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Rwanda: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

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June 8, 2012

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The following item is a Letter of Intent of the government of Rwanda, which describes the policies that Rwanda intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Rwanda, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

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LETTER OF INTENT

Kigali, Rwanda
May 15, 2012

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Ms. Lagarde,

The attached Memorandum on Economic and Financial Policies (MEFP) reviews recent economic developments in Rwanda and implementation of Rwanda's economic program under the three-year Policy Support Instrument (PSI), which was approved by the IMF Executive Board on June 16, 2010. The attached MEFP is an update of the previous MEFP and sets out policies and programs the Rwandan Government intends to implement for the fiscal year 2012/13 and the medium term. The PSI is set to expire on June 29, 2013.

We continue to make progress with our economic program. Growth is robust and inflation remains in the single digits. All end-December 2011 quantitative assessment criteria and continuous assessment criteria were met. Structural reforms are proceeding, with eight structural benchmarks met in the period since the last review. One additional benchmark (publication of budget execution reports) was met with delay, and four (transfer of the collection and auditing of social security contributions to the Rwanda Revenue Authority, medium-term debt strategy, electronic tax registry, and debt sustainability analysis) have taken longer than initially envisaged; they will be completed in the coming months.

In light of the satisfactory performance outlined in the attached MEFP, the Government requests completion of the fourth review under the PSI. The Government also requests approval of the modification of the assessment criteria for end-June 2012 with respect to (i) NFA of the central bank to reflect higher-than-programmed donor inflows; (ii) reserve money to accommodate higher demand for liquidity on account of higher nominal GDP and increased financial deepening; and (iii) NDF to reflect changes in timing of donor disbursements. Furthermore, the Government requests the ceiling on the continuous assessment criteria on nonconcessional borrowing be raised from US\$240 million to US\$255 million and untied from specified projects in order to allow additional borrowing for priority

projects. It does not materially affect debt sustainability, as shown by the DSA Update. The Government also requests approval of end-December 2012 assessment criteria and structural benchmarks for 2012.

The Government is confident that the policies and measures set forth in the attached Memorandum will deliver the objectives of the program. We stand ready to take any further measures that may become appropriate for this purpose. The Government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

The Government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program. It is expected that the fifth review will take place before end-December 2012, and the sixth and final review before June 29, 2013.

The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by the Fund staff.

Sincerely yours,

/s/

John Rwangombwa
Minister of Finance and Economic Planning

/s/

Claver Gatete
Governor, National Bank of Rwanda

Attachment I. Rwanda: Memorandum of Economic and Financial Policies

May 15, 2012

UPDATE

1. In this updated Memorandum of Economic and Financial Policies (MEFP), the Government of Rwanda reiterates its commitment to achieving sustained economic growth and poverty reduction. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12¹ and Rwanda’s Vision 2020. To this end, the Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support macroeconomic policies and structural reforms that underlie strategies in the EDPRS.
2. This MEFP reviews performance through end-December 2011 and describes policies and targets for end-June 2012 and end-December 2012, the 2012/13 fiscal year and the medium term.

I. Performance under the PSI

3. As of end-December 2011, all quantitative assessment criteria were met and structural benchmarks were broadly met (Tables 1 and 2). The submission to cabinet of the public debt policy and medium-term debt strategy (MTDS), planned for end-October 2011, remains outstanding. A first draft of the MTDS was discussed with key stakeholders (the Ministry of Finance and the Central Bank) and a revised draft incorporating comments that involved broadening the scope of the strategy is now planned for submission to the cabinet in May 2012 along with FY 2012/13 Budget. Further, while the authorities published on their website the first quarterly budget execution report in November 2011—a delay in the implementation of the continuous structural benchmark that was planned to start in May 2011—the report for the quarter ending in December 2011 was delayed but has been since published at end-March 2012. The benchmark on submitting to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions to the Rwanda Revenue Authority (RRA) has been changed into a MOU between the two parties as it is more about delegation of operation and not a change of the mandate of the Rwanda Social Security Board (RSSB). The MOU was signed by RRA and RSSB in May 2012.

¹ Rwanda’s latest EDPRS (IMF Country Report No. 08/90) and Joint Staff Advisory Note (IMF Country Report No. 08/91) were issued to the Executive Board on February 14, 2008. A progress report was issued to the IMF Board on June 23 2011 (IMF Country Report No. 11/154).

4. **More recently, most structural benchmarks through end-March 2012 were met** with the exception of electronic tax registry which has been delayed until May 2012 (see below) and conducting DSA which has been delayed until July 2012 (see below).

Growth

5. Real GDP growth is estimated to have reached 8.6 percent in 2011, in line with program projections, driven mainly by a good harvest, and strong domestic demand, especially for construction (Table 1).

Inflation

6. Inflation rose sharply in 2011, but remained in single digits—and the lowest in the East African Community (EAC). Headline inflation reached 8.3 percent (y-o-y) at end-2011 (up from 0.2 percent a year earlier) and remains at 8.2 percent in March 2012, followed by temporary declines in January and February reflecting the second phase of the planned reduction in fuel taxes in the period. In the meanwhile, core inflation declined from 8.3 percent in December 2011 to 5.3 percent in March 2012.

Fiscal Performance

7. The fiscal deficit for the first half of FY 2011/12 (July-December) was smaller than projected (by about 1 percent of GDP), mainly reflecting delays in implementing domestically-financed capital projects.

8. **Tax revenue exceeded the target in the first half of FY 2011/12**, despite the permanent loss of 0.2 percent of GDP of revenue resulting from the reduction in fuel taxes (that aims at starting the harmonization of fuel taxes in Rwanda with EAC levels as well as containing, the impact of transport costs on inflation in 2011). Domestic revenue collections to end December 2011 amounted to RWF 284.2 billion (of which tax revenue of RWF 258.6 billion and non-tax revenue of RWF 25.6 billion). Tax revenue collection was RWF 5.6 billion higher than the target of RWF 252.6 billion by the end of December 2011, driven mainly by higher direct taxes and taxes on goods and services. However, a shortfall of RWF 5.8 billion in non-tax revenue was due to lower collections from administrative fees and charges, as well as dividends.

9. Budget support grants that accrued to the budget up to December 2011 amounted to RWF 210.9 billion compared to RWF 209.6 billion expected for July – December 2011.

10. Budgetary loans that accrued to the budget up to December 2011 amounted to RWF 53.4 billion, RWF 1.2 billion higher than 52.2 expected.

11. By end December 2011, total provisional spending for the FY 2011/12 had reached RWF 480.4 billion of the total spending of RWF 524.2 billion expected for the first half of

this fiscal year (lower spending on account of delays in completing all tender documentations for some capital projects on time and delays in disbursement of some external project loans).

12. Despite the lower spending the priority expenditure target was met. As a result of the disbursement of about RWF 51 billion by the Global Fund which accumulated as deposits and lower spending as mentioned above, there was a larger build up of deposits under net domestic financing. Net domestic financing in terms of government deposit buildup reached RWF 173.6 billion at end-December 2011, higher than RWF 138.4 billion projected.

13. Expenditures since January 2012 have picked up, especially domestically-financed capital expenditures, as the reasons for the under-spending in the first half of the fiscal year have been resolved. Accordingly total expenditure and net lending at RWF 596.4 billion in the January-June 2012 period will not exceed the target. Domestic revenue collections for the January-June period will also reach RWF 280.9 billion allowing the 2011/2012 revised domestic revenue mobilization target of RWF565.1 billion (13.8 percent of GDP) to be reached. Consistent with fiscal policy implementation in the January-June 2012 period the net domestic debt retirement goal of RWF 28 billion (0.7 percent of GDP) will also be met.

14. **Progress towards revenue administration measures in 2011/12 approved budget**

a) Introduce Electronic Sales Register (ESR) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers (Structural benchmark for end-January 2012): there were delays in the procurement process and publication of the law. Consultants to develop software for managing the machines (Sales Data Control) have been sourced and contracts were signed as at end January 2012. Procurement and distribution of 500 machines has been completed and the pilot phase is expected to start in May 2012.

b) Conduct a study to identify potential areas to widen the tax base and estimate the tax gap (structural benchmark for end-December 2011): the study by the International Growth Center (IGC) on a flat tax regime has been completed. The Government is considering the conclusions of the study and in any case, it is intent that any reform of direct taxes will be at least revenue neutral.

c) Introduce e-filing and e-payment systems to reduce the time spent serving taxpayers, compliance costs incurred by taxpayers, and improve service delivery: the implementation of the system started with a pilot phase in November 2011 for Pay-As-You-Earn (PAYE) and VAT (Value Added Tax). E-filing is currently being done by some taxpayers for VAT, PAYE, and Withholding tax (WHT). The development of the module to allow e-filing and e-payment of additional tax types is ongoing.

- d) Conduct a customer satisfaction survey to inform the next areas of focus for strategic planning purposes: the final report was produced in December 2011. A note on the key findings and recommendations was prepared and focus areas identified for actions by the concerned departments.
- e) Introduce new tax compliance risk assessment system in the Domestic Taxes Department (DTD) that will orient audit function to high risk taxpayers: a number-of risk management tools were developed and are being used by DTD in the data matching exercise that orients audit plans. Furthermore, a plan was laid down to put in place a data warehouse and acquire advanced risk management tools in order to improve analysis and data matching for audit planning.
- f) Implement electronic single window (ESW) system at customs that will allow parties involved in trade and transport to lodge standardized information and documents using a single point: the development of the ESW between the RRA and four other government agencies (Magerwa, Rwanda Development Board (RDB), Rwanda Bureau of Standards (RBS) and Ministry of Health) was finalized. The pilot phase of the ESW system was launched in Feb 2012. Communication and awareness campaigns are being done through the web and local media since February 2012. Roll out of the system to other customs offices (in Kigali) is expected to start in April 2012. Connecting other agencies to ESW is planned for July 2012.
- g) Establish a One-Stop-Border Post (OSBP) at Kagitumba and Rusumo border posts with 24 hour operations to facilitate cross border trade: for Kagitumba, the Environment Impact Assessment certificate was obtained and the tender for construction will be published in April 2012. For Rusumo, the Environmental Impact Assessment was conducted and the report was approved by the Joint Technical Committee and submitted to the EAC Secretariat for approval. The evaluation of bids took place in February 2012 and the contracts have been signed. The major challenge in the implementation of OSBP at Kagitumba and Rusumo is that the operationalization of OSBP is a cross cutting project between bordering countries. The priority given to such projects differs and decision making took longer hence affecting the preliminary implementation processes. Also, the OSBP project is externally funded with direct payment and control over any delays in the procurement processes or delays caused by the contractors is limited.
- h) Operate electronic cargo tracking equipment to ensure the protection of cargo from source to destination: this project is managed by Ministry of Infrastructure (MININFRA). Six firms bid for the tender and opening of bids was jointly done by the Rwanda Transport Development Agency (RTDA) and RRA teams. Evaluation of bids was done in February 2012 and the evaluation report was submitted to the World Bank for non-objection.

i) Fully automate collection of pension funds and health insurance contributions and bring those out of the PAYE net into the system; the funder for this project (Investment Climate Facility) issued non-objection for CMC TATA to develop this module. Development has started for return processing (i.e. collection).

External Sector

15. A larger-than-expected balance of payments surplus in 2011 resulted from strong export performance, as well as a large increase in official and private sector capital inflows. The services and income balances improved, mainly from an increase in tourism services receipts and the AirTel (telecom) license fee. Current transfers, including from the Global Fund, also increased sharply. Both public and private borrowings increased in 2011, reflecting ongoing implementation of some public strategic investment projects as well as private sector projects in the transportation, communication, real estate and coffee sectors. Gross international reserves reached about 5 months of imports.

Monetary and Exchange rate Developments

16. Broad money supply recorded an annual increase of 26.8 percent at end-2011, driven mainly by the growth of credit to the private sector (27.9 percent). The increase in monetary aggregates has been in line with the nominal GDP growth of 16.7 percent and the monetization of the economy. In the monetary programme implementation, following the upward targets review made in November 2011 with the IMF mission to take into account the more-than-projected economic performance, the National Bank of Rwanda (NBR) has achieved end December 2011 net foreign assets and reserve money targets.

17. The monetary programme remains on track in the first quarter 2012 as a result of improved money demand projection. In line with the PSI structural benchmark of end February 2012, the NBR has developed a new liquidity forecasting framework with an extended horizon from 1 week to 6 months. This framework implemented since 1st March 2012 integrates forecasted changes in the autonomous factors of the banking system liquidity on a longer period, with focus on Government operations, currency in circulation and cash in vault held by banks. The new framework allows the central bank to predict its policy interventions for controlling the money supply.

18. Within the framework of supporting the development of the interbank market, the NBR adopted an action plan which will enhance the deepening of the interbank market and achieve the monetary policy objectives. On February 29, NBR fixed its REPO and reverse REPO operations to the maturity of seven days. The NBR will continue to use the Key REPO Rate as the maximum rate at which mop up liquidity will be effected and the minimum rate at which liquidity will be injected into the banking system for seven-day maturity operations.

The bank might in exceptional cases, make use of other maturities only when there is need to mop more from the system. This additional facility is for only fine-tuning purpose.

19. Money market interest rates have increased from 7% in June to 8.1% in December in line with the change in the banking system liquidity and significantly influenced by the level of the central bank policy rate and the level of the reserve money targets. Recent successive increase in central bank policy rate from 6.0 percent to 6.5 percent in October and 7.0 percent in November allowed the Central Bank to continue limiting risks of monetary inflation. As a result, contrary to other EAC member countries where inflation remains at double digit level, Rwanda managed to maintain inflation at one digit level, at 8.2 percent in March 2012 from 8.3 percent in December 2011.

Financial sector

20. The banking system continues to be highly liquid and profitable with the overall nonperforming loans ratio declining from 11.3% at end-2010 to 8.2% at end-2011. The National Bank of Rwanda hired 60 inspectors to supervise the Savings and Credit Cooperative Organizations (SACCOs) at district level. The inspectors are receiving training in fields relating to their mission and were provided with necessary equipment to facilitate them in the monitoring and supervision of these SACCOs. At end March 2012, all the 416 SACCOs are authorized to grant loans including 273 fully licensed (up to 40% of their deposit) and the remaining (up to 20%) of their deposits. All SACCOs received a computer and a printer from Rwanda Cooperative Agency (RCA).

21. Regarding the regulatory framework, the NBR Board approved two banking regulations; one on Reporting requirements and another one on Risk Management in December 2011.

22. Actions have been taken in response to the 2011 FSAP update regarding the Financial Sector Development Plan (FSDP). The NBR received Technical Assistance (TA) from the World Bank (First Initiative) to elaborate an action plan to implement all recommendations of 2011 FSAP update. The team carried out a scoping mission for the new FSDP and met various financial sector stakeholders from March 5 to 30, 2012. The team is expected to come back in June 2012 to carry out the work and the FSDP report is expected to have been finalized by September 2012.

23. The NBR continued to accommodate new market developments and network expansion aiming at increasing competition and widen financial access. One new regional bank (Equity Bank) started its operation in the third quarter of 2011 while three MFIs have been upgraded to Microfinance Banks. In addition, three banks have been licensed to offer agent banking, while almost all banks do mobile banking. In 2011, the number of bank branches and outlets networks was 448 countrywide against 333 in 2010.

24. Actions were taken to strengthen the capacity for banks supervision by recruiting 5 new inspectors. Currently, the Bank supervision Department comprises 18 Inspectors. Aiming to improve the compensation scheme and professional development, Inspectors start up with one step ahead others staff.

25. In the year 2011, the NBR continued to improve its supervisory roles by conducting off site surveillance and onsite inspection. During the year 2011, nine onsite inspections were conducted against seven carried out in 2010.

Poverty Reduction

26. Data collected during the third integrated household living conditions survey include demography, education, health, housing, economic activity, agriculture, remittances and asset ownership. The unprecedented large sample size of 14,310 household selected for permits production of estimates at district level in the form of district profiles which shall inform local governments' development planning frameworks.

27. The results show a reduction in poverty at the national level by 12 percentage points between 2005/06 and 2010/11. Poverty is estimated to be 44.9 % nationally, with 22.1% poor in urban areas and 48.8% poor in rural areas. Extreme poor fell from 40% in 2000/01; to 36% in 2005/06; and to 24% in 2010/11.

28. As far as agricultural activities are concerned, the share of marketed output (livestock as well as crop activities) increased strongly between 2005/06 and 2010/11, from 22% to 27% respectively. Ownership of live stock has also increased, from 34% to 47% nationally from 2005/06 to 2010/11, etc.

Statistical Issues

29. Efforts to improve the quality of national accounts are continuing. In order to compile a high quality Supply and Use Table (SUT) and to produce robust benchmarks for the rebasing of Gross Domestic Product (GDP), National Institute of Statistics of Rwanda (NISR) is planning to conduct an Integrated Enterprise Survey (IES) for reference year 2011. The 2011 IES will collect benchmark data on non-agriculture non-household sector economic activities using the 2011 Establishment Census (2011 EC). Data collection is expected to start from May 2012 and results are expected by end December 2012.

30. To support these ambitious work targets, the NISR is strengthening its human capacity. NISR has recruited 47 new staff including economists and strengthened the Economic Statistics Department, which now a director and four Principal Statisticians in charge of national accounts, trade and services, prices and agricultural/industrial statistics.

31. Significant progress has also been made in respect of agricultural statistics. The recruitment of the key consultants has been completed, and the first mission was undertaken by the two senior advisers of Agricultural Assessments International Corporation (AAIC) in February. They prepared a paper that comprises an assessment of the current situation; recommendations for action and next steps. The finalized paper was published at end-March 2012 (structural benchmark)

32. In addition, NISR is planning to hire international experts with the help of NISR Basket fund in relation to the development of the national accounts. The objective is to support further improvements in the quality of the accounts, with particular reference to the statistics relating to the balance of payments, government financial statistics, the supply and use table (for 2011). The TA will also support capacity building across the entire range of economic statistics produced by NISR.

II. Objectives and Policies Looking Forward

33. **The outlook for the 2012/13 fiscal year is in line with the Medium Term Macroeconomic Framework and program objectives set out in the initial MEFP for the PSI.** In 2012, domestic economic activity is expected to expand at a commendable pace, though lower output growth projected at 7.7 percent on account of the looming global recession risks. This growth rate will be led by agriculture, construction and services. Inflation is targeted at 7.5 percent for end-2012 and at 6.5 percent for end- 2013 before stabilizing at 5 percent over the medium-term.

34. Fiscal consolidation through increased domestic revenue mobilization and expenditure prioritization to close the fiscal gap remain the key components of Government's medium – term strategy. Accordingly domestic revenue is projected to rise from 13.8 percent of GDP in 2011/12 to 14 percent of GDP in 2012/2013 and to 14.3 percent of GDP in 2013/2014. Over the medium term domestic revenue will be expected to rise on average by 0.3 percent of GDP per annum and reach 14.9 percent of GDP by 2015/2016. In line with the expenditure prioritization policy total outlays which will rise to 28 percent of GDP in 2012/2013 to accommodate the wage increases in the public sector as well as in domestically financed capital budget are projected to decline steadily to 23.7 percent of GDP by 2015/2016. Mirroring these projections the overall deficit (including grants) is projected to decline from 2.6 percent of GDP in 2012/2013 to 1.6 percent of GDP in 2015/2016.

Fiscal Policy

35. The budget for fiscal year 2012/2013 will deepen the fiscal consolidation strategy. The main objectives are to increase revenue mobilization as well as allocate additional resources for the needed wage increases in the public sector under the Pay and Retention policy and for domestically financed capital projects to reduce poverty. The objective of the Pay And Retention Policy, is to enable Government enhance its capacity to attract, retain and

adequately motivate personnel with requisite skills to the public sector with a view to improve service delivery at the national and local levels. To ensure sustainability of the pay and retention policy in the medium term will be limited to a level consistent with maintenance of macroeconomic stability.

36. To partially finance the needed increases in the wage bill and the domestically funded capital expenditures in fiscal year 2012/2013, allocations for the purchase of non priority goods and services have been reduced. However to ensure that there are sufficient resources for the purchase of goods and services to promote efficient service delivery, the allocations will be augmented on average by 0.2 percent per annum in the medium term with savings of equal amount from the domestically financed expenditures:

- Total domestic revenue collections for fiscal year 2012/2013 are projected at 14 percent of GDP. Tax revenue contributes 13.5 percent of GDP whilst the portion for non tax revenue is estimated at 0.5 percent of GDP. Over the medium term, the contribution from non tax revenue is not expected to rise as a result of the permanent loss of dividends in the face of increasing privatization of public enterprises.
- Total expenditure and net lending is estimated at 28 percent of GDP. This sharp increase from 26.9 percent in FY 2011/12 outlays reflect the increases needed to finance additional expenditure under domestic capital spending to reduce poverty (4.9 percent of GDP) and the wage bills of the public sector workers (from 4.2 percent of GDP to 4.9 percent). With regards to the wage increases, the largest share of the increase (0.5 percent of GDP) will go to increase the minimum wages of the lowest paid workers particularly the teachers as well as reduce the relativities between the lowest paid and the highly paid public servants. The remaining share of the increase (0.2 percent of GDP) is to be used to cater for late promotions and new recruitments.
- Net domestic financing: the budget for fiscal year 2012/2013 closes with net domestic finance equivalent to 0.3 percent of GDP.
- Donor commitments and uncertainty in outer two years of the medium term: since fiscal year 2011/2012, Government started broadening the coverage of project grants in fiscal operations to include funds that hitherto have been outside these operations but whose projects are implemented by sector ministries. Accordingly total budgetary grants for 2012/2013 are projected at 11.4 percent of GDP. However in view of the fact that Rwanda is no longer classified as a grants only country but a mixed country eligible for budget loans, total grants support in the medium term is projected to decline slightly and reach 7.2 percent of GDP by 2015/16. This shortfall will be partly offset with budgetary loans which are expected to rise from 0.2 percent of GDP in 2012/2013 to 2.8 percent of GDP by 2014/2015.

Revenue administration measures for 2012/13

37. All the revenue administration measures mentioned in paragraph 6 above are still ongoing and are expected to continue into 2012/13 except for conducting a customer satisfaction survey, which was completed.

Tax policy measures for 2012/13

The 2012/13 budget envisages the following tax policy measures. No additional tax policy changes are envisioned for 2012/13.

- 1) Increase in tax rates, starting July 2012, for imported construction materials by 5 percent on average on import duties, VAT and excise duties. (Rwf 1 billion)
- 2) Revision of the investment code, by June 2012 (structural benchmark) — yielding revenue of 0.1 percent of GDP
- 3) Introduce Gaming tax (Rwf 1 billion).
- 4) Introduce Electronic Sales Register (ERS) for recording taxpayers' transactions and limit VAT evasion and help track potential taxpayers yielding revenue of 0.2 percent of GDP;

In addition, PAYE from increase in salaries of civil and public servants will yield 0.2 percent of GDP.

38. To promote Small and Medium Enterprise (SME) development through simplification of the tax law in order to lower administrative costs whilst increasing compliance, the SME tax regime is being changed. All SMEs have now been grouped into two categories with new tax rates as follows: small and medium enterprises with a turnover of RWF 12 million to RWF 50 million will now pay a rate of 3 percent instead of 4 percent per annum; and Micro enterprises with a turnover of RWF 2 million to RWF 12 million are now grouped in four bands with flat tax amounts ranging from RWF 60,000 to RWF 300,000 per annum. The new SME tax policy is revenue neutral and will not lose revenue to Government.

39. In line with the Organic Budget Law provisions, quarterly budget execution reports will be prepared and these will be published on the website, within 45 days from the end of each quarter (continuous structural benchmark).

40. There are risks to the fiscal outlook for 2012/13 owing to shortfall in revenue and grants, the Government stands ready to delay some non priority spending to ensure no additional domestic borrowing is needed.

Public Financial Management

41. The PFM reform agenda is firmly on track as has been noted in the various reviews that have been undertaken in the previous years. The major objectives of the government is to address the key existing challenges that include among others: addressing the apparent disconnect between planning and budgeting, difficulties in automating public financial management operations, creating a critical mass of professionals across the key PFM functional areas and building PFM capacity at decentralized level. Below is a set of priority measures that has been drawn to help address the existing challenges in the PFM area.

Priority measures for 2012/13

The key priorities for the 2012/13 are as follows:

- i. Complete the design of the detailed system and technical requirements of the Integrated Financial Management Information System (IFMIS) including functional, technical requirements documents and quality review by end December 2012 (structural benchmark) (Table 3).
- ii. Elaboration of EDPRS II 2013- 2018 and pertinent sector and district strategic plans. The EDPRS I is coming to an end by 30th June 2013 and we have now embarked on the elaboration of the terms of reference for the EDPRS II.
- iii. Review the program structure of the budget and revamp Medium Term Expenditure Framework (MTEF). This assignment will help in aligning the strategic plans of MDAs to the program structure of the budget as it has been to be a key weakness by numerous PFM diagnostic studies that have been carried out.
- iv. Support implementation of the Fiscal Decentralization Strategy (FDS). This was approved by Cabinet last year and full scale implementation is set to be a major focus this fiscal year.
- v. Continue with phase two of the Implementation of the Electronic Tax Registers to efficiently collect VAT. This project is expected to assist RRA expand the tax base and/or avoid any potential tax leakages so as to finance the country's national needs.
- vi. With the support of IMF East Afritac the GoR has finalized updating the law on state finances and property. It is expected that the law will be finalized in the next fiscal year there by paving the way for sensitizing GoR officials on the new law.
- vii. As part of the national plan of building a strong accountancy professional, the Government will continue to support the Institute of Certified Public Accountants of Rwanda (ICPAR) so that it may be in position to launch its first ever professional

accountancy qualification (CPA-Rwanda) and help in building a the required critical mass of certified accountants.

Stabilize the current IFMIS as we are laying the ground for the future IFMIS. An IFMIS Road map towards the implementation of the long term IFMIS solution has been developed. The Government is committed to ensure IFMIS design and implementation best practices are used throughout the implementation. The roadmap implementation will be concurrent with the stabilization of the current IFMIS solution to enhance its capacity, deepen its coverage, reduce the required support and permit the involvement of the existing IFMIS resources in the implementation of the future IFMIS.

- viii. Public procurement is one of the critical pillars in the public financial management reform agenda. Upon realizing that there is an urgent need to create a critical mass of procurement professionals. MINECOFIN has helped School of Finance and Banking (SFB) secure the services of ITC-ILO (The International Training Centre of the ILO) as part of the twinning arrangement to develop capacity at SFB to meet Rwanda's training needs in procurement. The first phase has been completed and the second phase is currently ongoing with short term courses having commenced.
- ix. The basic structure for a professional internal audit cadre is already in place and this is being complemented by automating all internal audit processes by using electronic working papers software. The ultimate objective is to increase efficiency.
- x. The current Public Financial Management Reform Strategy is set to expire on 30th June 2013. In order for the government to build on the momentum that has already been created, the key priority forward is to elaborate the second generation of PFM Reforms and the pertinent Financing mechanism.

Medium Term Debt Strategy-2011/12

42. With regards to domestic borrowing to finance the budget in the medium term, Government intends to limit the size to a level that leaves ample scope for the expansion of credit to the private sector in the context of maintaining macroeconomic stability

43. In the case of external borrowing, given the importance going forward of public corporations borrowing, authorities have broadened the scope of the MTDS that only included central government borrowing initially. The revised strategy that reflects authorities' debt portfolio preference over the medium term will be submitted for cabinet consideration in May 2012 along the FY 2012/13 Budget Framework Paper. Annual updates of the strategy are expected, to incorporate new debt developments and any shift in debt portfolio preference depending on prevailing conditions.

External Sector Policies

44. Weak global demand, low commodity prices and high oil prices are expected to impact negatively on external sector performance in 2012. The value of exports is projected to increase only by 1 percent despite significant increase in volume of exports products (coffee, tea and minerals). Responding to the investment needs of the country and reflecting the expected increase in oil prices, imports are projected to rise in value terms by 14 percent in 2012. Even with the projected increase in current transfers (Global Fund), the current account balance is expected to worsen slightly in 2012. Net capital flows including public and private borrowings to finance ongoing public and private investments projects allow a small overall balance of payments deficit. Gross reserves at end 2012 are projected at comfortable level of 4.7 months of imports (excluding the encumbered assets).

45. In the medium term exports in value terms are projected to increase on average by 5 percent per annum to reflect the implementation of the comprehensive national export strategy. Responding to the investment requirements of the country imports in value terms are also projected to rise on average by 20 percent per annum over the medium term. Mirroring the projected decline in budgetary grants, the current account balance will be expected to deteriorate slightly in the medium term.

46. Public and private capital flows are projected to increase to partly offset the decline in grants and also to respond to the expected rise in FDIs for private sector projects. The balance of payments in 2013 and 2014 are projected to show deficits resulting in draw down of reserves. Despite the projected draw-downs, official reserves will be expected to remain at comfortable levels covering 4 to 5 months of imports of goods and services.

47. In the area of external debt, we will explore all avenues for concessional financing. However given the large requirement of resources for the financing of our development agenda, some non concessional financing will be necessary. We have already agreed to a ceiling of US\$240 million of non concessional borrowing during the PSI period for RwanAir and the Kigali Conference Center (KCC). We have requested that the current ceiling be raised to \$255 million, and untied from the two previously identified projects, to accommodate non-concessional borrowing of up to US\$15 million by the Rwandan Development Bank (BRD).

48. We are in the process of finalizing financing plans and options for other strategic investment projects (energy, international airport and the regional railway). In the context of the fifth PSI review we will request a review of the current ceilings.

49. As part of furthering our debt capacity building, we plan to conduct our first full DSA in July 2012 and are receiving training to do so in June 2012 in Tunis. The Macroeconomic Policy unit at MINECOFIN will coordinate the work to prepare the DSA. The unit will set up

the macroeconomic framework (and prepare the debt data) needed to integrate the DSA with internally consistent macroeconomic projections

National Exports Strategy implementation

50. With regards to the implementation of national exports strategy (NES), Rwanda Development Board (RDB), responsible for the implementation of the strategy, has started to produce a semi-annual implementation report of the NES action plan and submit it to the Industrial Development and Export Council (IDEC) for policy guidance. The first report will be ready by July 2012. The report will review and assess NES performance of both cross cutting and sector activities against agreed NES targets.

51. Financing of the NES is still a challenge as not all activities planned have been allocated budgetary resources. RDB is, therefore, preparing a NES financing strategy concept note to be submitted to the IDEC for approval by June 2012 which will determine the financing gap/needs and provide recommendations and strategies on how to close the gap. Following consultations with all stakeholders, a NES financing strategy will be developed and submitted to IDEC by December 2012 (structural benchmark).

52. NBR to complete by end-September 2012 a study to assess exchange rate developments, identify the main determinants of the exchange rate and review exchange rate policy with a view of maintaining export competitiveness.

Monetary and Exchange Rate Policies

53. NBR aims at tightening monetary policy in 2012. Inflation is targeted at 7.5 percent in 2012 (end period), with the aim of gradually reducing it to 6.5 percent in 2013, 5.5 percent 2014 and to return to 5 percent in the medium term. Broad money and Reserve Money growth is projected to slow down from 26.8 percent and 23.4 percent respectively in 2011 to 17 percent both in 2012. Similarly, the credit to the private sector growth is projected at 18.4 percent in 2012, from 27.9 percent in 2011. However, the risks of higher inflation remain due to uncertainties related to exogenous shocks, including food and fuel prices. NBR is committed to further tighten its monetary policy as needed to achieve its program objectives. Regarding the exchange rate policy, the NBR is committed to keep the exchange rate market driven. It will continue to intervene on the domestic foreign exchange market only to smoothen the exchange rate volatility.

54. NBR will continue to strengthen its capacity in economic analysis. In partnership with International Growth Centre, NBR is building a small macro-economic model that will help in monetary policy analysis and policy simulation. It is also expected to be used in the forecasting of economic variables; like inflation, exchange rate and Money supply.

55. NBR will continue to undertake measures aimed at further developing the Inter-bank market. These include the analysis of the use of Reserve Requirement as monetary policy instrument, shortening the lag between the base and the maintenance period as well as extending the maintenance period to at least two weeks. The NBR will introduce reform of the reserve requirements system to shorten the lag between the base and the maintenance period, extend the maintenance period to at least two weeks, and allow banks to take advantage of averaging provision. These reforms should be completed before end-June 2012. In the meantime, commercial banks have already started to submit monthly financial statements within 10 days of the end of each month. The NBR will introduce, by end-June 2012, a fully collateralised standing short term lending facility (separate from the discount facility) with related interest rate set at a margin above the Key REPO Rate. The NBR will also consult MINECOFIN by September 2012 on a plan to convert existing NBR consolidated claims on government into marketable securities to help deepen domestic money market.

Financial Sector Reforms

56. The SACCO supervision structure was developed and approved by the High Level Steering Committee in March 2012. The action plan of the SACCO structure was drafted and approved by the High Level Steering Committee (HLSC) also in March 2012.

57. The retained functioning model for SACCOs will be a Cooperative Bank resulting from a consolidation process. The consolidation process of SACCOs will be carried out in 2 phases. NBR plans to have a harmonized credit policy for SACCOs by end September 2012. In addition, an exercise of rating SACCOs to determine those that qualify for consolidation at district level will be performed by end December 2012 (structural benchmark)

- Phase I: Formation of district SACCOs: by end 2013, district SACCO is formed at each district for which all the current SACCOs in a Sector are members. Tasks to be done, activities to be undertaken along the process and other accompanying measures are defined in the action plan. The High Level Steering Committee (HLSC) in charge of approving the action plan and monitoring its implementation is in place.
- Phase II: Unify all district SACCOs at National level: Districts SACCOs formed in phase I are unified to form a cooperative bank. An expert who will conduct a study of the Business Model, ownership and interface option of the cooperative bank will be hired. The cooperative bank will be established by 2014. Actions to be undertaken in phase II are also detailed in the action plan.

58. The SACCO supervisory Model in Phase I is to maintain all the 60 inspectors at district level, while in Phase II, an adequate number of inspectors will be determined by the consultant working on the Business Model of the Cooperative Bank.

Statistics

59. The NISR will continue to improve the quality of its economic statistics in general and the national accounts in accordance with the improvement action plan of the national accounts. The NISR has completed the recruitment of the key consultants in Agriculture statistics, and they have already undertaken their first two weeks mission to assess the current situation and have reviewed agricultural statistics including sampling methodology. For the period April to October 2012, the experts will help NISR to prepare the agriculture survey using the new methodology and will train survey supervisors, controllers and enumerators.

60. The results of the recently completed Establishment Census 2011 have been used to select a sample of 950 establishments for the planned 2011 Business Survey and Non Profit Institutions Survey to be completed by end-October 2012 (structural benchmark).

61. The data from these benchmark surveys, combined with other source data, will be used to develop detailed input-output (I-O) and supply-use tables (SUT) and to rebase the GDP estimates in 2011 constant prices.

62. With the help of IMF EastAFRITAC, NISR will rebase the CPI statistics using the results of the EICV3 by end of June 2013. The rebasing of the GDP estimates using 2011 constant prices is expected to be finished by end of December 2013.

Table 1. Quantitative Assessment Criteria and Indicative Targets for 2010/11 and 2011/12¹
(Billions of Rwandan francs, unless otherwise indicated)

	2010				2011						2012							
	Jun		Dec		Jun		Sep		Dec		Mar		Jun		Sep	Dec		
	Adj Prog	Est	Adj Prog	Est	Adj Prog	Est	Prog	Adj Prog	Est	Prog	Adj Prog	Est	Prog	Adj Prog	Prog	Prog		
Assessment Criteria ²																		
Net foreign assets of the NBR at program exchange rate (floor on stock) ^{3,4}	368.1	384.7	338.9	398.7	343.6	372.6	409.5	360.1	402.3	417.9	453.8	530.9	389.5	467.7	312.5	421.3	497.0	513.0
Reserve money (ceiling on stock) ⁵	122.5	121.7	129.9	129.4	137.5	137.3	146.8	146.8	150.9	156.3	156.3	152.0	161.0	167.2	166.4	173.1	183.2	185.4
Net domestic financing (ceiling on flow) ^{4,6}	-6.3	-11.2	36.5	35.2	97.7	66.3	28.0	75.6	-15.9	-64.4	-81.8	-107.3	54.6	52.9	110.5	106.8	26.3	11.5
New nonconcessional and government guaranteed external debt (US\$ Millions) (ceiling on stock) ^{7,8}	240.0	0.0	240.0	20.0	240.0	80.0	240.0	240.0	180.0	240.0	240.0	180.0	240.0	240.0	240.0	255.0	255.0	255.0
External payment arrears (US\$ Millions) (ceiling on stock) ⁸	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets																		
Domestic revenue collection (floor on flow) ⁶	197.9	204.3	424.0	430.9	245.2	257.5	379.8	379.8	402.5	541.5	541.5	541.7	141.4	143.1	281.1	284.7	451.4	617.7
Net accumulation of domestic arrears (ceiling on flow) ⁶	-3.0	-6.1	-13.1	-13.3	-4.0	-4.7	-6.0	-6.0	5.0	-11.7	-11.7	-12.6	-2.0	-2.0	-4.0	-4.0	-6.0	-8.0
Consolidated domestic debt of public sector (ceiling on stock, eop) ^{4,9}	212.3	264.8	232.7	218.9	291.7	245.8	264.9	264.9	194.3	192.0	192.0	182.4	222.1	255.0	245.4	327.6	247.2	232.3
Total priority spending (floor on flow) ⁶	212.0	228.7	458.7	472.4	230.1	259.2	352.6	352.6	385.3	517.5	517.5	531.6	135.6	123.6	274.0	247.2	380.9	516.9
Memorandum items:																		
General budget support (US\$ Millions) ^{6,10}	218.2	216.1	418.0	394.0	123.7	83.9	393.0	393.0	264.7	463.5	463.5	519.8	95.5	13.6	135.5	53.6	242.5	410.0
Encumbered reserve assets (US\$ Millions)							26.9	26.9	30.0	71.2	71.2	40.0	85.8	40.0	100.0	40.0	71.0	71.0

Sources: Rwandan authorities and IMF staff estimates and projections.

¹ All items including adjusters are defined in the Technical Memorandum of Understanding (TMU).

² Test dates for assessment criteria are for end-June and end-December, otherwise indicative targets.

³ Numbers for 2010, 2011, and 2012 are at program exchange rates of RWF 571.24, RWF594.45, RWF604.14 per US dollar, respectively.

⁴ Subject to adjusters. See TMU for details.

⁵ Targets are calculated as an arithmetic average of the stock of reserve money for the three months in the quarter. See TMU for details.

⁶ Numbers for 2010 are cumulative from December 31, 2009; numbers for 2011 are cumulative from December 31, 2010; and numbers for 2012 are cumulative from December 31, 2011.

⁷ Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI, and excludes the IFC SWAP agreement of US\$50 million as well as US\$13.1 million for purchase of two small airplanes both of which were contracted in 2009. It also excludes external borrowing by the Bank of Kigali and Euro 8 million for loan contracted by the BRD from the European Investment Bank in September 2011. Effective from the date the Executive Board completes the fourth review under the PSI, the ceiling is no longer tied to specific projects.

⁸ This is a continuous assessment criterion.

⁹ Excluding NBR's debt issued for monetary policy purposes, starting on September 2010. See TMU for details.

¹⁰ Excluding demobilization and AU peace keeping operations, HIPC grant and COMESA compensation grant.

Table 2. Rwanda: Status of the Structural Benchmarks for 2011–12

Policy Measure	Target Date	Macroeconomic rationale	Status
PFM			
1. Submit to Cabinet for approval a revised public debt policy and MTDS	End-October 2011	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.	Not met. Ongoing with revised completion expected at end-June 2012.
2. Complete pilot project for integrating donor project accounts into the TSA	End-December 2011	To improve the coverage of fiscal operations and fiscal management of the central government.	Met
3. Develop and adopt a blueprint for the future development of the IFMIS	End-December 2011	To improve budget preparation, implementation, and reporting.	Met
4. Complete the road map for implementation of the IFMIS for a full set of fiscal accounts	End-March 2012	To improve budget preparation, implementation, and reporting.	Met
Fiscal performance			
5. MINECOFIN to publish (and put on its website) quarterly reports of budget execution against annual fiscal policy objectives, within 45 days of end of each quarter. Initially, the quarterly budget execution reports may exclude foreign-financed projects.	Continuous, starting mid-May 2011	To improve communication of fiscal performance to stakeholders.	Met with delay. The report for 2011Q4 was published at end-March 2012.
Revenue measures			
6. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (pension and RAMA) to RRA	End-September 2011	To improve compliance and widen the tax base.	Met with delay. An MoU was signed in May 2012, in place of the legislation.
7. Complete study on widening the tax base and estimate the potential revenue gap	End-December 2011	To improve revenue performance.	Met. Study is under discussion.
8. Introduce electronic tax registry to improve issuance of VAT invoices by taxpayers	End-January 2012	To improve VAT buoyancy.	Not met due to delay in procurement. Expected to be completed by end-May 2012.
9. Submit to Cabinet revised investment code with a view to streamlining exemptions	End-June 2012	To improve revenue performance.	On track. Currently under internal discussion.
Monetary and financial sector			
10. Approve investment guidelines by the board of CSR/RAMA	End-June 2012	To improve the corporate governance of CSR/RAMA and contain potential fiscal liabilities.	On track. Currently under internal discussion.
11. Put in place a consistent framework to forecast the main components of domestic liquidity (including currency outside banks, cash in vault, and bank reserves) and extend the forecasting horizon to 2–4 weeks (to be updated weekly) and 3–6 months (to be updated monthly)	End-February 2012	To improve the implementation of monetary policy.	Met
12. Finalize a detailed time-bound action plan to further develop the interbank money market, including enhancing repo operations and allowing fully market-determined interest rates	End-February 2012	To allow fully market-determined interest rates and strengthen the signaling role of the policy rate (Key Repo Rate).	Met
13. Agree on the action plan for overall structure of the SACCOS and their supervision	End-March 2012	To expedite supervision of the Umurenge SACCOS.	Met
External sector			
14. Conduct own DSA using the World Bank/IMF Debt Sustainability Framework as input for the annual budget framework paper	Continuous from end-March 2012	To enhance ability to monitor debt sustainability.	Not met. Completion expected at end-July 2012.
Statistics			
15. Complete and publish review of agricultural statistics, including sampling methodology	End-March 2012	To improve measurement of GDP.	Met
16. Complete the Enterprise Survey	End-October 2012	To improve measurement of GDP.	Progress to be reviewed

Source: IMF staff and Rwandan authorities.

Table 3. Rwanda: Additional Structural Benchmarks for 2012

Policy Measure	Target Date	Macroeconomic rationale
Public financial management		
1. Complete the determination of the detailed system and technical requirements for the Integrated Financial Management Information System	End-September 2012	To improve budget preparation, implementation, and reporting.
Monetary policy		
2. Introduce a (fully collateralized) standing short-term lending facility with related interest rate set at a margin above the key repo rate	End-June 2012	To improve the implementation of monetary policy.
External sector		
3. Complete (by NBR) a study to assess exchange rate developments and identify the main determinants of the exchange rate with a view of supporting the implementation of the exchange rate policy and maintaining export competitiveness	End-September 2012	To improve the implementation of exchange rate policy.
4. Submit to the Industrial Development and Export Council a financing plan for the National Export Strategy	End-December 2012	To widen the export base of Rwanda.
Financial sector		
5. Adopt (by NBR) a harmonized credit policy for SACCOs	End-September 2012	To expedite supervision of the Umurenge SACCOs.
6. Complete the rating of SACCOs and selection of those that qualify for consolidation at district level	End-December 2012	To expedite supervision of the Umurenge SACCOs.

Source: IMF staff and Rwandan authorities.

Attachment II. Technical Memorandum of Understanding

May 15, 2012

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010–June 29, 2013 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements. This Technical memorandum of understanding (TMU) supersedes the TMU issued in Country Report No. 12/15.

I. Quantitative Program Targets

2. The quantitative program will be assessed through assessment criteria (AC) and indicative targets (IT) for the duration of the program.

3. AC will apply to the following indicators for end-June and end-December 2012 (the test dates) throughout the program period; other dates are IT:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector; and
- Ceiling on stock of external payment arrears of the public sector.

4. IT targets apply to the following indicators throughout the program period:

- Floor on flow domestic revenue collection of the central government;
- Ceiling on flow net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow priority spending.

5. Assessment criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates.** For accounting purposes, the following program exchange rates, which are end-December 2011 rates, apply for 2012 and 2013:

Program Exchange Rates (US\$ per currency unit, unless indicated otherwise)	
	2012-13
Rwanda Franc (per US\$)	604.1410
Euro	1.2866
British Pound	1.5371
Japanese Yen (per US\$)	77.7899
SDR	1.5348

A. Institutional Coverage of the Fiscal Sector

7. The **central government** fiscal operation table comprises the treasury and line ministries, hereafter referred to as the government unless specified otherwise.

B. Targets related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. A ceiling applies to NDF. The ceilings for June and for December 31, 2012 are cumulatively measured from December 31, 2011. Other dates are indicative targets.

9. **Definition.** NDF of the government is defined as *change* in the sum of (i) net banking sector credit to the government and (ii) non-bank holdings of the government domestic debt.

10. Net banking sector credit to the government is defined as

- credit to the government from the banking system (as recorded in the monetary survey), including credit to the government, provinces and districts, outstanding consolidated government debt held by the banking system,¹ government debt to the

¹ Consisting of bank holdings of treasury bills, bonds (domestic), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

NBR incurred as a result of the 1995 devaluation (Rwf 9 billion), the overdraft to the prewar government (Rwf 2 billion)², and overdraft with the NBR. Credit to the government will exclude treasury bills issued for monetary policy purposes by the NBR, and the proceeds of which are sterilized in deposits held as other NBR liabilities.

- minus total government deposits with the banking system (as recorded in the monetary survey), including the main treasury account, line ministries, the fund for assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, privatization account, and any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for project accounts, Global Funds money meant for private sector, counterpart funds and *fonds publics affectés*).

11. Non-bank holdings of the government domestic debt consists of non-bank holdings of treasury bills, bonds (domestic and nonresident), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

12. Grants extended by the Global Fund that are under the control of the central government are programmed at US\$198.2 million for 2012, corresponding to RWF 119.7 billion as shown in the Fiscal table for the central government under capital grants.³

Adjusters to the NDF:

- The ceiling on NDF will be adjusted *upward* by the amount of any shortfall between actual and programmed budgetary loans and grants⁴ (defined in Table 1 of Quantitative AC and IT), up to a maximum adjustment of US\$80 million, evaluated in Rwanda francs at the program exchange rate. The ceiling will be adjusted *downward* by the amount of any excess of actual over programmed budgetary loans and grants above US\$24 million, evaluated in Rwanda francs at the program exchange rate.

² The authorities will inform Fund staff of any substantive changes in government accounts with the banking system, which may affect the calculation of net bank claims.

³ Quarterly distributions are as follows: US\$0 (Jan–March 2012), US\$86.3 million (Apr–June 2012), US\$198.2 million (July–Sep 2012), and US\$198.2 million (Oct–Dec 2012).

⁴ Budgetary grants exclude COMESA grants, HIPC grants, and peacekeeping operations, but include Global Fund.

- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

13. **Reporting requirement.** Data on NDF (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits), each type of debt to be shown by debt holder, and its adjusters will be transmitted on a monthly basis within five weeks from 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 and agencies that the government does not have any direct control over.

Floor on flow of domestic revenues

14. A floor applies to domestic revenue. The floors for June 30, 2012 and for December 31, 2012 are cumulatively measured from December 31, 2011. Other dates are indicative targets.

15. **Definition.** The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, and privatization receipts.

16. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

Floor on priority expenditure

17. The floor applies to priority spending of the government. The floors for June 30, 2012 and for December 31, 2012 are cumulatively measured from December 31, 2011. Other dates are indicative targets.

18. **Definition.** Priority spending is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending that the government has identified as priority in line with the EDPRS. Priority expenditures are monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

19. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government

20. A ceiling applies to net accumulation of domestic arrears of the government.⁵ The ceilings for June 30, 2012 and for December 31, 2012 are cumulatively measured from December 31, 2011. Other dates are indicative targets.

21. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding since the beginning of the year under review (including repayment of float during the review year and the repayment of older arrears).

22. **Reporting requirement.** Data on repayment of domestic arrears and the remaining previous-year stock of arrears will be transmitted on a monthly basis within five weeks of the end of each month.

C. Limits on External Debt

Limit on New Nonconcessional External Debt of the Public Sector

23. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 1 of the MAFP which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US\$50 million signed in November 2009 between the NBR, the IFC and US\$13.1 million for purchase of two air planes in 2009, and Euro 8 million for loan contracted by the BRD from the European Investment Bank in September 2011. The ceiling also excludes non concessional borrowing by one state-owned bank, the Bank of Kigali, which is assumed not to seek or be granted a government guarantee. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector. Effective from the date the Executive Board completes the fourth review under the PSI, the ceiling is no longer tied to specific projects.

24. **Definition of the public sector.** The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake—owning more than

⁵ A negative target thus represents a floor on net repayment.

50 percent of the shares or the ability to determine general corporate policy.⁶ This definition of public sector excludes the Bank of Kigali.

25. For program purposes, the guarantee of a debt arises from any *explicit* legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any *implicit* legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

26. **Definition of concessionality** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.⁷ The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

27. **The definition of debt**, for the purposes of the limit in the AC, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt, effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency)

⁶ Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

⁷ The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

- (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
 - (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
 - (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
- (b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears

28. A continuous assessment criterion applies to the non-accumulation of payment arrears on external debt contracted or guaranteed by the public sector. External payment arrears consist of external debt service obligations (principal and interest) that have not been paid at the time they are due, as specified in the contractual agreements, but shall exclude arrears on obligations that are subject to rescheduling.

Consolidated Domestic Debt of the Public Sector (DD)

29. For program purposes, DD excludes treasury bills issued by the NBR for monetary policy purposes. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official

guarantees have been extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

Adjusters:

- In the case of a shortfall in programmed budgetary loans and grants (per paragraph 12), the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 12.
- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency.

30. **Reporting requirement.** Data on domestic debt of the public sector, including treasury bills issued by the NBR for monetary policy purposes, will be transmitted on a monthly basis within five weeks of the end of each month.

D. Targets for Monetary Aggregates

Net foreign assets of the National Bank of Rwanda (NFA)

31. A floor applies to the NFA of the NBR for June 30, 2012 and December 31, 2012 targets.

Definition. NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standard (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) are to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. 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, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/ECF disbursements).

Adjusters:

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary loans and grants (per footnote 4). This adjustment will be capped at the equivalent of US\$80 million, evaluated in Rwanda francs at the program exchange rate. In the case of excess of actual over programmed budgetary loans and grants, the floor of the NFA remains unchanged for the first US\$24 million.

Subsequently, the floor will be adjusted upwards by any amount in excess of US\$24 million, evaluated in RWF at the program exchange rate.

- The floor on NFA will also be *adjusted upward (downward)* by the amount of shortfall (excess) between actual and programmed encumbered reserve assets, evaluated in Rwanda francs at the program exchange rate.⁸
- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports in the case of a food emergency, evaluated in Rwanda francs at the program exchange rate.

33. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week, including breakdown of assets that are pledged or encumbered. This transmission will include daily and weekly data on the NBR's foreign exchange liabilities to commercial banks (including required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money

34. A ceiling applies to the stock of reserve money for the June 30, 2012 and December 31, 2012 targets.

35. The stock of reserve money target for a given quarter will be calculated as the arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. Daily average of all the three months in the quarter will constitute the actual reserve money to be compared with the target.

36. **Reserve money** is defined as the sum of currency in circulation, commercial banks' reserves, and other nonbank deposits at the NBR.

Adjuster:

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjuster will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

⁸ The programmed amounts of encumbered reserve assets, on a cumulative quarterly basis, stand at: US\$40.0 million (March 2012); and US\$40 million (June 2012), US\$71 million (September 2012); and US\$71 million (December 2012).

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

II. Other Data Reporting Requirements

38. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.

39. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to the Fund (email: afrrwa@imf.org).

Table 1. Summary of Reporting Requirements

	Frequency of Data ¹⁰	Frequency of Reporting ¹⁰	Frequency of Publication ¹⁰
Exchange Rates ¹	D	W	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities ²	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates ³	M	M	M
Volume of transactions in the interbank money market and foreign exchange markets and sales of foreign currencies by NBR to commercial banks	D	W	W
Liquidity Forecast Report ⁴	W	W	-W-
Consumer Price Index ⁵	M	M	M
Composite Index of Economic Activity (CIEA) and sub-components compiled by the NBR	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁶ – General Government ⁷	M	M	M
Revenue, Expenditure, Balance and Composition of Financing ⁶ – Central Government	M	M	M
Comprehensive list of tax and non tax revenues ⁸	M	M	M
Comprehensive list of domestic arrears of the government	M	M	M
The ten (10) largest components of transfers in the fiscal table	M	M	M
Social security contributions (RAMA and CSR)	M	M	M
Stocks of public sector and public-Guaranteed Debt as compiled by MINECOFIN and NBR ⁹	A	A	A
Privatization receipts	M	M	M
External Current Account Balance	A	SA	A
Exports and Imports of Goods and subcomponents.	M	M	Q
Exports and Imports of Goods and Services and subcomponents	A	A	A
GDP/GNP	A, Q	Q, SA	Q

¹ Includes the official rate; Forex Bureau Associations rate; weighted average of the interbank money market rates; and weighted average of the intervention rate by the NBR.

² Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

³ Both market-based and officially-determined, including discount rates, money market rates, interbank money market rate, rates on treasury bills, notes and bonds.

⁴ One-week ahead forecasts of liquidity submitted on weekly basis. For example, in reporting data as of the last week of April, liquidity forecasts for the first week of May should be reported. The forecasted liquidity should be classified by net foreign assets, net credit to government, nongovernment credit, reserve money, currency in circulation, net credit to commercial banks broken down into discount window and money market (absorption or injection), and other item net.

⁵ Includes General Index; Local Goods Index; Imported Goods Index; Fresh Products Index; Energy Index; General Index excluding Fresh Products and Energy; and their breakdowns as published by the NISR.

⁶ Foreign, domestic bank, and domestic nonbank financing.

⁷ The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁸ Includes proceeds from privatization, accompanied by information on entities privatized, date of privatization, numbers and prices of equities sold to the private sector.

⁹ Includes debts of the Bank of Kigali. Also includes currency and maturity composition.

¹⁰ Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I).