,343
Victims of Genocide Fund (FARG)	5,025
Orphans assistance	589
Assistance to vulnerable groups	93
Reinsertion of vulnerable groups	50
Support to local initiatives (education)	54
Support to orphanages and ENA	56
Reinsertion of displaced groups from Gishwati	50
Reinsertion of street children	100
CFJM operation	1
Good governance commissions	
Human Rights National Commission	669
Constitutional Commission	630
Commission for Unity and Reconciliation	565
Electoral Commission	999
Office of the Ombudsman	174
National Commission for the Fight Against AIDS	223
ISAR works	6
Educational institutes	
KIST (Kigali Institute for Science and Technology)	2,128
KHI	503
KIE	1,165
Printing flags and stamps	30
Diffusion of new national hymn	10
Public education (educational and technical equipment)	120
Family and public education (educational equipment)	4
National information system (technical equipment)	21
Defense of children's rights (technical equipment)	2

Rwanda: Fund Relations
As of May 31, 2002

I. **Membership Status**: Joined: 09/30/1963; Article VIII

II. **General Resources Account**:	SDR million	% Quota
Quota	80.10	100.0
Fund holdings of currency	82.34	102.8
Reserve position in Fund	0.00	0.0

III. **SDR Department**:	SDR million	% Allocation
Net cumulative allocation	13.70	100
Holdings	9.01	65.79

IV. **Outstanding Purchases and Loans**:	SDR million	% Quota
PRGF arrangements	61.88	77.25
Credit Tranche	2.23	2.79

V. **Financial Arrangements**:

Type	Approval date	Expiration date	Amount approved (SDR million)	Amount drawn (SDR million)
ESAF/PRGF	06/24/1998	04/30/2002	71.40	61.88
SAF	04/24/1991	04/23/1994	30.66	8.76
Stand-by	10/31/1979	10/30/1980	5.00	0.00

VI. **Projected Obligations to Fund** (SDR million; based on existing use of resources and present holdings of SDRs):

	Forthcoming				
	2002	2003	2004	2005	2006
Principal	2.20	1.20	3.60	6.70	10.50
Charges/Interest	0.40	0.40	0.40	0.40	0.30
Total	2.60	1.60	4.00	7.10	10.80

VII. **Implementation of HIPC Initiative**:

	Enhanced framework
Commitment of HIPC assistance	
Decision point date	12/22/2000
Assistance committed (end-1999 NPV terms)[1]	
Total assistance (US$ million)	452
Of which: Fund assistance (SDR million)	33.8
Completion point date	Floating
Delivery of Fund assistance (SDR million)	
Amount disbursed	9.1
Interim assistance	9.1
Completion point	...
Amount applied against member's obligations (cumulative)	8.99

VIII. **Safeguards Assessments**:

Under the Fund's Safeguards Assessment policy, the Banque Nationale du Rwanda (BNR) is subject to a safeguards assessment with respect to its proposed PRGF arrangement. An assessment is underway and it is expected to be completed prior to the first review of a newly approved PRGF arrangement.

IX. **Exchange Arrangements**:

On March 6, 1995, Rwanda adopted a market-determined exchange rate system. Before then, the Rwanda franc was pegged to the SDR. On December 1998, Rwanda accepted the obligations under Article VIII, Sections 2, 3 and 4, requiring it to ensure that the exchange rate is free of restrictions on making payments and transfers for current international transactions. In 2001, a foreign exchange auction system was put in place with technical assistance from MAE. Since February 7, 2001, auctions have been taking place on a weekly basis.

[1] NPV terms at the decision point under the enhanced framework.

X. Article IV Consultation:

Rwanda is on the standard 12-month consultation cycle. The Executive Board discussed the staff report for the 2000 Article IV Consultation (EBS/00/264;12/12/00) on December 20, 2000.

XI. FSAP Participation, ROSCs, and OFC Assessments:

To date, Rwanda has not participated in the Financial Sector Assessment Program (FSAP) nor has had an Official Financial Center (OFC) assessment. A Report on Observance of Standards and Codes on Fiscal Transparency (ROSC) is currently under preparation.

XII. Technical Assistance:

1999	FAD long-term experts, on tax policy, on budget preparation, and on treasury management
1999	MAE long-term general advisor to governor of NBR
1999	MAE experts on banking supervision and foreign exchange market operations
2000	FAD experts on budget execution and on tax policy
2000	MAE experts on foreign exchange market operations, and banking supervision
2000	STA mission on money and banking statistics.
2000	STA mission on balance of payments statistics
2001	FAD experts on expenditure management and on tax policy
2001	FAD mission on tax policy
2001	MAE mission on foreign exchange policy, monetary policy, and banking supervision
2001	MAE expert on monetary policy implementation
2001	FAD mission on assessment of tracking of poverty reducing expenditure, and the fiscal ROSC
2001	MAE expert on banking supervision
2002	FAD experts on expenditure management, and on tax policy (until mid-year)

XIII. Resident Representatives:

Mr. Abdikarim Farah has been in Kigali as Resident Representative since January 2001.

Rwanda: IMF-Bank Relations Annex
(As of May 2002)

1. Since 1970, Rwanda has received 59 IDA credits totaling approximately US$1,113.1 million. The IFC has financed three loans and two equity participations, with three other operations approved.

2. The IDA has financed projects in (i) infrastructure, particularly road construction and maintenance; (ii) agriculture, rural development, and forestry; (iii) social infrastructure, including water supply and sanitation, health and population, and education and training; (iv) private sector development, public enterprise reform, financial development, and technical assistance; and (v) two policy-based quick-disbursing operations. During the immediate post-genocide period, IDA financed two emergency budget support operations and a social fund-type project, and restructured its prewar portfolio of investment projects to meet the high-priority needs of the emergency and the transition from conflict to development. Disbursements to date from IDA to Rwanda have totaled about US$813.6 million, with a total undisbursed balance of US$178.2 million. Rwanda's current portfolio of nine credits represents, as of May 2002, a total commitment value of US$212.9 million.

Adjustment lending/macroeconomic support

3. The first structural adjustment loan for Rwanda was approved in June 1991. In 1995 and 1997, the Bank approved two emergency recovery credits (US$50 million each) as a quick-disbursing budget support to assist in the rehabilitation and recovery efforts. In March 1999, an economic recovery credit (ERC) of the equivalent of US$75 million was approved to support the economic reform efforts and the overall transition from conflict to peace and development. The credit was disbursed its three tranches; the last one was disbursed in end-March 2001. The Board also approved a supplemental to the ERC in the equivalent of US$15 million in December 2000. This was also disbursed in full in March 2001. A Country Assistance Strategy (CAS) Progress Report endorsed by the Board on June 29, 1999, reaffirmed Rwanda's status as **a special case** for exceptional international assistance to deal with its difficult sociopolitical and economic challenges. A new CAS, to be presented to the Board by end July 2002, is under preparation.

Infrastructure and private sector development

4. A number of Bank-supported infrastructure projects that closed recently helped to strengthen capacity and rebuild infrastructure in post-genocide Rwanda. The **Transport Sector Project** helped to reform sector policies, develop the planning capacity of the government, improve road maintenance ability, and promote private sector activity in road maintenance. The project supported main road construction, improved road maintenance, and promotion of communal activities. The **Second Communications Project**, which closed on June 30, 1999, promoted efficient communications through institutional reform and investments. It sought to create autonomous, commercially oriented operating entities for the telecommunications and postal services, and to provide a regulatory framework to permit the

entry of the private sector into the telecommunications industry. The **Energy Sector Project** helped to establish rational energy policies as the basis for efficient utilization of Rwanda's energy resources and provide a framework for private sector participation in the sector and the **Second Water Supply Project** helped to repair damaged water supply systems, which financed an evaluation of the water needs in secondary cities, and rehabilitated rural water supply systems. A new project, **Rural Water Supply and Sanitation**, approved by the Board in June 2000, will continue the activities of the Second Water Supply Project in a framework that emphasizes greater community participation. The Bank is preparing new projects in transport, energy, and urban infrastructure to continue the support of the closed projects.

5. The emphasis of the Bank's support in the private sector has been on enabling the establishment of a liberal institutional, legal, and policy environment to accelerate private sector activity and enhance external competitiveness. In this vein, the **Private Sector Development Project,** which closed in September 2000, sought to promote expansion of the private sector through the provision of both incentives and means to engage in labor-intensive, export-oriented activities within an improved economic and legal framework. A follow-on project, the **Competitiveness and Enterprise Development Project (CEDP)**, was approved by the Board on April 19, 2001. CEDP will continue to support the reform of the telecommunications sector and the privatization of the current telephone monopoly, and assist the government in privatizing the remaining state-owned enterprises. Furthermore, a **Rural Sector Support Project (RSSP),** approved by Board in March 2001, will support programs that increase agricultural productivity, develop rural agricultural and nonagricultural enterprises, and promote farmers' organizations as agents for the adoption and dissemination of new farming technologies.

Social sector

6. The Bank's activities have been aimed at restoring social infrastructure and services in the aftermath of the 1994 genocide through the **Education Sector Project**, approved in 1991, and the **Health and Population Project**, also approved in 1991. The Education Project closed in June 2000, and, on June 6, 2000, the Board approved a US$35 million **Human Resources Development Project (HRDP)**, aimed at improving quality and access to education. The Health and Population Project supports the operation of six health districts, the supply of essential drugs, a national information, education, and communications (IEC) capacity, and the restructuring and decentralization of the National AIDS Control Program. A US$7 million supplemental to this project was approved by the Board at end-2000 to continue the activities of the project pending the design of a new project. The **Community Reintegration and Development Project (CRDP)**, approved in October 1998, has promoted community reintegration and development through community participation. CRDP is strengthening the capacity of local communities and the administration at the communal and national levels to identify, design, and implement development projects. This has supported the decentralization process. The Bank is also preparing a fast-track **HIV/AIDS Prevention Project** to support the fight against the pandemic. In addition, the HRDP, the RRSP and the CEDP have HIV/AIDS components that are used to assist the relevant ministries spread the

message of prevention among their staff and clients. **The Demobilization and Reintegration project**, which was approved by the Board on April 25,2002, is to help demobilize and subsequently reintegrate ex-combatants into civilian life.

Conditionalities

The Bank is preparing a new policy-based credit to support the implementation of the PRSP. The key objectives are to improve the effectiveness, efficiency and poverty impact of public sector actions; improve the environment for private sector actions, and (iii) promote investments in human development. The conditionalities for tranche releases include the preparation of a financial accountability review and reform action plan, agreement with the World Bank on a plan for the continued implementation of the MTEF, and the composition and budget allocation to the PRSP priority programs. Conditionalites in the private sector development area include progress in the privatization of Rwandatel and the tea factories, the establishment of a Multi sector Regulatory Agency and the coffee and tea boards, the installation of private management at Electrogaz, and restructuring/privatization of BCR

World Bank staff

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Status of World Bank Group Operations in Rwanda
(As of May 2002)

A. Statement of IDA Credits

Status of Credit	Fiscal Year	Purpose	Original Credit Amount in US$ Million (Less Cancellations)	Undisbursed
Closed credits: (50 credits closed)			761.95 [1]	3.98
Active credits:				
	2000	Agriculture and Rural Market Development (LIL)	5.0	3.01
	1999	Community Reintegration and Dev	5.00	1.66
	2001	Competitiveness and Enterprise Dev	40.82	38.22
	1991	Health and Population	26.60	4.93
	2000	Rural Water Supply and Sanitation	20.00	17.82
	2001	Regional Trade Facility	7.50	5.47
	2000	Human Resource Development	35.00	28.86
	2001	Rural Sector Support Project	48.00	45.10
	2002	Demobilization & Reintegration	25.00	25.00
Total: active projects:			212.90	170.27
Total approved amount[2]			973.9	
Of which: repaid			55.4	
Total held by the Bank and IDA			726.6	

B. Statement of IFC Investments in Rwanda

The IFC's pending commitments in Rwanda comprise those in Rwandacell, AEF Dreamland, and AEF Highland, amounting to US$5.326 million.

[1] Includes two emergency recovery credits of US$50 million each, approved in 1995 and 1997, respectively, and fully disbursed.

[2] Total approved amount, covering closed and active credits.

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
Financial Administration	• Produce a plan for capacity building in public debt monitoring and management. (IMF, 12/31/2002)	• Adopt Organic Budget Law and Law on Management of Public Accounts. (IMF, 6/30/2003)	• Implement the Chart of Accounts reforms. (6/30/2004, IMF)
	• Ensure that all borrowing by district governments is reported to the central government on a monthly basis. (IMF, 12/31/2002)	• Prepare financial instructions in order to promote effective expenditure control. (IMF, 6/30/2003)	
	• Implement the MTEF, with a budget process that is transparent and focuses on results. (WB)	• Improve gathering of data on disbursements from donors and expenditures on projects. (2002-03, IMF)	
	• Focus budget expenditures on key poverty reducing budget programs in the priority areas identified in the PRSP process (priority program areas (PPs)). Provide real per capita and above average increases to the budget allocations to the priority programs. Protect the allocations to the PPs from cuts during the course of the fiscal year. (WB)	• Incorporate extrabudgetary and off-budget projects and transactions into the budget. (Budget Law 2003, IMF)	
	• Strengthen the capacity of the units in the line ministries responsible for the implementation of the PPs. (WB)	• Expand materials provided to Parliament and public on annual budget. (Budget Law 2003, IMF)	
	• Develop capacity and systems for monitoring trends in poverty and social indicators. (WB)	• Begin producing flash reports within 3 weeks of end-month, functional classification of budget implementation, and reports on development budget and province and district implementation (3/31/2003, IMF)	
	• Strengthen the systems for monitoring budget inputs and outcomes and poverty impact. (WB)	• Improve expenditure reporting by implementing reporting requirements for provinces and districts. (3/31/203, IMF)	
	• Take actions to build capacity in MINECOFIN, particularly to arrest the rapid turnover of staff in the ministry. (WB)	• Complete a comprehensive review of all tax exonerations, exemptions and incentives. (6/30/2003, IMF)	
		• Modify the set of tax and import duty concessions in accordance with the findings of the study. (12/31/2003, IMF)	

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
		• Strengthen the MTEF approach by sharpening of objectives, focusing on monitorable performance indicators, improving budget classification, integrating the development and recurrent budgets, and capacity building. (WB)	
Governance	• Authorizations for settlement of domestic arrears will start to be based solely on explicitly established guidelines for payment without discretion. (7/1/2002, IMF)	• Publish progress report on PRSP implementation. (6/30/2003, IMF)	
	• Start publishing statistics of government financial operations following the GFS format on a quarterly basis. (9/30/2002, IMF)	• The Auditor General will audit the execution of the 2002 accounts of the demobilization/reintegration project. (12/31/2003, IMF)	
	• To make the tendering process more transparent, set up an appeals board and the National Tender Commission will include some members from civil society. (9/30/2002, IMF)	• Establish a Code of Ethics for civil servants. (12/31/2003, IMF)	
	• Issue the decree covering public tendering. (9/30/2002, IMF)	• Develop a taxpayer appeals process and adopt a Bill of Taxpayer Rights. (12/31/2003, IMF)	
	• The Auditor General will inter alia initiate and complete the audits for the 2001 accounts of 9 line ministries, three provinces, and at least three districts. (12/31/2002, IMF)	• Develop a system of public accounts and strengthen the internal audit capacity. (WB)	
	• Issue the decree covering public tendering. (9/30/2002, IMF)	• Prepare and implement an action plan to improve financial accountability. (WB)	

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
	• Put in place regulations applying to blacklisted suppliers of the government. (12/31/2002, IMF)	• Strengthen the Office of the Auditor-General to carry out independent audits of government agencies and promptly and simultaneously distribute its report to the authorities and the general public. (WB) • Adopt the National Tender Board Law. (WB) • Adopt and make operational the Code of conduct for public officials, and an agency to monitor and fight corruption (anticorruption bureau.) (WB)	
Privatization		• Transfer and sell to the private sector, the holdings of Rwandatel (the telephone monopoly) in Rwandacell (the cellular phone company). (WB) • Privatize Rwandatel. (WB) • Split the current Electrogaz (water, gas, and electricity utility) into two companies – gas, and water and electricity. (WB) • Privatize the management of the new Electrogaz (water and electricity) through a two-step process: a 3-5 year performance-based management contract; and (ii) a long-term concession lease arrangement. (WB)	

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
		• Privatize/liquidate the public gas company once the private sector gas companies come on stream. (WB) • Complete the privatization/liquidation of the remaining 40 state enterprises. (WB)	
Private Sector Development		• Strengthen the Arbitration Center and create commercial tribunals in close collaboration with the private sector. (WB) • Strengthen the Rwanda Investment Promotion Agency (RIPA) to facilitate investments, promote exports and business development. (WB) • Revise and adopt the mining code to attract investors. (WB) • Reduce the company tax from 40 percent to 35 percent. (WB) • Approval of the Private Sector Federation new statute. (WB) • Establish an independent multi-sector utility regulator to regulate the activities of the utilities (electricity, gas, water, telephone). (WB)	

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
Financial Sector Reform	• Continued strengthening of bank supervision: recruitment and training supervisors, reorganizing the supervision department, and computerizing the bank supervision process. (Ongoing, IMF)	• Conduct full audits of four banks. (12/31/2003, IMF)	• Begin carrying out on site inspection of all banks every year. (1/1/2004, IMF)
	• Conduct full audits of three banks. (12/31/2002, IMF)	• A new accounting plan for commercial banks to be implemented. (12/31/2003, IMF)	• Implement the action plan to improve credit information quality. (1/31/2004, IMF)
	• Prepare an action to improve the legal framework for banking and to facilitate improved loan recovery. (12/31/2002, IMF)	• Formulate an Action plan to address money laundering. (3/31/2003, IMF)	
	• An agreement will be reached on the treatment of government arrears to the *Caisse Sociale du Rwanda* (CSR). (12/31/2002, IMF)	• Improvements in the process for recovery of NPLs, with emphasis on strengthening the Arbitration center, and consistently implementing the voie paree system. (WB)	
	• A comprehensive plan for the restructuring of CSR will be adopted. (12/31/2002)	• Privatize Banque du Kigali (BK) and BCR. (WB)	
	• Restructure the Banque Commercial du Rwanda (BCR). (WB)		
	• Recapitalize the Banque Populaire and strengthen supervision of small and rural credit institutions. (WB)		
	• Conduct a financial sector study. (WB)		

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
	• Explore alternative mechanisms to providing long term real estate and other loans in place of the proposed real estate restructuring scheme using CHR. (WB)		
Civil Service Reform		• Continue to improve the management and effectiveness of the civil service per the recently adopted Public Service Statute by: • strengthening the instruments for effective control of the civil service establishment, • transparent recruitment, deployment, promotion, and retrenchment of staff from the civil service, and for managing the payroll, • capacity building. (WB) • Design and implement a program to facilitate the transition of retrenched civil servants into the private sector. (WB) • Establish a Public Service Commission or similar agency to manage the civil service personnel and reform processes. (WB) • Prepare and implement a plan to improve the compensation of civil servants under the revised pay and grading structure to enable the Government to attract and retain capable civil servants. (WB) • Adopt a sector-wide approach for capacity building interventions. (WB)	

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
Building Human Resources		• Increase the allocation of budget resources to the social services to increase the share of social sector to at least 40 percent of the recurrent budget. (WB) • Progressively increase the non-wage category of social sector spending. (WB) • Make preparations for the adoption of the sector-wide approaches for the development of the health and educations sectors. (WB) • Make preparations for the adoption of the sector-wide gender responsive approaches for the development of the health and education sectors. (WB) • Take measures to improve access of the population to health services, particularly through the reduction of service fees. (WB) • Initiate implementation of the Comprehensive Legal Action Plan to eliminate gender disparities. (WB) • Ensure gender-responsive status of all key emerging areas of new legislation /or legislative reform. (WB). • Adopt and implement a new strategy and gender responsive multi-sector action plan for HIV/AIDS control, prevention and treatment. (WB)	

Rwanda: Structural Measures in IMF and World Bank Programs

Measure	2002	2003	2004
Revitalizing Agriculture		• Adopt a land law that provides security of tenure, gives women land inheritance and ownership rights, and improves overall land use. (WB) • Increase budget allocations and implementation capacity for agricultural field services to provide access to by farmers to extension services, market information, improved varieties of seeds and appropriate improved inputs. (WB) • Privatize the coffee and tea processing plants. (WB) • Implement the new regulatory structures that liberalize the coffee and tea sectors and give private sector agents an enhanced role in the regulation and promotion of the industries. (WB) • Review and adjust upward the producer prices for tea. Put in place a pricing mechanism for the adjustment of tea prices to changes in world market prices and to reflect a premium for high quality tea. (WB)	

Rwanda: Statistical Issues

1. The economic and financial database of Rwanda is weak, in part due to the destruction caused by the 1994 war. Since then Rwanda has received considerable technical assistance in rebuilding the country's statistical database, and progress was made in the collection and reporting of economic and financial statistics. The authorities are fully cooperative in providing data to the Fund. Rwanda has very few statistical publications, but the authorities initiated in 1998 a new annual publication covering the main economic and financial data since 1990. National accounts and price statistics, government finance, and balance of payments statistics suffer from significant quality weaknesses. Monetary statistics are adequate for surveillance and program monitoring, but their timeliness and quality need to be further improved. Additional efforts need to be made to improve statistics relevant for banking supervision.

Real sector

2. The Statistics Directorate of the Ministry of Finance and Economic Planning (MINECOFIN) prepares data on national accounts. After the 1994 war, the authorities compiled national accounts data starting from 1990. Nevertheless, the quality of these data is weak, reflecting shortages of human and material resources. Efforts have been made to improve measuring GDP using the production approach, but there are significant weaknesses in data collection on expenditures and income. These weaknesses complicate in particular adequate assessment of developments in savings and investment. The national accounts data are further hampered by weak external sector statistics.

3. Monthly consumer price data are collected by MINECOFIN. The National Bank of Rwanda (NBR) compiles separately a consumer price index for Kigali. In 1996, the MINECOFIN started publishing consumer price indices for Kigali and urban and rural areas, based on a household consumption survey conducted between 1982 and 1986. However, the quality of consumer price statistics is weak, and the consumer price index does not reflect changes in consumption patterns over the past decade. In 1996, a technical assistance mission from the Statistics Department proposed measures to improve the quality of price statistics, including the carrying out of a new household budget survey. This survey has been completed, and work is under way to update the consumer price indices, with a view to compile a single price index for Kigali.

4. Data on employment and wages are not collected, except for the central government.

5. Real sector data are reported regularly for publication in *International Finance Statistics* (*IFS*), although with some lags, particularly for GDP estimates.

Government finance statistics

6. The authorities transmit to the African Department detailed monthly data on revenue and expenditure, with a lag of three–four weeks. These data are compiled by a flash-reporting

unit, which was established in 1996 within MINECOFIN with the assistance of the Fund. The functional classification of government expenditure is weak. The fiscal data do not capture consistently capital expenditure (almost entirely foreign) because capital projects are mainly carried out by line ministries outside the regular budget procedures. Fiscal data have often shown a discrepancy between the deficit as recorded form above the line and its financing. Together with Fund staff, the authorities have made adjustments for changes in the balance of non-core government accounts, for changes in cash in vault at the revenue authority, for accounting errors and for other factors. In recent years, the remaining discrepancy has not exceeded 0.3 percent of GDP.

7. The implementation of functional classifications for recurrent and development budgets was expected to lead to more comprehensive reporting of all government expenditures. Reportedly, a functional classification has been implemented with the help of a bridge table from the primary program classification. However, no reports with this functional classification are currently being produced.

8. Selected aggregates on annual central government operations through 2001 have been reported to the Statistics Department and are published in *IFS.* These data exhibit large statistical discrepancies, mainly due to the time of recording of expenditure and the link with financing data. No sub-annual data is reported to STA and government finance statistics have been reported for the *GFS Yearbook* only through 1993.

Monetary statistics

9. The balance sheet of the NBR is transmitted to the African Department on a weekly basis with a lag of one week, and the monetary survey and the balance sheets of commercial banks are transmitted on a monthly basis with a lag of about four weeks. Detailed data on interbank money market transactions are also provided upon request to mission staff. The NBR established a working group to implement the recommendations of previous missions. Following technical assistance from the Statistics Department, the government improved the classification of monetary accounts. A monetary and financial statistics mission visited Kigali in November 2000 and conducted an in-depth review of the monetary statistics currently compiled by the NBR. The NBR is currently implementing these recommendations, and has adopted in June 2002 an improved classification of the central bank balance sheet accounts. Moreover, a MAE mission visited Kigali in June and July 2001 and left a number of recommendations regarding the compilation of statistics needed for an effective banking supervision. A resident MAE expert joined NBR in late 2001 and will assist in improving the banking supervision statistics. Monetary data are reported separately to the Statistics Department on a timely basis and published in *IFS.*

Balance of payments statistics

10. Foreign trade data are provided to Fund missions by the NBR. There are inconsistencies between data reported by the NBR and data recorded by customs. There is also significant unrecorded trade, and information on invisible transactions is scarce. There

are indications of significant under recording of official external transfers, and data on the level and composition of private flows are poor. In 1997, a technical assistance mission from the Statistics Department assisted the authorities in designing surveys aimed at improving the collection of invisible transactions and private capital flows. A follow-up STA mission visited Kigali late in September 2000. The mission made several recommendations regarding the institutional setting of the BNR. These included ensuring an adequate number of well-trained staff, providing instructions in balance of payments compilation methodology, and securing a more effective administrative organization. Following the mission's recommendations one BNR official has already participated in the IMF Institute balance of payments statistics course in 2001. The mission's other main recommendations were that (1) the BNR adopts trade in goods data as produced by Customs rather than as compiled by the Exchange-control department of the BNR; (2) the BNR encourage the commercial banks to adopt a standard foreign exchange reporting form and provide the commercial banks with commensurate automated reporting tools; and (3) the BNR implement the supplementary surveys without delay since the enterprises register is now available. Regarding (1), the NBR has collected all documents filed by border custom offices and is in the process of incorporating their results in the BOP. Regarding (3), the NBR has recently begun making use of such surveys in the compilation of BOP statistics.

11. Annual balance of payments and quarterly import and export data are reported to STA, albeit with some lags, and are published in IFS. Rwanda sent methodology notes describing the compiling methods for balance of payments statistics which were included in Part 3 of the *2001 Balance of Payments Statistics Yearbook (BOPSY).*

12. A database on external public debt is maintained by both MINECOFIN and the NBR. The authorities have established a committee, composed of the staffs of the ministries of Finance and Economic Planning and Foreign Affairs and the NBR, to monitor and collect information on external public debt.

Rwanda: Core Statistical Indicators

(As of June 24, 2002)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Public Debt/Debt Service
Date of Latest Observation	Current	5/24/02	5/24/02	5/24/02	3/02	4/02	4/02	12/01	12/01 1/	3/02	2001	12/01 1/
Date Received	Current	6/3/02	6/3/02	6/3/02	5/02	5/02	6/02	5/02	4/02	5/02	4/02	4/02
Frequency of Data	Daily	Weekly	Weekly	Weekly	Monthly	Monthly	Monthly	Monthly	Annually	Monthly	Annually	Annually
Frequency of Reporting	Weekly	Weekly	Weekly	Weekly	Monthly	Monthly	Monthly	Monthly	Semi-annually	Monthly	Semi-annually	Semi-annually
Source of Update	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	NBR 2/	MFEP 3/	MFEP 3/	MFEP 3/
Mode of Reporting	Facsimile/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/ e-mail	Facsimile/ missions/e-mail	Facsimile/ missions/ e-mail	Mainly during missions	Facsimile/ missions/ e-mail	Mainly during missions	Mainly during missions
Confidentiality	No	4/	4/	4/	4/	No	No	4/	4/	4/	4/	4/
Frequency of publication	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Semi-annually	Semi-annually

1/ Estimates.
2/ NBR = National Bank of Rwanda.
3/ MFEP = Ministry of Finance and Economic Planning.
4/ Preliminary data for staff use only; actual data are unrestricted.

Table 1. Rwanda: Health Sector Performance Indicators, 1997–2001 1/

	1997	1998	1999	2000	2001
1. Number of curative consultations at health centers; new cases	2,760,421	2,233,279	2,124,719 2/	1,999,122	...
2a. Number of qualified physicians at hospitals	181 3/	144	148	148	...
2b. Number of qualified nurses	899	1,033	1,442	1,457	...
3a. Expenditure on medicines in district hospitals (millions of Rwanda Francs) 4/	...	...	...	145.7	...
3b. Expenditure on medicines in health centers (millions of Rwanda Francs) 4/ 5/	...	...	...	405.2	...
3c. Expenditure for medicines on the budget (millions of Rwanda Francs) 5/	74	229	245	284.0	...
4a. Number of functional health centers	330	346	348	360	365
4b. Number of functional hospitals	33	28	29	33	33
5a. Number of fully equipped/staffed health centers 10/	...	...	...	...	...
5b. Number of fully equipped hospitals 10/	...	...	...	...	...
6. Number of medical and paramedical students enrolled in Kigali Institute of Health (three-year program)	...	...	31	75	134

Source: Ministry of Health, National Health Information System

1/ Agreed between the authorities and Fund and World Bank staffs.

2/ Based on 92 percent of expected monthly reports in March 1999, 88 percent of expected monthly reports in June 1999, 79 percent of expected monthly reports in September 1999 and 16 percent of expected monthly reports in December 1999.

3/ In 1997, including 54 expatriates.

4/ In 1997, from the Health Financing Study (Ministry of Health, World Bank, and Etude du Financement du System de Santé, HERA, May 1999). In 1999, based on reports from ten regional health centers (91 percent of expected reports).

5/ In 1999, the purchase of medicines was decentralized so as to promote cost sharing; hospitals and health centers now manage their own purchases of drugs.

Table 2. Rwanda: Education Performance Indicators, 1998–2001 1/

	1998		1999		2000	
Primary education						
Enrollment and completion (annual)						
Total gross enrollment 2/	1,270,733	(88%)	1,288,617	(88%)	1,431,692	(97%)
Male	635,765	(...)	644,430	(90%)	721,881	(...)
Female	634,968	(...)	644,187	(87%)	709,811	(...)
Completion 3/	60,361	(22%)	...		...	
Transition to secondary education 4/	12,503	(21%)	...	(38%)	...	(42%)
Number of qualified teachers (annual/school term) 5/	10,463	(47%)	11,541	(49%)	13,934	(53.2%)
Student-teacher ratio (annual/school term)	57		55		54	
Student-qualified teacher ratio (annual/school term)	121		112		102	
Average number of books per class (annual)	...		...		...	
Average number of books per pupil (annual)	0.56		...		...	
Average number of teachers provided with teaching materials (annual)	...		...		...	
Number of teachers trained through in-service training (annual) 6/	2,568		7,116		4,094	
Number of students enrolled at the 11 teacher training colleges (three-year colleges) (annual) 7/	...		2,369		3,512	
Number of classes (annual)	...		30,866		36,534	
Number of classrooms (annual)	...		23,395		24,844	
Number of classrooms constructed/extended (annual)	...		89		114	
Repetition rate (in percent)	32		38		38	
Drop out rate (in percent) 8/	12		11		13	
Percent passing national exams 9/	...		23		26	
Secondary education						
Enrollment and completion (annual)						
Total gross enrollment (rate) 2/	90,840	(...)	105,292	(...)	125,124	(...)
Male	45,054	(...)	51,811	(...)	61,458	(...)
Female	45,786	(...)	53,481	(...)	63,666	(...)
Completion 3/	10,500	(...)	...		...	
Transition to higher education 4/	...		...		...	
Number of qualified teachers (annual/school term) 5/ 10/	1,188	(31%)	1,544	(33%)	2,387	(43%)
Average number of books per class (annual)	...		...		...	
Average number of books per pupil (annual)	...		...		...	
Average number of teachers provided with teaching materials (annual)	...		...		...	
Number of teachers trained through in-service training (annual) 6/	...		836		836	
Number of students enrolled for teacher training at the Kigali Institute of Education (KIE) (four-year institute) (annual)	...		299		...	
Number of classes (annual)	...		...		...	
Number of classrooms constructed/extended (annual)	...		...		3	

Source: Ministry of Education

1/ Agreed between the authorities and Fund and World Bank staffs.

2/ In parentheses, gross enrollment rate: number enrolled, regardless of age, divided by population in official primary schoolage in percent.

3/ In parentheses, completion rate: number of pupils in cohort reaching grade 6 divided by number of pupils enrolled in firstgrade six years before in percent.

4/ In parentheses, transition rate: number of pupils admitted in secondary schools (higher education) divided by number of pupils enrolled in grade 6 of primary (secondary) school in percent.

5/ In parentheses, in percent of total number of teachers.

6/ In 1999, includes teachers attending 3-6 day training courses. The program for teacher training was initiated in 1998, andbecame fully operational only in 1999.

7/ Before 1999, primary school teachers were trained in secondary schools (data on number of trainees unavailable).

8/ In 1999, estimate based on Butare and Kigali Ngali.

9/ Figure provided by National Examinations Council.

10/ Before 1999, includes both trained teachers with certificates and those with BAC (first two years of university); from 1999, includes only trained teachers with certificates.

Rwanda: Work Program—Poverty Reduction and Growth Facility, 1998-2002

Date	Description	Amount (In millions of SDRs)	Amount (In percent of quota) 1/
June 24, 1998	Three-year arrangement approved	71.4	89.1
June 24, 1998	First annual arrangement approved	23.8	29.7
June 30, 1998	First loan	11.9	14.9
March 24, 1999	First review completed		
March 31, 1999	Second loan 2/	11.9	14.9
November 19, 1999	Second annual arrangement approved	23.8	29.7
November 29, 1999	First loan	9.5	11.9
July 31, 2000	First review		
August 10, 2000	Second loan	9.5	11.9
November 18, 2000	Second annual arrangement expired 3/		
December 20, 2000	Third annual arrangement approved 4/ 5/	28.6	35.7
December 29, 2000	First loan	9.5	11.9
October 10, 2001	First review completed 6/		
October 11, 2001	Second loan	9.5	11.9
April 30, 2002	Third annual arrangement expired 7/		

1/ The column puts the SDR amounts in relation to the new quota of SDR 80.1 million.
2/ Rwanda's quota was increased from SDR 59.5 million to SDR 80.1 million effective March 4, 1999.
3/ The second annual arrangement expired with SDR 4.75 million undisbursed.
4/ Includes SDR 4.75 million rephased from second annual arrangement.
5/ Rwanda requested an extension of the commitment period of the three-year arrangement from June 23, 2001 to January 31, 2002.
6/ Rwanda requested an extension of the commitment period of the three-year arrangement from January 31, 2002 to April 30, 2002.
7/ The third annual arrangement expired with SDR 9.52 million undisbursed.

Rwanda: Work Program—Proposed Phasing of Disbursements Under the PRGF
PRGF Arrangement, 2002-05

Date	Description	Amount (In millions of SDRs)	Amount (In percent of quota)
July 19, 2002	Three-year arrangement approved		
July 24, 2002	First disbursement	0.574	0.7
May-03	First review completed		
May-03	Second disbursement	0.571	0.7
September-03	Second review completed		
September-03	Third disbursement	0.571	0.7
May-04	Third review completed		
May-04	Fourth disbursement	0.571	0.7
November-04	Fourth review completed		
November-04	Fifth disbursement	0.571	0.7
May-05	Fifth review completed		
May-05	Sixth disbursement	0.571	0.7
November-05	Sixth review completed		
November-05	Seventh disbursement	0.571	0.7
	Total	4.000	5.0

Statement by the IMF Staff Representative
July 24, 2002

This statement provides information on economic developments that became available since the issuance of the staff report on the 2002 Article IV consultation with Rwanda and requests for a new PRGF arrangement and for additional interim assistance under the Enhanced HIPC Initiative (EBS/02/122; 7/5/02). These developments do not alter the thrust of the staff appraisal.

Prior actions

1. The PRGF-supported program for 2002–03 included the ratification by parliament of a budget in line with understandings reached during the program discussions; action to bring reserve money to or below the indicative ceiling for end-June 2002; and the issuance of guidelines determining qualification and priority for payment of outstanding government obligations as prior actions upon which the issuance of the Board documents for the program would be conditioned. As noted in the staff report (EBS/02/122, Box 1), the actions on the budget and on reserve money were intended to ensure that program implementation was feasible. The issuance of guidelines on payments on domestic obligations was key to strengthening transparency in financial administration. All three of the conditions were met, as required.

2. Regarding the revised budget for 2002, parliament, on July 2, 2002, ratified a budget in line with program understandings. The budget includes agreed tax measures on import tariff bands and announces a reduction in the corporate income tax rate from 40 to 35 percent. In addition, the revised budget provides for an increase in the VAT rate from 15 percent to 18 percent—one percentage point higher than had been anticipated—which is expected to generate an additional RF 1 billion (0.1 percent of GDP) in government revenue (above program projections) during the remainder of 2002. At the same time, authorizations were approved to cover wage increases associated with promotions in the armed forces (RF 0.6 billion) and additional spending on goods and services. Overall, the budget as revised maintains a domestic fiscal deficit equivalent to 3.3 percent of GDP and an overall deficit on government financial operations (excluding grants) equivalent to 9.9 percent of GDP, as envisaged in the program.

3. The guidelines setting out the basis for determining qualification and priority for the payment of outstanding government domestic obligations were issued on June 28, 2002. The guidelines, issued in the form of a ministerial instruction, instituted a committee charged with the prioritization of obligations for payment based on a defined set of criteria. Under the guidelines, the committee would submit payment recommendations to the Minister of Finance and Economic Planning on a quarterly basis.

4. Recently, the National Bank of Rwanda (NBR) has acted to tighten liquidity in the banking system significantly. In this regard, the NBR conducted a number of special treasury

bill auctions and, by June 30, 2002, reserve money (program definition) had been brought to RF 40 billion—RF 0.3 billion below the indicative target for that date.

Recent developments in government finances

5. Preliminary information suggests that the domestic fiscal deficit at end-June 2002 was approximately RF 2.5 billion (0.3 percent of GDP) above the indicative target, as delayed collections on nontax revenue and spending on goods and services more than offset higher-than-projected tax revenue. As nontax revenue targets for the remainder of 2002 are expected to be met and as increased spending through end-June reflected a shift in outlays from the third quarter, fiscal performance remains largely in line with program objectives.

Program financing

6. At the Paris Club tour d'horizon of July 10, 2002, the Club could not agree on a new Paris Club rescheduling for Rwanda due to the reservations expressed by one creditor who, before being able to join the consensus, required the completion of a review by its agencies of Rwanda's human rights record and military outlays. As a result, US$ 4.1 million in debt rescheduling that had been included in program financing has not yet been approved.

7. However, the loss resulting from the exclusion of financing from debt rescheduling has been more than offset by the effect of the depreciation of the U.S. dollar versus the euro and the pound sterling in the period since the program was constructed using the revised WEO rates issued on July 17, 2002, given that a substantial part of donor assistance to Rwanda is euro and pound sterling denominated and expected to be disbursed toward the end of 2002. As a result, the program remains fully financed.

8. Fund approval of the request for a new PRGF for Rwanda would facilitate consideration of a new IDA credit by the World Bank's Executive Board and support disbursement of external assistance from other donors that is tied to Rwanda having a program in place with the Fund. Disbursement of such assistance is critical to financing government operations during the remainder of 2002, including the demobilization program, gacaca courts, constitutional reform, and other key social initiatives.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 02/104
FOR IMMEDIATE RELEASE
September 20, 2002
Corrected: 10/15/02

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2002 Article IV Consultation with Rwanda

On July 24, 2002, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Rwanda.[1]

Background

Since the end of the war and genocide in 1994, Rwanda has made substantial progress in rebuilding the country's economic and social infrastructure, despite institutional capacity constraints. After the immediate post-conflict recovery period, Rwanda's economic performance has remained strong. Real GDP grew 6.7 percent in 2001, as favorable weather conditions stimulated agricultural output and external transfers, equivalent to 11.5 percent of GDP, spurred manufacturing, construction, and transportation and communication activities. The current account deficit (excluding grants) in 2001—at 16.4 percent of GDP roughly unchanged from 2002—was financed by continuing large external aid inflows. Consumer price inflation declined to 3.4 percent in 2001 from 3.9 percent in 2000, helped by the favorable impact of increased food supply on prices for agricultural products. Broad money growth in 2001, at 10 percent, was largely fueled by foreign currency inflows. Helped by larger-than-anticipated foreign aid inflows, the National Bank of Rwanda (NBR) increased its level of gross reserves to cover 5.7 months of imports of goods and nonfactor services.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

The fiscal performance in 2001 was encouraging. With stepped-up efforts in revenue collection, the revenue-to-GDP ratio rose to 11.4 percent in 2001 from 9.7 percent in 2000. Reflecting a lower-than-envisaged implementation rate of foreign-financed capital projects, the deficit was limited to 9.5 percent (excluding grants), nearly one percentage point lower than targeted.

The government initiated a number of structural reforms in 2001. Among major achievements were the development of a system for the monitoring of poverty-reducing spending, the introduction of a value-added tax, the start of weekly foreign exchange auctions of the NBR, and the strengthening of the Office of the Auditor General. However, partly due to capacity constraints, some actions remain to be taken.

In 2002, the government will limit the overall fiscal deficit to below 9.9 percent of GDP. Programmed spending includes outlays for demobilization and reintegration of army soldiers and ex-combatants, stepped-up efforts at fiscal decentralization, and jurisdiction of genocide-related trials. In order to accommodate these exceptional expenditures, revenue measures—including an increase in the value-added tax rate to 18 percent from 15, and a harmonization of the customs tariff structure to proposals for a common external tariff under the Common Market for Eastern and Southern Africa (COMESA)—are being implemented. At the same time, the corporate income tax is being reduced in an effort to harmonize the tax system with neighboring countries.

Rwanda’s medium-term macroeconomic strategy is to gradually reduce the fiscal and current account deficits, and to arrest the deterioration of the debt sustainability indicators. While increasing macroeconomic stability, these policies are expected to also improve private sector confidence, which will be critical to improving economic growth and reducing poverty. For 2003 and 2004, the government plans to limit the fiscal deficit to 9.4 and 8.0 percent of GDP, respectively. During this period, expenditure in priority areas will continue to grow substantially, while growth in other spending will be moderated. Revenue measures, such as the introduction of an excise tax on cars and a reform of the personal income tax, will accompany the package. The external current account deficit is projected to decline to 13.6 percent of GDP by 2004.

Rwanda’s economic program also contains a comprehensive structural reform agenda, including substantial improvements in the administration of public finances, the promotion of governmental transparency and accountability, and the strengthening of the financial sector and its supervision.

Rwanda’s program is backed by its first full Poverty Reduction Strategy Paper (PRSP), issued in June 2002, which builds on a broad-based consultative process. In the PRSP, Rwanda lays out in detail its strategy for substantially reducing poverty. Rwanda can reach the completion point under the enhanced HIPC Initiative in 2003.

Executive Board Assessment

Executive Directors commended the authorities’ progress, over the past year, in laying the foundations for robust growth and poverty reduction under difficult conditions. Directors cited in this connection the major reintegration effort, the safety nets for survivors of the 1994 genocide, the elections for local government, work on a new constitution, and the training of judges.

Directors stressed, equally, that sustained growth and enduring poverty reduction depend crucially on a just and durable security settlement in Rwanda and more widely in the Great Lakes region. Only in that setting can critically-needed advances in regional economic integration be realized, and domestic resources in Rwanda be freed for productive use. Directors therefore urged the authorities to pursue peace relentlessly. This would be crucial also, in parallel with strong policy performance, to catalyze investor and donor support and assure the financing of Rwanda's program.

Directors laid particular emphasis on the need for fiscal transparency, including on defense expenditures. They urged prompt action to establish effective expenditure tracking and financial reporting systems, to be developed with direct World Bank engagement, so that the demobilization and reintegration program would be subject to adequate monitoring and accounting systems.

Directors noted that the progress achieved by the authorities over the past three years has taken place in a setting of macroeconomic stability, and a progressive strengthening in administrative capacity, under the PRGF programs. They viewed performance in 2001 as broadly encouraging, with growth strong, inflation moderate—partly due to climatic conditions—and an above-target rise in official reserves. Progress has been made with structural reforms—such as the revised fees for public services; improved performance at the Rwanda Revenue Authority (RRA); the auditing of public accounts transactions and of key ministries, as well as a strengthening of the Office of the Auditor-General; a new civil service structure and code; and strengthening of the national tender board. Taken together, these measures lay a strong basis for moving forward.

Most Directors welcomed the authorities' program for 2002-03 as underpinning the growth and poverty reduction goals of the PRSP. A number of Directors, however, expressed strong reservations as to whether the preconditions for a sustainable program were yet in place—referring notably to risks arising from the security situation, and Rwanda's implementation capacity.

Directors stressed that macroeconomic stability is crucial for the attainment of sustained growth and poverty reduction. A prudent fiscal stance is thus essential, to avoid a deterioration in debt sustainability indicators beyond the projected levels. In this connection, most Directors were encouraged by the limited rise in the deficit on domestic fiscal operations projected in 2002, and the commitment to reverse this from 2003 onward.

Directors viewed success in the revenue effort under the program as critical—in this key phase of nation-building—to secure financing consistent with continued stability. Recent increases in the VAT rate to the regional average, and the adjustment of tariff rates in line with preliminary COMESA proposals, were seen as contributing substantially to meeting revenue targets, although further improvements to the capacity of the RRA remain essential.

Directors praised the authorities' expenditure program, which encompasses fully the priority actions needed for social, political, and economic transformation. In this regard, they pointed to constitutional reform, government decentralization, and the strengthening of governance as bold steps toward a sustainable and efficient foundation for the economy. Spending on local (gacaca) courts and on demobilization and reintegration, as well as assistance to genocide victims, support critical poverty reduction goals in the PRSP, Directors noted. They laid particular emphasis on the importance of reducing unproductive expenditure. Some Directors questioned whether, in present circumstances, the authorities would be in a position to fully implement these expenditure plans.

Directors stressed the need to continue strengthening public financial administration—which is crucial for the appropriate and efficient use of resources in support of program goals. They commended new eligibility guidelines for domestic liability claims, improved processes for establishing and monitoring government bank accounts, and the incorporation of off-budget accounts. They noted also the importance of continued reinforcement of the Office of the Auditor-General, publication of audit reports and data on government financial operations, and inclusion of the demobilization and reintegration accounts for 2002 in the program of the Auditor-General's Office.

Directors considered that the current floating exchange rate regime continues to serve Rwanda well. They welcomed the authorities' continuing commitment to establishing low inflation as a norm. Directors urged the National Bank of Rwanda (NBR) to monitor closely liquidity developments, and to tighten policy aggressively when needed.

Noting Rwanda's extremely narrow export base, continued dependence on external financing, and vulnerability to external shocks, Directors stressed that capital inflows and shifts in relative prices must not be allowed to undermine market incentives for productive activities and diversification of the economy. Directors also urged the authorities to strengthen their debt management system. Several Directors stressed concerns about the lengthy period over which Rwanda's debt ratios are projected to decline to sustainable levels, and some emphasized that the international community must continue to provide adequate financial assistance.

Directors expressed concern about the precarious health of the banking sector and urged prompt action to deal with underlying issues. They called for a timely action plan, in consultation with World Bank and Fund staff, to address problems in a commercial bank now under provisional control of the NBR - to safeguard assets and limit the potential fiscal burden. They welcomed the authorities' interest in participating in the FSAP program.

Directors encouraged resolute movement forward with measures to combat money laundering and financing for terrorism. They welcomed the authorities' commitment to develop, with the assistance of anti-money laundering experts, a road map setting out required technical assistance and major milestones.

Directors noted that Rwanda's macroeconomic statistics suffer from many weaknesses, especially in the areas of national accounts, government finance, and balance of payments.

While recognizing that some initial steps to address identified issues had been taken, they stated that further strengthening remains a priority and advised the authorities to take advantage of available technical assistance, including from the Fund, in the effort.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board.

Rwanda: Selected Economic and Financial Indicators
(In millions of U.S. dollars, unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	2000	2001
Domestic economy								
Real GDP growth (annual percent change)	-50.2	35.2	12.7	13.8	8.9	7.6	6.0	6.7
Consumer prices (end of period; annual percent change)	64.4	38.4	8.7	16.6	-6.0	2.1	5.8	-0.2
External economy								
Exports, f.o.b.	32.2	50.4	62.0	93.0	64.1	62.0	89.8	93.3
Current account balance	-399.4	-246.2	-266.8	-321.6	-339.0	-323.0	-295.8	-279.2
Capital account balance	6.9	93.5	90.0	115.9	95.1	70.9	62.0	70.1
Financial account balance	-3.5	-19.0	23.3	44.6	51.5	63.9	43.4	73.3
Private capital (net)	12.4	-45.0	-11.4	3.8	5.0	12.2	11.8	22.4
Public capital (net)	-15.9	25.9	34.6	40.8	46.5	51.8	31.6	50.9
Capital and financial account balance	3.4	74.5	113.3	160.5	146.6	134.8	105.4	143.4
Current account balance, excluding official transfers (in percent of GDP)	-53.0	-19.0	-19.3	-17.4	-17.0	-16.7	-16.3	-16.4
Change in real effective exchange rate (in percent, + = appreciation)	51.9	-39.7	8.6	26.9	-18.3	5.4	-9.6	-4.9
Financial variables								
Overall fiscal balance excluding grants (in percent of GDP)	-12.4	-13.7	-13.2	-9.2	-8.3	-9.7	-8.9	-9.5
Change in broad money (in percent)	-6.5	73.7	8.2	47.5	-3.9	6.6	14.4	10.0
Interest rate (in percent) 1/	9.0	12.0	11.0	11.4	10.0	10.1	11.6	10.2

Source: Rwandese authorities; and IMF staff estimates and projections.
1/ One-year savings deposits.

Press Release No. 02/36
FOR IMMEDIATE RELEASE
August 12, 2002

International Monetary Fund
Washington, D.C. 20431 USA

IMF Approves a Three-Year, US$5 Million PRGF Arrangement for Rwanda

The Executive Board of the International Monetary Fund (IMF) has approved a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for an amount equivalent to SDR 4 million (US$ 5 million) for Rwanda. The Board determined that Rwanda's Poverty Reduction Strategy Paper (PRSP) provides a sound basis for Fund concessional financial assistance. As a result, Rwanda will be able to draw SDR 0.574 million (about US$ 0.76 million) under the arrangement immediately.

The Board also approved additional interim assistance for Rwanda under the Enhanced Heavily Indebted Poor Country Initiative of SDR 0.838 million (about US$1 million) to help Rwanda meet its debt service payments on its existing debt to the IMF.

The PRGF is the IMF's concessional facility for low income countries. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a PRSP. This is to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5 ½-year grace period on principal payments.

Following the Executive Board's discussion on Rwanda, Eduardo Aninat, Deputy Managing Director and Acting Chairman, said:

"The authorities are to be commended for preparing a comprehensive PRSP, which lays out Rwanda's poverty reduction strategy following a broad consultative process with civil society and the donor community. The PRSP provides the basis for guiding current and future macroeconomic programs, and with its completion Rwanda has met one prerequisite for the completion point under the enhanced HIPC Initiative, which is expected to be reached next year.

"Achieving sustainable growth and reducing poverty in the period ahead will depend crucially on rapid progress in resolving the security situation in a just and durable manner—thus laying the foundation for resources to be channeled toward building productive capacity. The authorities are strongly encouraged, together with all parties in the Great Lakes region, to buttress progress toward peace and durable stability. This, together with strong policy performance, will be essential to catalyze investor and donor support, and assure financing of Rwanda's program.

"The three-year program that is to be supported under the PRGF is expected, in this setting, to reinforce Rwanda's progress toward macroeconomic sustainability, and to further strengthen its economic and financial institutions. The fiscal program increases resources for poverty reduction and for the promotion of peace and regional stability through an ambitious demobilization and reintegration program; a constitutional referendum to strengthen democratic institutions; initiation of national elections and the decentralization of the public administration; traditional courts to resolve cases against those accused of genocide—as well as resources to support its surviving victims.

"Given the importance of these initiatives, and in order to limit the rise in its debt burden and to assure continued progress towards macroeconomic stability, Rwanda has undertaken a significant effort to increase its domestic revenue base. Key measures include changes in tax policy and revenue administration measures—effectively safeguarding the benefits derived from the HIPC Initiative. In this regard, access to Fund resources has been limited to accommodate more concessional assistance.

"Rwanda's strategy aims at visibly increasing public investment in human and physical capital and at facilitating private sector savings and investment, and rapid economic growth paired with low inflation. It includes an ambitious structural agenda, fostering improvements in the financial administration and its transparency, enhancing governance, and advancing the financial sector and its supervision.

"The Executive Board agreed to Rwanda's request for an extension of interim relief under the enhanced HIPC Initiative, endorsed Rwanda's PRSP as a sound basis for Fund concessional financial assistance, and supported Rwanda's requests for a new three-year PRGF arrangement," Mr. Aninat said.

ANNEX

Recent Economic Development

Although the previous PRGF arrangement for Rwanda expired without the completion of the second review under the third annual arrangement, significant progress was achieved under the PRGF-supported program. Public administration was strengthened, and budgeting was more tightly focused on supporting growth and reducing poverty. Under the program, substantial action was taken to rebuild economic and social infrastructure, and government intervention in the economy was reduced, including the elimination of exchange rate and price controls and the taking of initial steps in privatization and trade liberalization.

Macroeconomic performance during 2001 was strong. Real GDP grew by 6.7%, as a favorable climate stimulated agricultural output and external transfers, equivalent to 11.2% of GDP, spurred manufacturing, construction, transportation, and communications activities. With food in increased supply, the agricultural component of the consumer price index fell, and at end-2001, the consumer price index declined by 0.2% on an annual basis. Prices for nonfood items, however, increased by 3.8% relative to end-2000. With GDP growth robust, fiscal performance was stronger than envisaged in the program. The revenue-to-GDP ratio rose from 9.7% in 2000 to 11.4% in 2001, compared with a targeted 10.8%. With only minor overruns on primary current spending and with domestically financed capital expenditure on target at 0.5% of GDP, primary expenditures amounted to 14% of GDP, and the primary deficit was limited to 2.7% of GDP. The performance objective on social spending was also met. As donor-financed projects were at 6.2% of GDP, 0.7% of GDP below projection owing to implementation delays, and as interest payments were equivalent to 0.8% of GDP, the overall fiscal deficit (excluding grants) was equivalent to 9.5% of GDP—nearly 1 percentage point lower than targeted.

The deterioration in the balance on external trade was limited to US$12 million in 2001, as a sharp decline in export prices for tea and coffee was largely offset by export volume increases and falling petroleum prices. The larger trade deficit, however, was compensated for by a significant improvement in the services balance that resulted from reductions in spending on embassies abroad and lower technical assistance. The deficit on the external current account therefore remained broadly unchanged at about 16% of GDP (excluding official transfers) and 7% after such transfers. With the balance of payments and domestic prices stable, the Rwanda franc depreciated by 5% in real effective terms during 2001, following 10% depreciation in 2000.

Program Summary

The authorities have finalized a PRSP. The program for 2002-2003 supports the poverty reduction strategy formulated in that document. Macroeconomic stability is a key fiscal objective, with emphasis on augmenting the domestic revenue base. The structural reform agenda emphasizes improvements in the financial administration and in governance and transparency, as well as the troubled financial sector and its supervision.

The authorities have targeted a limiting of the overall fiscal deficits to 9.9% of GDP in 2002 and to 9.4% in 2003. The fiscal program aims to strengthen the revenue-to-GDP ratio to 12.2% of GDP in 2002 and 12.7% in 2003, a critical step toward achieving sustainability. The authorities also agreed that monetary policy for 2002-2003 should aim at limiting inflation and appropriately building net foreign assets. Given the surge in monetary aggregates at end-2001, broad money growth in 2002, at about 7%, has been targeted below nominal GDP growth, in order to avoid an inflationary impulse. The authorities are also aiming their reforms in the financial sector at improving banking system soundness. Policies supporting this objective include implementing an accelerated loan recovery system, strengthening the capacity of the NBR's banking supervision department, and improving the capacity of the judicial system through, inter alia, the establishment of commercial courts.

Developments in the external sector under the program during 2002-2003 will largely reflect the impact of exogenous factors, including the plunge in the price for coltan and the continued weakness in prices for coffee and tea. The external current account deficit (excluding grants) is projected to widen from 16.4% of GDP in 2001 to 17% in 2002 and to decline 15.7% in 2003. The overall balance of payments deficit (excluding program grants) is expected to reach US$120 million and US$109 million in 2002 and 2003, respectively.

On the structural reforms, the authorities have set out a focused action plan for improving economic governance, strengthening the administration of public finances, and supporting the decentralization of government. In particular, the plan includes steps to improve budget administration, increase transparency and accountability, strengthen economic institutions, and introduce the legislation and regulations required to ensure efficient, rule-based governance.

Rwanda became a member of the IMF on September 30, 1963. Its quota is SDR 80.10 million (about US$107 million), and its outstanding use of IMF credit currently totals SDR 63.3 million (about US$84 million).

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Source: Rwandese authorities; and IMF staff estimates and projections.

1/ One-year savings deposits.