Ministry of Finance and Economic Planning

Budget Framework Paper 2017/2018-2019/2020

April 2017

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I. INTRODUCTION

As stipulated in articles 32 of the Organic Law on State Finances and Property, the medium term budget framework and annual budget estimates shall be approved by cabinet to provide orientation for formulating the detailed draft finance law.

The Budget Framework Paper (BFP) is the Government statement of the economic context, global and domestic, in which the forthcoming Budget will be presented, along with the fiscal policy objectives for the next three year period, 2017/18 – 2019/20. This document reflects and supports the country's commitments as defined in the Government's Economic Development and Poverty Reduction Strategy 2 (EDPRS 2) and VISION 2020. Consistent with this objective, the BFP also articulates the medium term commitments to achieve fiscal consolidation through accelerated domestic revenue mobilisation and expenditure rationalisation / prioritisation in order to narrow the fiscal gap and reduce the reliance on external donor financial assistance.

The Budget Framework Paper (BFP) for 2017/18 – 2019/20 period has been prepared against the background of rising global risks with the escalation of nationalism and protectionism in advances countries, and its potential impact on the course of world trade. Global output growth is projected to pick up in 2017 and 2018, as some economies are set to recover from recessions (Russia and Brazil), whilst growth is predicted to be steady in US and Europe and comparatively buoyant in China and India. The projected upswing in commodity prices is a good news for growth on the African continent as many countries and large economies are net commodity exporters. On the domestic front, adjustment measures implemented since 2015 to enable the economy to adjust to global volatility of commodities and to consolidate the macroeconomic stability will continue in 2017 but at a lesser degree; the fiscal deficit will reduce as percentage of GDP, monetary policies will let the exchange rate continue to be market driven, the current account deficit is forecast to narrow in the medium term as economic policies are strengthened leading to domestic market recapturing and exports diversification with the Made in Rwanda Campaign. The drought that affected some parts of the country has eased meaning that agriculture performance is set to recover this year and will bring food prices down from the recent upward trend. With these developments, domestic output growth is projected to improve moderately in 2017 before expanding further over the medium term.

The 2017/18 Budget remains committed to fiscal consolidation and prudent borrowing policy to keep the level of debt sustainable. The proposed Fiscal framework presents a partially financed spending through a budget deficit of 3.7 percent of GDP, which narrows from 4.7 percent of GDP in 2016/17. The sectoral allocation of resources has taken into consideration that 2017/18 will be the last year of implementing EDPRS II and thus priority was given to key intervention areas to help achieving the targets set.

The BFP is organised as follows: section one is the introduction, followed by section two which gives a summary of economic performance both global and domestic. The global portion includes an outlook for 2017 and 2018 and the domestic portion reviews performance in the real, external, fiscal and monetary sectors. Section three presents a brief description of macroeconomic framework and policy objectives for the medium term. Section four deals with the details of the budget for fiscal year 2017/18 with key policies underlying the budget preparation including the functional allocations focussing on the priorities to be funded under the EDPRS2 thematic areas. Policy issues arising from the 2017/18 budget formulation are discussed in section five. The BFP closes with concluding remarks in section seven and finally several annexes providing additional details and numbers for the budget are attached as section eight.

II. RECENT ECONOMIC PERFORMANCE IN 2015-16 AND OUTLOOK

II.1. Global Economic Performance and Outlook

a) Output Growth

The World Economic Outlook for 2017, published by the International Monetary Fund in January, estimated Global output growth for 2016 at 3.1 percent and economic activity in both advanced economies and emerging markets and developing economies to accelerate in 2017–18, with global growth projected to be 3.4 and 3.6 percent, respectively, driven by growth in emerging market and developing economies (4.5 percent in 2017 compared to 4.1 percent in 2016, a further pickup in growth to 4.8 percent is projected for 2018) while advanced economies' growth is projected to increase gradually(1.9 percent in 2017 from 1.6 percent in 2016) as conditions gradually normalized in a number of large economies that are currently experiencing macroeconomic strains. Notably, the growth forecast for 2017 was revised up for China (to 6.5 percent) on expectations of continued policy support. In the Middle East, growth is expected to be weaker in 2017 (3.1 percent in 2017 from 3.8 percent in 2016) driven by low growth in Saudi Arabia as oil production is cut back in line with the recent OPEC agreement and while civil strife continues to take a heavy toll on a number of other countries. But there remains considerable uncertainty about the actual mix of policies to be enacted by the incoming US administration and their impact and growing protectionism is also of concern.

Growth in Sub-Saharan Africa is estimated to have been 1.6 percent in 2016 compared to 3.4 percent in 2015, a slowdown to the lowest level in over two decades due to unfavourable external conditions and countries' domestic headwinds. Economic growth in Sub-Sahara is projected at 2.8 percent and 3.7 percent in 2017 and 2018 respectively with the return to economic growth of Nigeria (higher oil production projected due to security improvements), South Africa and Angola.

Table 1: GDP and Inflation in selected regions/countries

Region/Country	GDP projections			CPI projections		
Percentage	2016	2017	2018	2016	2017	2018
World	**3.1**	**3.4**	**3.6**	**2.9**	**3.3**	**3.3**
Advanced Economies	**1.6**	**1.9**	**2**	**0.8**	**1.7**	**1.9**
United States	1.6	2.3	2.5	1.2	2.3	2.6
Euro area	1.7	1.6	1.6	0.3	1.1	1.3
United Kingdom	2	1.5	1.4	0.7	2.5	2.6
Japan	0.9	0.8	0.5	-0.2	0.5	0.6
Emerging markets and developing economies	**4.1**	**4.5**	**4.8**	**4.5**	**4.4**	**4.2**
China	6.7	6.5	6	2.1	2.3	2.4
Russia	-0.6	1.1	1.2	7.2	5	4.5
India	6.6	7.2	7.7	5.5	5.2	5.3
Brazil	-3.5	0.2	1.5	9	5.4	4.8
Sub-Saharan Africa	**1.6**	**2.8**	**3.7**	**11.3**	**10.8**	**9.3**
Nigeria	-1.5	0.8	2.3	-	-	-
South Africa	0.3	0.8	1.6	-	-	-

b) Inflation

After years of worrying about deflation, headline inflation rates have recovered in advanced economies in recent months with the bottoming out of commodity prices and expected fiscal stimulus and tax cuts in the U.S and other parts of the world recovering from lacklustre growth in 2016. But core inflation rates have remained broadly unchanged and generally below inflation targets.

c) Commodity prices

Commodity prices continued to rise from lows in early 2016. Oil markets look set to tighten further in 2017 as better than expected compliance from OPEC ensures smaller drawdowns in oil inventories in the first half of 2017, consequently crude oil prices are forecast to rise to USD 55/bbl in the second half of 2017 from USD 43/bbl in 2016. Recovery in the price is set to continue in 2018. Metals prices are projected to rise 11 percent as a result of supply constraints, including large lead and zinc mine closures. The upward revision of growth in China (with strong infrastructure and real estate investment) is also giving a boost to prices of metals. Agricultural commodities prices are also anticipated to rise slightly in 2017, with increases in oils and meals and raw materials, offset by declines in grains following favourable weather conditions in Europe, North America, and Central Asia.

II.2. Domestic Economic performance

II. 2. 1. Real GDP growth

Despite uncertainties in the global and regional environment, the Rwandan economy recorded a good performance in 2016 as real GDP grew by 5.9 percent, slightly lower than the initially projected 6.0 percent. This good performance was mainly driven by the service sector which grew by 7 percent, albeit lower than 10 percent recorded in the same period of 2015 and accounted for 48 percent of the total GDP. Adversely affected by drought in the Eastern and Southern provinces, growth of the agricultural sector slowed to 4 percent in 2016 compared to 5 percent recorded for 2015, the previous year. Both export crops and food crops slowed, to 2 and 3 percent respectively, compared to 2015 as a result of drought and floods in some provinces.

Industry sector activities increased by 7 percent. Growth is attributed rise to the emerging industries in line with Made in Rwanda such as manufacturing, textiles, leather and clothing which increased by 10 percent and food processing which increased by 8 percent while construction sector stood at 5 percent, less than the 15 percent in 2015 as some large construction projects were completed early in 2016.

Services grew by 7 percent, lower than in 2015, due to some spill over effects of lower agriculture performance in the second half of 2016 combined with high rates of depreciation and inflation as well as lower credit to the private sector. But the performance achieved was supported by hotels and restaurants which grew by 11 percent reflecting recent developments in conference tourism, Transport activities increased by 8 percent helped by the expansion of Rwandair LTD., which extended its business in 2016 by introducing new six destinations, leading to a total of 24 destinations.

Table 2: The table below highlights details of sectoral performance in 2016

	2014	2015	2016
GDP	**7.90%**	**8.9%**	**5.9%**
AGRICULTURE	**7.0%**	**5.0%**	**3.8%**
o/w:			
Food crops	9.0%	3.6%	2.9%
Export crops	-2.0%	14.4%	2.4%
INDUSTRY	**11.0%**	**8.9%**	**6.8%**
Mining & quarrying	25.0%	-5.0%	10.4%
Total Manufacturing	8.0%	8.4%	6.6%
o/w: Manufacturing of food	6.0%	*0.8%*	*8.1%*
Manufacturing of beverages & tobacco	7.0%	*5.7%*	*3.3%*
Manufacturing of textiles, clothing & leather goods	7.0%	*2.9%*	*9.6%*
Electricity	9.0%	8.0%	15.8%
Water & waste management	3.0%	0.8%	5.3%
Construction	10.0%	15.4%	4.9%
SERVICES	**7.0%**	**10.4%**	**7.1%**
o/w:			
Wholesale & retail trade	8.0%	12.7%	6.1%
Transport services	4.0%	9.7%	8.0%
Hotels & restaurants	12.0%	9.3%	11.3%
Information & communication	7.0%	17.9%	8.6%
Financial services	4.0%	12.2%	3.4%
Real estate activities	6.0%	4.5%	6.2%
Professional, scientific and technical activities	-8.0%	14.2%	6.3%
Administrative and support service activities	15.0%	16.1%	9.8%
Public administration and defence; compulsory social security	7.0%	5.5%	11.6%
Education	3.0%	1.7%	1.7%
Human health and social work activities	8.0%	10.1%	6.2%
Cultural, domestic & other services	16.0%	19.2%	7.0%
Taxes less subsidies on products	**8%**	**14.1%**	**4.4%**

Source: NISR, March 2016

II.2. 2. Inflation

Inflation headline in 2016 stood at 7.3 percent in December from 4.5% in January. The annual average went up from 2.5 percent in 2015 to 5.7 percent in 2016, mainly driven by rising food prices and transport cost. The rising food prices was driven by the reduction in food supply and the poor performance of agriculture production due to very poor harvests in seasons B and C following the droughts and floods in some parts of the country. Other significant pressures on headline inflation came from the exchange rate effect on imported inflation where we saw the exchange rate pass-through higher than in 2015, with imported inflation going up from 1.1 percent in 2015 to 4.7 percent in 2016.

For 2017, the rising global fuel and food prices as well as the lower than expected domestic food crops harvest poses significant threat to inflation. This is therefore projected to increase in 2017 to about 7 percent reflecting mainly the first round pass-through effect of rising fuel and food prices. Inflation has continued to increase in 2017, and in February reached a five year high of 8.1 percent. This was largely due to food price inflation continuing to be very high, at 17.6 percent it was the highest for almost 8 years, imported inflation reaching a five year high of 8.8 percent and transport inflation at 8.3 percent. The combination of these three contributed 7.0 percent of inflation. Food price inflation continues to be high after repeatedly poor harvests, imported inflation is high due to depreciation which is feeding into increased costs in Rwandan Francs and the increase in transport costs was due to the increase in the price of petrol in last month, the largest increase of the past year.

II.2. 3. External sector Development

The Trade balance deteriorated in 2016 by 5.3 percent due to import of two Rwandair Airbuses in the same year 2016, otherwise imports excluding the airbuses declined by 2.3 percent while exports increased by 9 percent. This reduction in imports reflected the impact of the exchange rate depreciation of 9.7 percent, the highest level in the past 11 years, and the contractionary fiscal policy, especially the reduction in capital spending put in place as part of a set of adjustment policies under the Standby Credit Facility (SCF) program with the International Monetary Fund (IMF).

Despite the overall good export performance, the commodities price shock is still visible since the value of minerals (Tin, tantalum and tungsten: 3T) exported declined by 26.6 percent in 2016 after a 42 percent decline in 2015. As price takers, Coffee and Tea export values also have been affected negatively by the commodity prices shock in 2016, where they declined respectively by 6 percent and 12 percent. However, this decline in traditional exports (coffee, tea and minerals) was offset by an increase in re-exports (26.1 percent) and exports of other products (34.2 percent).

The table 3: Key external sector performance Indicators:

(in million USD)	2011	2012	2013	2014	2015	2016
A. Current Account	**-468.5**	**-747.2**	**-556.3**	**-943.4**	**-1,106.4**	**-1,210.5**
Balance on goods and services	***-1,209.1***	***-1,276.6***	***-1,165.5***	***-1,345.9***	***-1,427.5***	***-1,510.6***
Goods (Trade Balance)	**-1,104.8**	**-1,273.7**	**-1,150.8**	**-1,268.6**	**-1,235.0**	**-1,300.1**
Exports f.o.b.	464.2	590.8	703.0	723.1	683.7	745.0
Of which: coffee	74.6	60.9	54.9	59.7	62.0	58.5
tea	63.9	65.7	55.5	51.8	72.5	63.4
minerals	151.4	136.1	225.7	203.3	117.8	86.4
Imports f.o.b.	1,569.1	1,864.4	1,853.8	1,991.7	1,918.7	2,045.1
Services (net)	**-104.3**	**-2.9**	**-14.7**	**-77.3**	**-192.5**	**-210.5**
Primary income (net)	**-57.2**	**-102.7**	**-131.8**	**-175.6**	**-214.9**	**-224.1**
Secondary income (net)	**797.8**	**632.1**	**741.0**	**578.0**	**536.0**	**524.3**
Secondary income: credit	872.4	710.6	817.4	662.2	614.6	612.5
o/w workers' remittances	166.2	175.3	161.8	174.9	153.2	167.3
o/w total official transfers	674.9	463.4	581.6	420.2	391.5	365.7
B. Capital Account	**196.7**	**171.2**	**234.5**	**337.1**	**299.9**	**190.0**
Net lending(+)/ net borrowing (-)	***-271.9***	***-575.9***	***-321.8***	***-606.4***	***-806.5***	***-1,020.5***
C. Financial Account: Net lending(+)/ net borrowing (-)	**-533.2**	**-397.3**	**-661.3**	**-648.8**	**-651.7**	**-963.1**
Direct investment	-119.1	-255.0	-257.6	-311.0	-219.9	-251.3
Direct investment: assets	0.0	0.0	0.0	3.8	3.5	7.6
Direct investment: liabilities (i.e. FDI)	119.1	255.0	257.6	314.7	223.3	258.9
Other investment	**-326.6**	**-136.4**	**-401.9**	**-336.8**	**-424.1**	**-708.6**
o/w public sector budget loans	0.0	0.0	0.0	0.0	232.1	214.8
o/w public sector project loans	0.0	0.0	0.0	0.0	140.0	172.0
o/w private sector loans	149.9	148.4	168.4	133.2	72.9	449.7
D. Overall Balance	**234.3**	**-212.4**	**228.5**	**-90.4**	**-28.5**	**-20.8**
E. Gross official reserves in months of next year's imports of goods and services	**5.3**	**4.1**	**4.8**	**3.9**	**3.6**	**4.0**

In line with the above developments, the current account deficit increased by 9.4 percent in 2016 and was worsened further by the increase in imports of services by Rwandair (Airplanes under lease) and Kigali Convention Centre project (payments of construction services).

Balance of payment overall deficit was financed by a drop in central bank official reserves of USD 20.8 million but because of the IMF USD 100 million disbursed in June 2016 from the Standby Credit Facility, BNR gross official reserves increased to USD 1,001.5 million at end 2016 compared to USD 922.3 million at end 2015.

II.2. 4. Monetary sector development

Continuing from 2015, the Monetary Policy Committee (MPC) decided to keep the policy rate (the Key Repo Rate-KRR) at 6.5 percent for most of the year which aimed to support the financing of the private sector by the banking sector but also to ensure positive real interest rates to stimulate domestic savings. As liquidity tightened in the final months of the year, the KRR was reduced to 6.25 percent to help banks adjust to this and support the economy which has slowed down substantially in 2016 after a large expansion in money supply in 2015.

The slowdown in monetary expansion in 2016 was in line with the government short term demand-adjustment policies program agreed with the IMF to deal with growing external imbalances, a greater depreciation (9.7 percent against the US dollar) was therefore observed in 2016. Broad money grew by 7.6 percent from end-December 2015 to end-December 2016, compared to 20.9 percent in the same period of 2015, and was driven mainly by increases in credit to government and the private sector, offset by drops in net foreign assets. After growing at its highest recorded rate of 30.0 percent in 2015, credit to the private sector slowed down in 2016, growing at only 7.8 percent.

The Banking sector as a whole remained well capitalized in 2016 with high degrees of liquidity at 42.5 percent as opposed to a minimum of 20 percent and capital as a proportion of risk weighted assets at 21.8 percent as opposed to a minimum of 15 percent.

The table below highlights key monetary statistics:

Table 4: Key Monetary statistics in 2016

	2015	2016	% change
Monetary Statistics	**Dec**	**Dec**	**2016/2015**
Net foreign assets	642.6	739.2	15.0%
Domestic credit	1223.1	1325.6	8.4%
Central government (net)	39.5	12.2	-69.1%
Private sector	1178.1	1269.6	7.8%
Broad money M3	1482.1	1594.7	7.6%
Currency in circulation	142.6	145.9	2.3%
Deposits	1339.5	1448.8	8.2%

Source: BNR, April 2016

II.2. 5. Fiscal performance

The original budget for fiscal year 2016/17, approved by Parliament at end June 2016 amounted to 1,949.4 billion FRW.

According to economic classification terms, total revenue and grants were projected at FRW 1,601.9 billion including 1,236.6 billion FRW for total domestic revenue and 365.3 billion FRW estimated grants. Regarding total expenditure and net lending, these were projected at FRW 1,848.8 billion which includes 989.7 billion FRW of recurrent spending, 750.6 billion for capital spending and 106.5 billion FRW for net lending. It was expected that this fiscal year (2016/17) will end with an overall cash deficit of 266.8 billion FRW and this deficit was to be financed with net foreign borrowings of 343.7 billion FRW in which 76.9 billion FRW in deposits would build-up in the banking system. The first half of 2016/17 budget implementation was close to the projection with only some minor changes.

a) Resources collection

The projection for July-December 2016 estimated a total domestic revenue collection of 603.7 billion FRW that included tax revenue of 514.7 billion FRW and non-tax revenue of 89 billion FRW. During the mentioned period domestic revenue of 599.1 billion FRW were collected, showing a 4.6 billion FRW shortfall compared to 603.7 Billion projected due to mainly lower tax revenue collection. Total tax revenue collection amounted to 508.6 billion FRW which was less than 514.7 billion FRW projected by 6.1 billion FRW due to lower VAT on account of the lower than expected turnovers of some major large taxpayers and lower excise duty collection in the July-December period due to lower than expected consumption of the main excisable products of beer, soft drinks and cigarette as well as sales of petroleum produced. Direct taxes however, registered a good performance with an excess of FRW 10.1 billion from FRW 197.6 billion projected to FRW 207.7 billion which was realised but could not offset the shortfall from taxes on goods and services and taxes on international trade.

Table 5: Revenue Performance for July-December 2016 period

	Jul-Jun 2016/17	
	July-Dec	**July-Dec**
	Proj	**Prov Act.**
Total Revenue and Grants	**762.0**	**764.3**
Total Revenue	603.7	599.1
Tax revenue	**514.7**	**508.6**
Direct Taxes	197.6	207.7
of which local government	1.2	1.5
Taxes on goods and services	271.2	258.1
Taxes on International trade	45.9	42.8
Non-tax revenue	**89.0**	**90.4**
of which PKO	63.7	67
of which other	15.7	15.1
Total Grants	**158.3**	**165.2**
Budgetary grants	85.6	92.5
of which other grants(incl.HIPC grants)	64.3	66.5
of which Global Fund	21.3	26
Capital grants	**72.8**	**72.8**
Project	72.8	72.8

Source: ***Minecofin*** , April 2017

On the other hand, July – December 2016 registered a good performance in grants disbursements, whereby the actual total of 165.2 billion FRW exceeded 158.3 billion FRW projected by FRW 6.9 billion. Budgetary grants mainly contributed to this good performance from 85.6 billion to FRW 92.5 billion FRW. Global Fund and Netherland disbursements accounted for this better performance whilst capital grants the FRW 72.8 billion projected was been disbursed.

b) Performance of Outlays

Total expenditure and net lending for July- December 2016 period was projected to FRW 901.5 billion, comprising FRW 488.4 billion for current expenditure, FRW 356.5 billion for capital expenditure and FRW 62.7 billion for net lending. The period under review registered FRW 902.5 billion of total expenditure and net lending with FRW 1 billion extra compared to what has been projected. Only current expenditure contributed to this excess from 488.4 billion FRW projected to actual 549.9 billion FRW at end December. Capital expenditure and net lending was lower than projection by 47.5 billion FRW and 19 billion FRW respectively. Capital expenditure were projected at 356.5 FRW billion and 309 billion FRW were spent, net lending projection of 62.7 billion FRW registered an actual amount of 43.7 billion at end December 2016.

Table 6: Expenditure performance

	Jul-Jun 2016/17	
	July-Dec	**July-Dec**
	Proj	**Prov Act.**
Current expenditure	**488.4**	**549.9**
Wages and salaries	126.1	148.1
Purchase of goods and services	88.5	99.2
Interest payments	34.2	37
Domestic Int (paid)	16	18.6
External Int (due)	18.2	18.5
Transfers	161	162.2
Exceptional social expenditure	78.7	103.4
Capital expenditure	**356.5**	**309**
Domestic	181.8	166.9
Foreign	174.7	142.1
Net lending	**62.7**	**43.7**

Source: ***Minecofin*** , April 2017

The current expenditure for July- December 2016 period was higher than the projection by FRW 61.5 billion higher from FRW 488.4 billion to 549.9 billion. In this category, wages and salaries expenditure was higher than projected by 22 billion FRW from 126.1 billion FRW to 148.1 billion FRW due to the wages and salaries for foreign embassy personnel and consulate for January-March 2017, payment of new recruits, horizontal promotions and performance bonuses. Purchase of goods and services were also higher by 10.7 billion FRW from 88.6 billion FRW to 99.2 billion FRW resulting from frontloading of some priority items in import and payment for consultancy services. Exceptional social expenditure where 24.7 billion from FRW 78.7 billion to FRW 103.4 billion. The excess from current expenditure was offset by lower expenditure in capital with a difference of 47.5 billion FRW from 356.5 billion FRW projected to actual 309 billion FRW. Net lending registered FRW 43.7 billion actual compared to 62.7 billion FRW projected. The lower spending in capital expenditure was due to the delays in implementation of some projects in the energy and roads sectors. The net lending shortfall was mainly due to lower spending for export promotion projects arising from implementation delays.

c) Deficit and financing

As is shown above, the total resources which include revenue and grants for July-December 2016 period registered FRW 764.3 billion and was FRW 2.3 billion higher than estimated. The total expenditure and net lending registered FRW 902.5 billion, slightly exceeding the projection by one billion. This led to the overall deficit on cash basis of RWF 150.4 billion which was close to the FRW 149.5 billion projected.

II.3. 2016/2017 Key Achievements by Sector

II.3.1. Economic Affairs Sector Achievements

The economic affairs sector is the biggest sector and forms the back born of the economic growth. It complies agriculture, trade and industry, Information Communication Technology, Transport, Fuel and Energy as well as Water and Sanitation sub-sectors. The following achievements were recorded in the first semester of 2016/17 fiscal year in the sector:

Agriculture Sub-Sector

i) As part of hill side irrigation, 1200ha of hillside land at Mpanga and Nasho as well as 265ha in Ngoma were irrigated.

ii) The on-going land consolidation program has increased the available land for cultivation of selected crops; Maize: 282,257.7ha, Beans: 386,200ha, Soybean: 11,173ha, Irish potatoes: 63,274ha and Wheat: 8,137.5ha.

iii) To increase fish production in the country, fish farmers were trained in feed utilization and were assisted to develop fish farming business models. At the end of the first semester, fish production was estimated at 9,225 MT.

iv) In line with the policy to increase coffee production by 12,209 MT, 1.4 million Coffee seedlings were prepared and distributed in Kirehe, Rulindo Nyamagabe and Gakenke districts.

Trade and Industry

i. 6,815 SMEs were coached in entrepreneurship and business development. This training enabled 5,755 of them to access finance with a total loan amount of RWF 2,453,411,535 from various financial institutions.
ii. 560 projects were supported to access finance through BDF guarantee with a total guarantee amount of RWF 1,111,152,893.
iii. 15 exporters including manufacturers were trained on how to access markets including the EU market. The training is expected to facilitate their entry into the EU and other markets with their produce.

Information Communication Technology,

iv. Irembo platform continued to increase its operations with 10 new online services deployed this year. These included the registration of civil society organizations, penalties and fines management, land merging, change of land use, certificate for a genocide survivor, certificate for the loss of identity card (temporary id), certificate of residence, certificate for the rapid issuance of new id, and certificate for divorce and legal marriage annulment.
v. Computer literacy in local communities increased where 13,700 people were trained in digital skills in collaboration with local NGOs.
vi. ICT Start-ups and innovations were supported where 10 ICT start up Young Innovators participated in Regional Seed Stars Summit and Competition, 60 young innovators were facilitated in a dialogue with Smart Africa Officials and 32 young girls participated in the ASPIRE Debate Competition.

Transport sub-sector

i) In a bid to rehabilitate the 261 km of National Paved Roads; Negotiations were completed and Draft contract is available for the Huye -Kitabi road rehabilitation project (53km). Regarding the rehabilitation of the road Kagitumba-Gabiro (60km), Kayonza-Rusumo (92km) and Gabiro-Kayonza (56km), contracts were signed and works are ongoing.

ii) In the case of the maintenance of 513.8 km of National paved roads; for Kicukiro-Nemba (61 km) work is on-going and the overall progress is estimated at 45% against 95% planned; Kigali-Huye-Akanyaru (157km) and Multiyear Maintenance Kigali-Kayonza (74.8km) progress was at 85% against 95% planned while maintenance of Musanze urban roads (5Km) were completed.;

iii) Regarding the upgrade of 104 km of Unpaved National Roads, Kivu Belt Lot 6: Rubengera - Gisiza (24.1km) ending the first quarter, progress was at 42% against 60% planned. For Kivu Belt Lot 7: Gisiza-Rubavu (48km) progress was at 58.7% against 60% planned; Base-Butaro-Kirambo (68km) at 12% against 40% planned; Base-Rukomo (51km) stood at 21% against 30% planned While tender documents is under preparation for Nyagatare-Rukomo (73 Km).

iv) With regard to the maintenance of the 76.9 km of National unpaved roads and Bridges; Periodic Maintenance of Ruhango – Kinazi-Rutabo, Kinazi-Mukunguri (36.3 km) was at 94.5% against 100% planned; Mbuga – Mpimbi-Burerabana-Nyabinoni(Lot 1: 34 km) was at 86% against 75% planned; Rwamagana-Gishali flower plant (12 Km) was completed; while for Rukali- Kabuga (DR95) in Nyanza District (40.1 Km) progress was at 80.5% against 60% planned.

v) In the case of the maintenance of 513.8 km of National paved roads; Kicukiro Nemba (61 km) work is on-going and the 2nd phase work started in May 2016. The overall progress is estimated at 45% against 95% planned; Kigali-HuyeAkanyaru (157km) and Umukobwamwiza, Kamonyi, Ruhango Blackspots and Multiyear Maintenance Kigali-Kayonza (74.8km); progress at 85% against 95% planned while Musanze and Rubavu urban roads (10.5Km) has been completed.

vi) The construction of access road to Methane Gas Power plant in Rubavu (7km) was at 78% against 100% planned;

Energy sub-sector

i) In order to increase access to electricity, 16,665 and 1,385 households were connected to the national grid and off grid systems respectively.

ii) Construction of the 170km 220kV High Voltage Transmission Line to Shango-Rubavu and Bwishyura-Kibuye (170km) is at 92.44% against 80% planned;

iii) The construction of the High Voltage line to Birembo substation is at 95% against 70% planned;

iv) The construction of High Voltage Transmission line 110kV to Ntendezi-Bugarama (17.5km), and Rukarara-Kilinda (27km) as well as construction of substations were completed

v) The construction of High Voltage Transmission lines 110kV to Rulindo-Gicumbi, Gabiro-Musha was fully achieved as planned;

vi) On-going construction work of High Voltage Transmission lines 110/30kV to Gabiro substation and 110/30kV to Musha substation was at 10% against 20% planned.

Water and Sanitation sub-sector

i) The construction of NYUNGWE-KIBEHO-NDAGO-COKO water supply system of 112 Km is progressing well and it stands at 88%

ii) The construction of Giheke-Kamembe-Nkanka water supply system (126 km) in Rusizi District stands at 98%

iii) The construction of NKOMBO Water Supply System to supply water to 17,500 citizens is almost completed.

iv) The works to reinforce Kageyo-Ngororero town Water Supply System (22km) was on-going with 93% completed

v) The Construction of Nyabizi-Butaro Kivuye water supply system to supply water to Butaro was at 9% against 10% planned

II.3.2. Education Sector performance

The Education Sector budget covers expenditures in the Ministry of Education, Implementing Agencies, including the Rwanda Education Board (REB), Higher Education Council (HEC), the Work Force Development Agency (WDA), University of Rwanda and education expenditures in the Districts.

During the first semester of 2016/17 fiscal year, the following are the major achievements in education sector across sub sectors:

Pre-Primary, Primary and Secondary Education

i) A total number of 385 Sector Based Trainers for pre-primary have been trained on the implementation of Competency Based Curricula;

ii) In collaboration with Hartford, 806 teachers were trained in English language;

iii) Construction works of 350 classrooms and 296 cubicle latrines are ongoing and progress of works is at 91.4%;

iv) 627 XO laptops maintained and repaired , 224 schools received lease key;

v) 393 schools across all districts received 100 laptops each, for setting up smart classrooms;

vi) Science Competitions was organized where 1,040 students from 87 schools competed and 200 students from 62 schools succeeded to compete at National level;

vii) 203 best performing teachers have been identified and will be given cows;

viii) National examinations were conducted for both primary, lower secondary and A level and the pass rates were respectively 82%, 88% and 89%.

ix) A study on causes of dropout and repetition in Primary and Secondary conducted;

x) 126,165 adult people were trained in adult literacy program;

xi) School Hygiene campaign and campaign against teenage program in schools conducted

TVET Sub-Sector

i) Five TVET schools (NYAMATA TSS, KAVUMU VTC, MPANDA VTC, NELSON MANDELA, GISENYI VTC); have been renovated

ii) The construction works of Rwanda TVET Training Institute is now at 95%;

iii) A total number of 12,432 youth and women have been skilled for quick employment and job creation under NEP-Kora wigire;

iv) The Construction works of new 3 TVET schools in Nyabihu, Muhanga and Rulindo are now at 42%;
v) In order to close the skills gap in Energy sector, 13 curricula were developed in areas of Geothermal, Solar Energy, Hydro, Gas and Peat;
vi) In order to attract more female students in TVET, a HeforShe TVET campaign has been organized across the country and it is expected that the number of girls in TVET will increase over time.

Higher Education and Science, Technology and Research

i) In line with the Government policy to increase the number of students in Science Technology Engineering and Mathematical (STEM) programs, the percentage of students increased from 49% in 2015/16 to 52% in 2016/17.
ii) In alignment with Government priority to build the capacity in the mining sector, the University of Rwanda has opened the School of Mining and Geology (SMG) with two departments namely Mining and Geology in the College of Science and Technology.
iii) The African Institute for Mathematical sciences, Rwanda campus was established and supported. 44 students from 10 countries of which 19 Rwandans are now pursuing their Master's Degree courses.
iv) A Comprehensive external audit for 27 Higher Learning Institutions operating in Rwanda was conducted by a team of experts. The African Institute of Mathematical Sciences - AIMS, African Leadership University – ALU and VATEL School Rwanda were accredited.

II.3.3. Health Sector Performance

The following are the achievements in this sector:

i) To prevent malaria, Indoor residual spraying (IRS) was conducted in the targeted high malaria burden districts and field surveys were performed in 7 lookout sites to monitor insecticides resistance.
ii) In order to improve malaria diagnosis and treatment, all District Hospitals have been supervised and all the commodities needed for malaria treatment have been procured. At

the end of the first semester, almost all Health facilities, district pharmacies and national levels, most anti malaria commodities were available.

iii) In line with the efforts to fight against HIV, 84.1% of HIV+ adults and children are currently receiving antiretroviral therapy. Mentorship sessions were organized in all HIV accredited health facilities to facilitate the new protocol implementation and the new Service Delivery Model (DSDM) and 637 Healthcare Providers from accredited Health Facilities have been trained in the Differentiated Service Delivery Model (DSDM).

iv) In order to increase the number of assisted deliveries at Health Facilities; Orientation meetings for District Hospital teams have been conducted

v) On health infrastructure development, the on-going construction work of Byumba District Hospital was at 40%. The feasibility Study and Architectural Design of Gatonde hospital have started. While the construction work of Shyira Hospital stood at 79%.

II.3.4. Social protection Sector performance

Interventions in the social protection sector focused on the provision of support to vulnerable groups, assistance to disaster victims and relocation of people living in high risk zones. The following achievements were recorded as of the end of the first semester of 2016/17 fiscal year:

i. 90,773 Households have been covered under VUP Public works while 59,276 Households under extreme poverty were covered by VUP Direct Support. 342 local government staff in sectors where Public Works are in operations were trained on expanded Public Works guidelines and their implementation modalities. In addition, 4,766 small loans amounting to RWF 1,069,839,750 were granted to 1,595 people including 757 males and 858 females under VUP Financial Support.

ii. 9, 496 cows were distributed to poor families under one cow per power family program and 9,825 small livestock including pigs, goats, sheep and hens were distributed.

iii. 86, 325 pupils benefited from one cup of milk program in schools where 561,952 litres of milk were distributed.

iv. In line with government's efforts to fight malnutrition, 12,453 under-five children with acute and chronic malnutrition were identified and supported. In line with this policy, 1,299,421 litres of milk were purchased and distributed in 484 health centers and 50 MT of basic seeds distributed for bio fortified beans production in order to fight malnutrition.

v. Furthermore, 1,105,096 kitchen gardens were established and the highly malnourished districts including Nyaruguru, Gisagara, Kirehe, Nyabihu and Nyamasheke were supported with vegetables seeds.

vi. 372 children (207 from orphanages, 140 from Centres for street children and 25 children of three years of age with their mothers in detention centres) were reintegrated into families.

vii. To prevent Gender Based Violence , construction of 9 out of 17 Isange One Stop Centres were completed and construction work for other 8 in on-going with about 85% of work completed.

viii. 2,969 Rwandan returnees were assisted in reintegration process by offering them repatriation packages. Starting from October 2016, the package has been increased for Adults from \$100 to \$250 and for children from \$50 to \$150.

ix. Victims of drought from Southern and Eastern Provinces have been assisted. A total of 971 houses were constructed through community works organized in Gakenke, Ruhango and Ngororero to assist people affected by disasters.

II.3.5. Housing Sector

i. Construction work on the new the National Archives Building was on-going and progress stood at 30%;

ii. Construction work on the High Commercial Court Building was on-going and progress stood at 40%;

iii. Overall work on the Administrative Office Complex building stands at 40%;

iv. 52 ha of land was serviced with 30% basic infrastructure (28km of graded roads in City of Kigali and 6km of graded roads compacted with marram, 6km of water and electricity network in Secondary Cities) to facilitate the investment of 4,500 Affordable Housing Units. Development of infrastructure on Batsinda site (roads grading) is 35%

v. 6 IDP (Integrated Development Program) Model Villages were scaled up by constructing 48 dwelling units and 6 km of plots serviced in 6 Secondary Cities.

II.3.6. Justice Sector

In the Justice sector, the following key achievements were realized in 2016/17;

i. Integrated electronic cases management system (IECMS) project is operational in courts outside Kigali City: Supreme Court, High Court and its Chambers including Intermediate Courts and 20 out of 60 Primary Courts are connected to IECMS.

ii. Regarding Legal Aid to the Community, (From July 2016 – December 2016) Maison Access a la Justice (MAJ) received 8970 cases out of which 8262 (92.1%) were civil and 702 (7.9%) were penal. 5707 (63.6%) were solved through mediation and 1547 (17.2%) Court Submissions were prepared and 1330 (14.8%) cases were dealt with in other Institutions.

iii. Prosecution of people suspected to be involved in mismanagement and misappropriation of public funds, 158 new Embezzlement cases were received, bringing the total to 208, of these, 86 cases were filed with courts, 41 were closed and one was transferred.

III. OBJECTIVES AND POLICIES FOR THE MEDIUM TERM 2017/18- 2019/20

III.1. Overview of 2017/18 policies and medium term macro-economic framework

The Government has launched a broad set of measures to promote import substitution and diversified exports that aim at reducing the exposure to external shocks and external imbalances over the medium term. The Made in Rwanda campaign and policy under adoption will play a key role in narrowing the current account deficit overtime in the short to long run and help to consolidated private sector domestic activities, create jobs and boost economic growth. The economic program will help to ensure that conditions are favourable and support the Made in Rwanda campaign/policy and for that inflation should be contained and robust growth sustained.

III.1.1. Real Sector projections for the period of 2017 – 2019

The Rwandan economy is projected to grow by 6.2 percent in 2017 and 6.8 percent in 2018, from 5.9 percent in 2016 supported by improvement in the agriculture sector with a growth rate at 4.6 percent in 2017 and 4.6 percent in 2018 due to food crops and exports crops improvement reflecting ongoing investments (fertilizer and improved seeds as well as continuing irrigation on small scale in the short time). Industry is expected to grow at 7.6 percent in 2017 and 9.9 percent in 2018 with the expectation of an improvement in international mineral prices and domestic production to increase. Construction sector is also set to slightly over performance in 2017 to 5.4 percent and pick up to 10.5 percent in 2018, particularly due to the Bugesera airport project. Services sector is to slowdown in 2017 and only grow by 6.7 percent from 7.1 percent in 2016, due to low performance in trade and transport due to the slow recovery in the growth of credit to private being observed as well as a flat growth of imports projection.

The table below highlights the GDP projections over the medium term:

Table 7: GDP Projections over the medium term

	2015	2016	2017 proj.	2018 proj.	2019 proj.	2020 proj.	2021 proj.
GDP	8.9%	5.9%	6.2%	6.8%	7.3%	7.0%	7.4%
AGRICULTURE	**5.0%**	**3.8%**	**4.5%**	**4.4%**	**5.4%**	**4.8%**	**5.5%**
o/w:							
Food crops	3.6%	2.9%	3.4%	3.5%	4.3%	4.3%	4.2%
Export crops	14.4%	2.4%	8.7%	4.6%	12.4%	4.6%	12.5%
INDUSTRY	**8.9%**	**6.8%**	**7.6%**	**10.1%**	**9.8%**	**9.6%**	**11.8%**
Mining & quarrying	-5.0%	10.4%	14.2%	14.2%	14.3%	15.9%	14.8%
Total Manufacturing	8.4%	6.6%	7.0%	7.3%	8.0%	7.8%	8.2%
o/w: Manufacturing of food	*0.8%*	*8.1%*	*4.0%*	*4.4%*	*6.0%*	*5.0%*	*5.2%*
Manufacturing of beverages & tobacco	*5.7%*	*3.3%*	*4.0%*	*4.6%*	*4.0%*	*4.2%*	*4.3%*
Manufacturing of textiles, clothing & leather goods	*2.9%*	*9.6%*	*6.6%*	*6.3%*	*7.5%*	*6.8%*	*6.9%*
Electricity	8.0%	15.8%	10.8%	11.6%	12.7%	11.7%	12.0%
Water & waste management	0.8%	5.3%	6.0%	4.0%	5.1%	8.0%	5.7%
Construction	15.4%	4.9%	5.7%	11.2%	9.4%	8.3%	13.8%
SERVICES	**10.4%**	**7.1%**	**6.7%**	**7.1%**	**7.0%**	**6.9%**	**6.7%**
o/w:							
Wholesale & retail trade	12.7%	6.1%	5.2%	5.4%	4.9%	6.5%	6.9%
Transport services	9.7%	8.0%	5.6%	5.3%	6.1%	6.9%	7.0%
Hotels & restaurants	9.3%	11.3%	7.9%	8.2%	9.2%	9.1%	8.6%
Information & communication	17.9%	8.6%	7.9%	7.9%	9.6%	8.5%	8.5%
Financial services	12.2%	3.4%	6.4%	6.4%	7.1%	7.2%	7.0%
Real estate activities	4.5%	6.2%	5.5%	4.9%	5.5%	6.0%	6.0%
Professional, scientific and technical activities	14.2%	6.3%	4.3%	4.3%	6.3%	5.3%	5.0%
Administrative and support service activities	16.1%	9.8%	8.4%	7.4%	8.5%	8.1%	8.0%
Public administration and defence; compulsory social security	5.5%	11.6%	7.3%	9.8%	6.3%	4.5%	4.0%
Education	1.7%	1.7%	7.3%	9.8%	6.3%	4.5%	4.0%
Human health and social work activities	10.1%	6.2%	7.3%	9.8%	6.3%	4.5%	4.0%
Cultural, domestic & other services	19.2%	7.0%	9.6%	10.4%	11.5%	11.5%	10.5%
Taxes less subsidies on products	**14.1%**	**4.4%**	**5.4%**	**5.8%**	**9.5%**	**8.5%**	**7.0%**

III.1.2. Inflation

For 2017, the rising global fuel and food prices as well as the lower than expected domestic food crops harvest poses significant threat to inflation. This is therefore projected to increase in 2017 to about 7 percent reflecting mainly the first round pass-through effect of rising fuel and food prices as agriculture season A 2017 production was not good as expected. These pressures are already being felt as by the end of February inflation was estimated at 8.1 percent from 7.4 percent in January 2017.

III.1.3. External sector

Table 8: Key external sector projections

	2016	2017 proj.	2018 proj.	2019 proj.
A. Current Account	**-1,210.5**	**-967.4**	**-1,092.3**	**-1,057.3**
Balance on goods and services	***-1,510.6***	***-1,204.3***	***-1,320.3***	***-1,285.8***
Goods (Trade Balance)	**-1,300.1**	**-1,152.3**	**-1,264.0**	**-1,231.5**
Exports f.o.b.	745.0	906.1	958.7	1,082.1
Of which: coffee	58.5	62.6	66.2	81.2
tea	63.4	88.5	93.8	99.5
minerals	86.4	106.6	109.4	110.8
Imports f.o.b.	2,045.1	2,058.4	2,222.7	2,313.6
Services (net)	**-210.5**	**-52.0**	**-56.3**	**-54.3**
Primary income (net)	**-224.1**	**-262.8**	**-275.7**	**-299.9**
Secondary income (net)	**524.3**	**499.7**	**503.7**	**528.4**
Secondary income: credit	612.5	592.9	602.1	631.6
o/w workers' remittances	167.3	169.1	177.5	187.3
o/w total official transfers	365.7	343.5	340.3	355.4
B. Capital Account	**190.0**	**190.5**	**213.0**	**226.5**
Net lending(+)/ net borrowing (-)	***-1,020.5***	***-776.9***	***-879.3***	***-830.8***
C. Financial Account: Net lending(+)/ net borrowing (-)	**-963.1**	**-667.5**	**-850.1**	**-864.0**
Direct investment	-251.3	-299.6	-396.4	-430.5
Direct investment: liabilities (i.e. FDI)	258.9	307.2	404.4	439.0
Other investment	**-708.6**	**-365.1**	**-450.8**	**-430.5**
o/w public sector budget loans	214.8	251.4	230.2	183.5
o/w public sector project loans	172.0	153.1	182.6	214.7
o/w private sector loans	449.7	97.6	186.8	195.2
D. Overall Balance	**-20.8**	**-109.5**	**-28.9**	**34.3**
E. Gross official reserves in months of next year's imports of goods and services	**4.0**	**3.7**	**3.4**	**3.4**

The current account deficit is expected to reduce significantly by 20.1 percent in 2017, before increasing again in 2018 by 12.9 percent, and then decreasing by only 3.2 percent in 2019. The improvement in 2017 is mainly due to exports of goods which are expected to increase by 21.6 percent. The fastest growing exports in 2017 are tea, 40 percent increase in value and minerals, 23 percent increase in value, as a result of an uptick in commodity prices expected in 2017, and finally re-exports which will continue increasing (20 percent). Exports will continue increasing in 2018 and 2019 respectively by 5.8 percent and 12.9 percent.

The imports in 2017 are expected to remain stable, increasing by only 0.7 percent. This is mainly explained by Rwandair import of planes that occurred in 2016, Rwandair is not expected to import in the following years, but the construction of the new Bugesera airport will require imports of goods and services in 2018 and 2019. Total imports fob will increase in volume in 2018 and 2019, respectively 6.7 percent and 3 percent compared to decrease of 3.3 percent in 2017, reflecting a lower real exchange rates depreciation due to slowdown in imports’ price increase compared to domestic price increase.

Foreign direct investment is expected to continue to increase reaching USD 307.2 million, USD 404.4 million and USD 439 million respectively in 2017, 2018 and 2019, from USD 258.9 million in 2016. In both 2018 and 2019, USD 67 million are expected as foreign direct investment and USD 81.8 million as external loans to finance imports for the Bugesera airport.

In the light of the above projections, BNR is expected to draw down 109.5 million USD of its reserves in 2017. This drawdown, partly offset by the 100 million USD expected facility from IMF in 2017 will reduce the gross official reserves from 1001.5 million USD at end 2016 to 989.2 million USD at end 2017. The high level of reserves in 2016 in addition to the low level of imports in 2017 explain that 2016 reserves will cover 4 months of imports of goods and services in 2017, more than 3.6 recorded the previous year. In 2018 and 2019 respectively, BNR will drawdown 28.9 and accumulate 34.3 million USD on her reserves. The lower level of reserves of 2017 and 2018 reduce the coverage to 3.6 and 3.4 months of imports of goods and services of the following year.

III.1.4. External debt policy

Rwanda’s debt remains at low risk of debt distress with all the risks indicators positioned well below the indicative thresholds established by the World Bank and IMF Debt Sustainability Analysis tool. The Debt Sustainability Analysis done in December 2016 shows that Rwanda’s debt service to export stood at 19.4 percent (against debt service to export threshold of 25 percent) while the external debt to GDP ratio stand at 29.8 percent by end 2016.

The medium term debt policy will continue to ensure that the financing needs and settling of obligations meet the medium term objective of low borrowing costs, prudent risk exposure and promotes an active domestic debt market. This will be achieved through a combination of strategies, including the development of our capital market which offers the more long term domestic financing in replacement of short term notes (though for cash flow financing purposes the issuance of treasury bills may be used).

Careful prioritization and maximization of concessional loans is key in order to avoid a change in the risk status from Low to Moderate, as this will automatically have implications for both the PSI and relationship with new creditors like Japan, IBRD, and ADB private sector window.

III.1.5. Monetary and financial sector development policies

BNR stands ready to boost liquidity within the market if necessary to help to return broad money growth up to over 10 percent in 2017 and 2018 and lead to credit to the private sector growth to more than double which will support broad-based growth. Credit to private sector is projected to grow by 19.5 percent in 2017 from 7.8 percent in 2016.

Exchange rate policies will focus on a more market driven exchange rate which enables to adjust freely the shocks of external trade balance deficit. In 2017, these external exchange rate pressures are expected to reduce due to increased export receipts and reduced import receipts. This is expected to lead to increased liquidity, and also reduce inflationary pressures which will allow BNR to continue to support the market.

More efforts being done by the National Bank of Rwanda are to identify and tackle efforts that lead to high and rigid banking rates as part of BNR effort to improve the monetary transmission mechanism. The new regulatory framework that is being finalized will focus on shifting from simple interbank operations to a true Horizontal REPO.

BNR has issued regulation on new capital requirements on Basel I/III in 2016 and this will come into effect in the second half of 2017. The new Capital requirements will stipulate total capital of at least 12.5 percent of total risk-weighted assets, with 10 percent being core capital and a conservation buffer of 2.5 percent also being in place.

The Deposit Guarantee Fund is expected to start collecting premiums in the second quarter of 2017. These premiums will be computed at 0.1 percent of eligible deposits within the non-bank sector and is expected to boost confidence in the financial sector and to strengthen BNR's financial crisis management tools.

III.1.6. Financial Sector Development Strategy

a) Automation and Consolidation of Umurenge SACCOs into a Cooperative Bank is expected to be completed in 2017.

As mentioned in the previous budget framework paper, automation and consolidation of U-SACCOs is a key aim of the government. Automation and consolidation of U-SACCOs into Districts SACCOs and a Cooperative Bank are being handled simultaneously.

- **With regard to automation:**

- Procurement of internet service providers completed
- Procurement and installation of servers finished
- The automation of U-SACCOs is at advanced stage- User Acceptance Test (UAT) is done and it is successful at 72 percent.
- A piilot in 16 SACCOs is underway with data uploaded in the system and automation of 400 U-SACCOs will be done after successful implementation of pilot phase.

✓ **With Regard to Consolidation:**

The consolidation of U-SACCOs will be done in two phases including consolidation of U-SACCOs into District SACCOs and establishment of Cooperative Bank.

- Under the establishment of District SACCOs, data cleaning and due diligence of U-SACCOs to ascertain their financial status and net book value under way.

- Preparation of District SACCOs plans, internal policies and procedures have started. A team of consultant visited 25 districts collecting information that will inform both District SACCOs and Cooperative Bank business plans.

Automation of 400 U-SACCOs, automation and establishment of District SACCOs and The Cooperative Bank is expected to be established in FY 2017/18.

b) Long term saving scheme for all citizens

As mentioned in the last BFP, the RSSB pension scheme currently barely covers 10% of Rwanda's workforce focusing largely on public and private sector salaried employees. The excluded 90% of the workforce is neither covered by a pension scheme nor a long term savings scheme. To deal with this, a long term savings policy proposal was developed which expands social security coverage by introducing pre-retirement benefits. The major benefits expected from the implementation of the long term savings scheme ought to be: (i) raising national savings levels, (ii) providing adequate resources for long term productive investments, (iii) providing a pension product for the informal sector (currently not provided for by RSSB), (iv)ensuring adequate housing and tertiary education for all. The proposed expanded scheme will cater for three population segments (i) public sector salaried employees, (ii) private sector salaried and self-employed business owners and (iii) people involved in the informal sectors (earning irregular and low income).

The current progress on this policy is as follows:

- Through a consultative process, LTSS for Rwandan was developed and letter approved by the cabinet
- Law that will govern structures and operations of LTSS was drafted and approved by cabinet and is now being scrutinized by parliament
- MINECOFIN has started the recruitment process of LTSS project team. Potential candidates submitted their proposals by March 2017.
- The IT platform, customization and integration system will be procured and established in FY 2017/2018

The actual implementation and operationalization of LTSS will start in 2017/18.

c) National Financial Inclusion Strategy

In response to the fact that 11% of Rwandans are still not financially included, BNR & MINECOFIN through a consultative process finalized National Financial Inclusion strategy to be implemented as part of the next planning stage. The remaining step is adoption by stakeholders and the implementation which is expected to start in 2017/18.

d) National payment system

The objective of national payment system is to build a world-class payment system that is secure, reliable, efficient, scalable, cashless, and promotes financial inclusion. The national payment strategy serves as a guide to all stakeholders both public and private by accelerating the rate of economic growth and empowering Rwandans towards meeting the country's Vision 2020 goals by promoting cashless economy through e-payments; create a payment landscape with an enabling environment for product and service innovation, which provides affordable payment services to Rwandans among others.

Through a consultative process a five year National Payment strategy was developed and adopted by stakeholders. It is now awaiting Cabinet for approval for national implementation which will start in 2017/18.

e) Capital market Master Plan

The Government of Rwanda has increasingly focused its attention on deepening Rwanda's capital markets. This emphasis recently culminated in a directive to the Rwandan Capital Market Authority to produce the 10-year master plan. This plan will set the CMA's policy strategy for the next 10 years. It will advance a strategic agenda for deepening debt markets, expanding listings on the Rwanda Stock Exchange, developing an ecosystem of financial sector intermediaries, and further integrating Rwanda's capital markets with those of its East African neighbours. The master plan was finalized and adopted by stakeholders and is awaiting for cabinet approval in order to start its implementation. The implementation is expected to start in 2017/18.

f) Creation of an international business and financial Services Centre

The Government has made significant reforms to create a conducive environment for business and attract both private and public investments for growth. Despite some commendable results of the Government efforts in some sectors, more business opportunities remain untapped. These include; investment in key infrastructure projects, financial services, energy, agriculture, health sector and several others. In an effort to bridge these gaps, the creation of an International business and financial services centre that will help to develop Rwanda's domestic financial services industry and ecosystem; provide an impetus to diversifying the economy of the country; fuel further economic activity, and as part of the movement towards globalization and liberalization. This is also supported by the strategic location of Rwanda that offers the opportunity of a business and financial Centre for the East and Central African region.

III.1.7. Fiscal Policy for 2017/18 and over the medium term

The Government's fiscal policies in the medium-term continue to aim at (a) fiscal and debt sustainability with progress toward the EAC macroeconomic convergence criteria; (b) reducing the external current account deficit and the reliance on external financing; and (c) further improving prioritisation and efficiency of public expenditure, in support of growth, poverty reduction, and structural current account improvement.

In line with these policies, the overall fiscal deficit including grants will be maintained at 3½–4 percent of GDP during the 2017/18–2019/20 period, from 4.7 percent currently projected for 2016/17, and an average of 4½ percent during the four fiscal years before. This will set the stage for working toward the EAC fiscal deficit norm of 3 percent of GDP (including grants) by 2022.

Revenue policies are aimed at offsetting at least partially the impact of exemptions aimed at boosting domestic import substitution industries, notably by enhanced tax administration, and improved collection at the local government level. Nevertheless, the tax revenue/GDP ratio is projected to decline from 15.6 percent estimated for 2016-17 (and an average of 15% in the four fiscal years before) to 15.3 percent in 2017/18 and (14.9 percent) in 2018/19-2019/20. However, the Government is assessing new tax policy changes and administrative measures that will boost revenue mobilization.

Growth in current expenditure and net lending will be constrained to below GDP growth, especially for transfers, and its ratio to GDP is projected to decline gradually from 16.5 percent of GDP in 2015/16 to 16.3 percent in both 2016/17 and 2017/18, and to 15.3 percent of GDP by 2019/20.

Development spending remains focused on completing projects under way or in the pipeline, in line with EDPRS 2 objectives. As a ratio of GDP, spending will be kept at the 2016/17 level of 9.5 percent during each of the coming three years, well below the average of 12.7 percent of GDP during the preceding four fiscal years (2012/13–2015/16). The reliance on external grants and loans is expected to remain substantial, at over 8½ percent of GDP on average during the period, with roughly equal parts from loans and grants.

The slowdown in capital spending compared to the four preceding fiscal years is explained by the lower level of external project grants available to Rwanda, as well as by the need to gradually reduce the overall deficit toward EAC convergence criteria. However, the Government is putting increased emphasis on the efficiency of investment and project appraisal to help ensure the envisaged contribution to growth.

The fiscal deficit after grants (of FRW 322.2 billion) is projected to be fully financed by budget and project loans on highly concessional terms (of FRW 336.9 billion) and allow the Government to build up net banking assets of FRW 14.8 billion. Over the 2017/18–2019/20 period, net domestic financing is projected to be close to zero, thus allowing maximum room for private sector credit and investment. As a result, total domestic public debt is expected to remain at around 10 percent of GDP, while external public debt is projected to grow from 29.8 percent of GDP at end-2016 to 38 percent of GDP at end-2020. However, with most external borrowing highly concessional, the

NPV of total public debt is projected to grow from 24 percent to 26.9 percent of GDP between 2016 and 2020, well within the EAC convergence criterion of 50 percent.

Table 9: Fiscal projections- Economic Classification

Operations of Central Government (Billion FRW)	Jul-Jun 2016/17 Revised Budget	Jul-Jun 2016/17 % GDP	Jul-Jun 2017/18 Proj.	Jul-Jun 2017/18 % GDP	Jul-Jun 2018/19 Proj.	Jul-Jun 2018/19 %GDP	Jul-Jun 2019/20 Proj.	Jul-Jun 2019/20 % GDP
Revenue and grants	1,567.1	22.8	1,771.3	22.1	1,920.2	21.3	2,217.7	21.9
Total revenue	1,240.5	18.1	1,414.6	17.6	1,534.0	17.0	1,786.5	17.6
Tax revenue	1,101.4	16.0	1,229.6	15.3	1,347.3	14.9	1,583.1	15.6
Direct taxes	448.6	6.5	518.4	6.5	578.1	6.4	659.6	6.5
Taxes on goods and services	560.3	8.2	602.9	7.5	672.1	7.4	801.7	7.9
Taxes on international trade	92.5	1.3	108.4	1.4	97.1	1.1	121.8	1.2
Non-tax revenue	139.1	2.0	184.9	2.3	186.7	2.1	203.4	2.0
Total Grants	326.6	4.8	356.7	4.4	386.2	4.3	431.3	4.2
Budgetary grants	180.6	2.6	180.9	2.3	194.0	2.1	215.1	2.1
Capital grants	146.0	2.1	175.8	2.2	192.2	2.1	216.2	2.1
Projects	146.0	2.1	175.8	2.2	192.2	2.1	216.2	2.1
Total expenditure and net lending	1,891.3	27.5	2,069.2	25.8	2,290.3	25.4	2,601.7	25.6
Current expenditure	1,033.6	15.1	1,149.0	14.3	1,276.3	14.1	1,435.3	14.1
Wages and salaries	258.3	3.8	301.1	3.8	341.4	3.8	384.0	3.8
Purchases of goods and services	201.0	2.9	220.0	2.7	240.7	2.7	270.7	2.7
Interest payments	78.6	1.1	93.0	1.2	105.3	1.2	118.5	1.2
Domestic Int (paid)	40.6	0.6	50.2	0.6	56.9	0.6	64.0	0.6
External Int (due)	38.0	0.6	42.8	0.5	48.5	0.5	54.5	0.5
Transfers	360.3	5.2	408.0	5.1	436.6	4.8	491.0	4.8
Exceptional social expenditure	135.4	2.0	126.9	1.6	152.3	1.7	171.3	1.7
Capital expenditure	741.9	10.8	761.2	9.5	844.2	9.4	981.5	9.7
Domestic	398.0	5.8	448.7	5.6	464.8	5.2	522.7	5.2
Foreign	343.9	5.0	312.5	3.9	379.4	4.2	458.8	4.5
Net lending	115.8	1.7	159.1	2.0	169.8	1.9	184.9	1.8
Overall deficit (payment order)								
Including grants	-324.3	-4.7	-298.0	-3.7	-370.1	-4.1	-384.0	-3.8
Excluding grants	-650.8	-9.5	-654.7	-8.2	-756.3	-8.4	-815.2	-8.0
Change in arrears (net reduction-)	-20.0	-0.3	-24.2	-0.3	-37.5	-0.4	-42.1	-0.4
Domestic	-20.0	-0.3	-24.2	-0.3	-37.5	-0.4	-42.1	-0.4
Overall Deficit (cash basis)								
Including grants	-344.3	-5.0	-322.2	-4.0	-407.6	-4.5	-426.1	-4.2
Excluding grants	-670.8	-9.8	-678.9	-8.5	-793.8	-8.8	-857.4	-8.4
Financing	344.3	5.0	322.2	4.0	407.6	4.5	426.1	4.2
Foreign financing (net)	350.4	5.1	336.9	4.2	344.0	3.8	382.6	3.8
Drawings	375.1	5.5	362.8	4.5	374.4	4.1	425.3	4.2
Budgetary loan	177.1	2.6	226.1	2.8	187.2	2.1	182.7	1.8
Project loans	197.9	2.9	136.7	1.7	187.2	2.1	242.6	2.4
Amortization (due)	-24.6	-0.4	-25.9	-0.3	-30.5	-0.3	-42.7	-0.4
Domestic financing	-6.1	-0.1	-14.8	-0.2	63.6	0.7	43.5	0.4

IV. THE BUDGET FOR FISCAL YEAR 2017/18 AND POLICIES

As mentioned above, the Government will continue with fiscal consolidation in 2017/18 critical to safeguard external and macroeconomic stability, while supporting growth, the budget for 2017/18 is projected at FRW 2,094.9 billion (excluding LG taxes, fees and LG Tax expenditure). Showing an increase of FRW 140.7 billion compared to the revised 2016/17 budget.

The table lying below on resources and outlays shows the budget for 2017/18 fiscal year and the medium term resources and expenditure projections:

Table 10: Budget for Fiscal Year 2017/18 and medium Term Projections

2017/18 BUDGET PROPOSAL AND MEDIUM TERM RESOURCES AND EXPENDITURES				
RESOURCES (Excluding LG Taxes and Fees)	**2016/17 Revised Budget**	**Jul-Jun 2017/18 Budget**	**Jul-Jun 2018/19 Proj.**	**Jul-Jun 2019/20 Proj.**
Domestic revenue	**1,186.3**	**1,339.4**	**1,441.4**	**1,682.4**
Tax revenue	1,081.5	1,200.3	1,305.3	1,535.9
Non-tax revenue	104.9	139.0	136.1	146.5
Domestic financing	**54.8**	**36.0**	**107.4**	**87.3**
Sale of new Securities to Banks and use of overdraft	0.0	0.0	63.6	43.5
Sale of securities to non Banks	34.0	36.0	43.8	43.8
Bank (Drawdown GF Account)	20.8	0.0	0.0	0.0
Grants	**326.6**	**356.7**	**386.2**	**431.3**
Budget Support	180.6	180.9	194.0	215.1
O/W Global fund	49.1	*63.6*	*65.5*	*69.7*
Project Support	146.0	175.8	192.2	216.2
Loans	**375.1**	**362.8**	**374.4**	**425.3**
Budgetary loans	177.1	226.1	187.2	182.7
Project loans	198.0	136.7	187.2	242.6
Net lending (Repayements)	**11.5**	**0.0**	**0.0**	**0.0**
TOTAL RESOURCES	**1,954.2**	**2,094.9**	**2,309.5**	**2,626.2**
Recurrent budget	**994.0**	**1,122.9**	**1,258.0**	**1,417.7**
of which:				
Compensation of employees	373.1	413.4	427.1	440.8
Recurrent Non Wage	620.9	709.4	830.8	976.9
Development budget	**777.9**	**774.0**	**844.2**	**981.5**
Externally financed	343.9	312.5	379.4	458.8
Domestically financed	434.0	461.5	493.2	537.7
Net lending	**142.3**	**159.1**	**169.8**	**184.9**
Arrears	**20.0**	**24.2**	**37.5**	**42.1**
Accumulation of deposits	**20.0**	**14.8**	**0.0**	**0.0**
TOTAL EXPENDITURES	**1,954.2**	**2,094.9**	**2,309.5**	**2,626.2**

VI.1. Projection of Resources

Total 2017/18 Domestic revenue is projected at 1,339.4 billion FRW, a FRW 153.1 billion higher than 1,186.3 billion FRW of the 2016/17 revised Budget.

a) Tax Revenue Projection

As indicated in the table above, the medium term fiscal projection in economic classification term total domestic revenue collection projection amount to FRW 1,414.6 in 2017/18 Budget. However, for the Budget presentation purposes the table above of resource and outlays exclude decentralized collections on taxes and fees. Consequently , domestic revenue that will accrue to the Treasury in the FY 2017/18 is being projected to FRW 1,200.3 billion FRW showing an increase of 118.9 billion FRW compared to FY 2016/17 mainly on account of an increase in collection of VAT and direct taxes. The implementation of the pilot phase of the 'EBM for all' in October 2017 with the intention of reaching 10,000 taxpayers within one year together with the RRA 2017/18 compliance improvement plan will help to achieve the target.

b) Non-Tax Revenue

Non-tax revenue is projected at 139.0 billion FRW and include Peace Keeping Operations of FRW 116.4 billion payments compared to FRW 84.9 billion expected in this FY2016/17. Other collections of other non- tax revenue of RWF 22.7 billion include collections of administrative fees and charges including travelling documents (Passport , Laissez Passer) as well as other various administrative documents.

Total external resources projected for FY2017/18 amount to FRW 719.5 billion compared to FRW 701.7 billion in 2016/17 revised budget. This shows an increase of FRW 17.8 billion.

c) Total Grants Projections

The total grants projection is expected to contribute with the amount of FRW 356.7 billion during 2017/18 from 326.6 billion FRW in 2016/17. The Budget support is projected to 180.9 billion FRW including FRW 63.6 billion from Global Fund grants whilst capital grants is projected to 175.8 billion FRW, showing an increase of 29.6 FRW billion compared to 2016/17 Revised Budget.

d) Total Loans Projections

Total external loans are estimated at FRW 362.8 billion in FY2017/18 and shows a decline of FRW 12.3 billion compared to the estimate in FY2016/17 on account of revised projections based on the status of the execution of projects.

IV.2. Projection of Expenditures.

a) Recurrent budget

Current expenditure is projected to increase during 2017/18 fiscal year by 128.9 billion FRW from 994.0 billion FRW in 2016/17 revised budget to 1122.9 billion FRW in the Fiscal year 2017/18. This is mainly driven by the increase in wages and salaries of FRW 40.4 billion, resulting from the implementation of the new teachers' statute, new government agencies as well as ongoing restructuring. Other source of increases in total spending come from recurrent-Non Wage expenditure mainly from purchase of goods and services. This increase reflects the additional resources in running of government institutions and road maintenances activities, Interest payment in FY2017/18 will amount to FRW 93.0 billion, higher than FRW 68.6 billion in 2016/17 budget by FRW 19.5 billion.

b) Net Lending

Expenditure under Net lending is to amount of FRW 159.1 billion in 2017/18 from FRW 142.3 billion in 2016/17, an increase of FRW 16.7 billion, and reflects subsidies to Rwandair of FRW 86.3 billion, FRW 11.5 billion interest payments of KCC loans contracted in 2016 and FRW 9.6 billion of government equity for the construction of the Bugesera airport.

c) Development Expenditure

The Development Budget is projected at FRW 774.0 billion in 2017/18 from FRW 777.9 billion in the 2016/17 budget which is lower by FRW 3.9 billion. Domestically financed Development expenditure projects an increase of 27.6 billion FRW from 434.0 billion FRW in 2016/17 to 461.5 billion FRW in 2017/18 that will allow the purchase of strategic stocks for food security, construction of several valley dams and pay for expropriation for the construction of the Bugesera airport. The foreign financed portion is declining from RWF 343.9 billion in fiscal year 2016/17 to RWF 312.5 billion in fiscal year 2017/18 as the estimated project loans disbursements are declining from RWF 198.0 billion in fiscal year 2016/17 to RWF 136.7 billion in 2017/18.

IV.3. Detailed Resource Allocation to EDPRS 2 Priorities

Emerging priorities in EDPRS 2 are grouped under the four thematic areas of Economic transformation for rapid growth, Rural Development, Productivity and youth employment creation as well as Accountable Governance. Alongside the allocation to the thematic areas, suitable resources have been allocated to Foundational Issues that reflect long-term priorities where, in most cases, significant progress has already been made during EDPRS 1 to ensure their sustainability and firm foundation of EDPRS 2 and support functions to ensure its delivery.

The planning consultations held in January 2017, was an opportunity for sectors to take backward look to assess progress made in achieving the targets set in EDPRS II and propose interventions that will help to achieve the remaining targets given that 2017/2018 will be the last year of implementing EDPRS II.

Expenditure projections and sectoral allocations have therefore been based on the priority areas of the EDPRS 2 and the identified sector priorities. The EDPRS 2 therefore informs the process of prioritizing budget allocations towards specific programmes and projects and away from areas of non-priority spending while maintaining appropriate allocation to enhance service delivery across sector.

The inclusion of a programme or project in the budget depends on the availability of funds and the relative priority given to the various initiatives set out in EDPRS 2. Specifically for a development project to be included in the budget, it was subject prior approval by the Public Investment Committee after a series of evaluation to ensure its relevance and impact to EDPRS II as well as its likelihood for success. The table below shows the resource allocation by EDPRS 2 Clusters:

Table 11: Resource Allocation to EDPRS Clusters 2017/18 – 2019/120

Thematic Areas & Foundational Sector	2017/2018		2018/2019		2019/2020	
	RWF	%	RWF	%	RWF	%
I. Thematic Areas	**1,122,286,476,937**	**54%**	**1,204,863,761,961**	**54%**	**1,278,350,035,101**	**51%**
Economic Transformation	432,617,818,195	**21%**	524,956,131,761	**23%**	533,013,828,159	**21%**
Rural Development	328,593,943,507	**16%**	303,389,097,964	**14%**	346,196,415,482	**14%**
Productivity and Youth Employment	131,152,046,616	**6%**	127,570,176,415	**6%**	150,841,148,438	**6%**
Accountable Governance	229,922,668,618	**11%**	248,948,355,821	**11%**	248,298,643,021	**10%**
II. Foundational Sector	**972,624,003,607**	**46%**	**1,035,646,459,857**	**46%**	**1,236,946,572,321**	**49%**
TOTAL BUDGET	**2,094,910,480,544**	**100%**	**2,240,510,221,818**	**100%**	**2,515,296,607,422**	**100%**

Source: MINECOFIN, April 2017

IV.1. Allocations of resources to EDPRS Thematic Areas

The preliminary ceilings issued in the second budget call circular was informed by the preceding planning consultations where priority areas in each sector were agreed upon. Furthermore, the ministerial budget consultations held in March 2017 have helped to scrutinize budget proposals from sectors and ensure alignment of the budget to sector priorities by reallocating resources from non-priority areas and where possible additional funds were provided to cover unfunded/underfunded priorities. The following sub-section gives more detailed resource allocation in each thematic area as well as the key projects and programmes allocated funds in the budget for 2017/18 financial year.

a) Economic Transformation

The main objective of the Economic Transformation thematic area is to propose an ambitious, prioritized and coherent cross-sectoral strategy to sustain rapid growth and facilitate Rwanda's process of economic transformation to meet Vision 2020 revised targets. Outcomes under economic transformation aim at sustaining rapid economic growth and facilitate the process of economic transformation by increasing the internal and external connectivity of the Rwandan economy.

The table below summarises allocation on this thematic area in 2017/18-2019/20 period:

Table 12: Allocation on Economic Transformation for 2017/18-2019/20

THEMATIC AREA	EDPRS SECTORS	2017/2018	2018/2019	2019/2020
Economic Transformation (Objective : *Sustain rapid economic growth and facilitate the process of economic transformation by increasing the internal and external connectivity of the Rwandan economy)*	Education	1,279,333,056	1,255,769,642	1,780,919,963
	Environment and Natural Resources	2,857,087,764	2,956,511,831	3,043,147,110
	Urbanization and Rural Settlements	9,375,316,056	7,798,740,201	7,862,167,761
	PFM	103,640,656,279	122,450,203,767	134,078,656,228
	Financial	1,097,846,308	1,030,038,816	1,121,638,827
	Transport	144,712,612,779	181,759,533,459	177,407,891,214
	Energy	90,922,368,184	124,254,242,167	93,208,595,167
	PSD	68,349,987,989	71,767,858,036	102,805,307,950
	ICT	10,382,609,780	11,683,233,842	11,705,503,939
TOTAL		**432,617,818,195**	**524,956,131,761**	**533,013,828,159**

i. Exports

The top priorities for growing exports will be to diversify exports, increasing value addition and promotion of '*Made in Rwanda'* through collaboration with private-sector. The target is to attain growth of 25% in 2017/18. The key targets and interventions include the following:

- ***Growth of traditional exports by 19 %*** *(Tea: $78Mn , Coffee: $70Mn, Mining: $200Mn).*

    - Expansion of tea plantations in Nyaruguru and Karongi
    - Increasing fully washed coffee to 70%
    - Supporting production of tea seedlings and value addition to mining for 60% of Cassiterite;
    - Exploration of mining and oil

- ***Growth of non-traditional exports;*** *(Manufacturing & Agroprocessing:94 M, Fruits & vegetables: $ 12 M, Flowers: $ 2.3 M, others : $ 47 M)*

    - Additional 20ha expansion for Gishali flower park to reach 40ha planted to reach about USD 4m in exports
    - Completion of basic infrastructure for Gako beef
    - Construction of Two (2) advance factory units
    - Expansion of export growth fund to support 20 high growth potential exporters

- Support to textile, leather and garments manufacturers
- Avail land for start of feasibility study for Nasho-Ndego sugar factory

➢ ***Growth of Services by 33 %*** *(Tourism: $ 444Mn, Transport & Logistics: $130Mn, others: $50Mn).*

- MICE tourism to be promoted with a target of 45 Conferences to be hosted in Rwanda to generate $ 64 million revenues
- Development of Kigali Cultural Village;
- Expropriation of Kivu belt
- Expansion of routes for RwandAir and operationalization of ATL (including subsidiaries)

➢ ***Cross cutting interventions:*** *(Informal exports: $167 Mn, Re-exports: $243Mn)*

- **Promotion of Made in Rwanda:** enforcing procurement guidelines, conducting exhibitions and mobilization campaigns
- **Cross border and trade logistics infrastructure:** Karongi, Rubavu, Burera Cross Border Markets to be completed, Nyamasheke construction works at 60%, Rusizi I Phase 2 at 60%, Rubavu Bonded warehouse construction at 60%; Operationalization of foreign Multiservice centers in Libreville and Lagos ; Gatuna OSBP to be completed
- Selection of **Investment option for use of Djibouti Land** and mobilization of investors
- **Development of industrial parks:** KLP construction at 60%, Bugesera industrial park phase 1 basic infrastructure completion, expropriation of Musanze and Muhanga, Gikondo industrial park relocation among others

ii. Urbanization and interconnectivity:

- Construction of Bugesera Airport phase I and expropriation expressway, upgrading of Kamembe airport in Rusizi, expansion works at Kigali International Airport
- Construction of urban roads in Rusizi, Musanze as well as 54km in City of Kigali
- Begin new roads: Huye- Kibeho- Ngoma-Munini road upgrading (35%), Ngoma-Nyanza (30%),
- Ongoing projects: Kivu belt lot 6&7 to be completed, Rusumo-Kayonza (42.5%), Huye- Kitabi (42.5%), Rukomo- Nyagatare (20%), Base-Butaro-Kidaho (60%)
- Manufacturing and commissioning of Nkombo Boat II
- Construction of New Nzove I (40,000m3/day), extension of Nzove II and forwarding infrastructure
- Rehabilitation of urban water supply systems in Rubavu, Musanze, Nyabihu, Burera, Ngororero, Gakenke and Gicumbi Districts

iii. Financial and ICT sectors

- Operationalization of long term saving scheme
- Operationalization of affordable housing financing scheme

- Upgrading National civil registration systems to ensure effective back end services for Rwanda online program.

- Automation of UMURENGE SACCO
- Laying foundation for the international financial services center in Rwanda
- Operationalization of Innovation fund and Kigali Innovation City

Completion of ICT center of Excellence

b) Rural Development Thematic Area

The objective of rural development is to improve the quality of life and economic wellbeing of people living in rural areas. Given the prevalence of poverty and the range of socio-economic factors that affect rural areas, rural poverty reduction requires comprehensive policy interventions. In line with this, a multi sectoral approach was adopted whereby interventions in various sectors have direct and indirect contribution to poverty reduction.

The table below summarizes allocation on this thematic area in 2017/18 and over the medium term:

Table 13: Allocation on Rural Development in 2017/18-2019/20

THEMATIC AREA	EDPRS SECTORS	2017/2018 BUDGET	2018/2019 BUDGET	2019/2020 BUDGET
Rural Development (Objective: *Sustainable poverty reduction is achieved through broad-based growth across sectors in rural areas by improving land use, increasing productivity of agriculture, enabling graduation from extreme poverty and connecting rural communities to economic opportunity through improved infrastructure)*	Environment and Natural Resources	28,085,030,175	30,408,254,651	35,950,555,441
	Urbanization and Rural Settlements	1,761,766,632	1,177,882,837	1,132,584,855
	Agriculture	91,285,211,264	78,063,803,186	109,028,030,693
	Transport	85,591,660,547	86,401,450,875	84,610,846,783
	Water and Sanitation	39,526,868,648	22,574,606,870	20,532,148,584
	Energy	10,330,719,311	7,905,669,897	4,884,501,970
	Social Protection	72,012,686,931	76,857,429,647	90,057,747,156
	Productivity and Youth Employment	131,152,046,616	127,570,176,415	150,841,148,438
	Education	89,010,860,568	90,187,513,242	94,394,906,379
	Youth	11,098,773,630	12,831,152,501	18,985,341,318
	Social Protection	6,690,232,141	7,723,339,479	10,764,810,588
	PSD	19,356,203,825	9,733,135,527	17,614,442,501
	ICT	4,995,976,452	7,095,035,666	9,081,647,652
TOTAL		**590,898,036,740**	**558,529,450,794**	**647,878,712,358**

As shown in the table above, this thematic area has been allocated 16% of the total government budget and key priority areas focused on in 2017/18 include:

i. Agriculture

- ***Increasing crop productivity*** through access to improved seeds and fertilizers under crop intensification programme
- ***Building resilience to climate change*** through additional hectares of irrigated land
  - On Export targeted irrigation project through hillside: 50% progress on 1,100 ha in Mpanga, 30% progress on 1,750 ha in Mahama I and 30% progress on 2,500ha in Mahama II.
  - Hillside irrigation projects to cover additional hectares in Rulindo (Muyanza 1,100 ha) and Rwamagana (367 ha)***;***
  - Marshland irrigation projects will include 30% progress on additional 1,370 ha including: 885ha in Rwamagana (Mwambu, Gitinga, Rugendabari), 185 ha in Kayonza and 485 in Districts of Kigali City. With a further 1,235 ha to be irrigated in Gisagara (Migina 435 ha) , Kamonyi (Mukunguri 400 ha) and Gasabo (Rugende 400ha).

ii. Energy

- ***Network rehabilitation and strengthening through construction of substations and transmission lines*** to enhance productive utilization of energy e.g. Butare-Mamba-Rwabusoro, Ngarama-Musha-Rulindo, Bwishura-Kigoma-Rwabusoro among others
- ***Increasing Electricity Generation*** *from 190 MW to 212MW*;
- **Electricity access:** 96,648 households to be connected to the grid and work with private sector to connect other households
- **Improving energy efficiency** by promoting the use of clean cooking technologies (LPG, Improved Cook stoves & Biogas).

iii. Increasing social protection coverage:

- ***Under VUP:*** 96,371 HHs will be covered by VUP DS beneficiaries in 416 sectors, 145,282 beneficiaries will be employed in PW in 270 sectors from 240 sectors in 2016/17; VUP expanded PW approach will be operational from 30 - 80 sectors with 8,000 HHs beneficiaries;
- ***Under FARG:*** 23,613 beneficiaries and 1,803 *Incike* will be supported with Direct Support; 11,865 genocide survivor students will be supported in HLIs and secondary schools, 1,714 houses and 560 houses new houses constructed;

c) Productivity and Youth Thematic Area

This thematic area is focused on ensuring that growth and rural development are underpinned by appropriate skills and productive employment especially for the growing young population. To have 50% of Rwandese workforce working off-farm by 2020 as started in vision 2020, requires creating additional 200,000 non-farm jobs per year. This can only be achieved by skills development including technical and vocational training, private sector development to be the center of employment through Rapid Response Training for new investors.

The productivity and youth employment creation thematic area therefore prioritizes the issues of education, skills development, and job creation. Technical and Vocational Training and Tertiary Education take the lion's share of the costs under this area. Not leaving out Teachers' cooperative "UMWALIMU SACCO".

In 2017/18, special focus will be on streamlining National Employment Program interventions that are expected to contribute to creation of 201,200 Off-farms jobs by focusing more on addressing private sector needs. The area will register greater private sector participation through skills development driven by the need of a knowledge based economy and National Employment Programme (NEP) and promotion of made in Rwanda programme through collaboration with private-sector.

To support the accomplishment of these priorities, the thematic area is attributed 7% of the total budget envelope for the 2017/2018 financial year compared to 6% that was allocated in the 2016/2017 revised budget financial year. The table below shows details of resource allocation to Productivity and Youth Thematic Area:

Table 14: Allocation on Productivity and Youth Employment

THEMATIC AREA	EDPRS SECTORS	2017/2018 BUDGET	2018/2019 BUDGET	2019/2020 BUDGET
Productivity and Youth Employment (Objective : *Move Rwanda from an agriculture-based economy to an industry in services-based economy)*	Education	89,010,860,568	90,187,513,242	94,394,906,379
	Youth	11,098,773,630	12,831,152,501	18,985,341,318
	Social Protection	6,690,232,141	7,723,339,479	10,764,810,588
	PSD	19,356,203,825	9,733,135,527	17,614,442,501
	ICT	4,995,976,452	7,095,035,666	9,081,647,652
TOTAL		**131,152,046,616**	**127,570,176,415**	**150,841,148,438**

***i. National Employment programme targeting about* around 201,200 Off-farms jobs**

- Support access to finance,
- Mass vocational training, Industry based internships and rapid response training
- Supporting MVT and TVET graduates to access start up toolkit loan facility
- Support to ICPCs
- Extension of public employment services to secondary cities

ii. Youth

- ➢ Digital literacy campaign
- ➢ Implementation of Iwawa Master plan
- ➢ Establishment of girl's rehabilitation center

d) Accountable Governance Thematic Area

The first pillar of Vision 2020 is good governance and a capable state. The Accountable Governance strategy in EDPRS 2 lays great emphasis on citizens' participation, strengthened public accountability, and quality service delivery. A key component of this is promoting accountability through decentralized institutions, and use of ICT to promote participation and service delivery.

In 2017/18, Interventions under accountable governance will keep focusing on improving service delivery in both public and private sector, ensuring more effective sectoral decentralization and citizen's participation in policy and program implementation through increased mobilization. The allocation of resources to this thematic area and its sectors is shown in the table below:

Table 15: Allocation on Accountable Governance

THEMATIC AREA	EDPRS SECTORS	2017/2018 BUDGET	2018/2019 BUDGET	2019/2020 BUDGET
Accountable Governance (Objective: *Enhance accountable governance by promoting citizen participation and mobilization for delivery of development, strengthening public accountability and improving service delivery).*	JRLOS	576,553,415	573,554,501	593,393,700
	Decentralization	99,095,239,054	107,383,110,267	112,548,375,712
	PFM	1,692,094,072	576,348,229	1,586,833,993
	Support Function	128,558,782,077	140,415,342,824	133,570,039,616
TOTAL		**229,922,668,618**	**248,948,355,821**	**248,298,643,021**

The main focus under accountable governance cluster will be on:

- Local area Network for 166 offices connected
- Connecting more service online through Rwanda Online
- Roll out of e-procurement to all institutions
- Conducting regular inspections of service delivery in local government
- Capacity building for Civil society and media
- Documenting and branding home grown solutions
- Strengthening PFM capacities in non-budget agencies through roll out of customized IFMIS modules;
- Conducting of Itorero for various groups, upgrading and extension of Ubutore Development Center
- Organizing Presidential elections (ensuring availability of logistics and materials)

IV.2. Allocation of resources to Foundational Sectors

Foundational issues reflect long-term ongoing priorities where, in many cases, significant progress has already been made during EDPRS 1 and we need to build on the achievements made to achieve the targets set in EDPRS 2. Health and basic education, public finance management (PFM) and justice, peace and stability are noticeable amongst the areas.

To keep the momentum of the achievements that form the foundational for EDPR 2, reasonable resources have been allocated to the cluster. The table below shows resource allocation to this cluster:

Table 16: Allocation on Foundational Sectors

THEMATIC AREA	EDPRS SECTORS	2017/2018 BUDGET	2018/2019 BUDGET	2019/2020 BUDGET
Foundational Issue (Objective: *The pursuit of long-term priorities in health and basic education, macroeconomic stability and public finance management, justice, peace and stability, food security and nutrition and decentralization that constitute the platform of Rwanda's sustainable development)*	Education	138,774,370,969	145,581,411,037	168,462,371,224
	JRLOS	181,445,283,177	187,342,671,943	188,475,917,139
	Environment and Natural Resources	11,674,321,249	5,695,325,492	11,016,815,673
	PFM	453,854,178,851	475,444,663,857	624,960,728,286
	Health	186,625,201,383	221,382,228,238	243,855,353,404
	Social Protection	250,647,978	200,159,290	175,386,595
TOTAL		**972,624,003,607**	**1,035,646,459,857**	**1,236,946,572,321**

The foundational cluster has been allocated 46% of the total budget for 2017/18 and key focus areas include:

i. Education

- Operationalization and strengthening the established centers of excellence: The African Institute for Mathematical Sciences-Next Einstein Initiative (AIMS-NEI), Partnership for Skills in Applied Sciences Engineering and Technology (PASET), African Center of Excellence (ACE), International Centre for Theoretical Physics/ICTP and Regional Centre of Excellence for Vaccines, Immunization and Health Supply Chain Management.
- Continued improvement of education quality by training teachers in the new competence based curricula
- Construction of new classrooms as well as replacement of old ones

- Continued effort for malaria prevention to reduce the rising cases through indoor spraying of insecticide, distribution of mosquito nets, and procurement and distribution of essential malaria treatment commodities across health facilities.

ii. Health

- Fighting against malnutrition by providing fortified food to under five children and pregnant women in category one of Ubudehe;
- Procurement and distribution of key heath equipment and completing ongoing health infrastructure projects including: Munini District Hospital, Byumba Hospital, Ruhengeri Hospital, Nyabikenke Hospital, Gasabo District Hospital, construction of Gatonde, Design for Gatunda and Muhororo hospitals;
- Increasing the number and quality of human resource for heath by continuing the post graduates training program.

V. POLICY ISSUES FOR CONSIDERATION

Much effort has been put in linking the budget with sector priorities, institutional plans and national wide priorities. In addition, most of the issues were addressed during the planning and budgeting consultations. However, the following policy issues are put for Cabinet consideration:

i. Export promotion and import substitution strategies

As highlighted here, the key strategies to address external sector imbalances have been given the priority in formulating the budget policies over the medium term. In addition to incentives through the 'Made in Rwanda' Campaign, the Government has provided various incentives through the Investment Code to support increased private investments for exports. However, there is need for a strong monitoring and evaluation framework to ensure the impact of incentives provided. RDB and MINEACOM are requested to establish a strong monitoring and evaluation framework that will ensure the expected results are realized in collaboration with the private sector.

ii. Effective coordination of construction and rehabilitation of infrastructure in basic education.

The Government has made significant investments in infrastructure for basic education to improve the quality of education. However, the status of infrastructure in basic education remains a critical challenge and needs serious attention before it deteriorates further. It was noted during the planning and budgeting consultations that a total 4,023 classrooms are no longer in condition to be used and need to be reconstructed immediately, while a total of 3,676 classrooms across the country need to be rehabilitated. The management of this activity has currently been decentralised to districts. However, given the urgency of the situation, it is proposed to re-centralise the management of school construction to ensure proper coordination, resource mobilisation and prioritisation within the available resources. This will also give the districts more time to focus on citizens' mobilisation on their participation through unconventional approaches which will supplement available finances.

VI. DOWNSIDE RISKS TO THE GROWT AND BUDGET IMPLEMENTATION

Government's fiscal stance takes account of risks associated with the macroeconomic outlook and budget execution. Risks on global growth, which are particularly prominent for emerging market and developing economies, include the following:

- ✓ Higher global policy uncertainty, especially regarding trade, as protectionist pressures would continue to increase unless the pace of activity picked up;
- ✓ Rising interests rates in advanced countries could tighten capital flows to developing countries;
- ✓ Weak balance sheets in several countries could negatively affect the financial sector in these economies, reducing economic activity;
- ✓ High level of corporate debt may reduce China's demand for imports;
- ✓ An escalation of ongoing geopolitical tensions in a number of regions could affect market confidence and capital flows and investment.

On the domestic front;

- ✓ The pressure from the worsening current account deficit remains a key threat on economic activity. The slight recovery observed in 2016 need to be sustained over the medium to long term with Government strategies for export promotion and import substitution;
- ✓ The adverse weather conditions experienced in 2016 due to El Niño phenomenon could be a drag on growth if it continues;
- ✓ Tax revenue as percentage of GDP is declining over the medium term. New tax policy measures may be required to offset tax foregoing with the implementation of several tax incentives including these in support of Made in Rwanda policy.

CONCLUSION

The budget framework for 2017/2018 fiscal year and the medium term reflects the current economic situation in Rwanda, opportunities and threats in the region and global outlook. The resource allocation is in line with EDPRS 2 priorities, it is expected that this will contribute towards attaining EDPRS 2 targets.

The medium term projections are built on conservative assumptions regarding domestic revenue mobilization efforts. In line with this, accelerating domestic revenue mobilization through implementation of various measures aiming at broadening the tax base and increasing efficiency in tax collection remains a key priority.

However, public expenditure levels alone will not be sufficient to generate the required growth expected in EDPRS 2. The Government recognizes the role of private sector towards the achievements of EDPRS 2 targets and much effort will be invested in various programmes and projects aimed at harnessing the private sector potential for an accelerated growth, Made in Rwanda being one of them. Thus public expenditure will then be supported by contribution from a dynamic private sector.

Cabinet is requested to approve the Macroeconomic Framework for the medium term and the Budget for the Fiscal Year 2017/2018.