Ministry of Finance and Economic Planning

Budget Framework Paper 2016/2017-2018/2019

April 2016

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I. INTRODUCTION

The Budget Framework Paper (BFP) for the period 2016/17 to 2018/19 outlines the Government's macroeconomic and fiscal policy stance for this three year period. 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 the 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 BFP has been prepared against the background of several challenges both on the external and domestic fronts. Regarding the external front, the global economy is still fragile despite improved prospects as important risks remain, including a sharper-than-expected slowdown in Chinese economy during the needed transition to more balanced growth. The situation in China is expected to have , international spillovers through trade, commodity prices, and confidence, with attendant effects on global financial markets and currency valuations; tighter global financing conditions as the United States exits from extraordinarily accommodative monetary policy combined with further dollar appreciation and escalation of ongoing geopolitical tensions in a number of regions affecting confidence and disrupting global trade, financial, and tourism flows . On the domestic scene, external sector imbalances arising from depressed prices of minerals on one hand and increasing demand for imports on the other hand will put severe pressure on external reserves and remain a critical challenge to economic performance.

The BFP is organised as follows: section one is introduction, followed by section two which gives a summary of economic performance both global and domestic. The domestic portion reviews performance in the real, external, fiscal and monetary sectors. The global portion includes an outlook for 2016 and 2017. 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 2016/17 with key policies underlying the budget preparation. The fifth section highlights the functional allocations focussing on the priorities to be funded under the EDPRS2 thematic areas. Policy issues arising from the 2016/17 budget formulation are discussed in section six. 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

According to the World Economic Outlook (WEO) of the IMF published in April 2016, the global economic activity remained subdued in 2015. The world output grew by 3.1% in 2015 compared 3.3% in 2014. Three key transitions continued to influence the global outlook: (1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing toward consumption and services, (2) lower prices for energy and other commodities, and (3) a gradual tightening in monetary policy in the United States in the context of a resilient U.S. recovery as several other major central banks in advanced economy continue to ease monetary policy.

In advanced Economies, the growth in 2015 reached 1.9% compared to 1.8% in the previous year. The weaker investment and manufacturing activity in China, together with market concerns about the future performance of the Chinese Economy are having spillovers to other economies through the trade channels and weaker commodity prices, as well as through diminishing confidence and increasing volatility in financial markets.

The global output is projected to grow modestly by 3.1% and 3.5% in 2016 and 2017 respectively. The pickup in global activity is projected to be more gradual than in 2015, especially in emerging market and developing economies. The projected pickup in growth, despite the ongoing slowdown in China, primarily reflects forecasts of a gradual improvement of growth rates in countries currently in economic distress, notably Brazil, Russia and some countries in Middle East, though even this projected partial recovery could be frustrated by new economic or political shocks.

Growth in advanced economies is projected to rise by 1.9% in 2016, and hold steady in 2017. Overall activity remains resilient in the United States, supported by still-easy financial conditions and strengthening housing and labor markets, but with dollar strength weighing on manufacturing activity and lower oil prices curtailing investment in mining structures and equipment. In the euro area, stronger private consumption supported by lower oil prices and easy financial conditions is outweighing a weakening in net exports.

Growth in emerging market and developing economies is projected to increase from 4% in 2015—the lowest since the 2008–09 financial crisis—to 4.3 and 4.7% in 2016 and 2017, respectively. Growth in China is expected to slow to 6.3% in 2016 and 6.0% in 2017, primarily reflecting weaker investment growth as the economy continues to rebalance. India and the rest of emerging Asia are generally projected to continue growing at a robust pace, although with some countries facing strong headwinds from China's economic rebalancing and global manufacturing weakness.

Higher growth is projected for the Middle East, but lower oil prices, and in some cases geopolitical tensions and domestic strife, continue to weigh on the outlook. Emerging Europe is projected to continue growing at a broadly steady pace, albeit with some slowing in 2016. Russia, which continues to adjust to low oil prices and Western sanctions, is expected to remain in recession in 2016. Other economies of the Commonwealth of Independent States are caught in the slipstream of Russia's recession and geopolitical tensions, and in some cases affected by domestic structural weaknesses and low oil prices; they are projected to expand only modestly in 2016 but gather speed in 2017.

Growth in Sub-Saharan Africa is projected at 3.0% and 4.0% in 2016 and 2017 respectively. Most countries in sub-Saharan Africa will see a gradual pickup in growth, but with lower commodity prices, to rates that are lower than those seen over the past decade. This mainly reflects the continued adjustment to lower commodity prices and higher borrowing costs, which are weighing heavily on some of the region's largest economies (Angola, Nigeria, and South Africa) as well as a number of smaller commodity exporters.

b) Inflation

Headline inflation has broadly moved sideways in most countries, but with renewed declines in commodity prices and weakness in global manufacturing weighing on traded goods' prices it is likely to soften again. Core inflation rates remain well below inflation objectives in advanced economies. Mixed inflation developments in emerging market economies reflect the conflicting implications of weak domestic demand and lower commodity prices versus marked currency depreciations over the past year.

c) World Commodity prices

Oil prices have declined markedly since September 2015, reflecting expectations of sustained increases in production by Organization of the Petroleum Exporting Countries (OPEC) members amid continued global oil production in excess of oil consumption. Futures markets are currently suggesting only modest increases in prices in 2016 and 2017. Prices of other commodities, especially metals, have fallen as well.

Monetary easing in the euro area and Japan is proceeding broadly as previously envisaged, while in December 2015 the U.S. Federal Reserve lifted the federal funds rate from the zero lower bound. Overall, financial conditions within advanced economies remain very accommodative. Prospects of a gradual increase in policy interest rates in the United States as well as bouts of financial volatility amid concerns about emerging market growth prospects have contributed to tighter external financial conditions, declining capital flows, and further currency depreciations in many emerging market economies.

II.2. Domestic economic performance

a) Real GDP growth

GDP growth in 2015 was at 6.9% over the year. The mining sector, which faced four consecutive quarters of declines and a cumulative drop of 8.8%, weighed down on the recovery of the industrial sector, allowing industrial growth to reach only 7%. The fact that there still was a recovery in comparison to 2014 is due to strong growth in manufacturing, of 7.5%, and construction, of 9.9%, which contributed a combined 1.1 percentage point to GDP growth in 2015. Growth in agriculture was bolstered particularly by strong expansion of export crops production, 13.4%, but the poor performance of food crops, which is a much larger sector and only grew at 4.2%, means growth was steady at 5% overall. Services grew by 7% in 2015 which was strong but still substantially lower than the total of 9 percent achieved in 2014. The strongest growing subsectors were information and communication, financial and cultural, domestic and other services growing at 15.9%, 10.1% and 10.8% respectively but as these are currently relatively small sub-sectors none contributed as much as wholesale and retail trade which contributed 0.9% points to overall growth.

Table 1: The table below highlights details of sectoral performance in 2015

GDP Growth (constant prices 2011)	2011	2012	2013	2014	2015
GDP	**7.8%**	**8.8%**	**4.7%**	**7.0%**	**6.9%**
AGRICULTURE	**5.0%**	**6.0%**	**3.0%**	**5.0%**	**5.0%**
Food crops	5.0%	7.0%	4.0%	6.0%	4.0%
Export crops	3.0%	9.0%	-5.0%	-2.0%	13.0%
Livestock & livestock products	3.0%	6.0%	7.0%	8.0%	9.0%
Forestry	3.0%	4.0%	3.0%	2.0%	3.0%
Fishing	3.0%	-2.0%	5.0%	3.0%	3.0%
INDUSTRY	**18.0%**	**8.0%**	**9.0%**	**6.0%**	**7.0%**
Mining & quarrying	50.0%	-7.0%	20.0%	11.0%	-9.0%
TOTAL MANUFACTURING	8.0%	6.0%	5.0%	1.0%	8.0%
Manufacturing of food	4.0%	1.0%	8.0%	-1.0%	3.0%
Manufacturing of beverages & tobacco	7.0%	4.0%	4.0%	-5.0%	5.0%
Manufacturing of textiles, clothing & leather goods	-1.0%	8.0%	3.0%	15.0%	10.0%
Manufacturing of wood & paper; printing	-11.0%	15.0%	12.0%	5.0%	11.0%
Manufacturing of chemicals, rubber & plastic products	14.0%	2.0%	-3.0%	-3.0%	13.0%
Manufacturing of non-metallic mineral products	18.0%	14.0%	7.0%	13.0%	26.0%
Manufacturing of metal products, machinery & equipment	33.0%	26.0%	-14.0%	26.0%	9.0%
Furniture & other manufacturing	33.0%	10.0%	12.0%	9.0%	19.0%
Electricity	15.0%	17.0%	8.0%	9.0%	8.0%
Water & waste management	15.0%	8.0%	5.0%	3.0%	1.0%
Construction	24.0%	15.0%	11.0%	8.0%	10.0%
SERVICES	**8.0%**	**12.0%**	**5.0%**	**9.0%**	**7.0%**
Trade and Transport	7.0%	15.0%	6.0%	9.0%	6.0%
Maintenance & repair of motor vehicles	8.0%	8.0%	6.0%	3.0%	7.0%
Wholesale & retail trade	8.0%	14.0%	6.0%	10.0%	7.0%
Transport services	4.0%	19.0%	7.0%	8.0%	4.0%
Other services	9.0%	10.0%	5.0%	9.0%	8.0%
Hotels & restaurants	4.0%	6.0%	3.0%	4.0%	4.0%
Information & communication	4.0%	33.0%	0.0%	17.0%	16.0%
Financial services	20.0%	13.0%	10.0%	5.0%	10.0%
Real estate activities	0.0%	0.0%	1.0%	8.0%	7.0%
Professional, scientific and technical activities	0.0%	6.0%	4.0%	3.0%	7.0%
Administrative and support service activities	0.0%	6.0%	4.0%	6.0%	8.0%
Public administration and defence; compulsory social security	15.0%	22.0%	9.0%	6.0%	5.0%
Education	18.0%	7.0%	4.0%	8.0%	6.0%
Human health and social work activities	2.0%	23.0%	6.0%	9.0%	8.0%
Cultural, domestic & other services	-1.0%	11.0%	12.0%	19.0%	11.0%
Taxes less subsidies on products	2.0%	2.0%	-3.0%	3.0%	14.0%

Source: NISR, March 2016

b) Inflation

Inflation continues to remain relatively well contained and has now been below the target for more than two years, averaging 2.5% for 2015. In recent months though, inflation has increased slightly. Core inflation saw its three month average decrease from 2.7% in the third quarter to 1.9% in the final quarter in 2015 before a slight uptick in February to 2.9%. Though the exchange rate pass-through is low in Rwanda, the recent pressures on the FRW exchange rate have led to a small increase in imported inflation, rising from 1% in November 2015 to 2.3% in February 2016. The recent period has been marked by the depreciation of the FRW against currencies of major regional trading partners.

c) External development

The table below summarises key external sector performance indicators:

Table 2: External Sector Performance indicators in 2015

SUMMARY	2010	2011	2012	2013	2014	2015
A. Current Account	**-426.8**	**-465.3**	**-734.6**	**-557.5**	**-945.4**	**-1,098.3**
Balance on goods and services	***-956.3***	***-1,205.9***	***-1,271.1***	***-1,163.1***	***-1,344.5***	***-1,428.1***
Goods (Trade Balance)	**-786.7**	**-1,101.6**	**-1,268.3**	**-1,148.4**	**-1,267.1**	**-1,233.8**
Exports f.o.b.	297.3	464.2	590.8	703.0	723.1	683.7
Of which: coffee	56.1	74.6	60.9	54.9	59.7	62.0
tea	55.7	63.9	65.7	55.5	51.8	72.5
Minerals	67.9	151.4	136.1	225.7	203.3	117.8
Imports f.o.b.	1,084.0	1,565.8	1,859.0	1,851.5	1,990.2	1,917.4
Services (net)	**-169.61**	**-104.30**	**-2.86**	**-14.70**	**-77.35**	**-194.34**
Primary income (net) = Income in BPM5	**-51.3**	**-57.2**	**-95.6**	**-135.3**	**-179.0**	**-192.5**
Secondary income (net) = Transfers in BPM5	**580.8**	**797.8**	**632.1**	**741.0**	**578.0**	**522.3**
Private transfers net	90.7	133.3	183.0	181.4	179.9	152.2
Official transfers	490.1	664.5	449.1	559.6	398.1	370.1
B. Capital Account	**285.6**	**177.6**	**171.2**	**234.5**	**337.1**	**299.9**
Capital account: credit (PIP)	285.6	177.6	171.2	234.5	337.1	299.9
Capital account: debit	0.0	0.0	0.0	0.0	0.0	0.0
Net lending(+)/ net borrowing (-) (balance fr	***-141.2***	***-287.6***	***-563.4***	***-323.0***	***-608.3***	***-798.4***
C. Financial Account: Net lending(+)/ net borrow	**-279.2**	**-433.2**	**-379.3**	**-661.3**	**-616.2**	**-795.0**
Direct investment	-250.5	-119.1	-255.0	-257.6	-311.0	-319.8
Direct investment: assets	0.0	0.0	0.0	0.0	3.8	3.5
Direct investment: liabilities (FDI)	250.5	119.1	255.0	257.6	314.7	323.2
Other investment	**-21.1**	**-226.6**	**-118.4**	**-401.9**	**-304.2**	**-468.5**
Other investment: assets	28.5	2.5	-5.1	17.2	-0.2	-73.0
Other investment: liabilities	49.6	229.0	113.4	419.1	304.0	395.5
o/w public sector current loans	0.0	124.1	13.4	14.2	154.4	232.1
o/w public sector project loans	61.7	98.1	96.9	523.6	153.5	140.0
o/w private sector loans	85.0	149.9	148.4	168.4	137.9	168.8
D. Net Errors and Omissions	**-65.9**	**88.7**	**-28.4**	**-109.8**	**-98.2**	**-25.1**
E. Overall Balance	**72.1**	**234.3**	**-212.4**	**228.5**	**-90.4**	**-28.5**
F. Reserves assets	**72.1**	**234.3**	**-212.4**	**228.5**	**-90.4**	**-28.5**

The current account of the balance of payments deteriorated substantially by 16.2% from USD 945.4 million in 2014 to a deficit of USD 1098.3 million in 2015 as services net, primary income and secondary income all worsened. Both exports and imports declined in 2015 compared to 2014 due to the decline in both the price of minerals and energy. The gain from the decline of energy prices managed to offset the decline in exports as a result, the trade balance deficit slightly improved from USD 1267.1million in 2014 to USD 1233.8 million in 2015.

The decline in exports in 2015 was dominated by the declines in minerals (-42 %) due to the fall in international commodity prices with price declines of 26%, 12% and 19% in cassiterite, coltan and wolfram respectively that adversely affected the performance of the traditional mineral exports. However, the decline in the mineral exports was partly dampened by the good performance in coffee and tea that grew by 4% and 11% respectively. Re-exports continued their recent trend of strong growth and non-traditional exports posted a strong growth, particularly other minerals, cement, 28.8%, and textiles and textile article of 388.8%; 28.8% and 19.6 % respectively.

Total imports (CIF) declined by 3.2 % from USD 2,386.92 million in 2014 to USD 2,311.24 million in 2015 driven by the fall in the value of energy and lubricants (23.5%) as a result of fall in prices. Intermediate goods also fell by 5.2% but capital goods and consumer goods grew by 1.61% and 5.78 % respectively.

In 2015, Capital account balance declined by 11 % to USD 299.9 million from USD 337.1 million in 2014 due to the fall in capital grants. The financial account balance recorded a net borrowing of USD 795.0 in 2015 compared to USD 616.2 Million in 2014. This is due to increasing net incurrences of financial liabilities accruing from increasing external borrowing for both public and private projects as well as increasing foreign direct investment liabilities.

In terms of energy prices there was some pass-through to the domestic economy, as seen by the decline in pump prices from FRW 1,010 per litre for petrol in 2014 to FRW 826 per litre for petrol today. Consequently, the Government of Rwanda has reduced the petrol price whilst at the same time increasing the levy on petrol by 52.36 FRW per litre which raised an additional 8.4 FRW billion for strategic reserves and road maintenance.

Since 2012, the forex market has been under relatively higher pressure mostly resulting from increased imports (especially capital and intermediate goods) to support high economic growth. In addition to the traditional trade balance deficit, the global strengthening of the US dollar, the contagion from high depreciation of regional currencies and associated speculative behaviour resulted in an annual depreciation of 7.6%; the highest level in the last 10 years. In cumulative terms, the depreciation of Rwandan franc between 2012 and 2015 is at 21.90%, compared to the cumulative depreciation of 4.24% recorded between 2004 and 2011.

Over the year, due to the pressure from the worsening current account balance reserves dropped for a second year in a row, this time by 32.0 USD million. This means that by the end of 2015 reserves in months of imports of goods and services was down to 3.6 months, from 4.8 and 4.0 at the end of 2013 and 2014 respectively. There was also substantial pressure on commercial banks that saw their net foreign assets decrease by 70.5 % to 30.9 FRW billion compared to December 2015.

d) Monetary sector development

Throughout 2015, the Monetary Policy Committee (MPC) decided to keep the policy rate (the Key Repo Rate-KRR) at 6.5% aiming to support the financing of the private sector by the banking sector but also to ensure positive real interest rates to stimulate domestic savings. Broad money grew by 20.9% from end-December 2014 to end-December 2015, compared to 19.0% in the same period of 2014, and was driven mainly by increases in credit to government and the private sector, offset by drops in net foreign assets. In a context of low inflation, accommodative monetary policy and ample liquidity in the banking system, credit to private sector grew higher than expected by 26.7% in 2015.

The table below highlights key monetary statistics:

Table 3: Key Monetary statistics in 2015

	2014	2015
Monetary Statistics	Dec	Dec
Net foreign assets	690.4	641.4
Domestic credit	890.9	1221.9
Central government (net)	-21.2	69.4
Private sector	906.3	1148.1
Broad money M3	1223.9	1479.5
Currency in circulation	118.5	140
Deposits	1105.3	1339.5

Source: BNR, April 2016

e) Financial sector development

The financial system remains solvent and with sufficient capital buffers. The capital adequacy ratio of banks (CAR) stood at 22.5% in Dec.2015, while that of MFIs stood at 31.1%.This capital level remains above Basel committee benchmark of 13%, and above the BNR regulatory minimum requirement of 15%. The solvency margin of insurance sector stands at 1066%, significantly above the prudential limit of 100%.

The financial system holds adequate liquidity levels. The liquidity ratio of the banking sector stood at 45.9% in December 2015, well above the prudential limit of 20%. The liquidity ratio of MFIs stood at 89.6%, significantly above the prudential limit of 30%. The liquidity ratio of insurance companies stood at 355%—significantly above the minimum prudential benchmark of 150%.

The non-performing loan ratio (NPLs) of the banking industry saw some slight increase from 6% in December 2014 to 6.2% in December 2015. In the same period, NPLs ratio of MFIs increased from 7% to 7.9%. To address the issue of rising NPLs in MFIs BNR is doing two things: (1) on-site inspection of all UMURENGE SACCOS with greater focus on credit risk; (2) train UMURENGE SACCOS staff on quality management of the loan portfolio.

Profits of the banking sector continued to grow in 2015. Between December 2014 and December 2015, return on assets (ROA) of banks increased from 1.9% to 2.1%, while return on equity (ROE) increased from 10.5% to 11.2%. In the same period, in micro-finance sector, ROA increased from 3.1% to 3.3%; ROE increased from 9.5% to 10.5%. In insurance sector, ROA increased from 8% to 9%.

f) Fiscal performance

The budget for fiscal year 2015/16, approved by Parliament at end June 2015 amounted to FRW 1 768.2 billion. In economic classification terms, total revenue and grants were estimated at FRW 1 462.5 billion comprising FRW1 104.1 billion of total domestic revenue and total grants of FRW 358.4 billion. Total expenditure and net lending was put at FRW 1741.1 billion made up FRW 865.5 billion of recurrent spending, FRW 747.3 billion of capital expenditure and FRW 128.3 billion of net lending outlays. These projections were expected to result in an overall cash deficit of FRW 290 billion for the fiscal year 2015/16. The deficit was to be financed with net foreign loans of FRW 215.2 billion and net domestic finance of FRW 74.9 billion.

Implementation of the budget in the first half of 2015/16 fiscal year was affected by the general economic performance of the period which impacted on revenue collections on one hand and donor disbursement patterns on the other hand that affected the spending profile.

i. Resources collection

Total domestic revenue collections for the July- December 2015 period were projected at FRW 491.8 billion comprising tax revenue of FRW 443.1 billion and non- tax revenue of FRW 48.7 billion. At end December 2015, total collections registered an amount of FRW 528.1 billion showing an excess collection of FRW 36.3 billion. Both tax revenue and non-tax revenue collections contributed to the excess.

The table below highlights the details on revenues collected during the period of July – December 2015:

Table 4: Revenue Performance for July-December 2015 period

billion FRw	Jul-Dec 2015 Proj	Jul-Dec 2015 Prov Act
Revenue and grants	**719.6**	**727.7**
Total revenue	**491.8**	**528.1**
Tax revenue	**443.1**	**463.5**
Direct taxes	180.9	176.9
Taxes on goods and services	227.1	245.4
Taxes on international trade	35.1	41.2
Non-tax revenue	**48.7**	**64.6**
of which PKO	20.5	57.1
of which Other (incl. LG fees)	28.2	7.5
Total Grants	**227.8**	**199.6**
Budgetary grants	**131.1**	**102.9**
of which other grants (incl. HIPC grants)	89.7	61.9
of Which Global Fund	41.4	40.9
Capital grants	**96.7**	**96.7**
Projects	96.7	96.7

Source: MINECOFIN, April 2016

Total tax revenue collections during the period of July-December 2015 amounted to FRW 463.5 billion exceeded the projected amount of FRW 443.1 billion by FRW 20.4 billion. A shortfall in collections under direct taxes was offset by excess collections under taxes on goods and services and taxes on international trade resulting in the overall excess collections. Whilst PAYE collections performed well and exceeded the target, lower corporate income tax payments (including withholding taxes) accounted for the shortfall. Both excise duties and VAT collections contributed to this good performance. In the case of excise duties, higher domestic consumption of excisable products including beer and soft drinks was responsible for this performance. With regards to VAT collections, increased use of the electronic billing machines by retailers as well as VAT collections from the improving construction sector were mainly responsible for this good performance. This good performance was achieved despite the fact that royalties from the mining sector declined significantly due to the sharp decline in mineral prices during 2015.

At end December 2015, whilst capital grants were reported to be on track, budgetary grants registered an amount of FRW 102.9 billion. This performance was FRW 28.2 million lower than the projected amount of FRW 131.1 billion. Delayed disbursement from the EU of USD 32.9 million was mainly responsible for this shortfall.

In the July-December 2015 period total loan disbursements of FRW 194 billion were projected. This amount was made up of FRW 139.8 billion of budgetary loans and FRW 54.2 billion of project loans. At end December 2015, project loans disbursements were on track. In the case of budgetary loans, actual disbursements amounted to FRW 122.6 billion and fell short of the projected amount by FRW 17.2 billion. The delayed disbursement of US$ 21.1 million of the AFDB loan was responsible for the shortfall. This amount was disbursed at the beginning of the year.

ii. Performance of Outlays

In the July-December 2015 period, total expenditure and net lending projected for the period amounted to FRW 818.8 billion. This amount comprised of FRW 440.8 billion of recurrent spending, FRW 323.9 billion of capital spending and an amount of FRW 54.1 billion for net lending. At end December 2015, total outlays amounted to FRW 828 billion and exceeded the projected amount by FRW 9.2 billion. Lower expenditure under net lending was more than offset by slightly higher outlays under both recurrent and capital expenditure and caused the excess outlays.

The table below shows the details of spending compared to the projections.

Table 3. Spending

	Jul-Jun 2015/16	
	July-Dec Proj	July-Dec Prov Act.
Total expenditure and net lending	818.9	828.0
Current expenditure	440.8	459.3
Wages and salaries	111.0	115.3
Purchases of goods and services	99.7	99.7
Interest payments	27.9	27.6
Domestic Int (paid)	12.3	12.5
External Int (due)	15.6	15.2
Transfers	168.1	139.7
of which expenditures on local government taxes	27.7	0.0
Exceptional social expenditure	34.1	77.0
Capital expenditure	324.0	329.7
Domestic	173.0	178.5
Foreign	150.9	151.3
Net lending	54.1	39.0

Source: MINECOFIN

Total recurrent expenditures amounted to FRW 459.3 billion and this figure was FRW 18.5 billion higher than the FRW 440.8 billion estimated for the period. Lower spending under Transfers was more than offset by higher expenditure under wages and salaries and exceptional expenditure and caused the excess expenditure. A total amount of FRW 115.3 billion was spent on wages and salaries, showing an excess of FRW 4.3 Billion compared to FRW 111 billion that was estimated. Spending on goods and services amounted to FRW 99.7 billion which was equal to the amount projected. A total amount of FRW 27.6 billion was spent on interest payments and was on track with the projected amount. Spending on exceptional expenditures amounted to FRW 77 billion compared to 34.1

billion that was estimated. The excess amount was spent on peace keeping missions which was reimbursed with an equal amount received under non tax revenues.

Total capital expenditures amounted to FRW 329.7 billion, showing an excess of FRW 5.5 billion compared to FRW 323.9 billion that was estimated. The small excessive spending was due to counterpart funding for externally funded projects.

Spending under net lending amounted to FRW 39 billion and was FRW 15.1 billion lower than the projected figure and the KCC project accounted for this shortfall.

iii. Deficit and financing

As mentioned above, total resources comprising revenue and grants for the period under review amounted to FRW 727.7 billion and were FRW 8.1 billion higher than projected. Total expenditure and net lending at FRW 828 billion was also FRW 9.2 billion higher than estimated. As a result of these developments, the overall deficit (on cash basis) was slightly higher at FRW 85.9 billion compared to FRW 75 billion estimated for the period. This is due to the fact that as the Treasury received some donor funds late in the year it was able to reduce the 'float' of delayed payments from FRW 24.2 billion to FRW 14.4 billion. This performance increased the overall cash deficit.

With the disbursement of foreign loans of FRW 169.5 billion which was lower than the FRW 185.3 billion estimated for the period, the Government was able to finance the cash deficit of FRW 85.9 billion and build up some net deposits of FRW 83.6 billion. These deposits have since been used during the first quarter of the year to finance Government expenditures in the revised budget.

The Government is committed to implement the revised budget for 2015/16 in line with the levels approved by Parliament for the rest of the fiscal year. This will be done in such a way to preserve macro-economic stability.

II.3. Sectoral performance

II.3.1. Economic Sector Performance

The following are achievements in the first semester of 2015/16 fiscal year for the sectors below:

Sub-Sector of Agriculture;

i) All agricultural inputs were supplied on time through a network of agro-dealers and 10,470 MT of fertilizers were distributed to farmers. Several extension officers were trained through TWIGIRE-MUHINZI. Some farmers were mobilized in preparations for the planting season's activities through several meeting sessions at sector levels.

ii) Land for cultivation of crops was increased: Maize: 283,375 ha, Beans: 406,968 ha, Irish potatoes: 72,045 ha, Cassava: 32,396 ha, Soybeans: 13,286 ha, Rice: 5,772 ha and Wheat: 5961

iii) At the end of the first semester, 27,334 cows were inseminated with improved races, 10,841 Artificial insemination Calves were identified and ear tagged and so far 12,319 have been distributed to poor families through GIRINKA-program;

iv) PSF and Cooperatives mobilized to construct some warehouses as well as the purchase of mobile dryers in order to reduce post-harvest losses of grains. At the end of the second quarter, the Stock position at National Grains Reserves storage stood at Maize stock of 9,350.955 MT and Beans stock of 2,988.723 MT. The overall total in storage now is 11,132 MT of beans and maize.

Trade and Industry, A strong awareness campaign being conducted by MINICOM-BDF-Districts is ongoing. It aims at sensitising graduates to apply for loans to start their own businesses supported by Business Development Fund. Associations have been established in every Sector (2/sector) including BDF Kora WIGIRE Centres (1/District). So far 11 SACCOs have applied for the toolkit loan facility with a total amount of FRW 233,367,100 for 377 apprentices; 4 applications (FRW 111,399,200 for 222 apprentices) have been approved by the BDF investment committee.

i. 1,393 SMEs have benefited from BDF products (AGF-46 SMEs, SME financing-137 SMEs, RIF-1,207 SMEs, Price-3 SMEs). Total amount disbursed was FRW 1,469,041,832.
ii. For NEP programme, all districts have registered almost 30,910 off- farms jobs that have been created from their own Economic activity and 2,411 Off-farms jobs have been created by SMEs with Start-ups through the Direct guarantee scheme.

Information Communication Technology,

i. Growth of ICT Industry Cluster; The Chamber of ICT-Private Sector Federation is now developing guidelines for ICT Start-ups which have been supported in this semester.

ii. Country-wide phone penetration increased to 77.3% mobile cellular telephone subscriptions and broadband penetration increased to 31.5% mobile broadband subscriptions.

iii. Online information services are operational. There are 221 Irembo centers (175 Government, 46 Private) and 53 Irembo Centers were operationalized.

iv. Computer literacy increased in local communities and 6 government services are deployed through Rwanda online.

v. Smart Africa Secretariat started operations on January 5th, 2016 and the 1st draft of Smart Africa Program Strategy is now available.

Transport sub-sector:

i) Upgrading Kivu Belt Lot 4 & 5 MWITYAZO-KARONGI road (66km); work is at 93.97% against 90% planned.

ii) The contract for upgrading (68km) BASE-BUTARO-KIRAMBO was signed in September 2015 and the work is on-going with the mobilization and installation of equipment at the site. Surveying of the road (topography) for drawing is ongoing.

iii) Work on Access road to RUHANGO-KINAZI Cassava Factory (36km); periodic maintenance work is ongoing and the progress is estimated at 33% against 40% planned.

iv) Work on Kibeho to Kivu-Muganza (14km) road and access road to Muganza Tea Factory; is at 87% against 100% planned.

v) Access road to NSHILI Tea Factory (19km) is at 78% against 100% that was planned.

Energy sub-sector:

i) Increment of access to energy, 30,492 households were connected compared to 16,000 households that were targeted by the end of the second quarter;

ii) 2,621(87.3%) Mobisol solar Energy Kits (MSK) system were installed against 3,000 targeted for the period;

iii) Transmission lines of 365 km Lower Voltage lines and 229.61 km Medium Voltage lines have been constructed compared to Construction of 243km Lower Voltage and 230 km Medium Voltage that were planned by the end of quarter;

iv) National power generation capacity increased by 70 MW by June 2016; Kivuwatt methane gas (25MW) was completed and tests were successful.

Water and Sanitation sub-sector.

i) Construction of NYUNGWE-KIBEHO-NDAGO-COKO water supply system of 112 Km is progressing well and it stands at 65%.

ii) Construction of KAGEYO-NGORORERO town Water Supply System of 22km: Works progress at 20% compared to 60% planned.

iii) Construction of water distribution networks of 30 Km in MUSHERI, RWIMIYAGA, KARANGAZI AND RWEMPASHA in NYAGATARE District, the progress of the project is at 62% compared to 60% planned.

II.3.2. Education Sector performance

During the first semester of 2015-2016 fiscal year, the focus was put in improving access and quality of higher learning institutions by promoting Technical and Vocational Education and Training (TVET) and Enhancing IT skills in Education. The following were key achievements in the sector:

Pre-primary education sub-sector Construction of 416 classrooms for pre-primary was completed during this period.

i. The new Pre-Primary Competency Based Curricula to meet regional integration were developed and launched and 1,260 ECD kits distributed to 1,260 nursery schools countrywide and one teacher from each school was trained on the use of ECD Kits.

Primary education and secondary sub-sector;

i. 15,166 teachers were trained to implement new competency based curriculum;
ii. In the program of one laptop per child, 20,792 XO laptops purchased and deployed in primary schools
iii. 1,609 old classrooms were renovated and new 24,886 desks distributed and 12 new school laboratories built countrywide.
iv. 152,640 textbooks adapted to the new competency based curricula procured and distributed in primary and secondary schools.

TVET sub-sector:

i) The construction works of KICUKIRO Learning complex have been completed.
ii) The construction works of Rwanda Teacher Training Institute is moving very fast and is now at 40% and expected to be completed by November 2016.
iii) The bids evaluation for construction of 5 schools (NYAMATA TSS, KAVUMU VTC, MPANDA VTC, NELSON MANDELA, GISENYI VTC) has been completed and Notification letters for supply of equipment have been issued and awaiting no objection decision from the development partner (KFW) for contract signing.
iv) Six curricula have been developed in different subjects (Mining level 1, Networking level 5, tailoring level 5, front office level 5, software development level 4, and automotive technology level 4).

High education sub sector;

i) The final draft document of Rwanda National Qualifications Frameworks (RNQF) has been finalized and was discussed with wider stakeholders of education sector in a validation workshop that was organized on 29th December 2015.
ii) The 3rd instalment of HUYE students hostel was fully paid in the second half of December 2015

II.3.3. Health Sector Performance

The following are the achievements in this sector:

i) In line with reducing maternal to child HIV transmission, 28 health care providers from KIBUYE, MUGONERO and KIRINDA hospitals were trained and a mentorship was conducted at few District Hospitals with some of the health centers in their catchment areas. The mentorship focused on HIV testing, ARV initiation follow up during pregnancy and breastfeeding.
ii) The percentage of suspected malaria cases that received a parasitological test in public health facilities was at 99.91% at the end of the first semester of 2015/16.
iii) The construction of NYABIKENKE district and BYUMBA District Hospital are partially constructed, however progress of reconstructing BYUMBA District Hospital is slow at 18.6% due to the new modifications that need to be integrated in the hospital designs.
iv) Regarding the elimination of malnutrition, routine malnutrition screening continued to be done in the community and 5,589 under 5 children were screened for malnutrition and referred to the health facilities for malnutrition management.

II.3.4. Social protection Sector performance

i) The number of households under extreme poverty covered by VUP Public works was increased to 61,705 households including 30,470 households managed by male and 31,235 households managed by female.
ii) In order to eliminate Malnutrition, 92,334 units of kitchen gardens were established in five districts (Nyamasheke, Kirehe, Nyabihu, Nyaruguru and Ngororero).
iii) Regarding the one cup of milk per child project, 85,282 pupils were included in the program including some children of Burundi refugees.
iv) Concerning the vulnerable people program, 840 women from 7 Districts (NYARUGURU, NYAMAGABE, RUHANGO, GISAGARA, KARONGI, RUTSIRO,

NGORORERO) were financially supported with 20,300,000 FRW as start-up capital for their Projects.

v) 249 children have been reintegrated into families. (85 from orphanages, 151 from centers for children in streets and 13 from detention centres).

II.3.5. Environmental Protection Sector Performance

i) At the end of the first semester, the rational land use was ensured through comprehensive land use plans and adequate mapping;

ii) Different Green Villages have been constructed across the country, rain water harvesting tanks (300 cubic meters) and biogas digesters are under construction on those sites.

iii) Environment and Climate Change Innovation Centre was established by the end of the first semester of FY 2015/16.

iv) Increased access to weather and climate information to users through a range of communication channels (Economic Sectors) where 14,502 pieces of specific weather information where disseminated on different radios.

III. OBJECTIVES AND POLICIES FOR THE MEDIUM TERM 2016/17- 2018/19

III.1. Overview of 2016/17 policies and medium term macro-economic framework

The policies over the next fiscal year 2016/17 and the medium term will focus on addressing external sector imbalances resulting from the shock on global prices of minerals which are expected to be a drag on growth. While addressing the negative trade balance is the key objective, other initiatives of increasing employment opportunities and consolidating domestic revenue mobilisation while decreasing the budget deficit will be equally valuable outcomes.

III.1.1. Real Sector projections for the period of 2016/17 – 2018/19

Table 5: GDP Projections for the period of 2016/17 – 2018/19

IV. GDP Growth (constant prices 2011)	2014	2015	2016 Proj.	2017 Proj.	2018 proj.	2019 Proj.
GDP	**7.0%**	**6.9%**	**6.0%**	**6.0%**	**6.5%**	**7.2%**
AGRICULTURE	**5.0%**	**5.0%**	**4.3%**	**5.1%**	**4.9%**	**5.0%**
Food crops	6.0%	4.0%	4.7%	4.9%	5.0%	4.9%
Export crops	-2.0%	13.0%	-2.6%	7.2%	2.3%	4.7%
Livestock & livestock products	8.0%	9.0%	8.5%	8.8%	8.6%	8.7%
Forestry	2.0%	3.0%	2.5%	2.8%	2.6%	2.7%
Fishing	3.0%	3.0%	3.7%	3.2%	3.3%	3.4%
INDUSTRY	**6.0%**	**7.0%**	**5.6%**	**6.9%**	**7.5%**	**8.0%**
Mining & quarrying	11.0%	-9.0%	-10.1%	7.3%	7.3%	9.3%
TOTAL MANUFACTURING	1.0%	8.0%	7.0%	7.1%	7.6%	8.0%
Manufacturing of food	-1.0%	3.0%	4.7%	5.6%	5.3%	5.4%
Manufacturing of beverages & tobacco	-5.0%	5.0%	5.4%	4.9%	5.1%	5.1%
Manufacturing of textiles, clothing & leather goods	15.0%	10.0%	12.5%	11.3%	11.9%	11.6%
Manufacturing of wood & paper; printing	5.0%	11.0%	10.8%	9.7%	9.1%	10.1%
Manufacturing of chemicals, rubber & plastic products	-3.0%	13.0%	10.3%	7.4%	6.9%	9.4%
Manufacturing of non-metallic mineral products	13.0%	26.0%	15.0%	15.3%	17.3%	18.4%
Manufacturing of metal products, machinery & equipment	26.0%	9.0%	11.8%	8.2%	11.7%	10.2%
Furniture & other manufacturing	9.0%	19.0%	12.5%	13.1%	13.4%	14.5%
Electricity	9.0%	8.0%	8.3%	8.4%	8.3%	12.3%
Water & waste management	3.0%	1.0%	17.9%	24.2%	17.1%	19.7%
Construction	8.0%	10.0%	7.6%	5.8%	6.9%	6.9%
SERVICES	**9.0%**	**7.0%**	**7.1%**	**6.7%**	**7.3%**	**8.1%**
Trade and Transport	9.0%	6.0%	6.6%	2.7%	4.4%	5.9%
Maintenance & repair of motor vehicles	3.0%	7.0%	5.0%	6.0%	5.5%	5.8%
Wholesale & retail trade	9.0%	7.0%	6.5%	2.1%	4.1%	5.7%
Transport services	8.0%	4.0%	7.0%	4.4%	5.4%	6.7%
Other services	9.0%	8.0%	7.4%	8.7%	8.7%	9.0%
Hotels & restaurants	4.0%	4.0%	4.3%	4.0%	4.1%	4.1%
Information & communication	17.0%	16.0%	10.0%	14.3%	13.4%	12.6%
Financial services	5.0%	10.0%	9.5%	10.6%	10.3%	11.1%
Real estate activities	8.0%	7.0%	7.5%	8.8%	9.1%	9.9%
Professional, scientific and technical activities	3.0%	7.0%	4.7%	4.9%	5.5%	5.0%
Administrative and support service activities	6.0%	8.0%	7.0%	7.5%	7.3%	7.4%
Public administration and defence; compulsory social security	7.0%	5.0%	6.1%	6.0%	5.5%	6.0%
Education	8.0%	6.0%	6.1%	6.0%	5.5%	6.0%
Human health and social work activities	9.0%	8.0%	6.1%	6.0%	5.5%	6.0%
Cultural, domestic & other services	19.0%	11.0%	9.4%	12.5%	12.8%	12.9%
Taxes less subsidies on products	3.0%	14.0%	6.9%	2.6%	4.8%	7.8%

Source: MINECOFIN, March 2016

The Government expects the Rwandan economy to grow at 6% in 2016 and 2017, from 7% in 2015. The temporary moderation in growth reflects lower growth in agriculture (especially export crops), a small drop in the terms of trade, and the adjustment measures being undertaken to address external imbalances. Growth in 2018-19 is expected to return to 7%. Growth in construction, manufacturing industry, and services sector is projected to be in the 6.5% - 7%t range, and that of utilities well above that. Construction remains buoyant due to private sector investment [and new roads in the pipeline]. Manufacturing and utilities are boosted by recent investments (including in industrial zones and new utility operations). Services continue to be led by real estate activities, financial services, and ICT, while transport services are boosted by the expansion of the Rwanda Air fleet. Mining output drops 10% in 2016 because of depressed international prices, and is expected to remain below its 2015 level in 2017. Agricultural growth is projected at just 4.3% in 2016, as the increase in food crops from seasons A2016 and B2016 (thanks to good weather and extension of areas under rice cultivation in marshlands) is not enough to offset the decline in export crops in 2016. A pick-up in export crops should bring agricultural growth back to 5% in 2017.

III.1.2. Inflation

Inflation (end-period CPI) is projected at 4.7% in 2016 and at or below 5% for the next three years. The projected drop in import prices in foreign currency in 2016 should help mitigate inflation 2016. But in later years, a pick-up in import prices combined with exchange rate flexibility should lead to somewhat higher CPI inflation, despite the BNR's very cautious monetary policy stance.

III.1.3. Monetary and financial sector development policies

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 and Government are also continuing to deepen shallow financial markets. Hence, a fifteen-year bond will be issued in May 2016, to compliment the 3, 5, 7 and 10-year bonds already in circulation. In addition, more efforts to widen the base of investors by initiating awareness campaigns on the saving culture through capital market will continue to be pursued. This initiative has contributed to financial inclusion whereby the participation of retail investors in government bonds has increased from 1.0% in February 2014 to 10% in February 2016.

BNR plans to issue a regulation on new capital requirements on Basel I/III by end of 2016. The new Capital requirements will include minimum capital ratios plus a conservation buffer of 2.5%. The plan is to have a revised credit information sharing (CIS) law by June 2016 which is expected to close gaps identified in the current law.

Exchange rate policies will focus on a more market driven exchange rate which enables to adjust freely the shocks of external trade balance deficit. Hence, BNR is in the process of basing the official rate on interbank market, which is the market for the professionals, as opposed to the current methodology whereby BNR may apply the daily change of from rates applied by banks to their customers, in the absence of interbank transaction and BNR intervention. BNR is also working with the support of Dealers ‘association to enhance their technical capacity in dealing and organizing the FX interbank market.

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 sustainability analysis done in March 2016 shows that Rwanda’s PV of debt to export stood at 112.7 % by end December 2015 compared to the level of 101.7% in 2014.

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), while other financing windows like concessional and non-concessional loans will also be used where terms are within allowable policy limits.

III.1.5. External Sector projections

The table below summarises the external sector projections:

Table 6: Balance of Payments Projections

SUMMARY	2015	2016 Projections	2017 Projections	2018 Projections
A. Current Account	**-1,098.3**	**-1,338.7**	**-935.5**	**-1,020.5**
Balance on goods and services	***-1,428.1***	***-1,717.0***	***-1,304.2***	***-1,292.6***
Goods (Trade Balance)	**-1,233.8**	**-1,473.0**	**-1,196.8**	**-1,175.1**
Exports f.o.b.	683.7	663.9	722.4	804.1
Imports f.o.b.	1,917.4	2,136.9	1,919.2	1,979.3
Services (net)	**-194.34**	**-244.03**	**-107.43**	**-117.44**
Primary income (net) = Income in BPM5	**-192.5**	**-209.3**	**-219.6**	**-225.7**
Secondary income (net) = Transfers in BPM5	**522.3**	**587.5**	**588.4**	**497.8**
Private transfers net	152.2	157.1	169.3	180.6
Official transfers	370.1	430.4	419.1	317.2
B. Capital Account	**299.9**	**202.5**	**195.9**	**213.0**
Capital account: credit (PIP)	299.9	202.5	195.9	213.0
Capital account: debit	0.0	0.0	0.0	0.0
Net lending(+)/ net borrowing (-) (balance from current and capit	***-798.4***	***-1,136.2***	***-739.6***	***-807.5***
C. Financial Account: Net lending(+)/ net borrowing (-)	**-795.0**	**-1,052.0**	**-575.2**	**-731.6**
Direct investment	-319.8	-327.6	-336.4	-349.1
Direct investment: assets	3.5	3.6	3.8	4.0
Direct investment: liabilities (FDI)	323.2	331.2	340.1	353.1
Other investment	**-468.5**	**-722.9**	**-238.7**	**-381.2**
Other investment: assets	-73.0	-24.7	12.4	0.0
Other investment: liabilities	395.5	698.2	251.1	381.2
D. Net Errors and Omissions	**-25.1**	**0.0**	**0.0**	**-34.8**
E. Overall Balance	**-28.5**	**-84.2**	**-164.3**	**-110.7**
F. Reserves assets	**-28.5**	**-84.2**	**-164.3**	**-110.7**

Source: MINECOFIN, March 2016

The current account is projected to deteriorate by 22% in 2016 and expected to improve by 30% in 2017. The decline in 2016 is mainly due to expected decline in exports as a result of continued fall in international commodity prices that is particularly expected to affect minerals coupled with projected increase in imports mainly driven by RWANDAIR and Kigali Convention Centre (KCC) imports. Prices for Rwanda's key exports are projected to continue falling but this decline will partly be offset by the expected continued drop in petroleum products.

Despite expected poor performance of exports in 2016 due to continued fall in international commodity prices, exports in 2017 will increase by 9% on the account of expected rise in commodity prices in 2017 consequently, the mineral exports will recover from a decline of 42% in 2015 to an increase of 5% in value terms in 2017. Other exports category is also expected to decline by 4% in 2016 due to the decline in the products of milling industry following subdued demand in the region. However, this trend is anticipated to reverse in 2017 with a growth of 9% due to expected improvement in commodity prices in 2017.

In 2016, imports will grow at a slower pace registering an increase of 1.8% excluding RWANDAIR imports of two airbuses and imports of goods by Kigali Conventional Centre (KCC) which are fully financed in the financial account of the balance of payments. However, with the inclusion of Rwandair and KCC imports will grow by 11% but expected to subdue by 10% in 2017. Increased external borrowing and other flows such as grants and FDI inflows will help finance imports.

In the light of the expected low net foreign assets of commercial banks, BNR is expected to draw down on her reserves to finance imports bringing down the reserves coverage of months of imports from 4.1 in 2015 to 3.6 and 2.7 months in 2016 and 2017 respectively (including imports of goods and services).

III.1.6. Financial Sector Development Strategy

The following important programs are expected to boost the financial sector development:

a) Automation and Consolidation of Umurenge SACCOs into a Cooperative Bank

Through the years, the U-SACCOs have grown significantly and now constitute an important part of Rwanda's financial sector as they represent 40% of the sector's number of accounts.

Despite of the achievements registered, the U-SACCOs still face a number of challenges. Automation and Consolidation into Cooperative Bank will address U-SACCO challenges like frequent fraud cases, weak governance and weak internal control systems, inadequate staff and management skills, weak portfolio management, non-compliance with prudential norms; and stand-alone operations of each U-SACCO. Cooperative bank will provide services to SACCOs including but not limited to: Clearing and settlement, internal control and function to SACCOs to ensure SACCOS are complying with prudential norms, technical assistance in term of business planning, budgeting and products development, ICT support services which will facilitate SACCO members to get financial service at any point services/s SACCO, Skills development and capacity building. Bank will also play the lead role in syndication of loans to customers where an individual SACCO may not be able to meet the credit needs of its customers. The Co-operative Bank will provide finance through a Central Financial Facility which will extend liquidity management services and short-term financing to SACCOs.

b) Long term saving scheme for all citizens

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. The above situation has got two implications: 1) the 10 % of the total workforce are salary earners, with a pension scheme under RSSB, but they lack a supplementary long term saving scheme to cater for other needs like acquiring a house or pay for education in order to guarantee a decent retirement ii) The excluded 90% of the workforce is not served all at - they lack a pension scheme and a long term saving scheme. The current long term savings policy proposal 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 expended scheme is proposed to cater for 3 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).

c) 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.

d) 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. The GoR has maintained that a well-designed and successfully implemented CMMP is essential to lock in the country's recent economic gains and sustain high levels of private-sector growth, thereby meeting the ambitious targets in "Vision 2020." 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.

III.1.7. Export promotion and import-substitution strategies over the medium term

The performance of our external sector highlighted previously shows that Rwanda has lagged behind the exports targets that were set in EDPRS 2, with goods exports actually decreasing in 2015 and forecasted to do so in 2016 which has resulted in an extended period of high negative trade balance, reaching around US$ 1.2 billion in 2015. The medium term forecast, based on recent trends, until 2018 do not show a significant change and indeed projections show no expectation of the trade deficit improving significantly.

To this effect, short and medium term policies focus on addressing these external sector imbalances. Key priority projects seek to either increase exports and/ or reduce the import bill. The following key priority areas have been retained for aggressive implementation over next FY 2016/17:

a) Textiles, garments and leather industry

The industry is currently dominated by imports of second hand garments and footwear, amounting to US$ 28 million in 2015. To increase domestic production, at the same time increase employment opportunities and reduce imports, an action plan to transform the textile, apparel and leather sectors has been designed. The key actions to be undertaken in 2016/17FY include:

- ✓ Increasing taxes on imported second hand garments;
- ✓ Fast-tracking the revision of the law giving preference to local products in public procurements and insure its implementation;
- ✓ Coordination of seven new production units engaged in apparel sector (tailoring, garment, fashion and design);
- ✓ Establishment of Rwanda Apparel Institute in Kigali;
- ✓ Provide technical assistance to collectors and slaughter houses to improve hides and skins collection;

In addition to these, during FY2016/2017, the Government will ensure that the anchor company C&H Garments' growth plans are realized through availing to them sufficient factory space to increase production. This will result in the short term in more export revenues, but going forward it will be possible to also reduce imports.

b) Agriculture exports crops and Agri-business

Agricultural export revenues which have consistently grown over the last five years with the non-traditional commodities (grains, pulses, cereals, flour, livestock products, fruits, vegetables, and flowers) growth outpacing the one of traditional commodities (coffee, tea, and pyrethrum). It is targeted that the value of agricultural exports will grow from US$ 259 Million in 2015 to US$ 300 Million in 2016/17FY, representing 15.9% growth. The key drivers include:

- ✓ Increasing coffee production to reach 22,650 MT while revenues will grow to US$ 67.8 Million representing 9.4% increase at constant prices of 2015;
- ✓ Increasing tea production from 25,000 MT to 27,500 MT representing 10% increase, while the projected revenues will increase by 5% from US$ 72 million to US$ 75.6 million.
- ✓ Increasing non-traditional exports (horticulture, livestock, cereals, pulses and others) by 25.6% from US$ 121.7 million to US$ 152.8 million;
- ✓ Enhancing essential oils production through pyrethrum production and stevia processing;
- ✓ Increasing milk processing which offers far-ranging export and import-substitution opportunities through supporting Milk Collection Centers with equipment (to cover 72% of all MCCs, compared to 22% today), upgrading Nyanza Diary and operationalization of Rusizi Diary.
- ✓ Ensuring the setup of infrastructures needed for Gako beef project and operationalising the new modern slaughtering plant with the capacity of slaughtering at least 12,410 fattened cows annually (at least 34 cows of 180kg carcass weight, i.e. 6,120kg of meat sold per day) while attracting other strategic investors to expand the project.
- ✓ During next FY 2016/17, the Government will also ensure that high potential agri-business companies that are currently working at low capacity will be supported to overcome their key constraints, therefore increasing their export potential.

c) Construction and Mining

Construction materials are a major import item, amounting to almost US$ 240 million in imports in 2015. Fostering domestic production would allow imports to be reduced and export revenues to be generated. There are already companies producing construction materials domestically and the Government will focus on working with them to ensure that their growth plans are implemented. These include:

- ✓ **CIMERWA**: the plan is to support the plant to reach 80% utilization capacity (i.e. production to attain 600,00MT/year of 720,000MT/year installed capacity. With achievement of that level of production capacity, it is estimated that 550,000MT will be sold on local markets to replace a significant portion of the current imports while the remaining production will be sold in DRC and Burundi.

- ✓ **East African Granite**: the company's current production has been 62,000sqm of slab granite, which is nearing its installed capacity of 88,000sqm. The company has undertaken new investments to increase production capacity by 185,000sqm to reach the total capacity of 273,000sqm. Government will facilitate access to reliable energy as well as work with the company to look at expansion plans to tap into the regional demand.

- **Mining industry**: The sector continues to face challenges in value addition, with global mineral prices at low levels. Key actions in 2016/17 to increase value addition and grow the domestic industry are (i) maximizing production efficiency through establishing 30 green model mines and (ii) fast-tracking project for exploration of gas and oil - to evaluate full petroleum potential in Lake Kivu. During this fiscal year, the Government will also facilitate Karuruma smelting plant overcome key constraint of access to reliable power supply and organising sufficient mineral supply.

d) Wood industry

The establishment of a domestic wood industry has been lagging behind, with total imports in 2015 around US$ 9 million. The following are key strategies over the medium term:

- ✓ Promotion of the use of structural timber in construction and furniture-grade timber. A new Forest Company has been attracted that will supply poles for electricity lines to REG at a competitive price compared to imported ones.
- ✓ The Government will remove perceived barriers to the use of timber in construction by adopting related regulations and standards
- ✓ Implementing the harvesting plan for mature forests (including Nyungwe and Gishwati buffer zones).
- ✓ Exploring the procurement limitations that limit the use of domestically produced furniture in schools and Government institutions.

e) Services exports: MICE Tourism and ICT

- ✓ **The tourism industry** has proved to be one of Rwanda‘s most potential short-term export oriented service sector, generating over US$ 300 million per year. Revenues from MICE tourism were US$ 39 million in 2015, with a target of US$ 52 million in 2016. In 2016/2017, 45 international events are expected to be hosted in Rwanda.

The key actions will therefore include operationalization of Kigali Convention Center and operationalization of Rwanda Convention Bureau.

- ✓ The Government has a strategic plan in place to develop Rwanda's **ICT sector** as a highly differentiated cluster/ecosystem of information and technology (ICT) companies exporting high value products and services. During the FY 2016/17, the main efforts of Government will focus on the construction and launch of Kigali Innovation City and supporting the growth of Positivo BGH to take full advantage of it.

f) Trade and investment facilitation:

The government will also continue its initiatives to reduce trade and investment constraints, from access to finance to high cost of cross-border trade. This include:

- ✓ Operationalization and expansion of the **Export Growth Facility** (EGF): to support exporters. EGF includes three sub funds categories: Guarantee Funds, Grant Funds and Catalyst funds. In 2016-2017, 30 exporters will be supported, increasing exports by an estimated 10 %.
- ✓ **Industrial parks** development: The development of industrial parks is also expected to support rapid growth and jobs in manufacturing sector with developing Bugesera (100ha) and Rwamagana (60ha) industrial parks in FY 2016/17.
- ✓ Integrated **trade logistics**: The projects to be implemented in FY 2016/17 include construction of the Kigali Logistics Platform, Construction of Bonded Warehouses in Rusizi and Rubavu and operationalization of air cargo agreements to ensure quick and affordable transportation for quickly-perishable goods, particularly horticulture.

III.1.7. Fiscal Policy for 2016/17 and over the medium term

Fiscal policy in fiscal year 2016/17 and the medium term will be part and parcel of the adjustment policies being implemented by the Government in response to the external shocks in 2015 and in the next two years. The main objective of this policy stance is to reduce the foreign exchange component of the budget and thereby reduce the demand for imports as well as the pressure on external reserves. The Government expects to achieve this objective through an increase in domestic revenue mobilization and at the same time prioritizing expenditures not only to reduce the fiscal gap but also to reduce the reliance of external donor finance as well as the demand for imports from the fiscal angle.

The table below highlights the Fiscal Policy for 2016/17 and over the medium term:

Table 7: Fiscal projections

Economic Classification Operations of Central Government (billion Frw)	2015/16		2016/17		2017/18		2018/19	
	Revised Budget	% of GDP	Proj.	% of GDP	Proj.	% of GDP	Proj.	% of GDP
Revenue and grants	**1,478.9**	**24.1**	**1,601.9**	**23.5**	**1,745.1**	**23.0**	**1,917.4**	**22.6**
Total revenue	**1,104.2**	**18.0**	1,236.6	**18.2**	1,374.4	**18.1**	**1,577.7**	**18.6**
Tax revenue	**975.3**	**15.9**	1,091.6	**16.0**	1,217.8	**16.1**	**1,408.2**	**16.6**
Direct taxes	413.7	6.7	470.0	**6.9**	516.9	**6.8**	596.1	**7.0**
Taxes on goods and services	486.4	7.9	542.0	**8.0**	610.5	**8.1**	699.8	**8.2**
Taxes on international trade	75.2	1.2	79.6	**1.2**	90.3	**1.2**	112.3	**1.3**
Non-tax revenue	**128.9**	**2.1**	**145.0**	**2.1**	**156.6**	**2.1**	**169.5**	**2.0**
Total Grants	**374.7**	**6.1**	**365.3**	**5.4**	**370.7**	**4.9**	**339.7**	**4.0**
Budgetary grants	205.8	3.3	219.3	**3.2**	194.9	**2.6**	147.5	**1.7**
Capital grants	168.9	2.7	146.0	**2.1**	175.8	**2.3**	192.2	**2.3**
Total expenditure and net lending	**1,785.0**	**29.0**	**1,848.8**	**27.1**	**1,983.4**	**26.2**	**2,218.7**	**26.2**
Current expenditure	**899.9**	**14.6**	989.7	**14.5**	1,069.3	**14.1**	**1,199.3**	**14.1**
Wages and salaries	226.3	3.7	252.1	**3.7**	280.5	**3.7**	314.0	**3.7**
Purchases of goods and services	179.9	2.9	201.0	**3.0**	215.0	**2.8**	240.7	**2.8**
Interest payments	56.1	0.9	65.5	**1.0**	71.6	**0.9**	87.4	**1.0**
Transfers	336.9	5.5	360.3	**5.3**	390.0	**5.1**	436.6	**5.1**
Exceptional social expenditure	100.8	1.6	110.8	**1.6**	112.2	**1.5**	120.6	**1.4**
Capital expenditure	**776.3**	12.6	750.6	**11.0**	796.0	**10.5**	896.0	**10.6**
Domestic	488.5	7.9	409.2	**6.0**	424.7	**5.6**	448.3	**5.3**
Foreign	287.8	4.7	341.4	**5.0**	371.3	**4.9**	447.7	**5.3**
Net lending	108.7	1.8	108.5	**1.6**	118.0	**1.6**	123.5	**1.5**
Overall deficit (payment order)								
Including grants	-306.1	**-5.0**	-246.8	**-3.6**	-238.2	**-3.1**	-301.3	**-3.6**
Excluding grants	-680.8	-11.1	-612.1	**-9.0**	-609.0	**-8.0**	-641.0	**-7.6**
Change in arrears (net reduction-)	-26.4	-0.4	-20.0	**-0.3**	-13.2	**-0.2**	-17.5	**-0.2**
Domestic	-26.4	-0.4	-20.0	**-0.3**	-13.2	**-0.2**	-17.5	**-0.2**
Overall Deficit (cash basis)								
Including grants	-332.5	**-5.4**	-266.8	**-3.9**	-251.4	**-3.3**	-318.8	**-3.8**
Excluding grants	-707.2	-11.5	-632.1	**-9.3**	-622.2	**-8.2**	-658.5	**-7.8**
Financing	**332.5**	**5.4**	**266.8**	**3.9**	**251.4**	**3.3**	**318.8**	**3.8**
Foreign financing (net)	**239.7**	**3.9**	**343.7**	**5.0**	**310.7**	**4.1**	**393.4**	**4.6**
Drawings	258.7	4.2	367.7	**5.4**	337.3	**4.5**	422.7	**5.0**
Budgetary loan	139.8	2.3	172.2	**2.5**	141.8	**1.9**	**167.3**	**2.0**
Project loans	118.9	1.9	195.4	**2.9**	195.5	**2.6**	255.4	**3.0**
Amortization	-19.0	-0.3	-23.9	**-0.4**	-26.6	**-0.4**	**-29.2**	**-0.3**
Domestic financing	**92.8**	**1.5**	-76.9	**-1.1**	-59.3	**-0.8**	**-74.7**	**-0.9**
Banking system (Monetary Survey)	**92.8**	**1.5**	-76.9	**-1.1**	-59.3	**-0.8**	**-74.7**	**-0.9**
Non bank (Net)	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Gvnt Securities (Net)	30.0	0.5	34.0	**0.5**	36.0	**0.5**	43.8	**0.5**
Non Bank Sector Debt Repayment	-30.0	-0.5	-34.0	**-0.5**	-36.0	**-0.5**	-43.8	**-0.5**
Nominal GDP	**6,148**		**6,811.0**		**7,578.0**			**8,483**

Consistent with this policy objective, total revenue and grants are projected to rise from FRW 1478.9 billion in the revised budget of 2015/16 to RWF 1601.9 billion in 2016/17 and to FRW 1745.1 billion and to FRW 1917.4 billion in 2017/18 and 2018/19 respectively.

Similarly, total expenditure and net lending for 2016/17 is projected at FRW 1848.8 billion slightly higher than the FRW 1785 billion in the revised 2015/16 budget. Total expenditure and net lending for 2017/18 is estimated at FRW 1983.4 billion and will rise to FRW 2218.7 billion in 2018/19.

These projections will result in an overall deficit including grants and on a cash basis of FRW 266.8 billion equivalent to 3.9% of GDP in 2016/17, which is down by 1.5% of GDP compared to FRW 332.5 billion (5.4 per cent of GDP) in the 2015/16 revised budget. The deficit will further reduce to FRW 251.4 billion (3.3% of GDP) in 2017/18 before increasing to FRW 318.8 billion (3.6% of GDP), in 2018/19.

Deficit and Financing

As a result of the above mentioned projections, the overall cash deficit in fiscal year 2016/17 is projected to decline from FRW 332.5 billion in the revised budget of 2015/16 to FRW 266.6 billion in 2016/17. The deficit is to be funded with the accrual of net foreign loans disbursement of FRW 343.7 billion (including USD 95 million budget loan for social protection to be disbursed in December 2016). There will therefore be a net surplus of FRW 76.9 billion which will accrue to Government deposits and reserves of BNR. This policy is part and parcel of the agreement recently reached with the IMF that a portion of the World Bank budget support loans will be saved this fiscal year to shore up the reserves of BNR. The inability to save these funds will result in the reserves of BNR falling below the critical level of three months of imports.

IV. THE BUDBGET FOR FISCAL YEAR 2016/17 AND POLICIES

As indicated above and reflecting the objective of Government to use a tight fiscal policy as an adjustment instrument to mitigate the external shock, the budget for 2016/17 is projected at FRW 1,949.4 billion (excluding LG taxes, fees and LG Tax expenditure). Showing an increase of FRW 140.6 billion compared to the revised 2015/16 budget.

The table 8 below shows the budget for 2016/17 fiscal year

RESOURCES & OUTLAYS	2015/16	2016/17	2017/18	2018/19
RESOURCES				
Domestic revenue	**1,048.60**	**1,182.40**	**1,299.20**	**1,492.10**
Tax revenue	949.2	1,071.60	1,188.50	1,373.20
Non-tax revenue	99.5	110.8	110.7	118.9
Domestic financing	**122.8**	**34**	**36**	**43.8**
Grants	**374.7**	**365.3**	**370.7**	**339.7**
Budget Support	205.8	219.3	194.9	147.5
Project Support	168.9	146	175.8	192.2
Loans	**258.7**	**367.7**	**337.3**	**422.7**
Budgetary Loans	139.8	172.2	141.8	167.3
Project loans	118.9	195.4	195.5	255.4
Net Lending (repayments)	**4**	**0**	**0**	**0**
TOTAL RESOURCES	**1,808.80**	**1,949.40**	**2,043.20**	**2,298.30**
EXPENDITURES				
Recurrent Budget	893.4	973.133	1,056.80	1,186.70
Development Budget	776.3	770.867	796	896
Net Lending (lending)	112.8	108.5	118	123.5
Arrears Payment	26.4	20	13.2	17.5
Accumulation of Deposit	0	76.9	59.3	74.7
TOTAL EXPENDITURES	**1,808.90**	**1,949.40**	**2,043.30**	**2,298.40**

IV.1. Projection of resources.

a) Domestic Revenue

In the area of domestic revenue, an amount of FRW 1,182.4 billion is projected against FRW 1,048.7 billion in the revised 2015/16 budget. The 2016/17 figure is made of tax revenue collections of FRW 1,071.6 billion and non-tax revenue of FRW 110.8 billion.

i) Tax Revenue Projection

Regarding the tax revenue, the estimated figure of FRW 1,071.6 billion reflects the expected lower economic growth mentioned above in response to the external shocks. Accordingly this projected amount is FRW 122.5 billion higher than the FRW 949.2 billion estimated for fiscal year 2015/16. Additional yield from the increase in the fuel levy of FRW 33 per liter is contributing to the projected performance. The contribution from taxes on international trade is projected to rise only marginally as policies to be put in place to reduce imports will negatively affect collections.

ii) Non Tax Revenue.

The estimate of FRW 110.8 billion is FRW 11.3 billion higher than the FRW 99.5 billion projected for 2015/16. The higher figure reflects higher reimbursements from PKO of FRW 79.5 billion compared to FRW 70.8 billion projected for 2015/16. The rest accounts for higher increase in collection of other administrative fees.

b) Total Grants Projections.

An amount of FRW 365.3 billion comprising budgetary grants of FRW 219.3 billion (including Global Fund grants) and capital grants of FRW 146 billion has been estimated for fiscal year 2016/17 compared to FRW 374,7 billion in fiscal year 2015/16.The reduction in 2016/17 reflects lower support from some bilateral donors.

IV.2. Projection of Outlays

In the area of outlays, the projections reflect the policy of prioritisation in response to the external shocks. This means compressing spending in areas where there are no prior commitments substantially. Accordingly total expenditure and net lending in 2016/17 is projected at FRW 1,949.4 billion showing an overall increase of only FRW 140.6 billion compared to the figure of FRW 1,808.8 billion in the revised 2015/16 budget.

The table below shows the details of outlays in the revised budget for 2015/16 and projections for 2016/17.

a) Recurrent Expenditure

The estimate of FRW 973.1 billion is only FRW 79.8 billion higher than the FRW 893.5 billion in the revised 2015/16 budget. Regarding wages and salaries the estimate of FRW 375.8 billion is FRW 149.5 billion higher than the FRW 226.3 billion in 2015/16. The additional allocation will allow the payment of horizontal promotion and performance bonus for teachers, recruitments of new teachers and health personnel as well as a re-classification of some items from non-wage recurrent to wages and salaries to comply with international standards. The figure for goods and services of FRW 201 billion is FRW 21.1 billion higher than the FRW 179.9 billion in 2015/16 and will cater for additional resources in the running of Government institutions. Furthermore it will allow more resources for road maintenance. Regarding interest expenditure an amount of FRW 65.5 billion is FRW 9.4 Billion higher than the FRW 56.1 billion in 2015/16. The portion for domestic debt is only FRW 2.2 billion higher than the FRW 26.4 billion in fiscal year 2015/16 and will cater for interest on Government's domestic debt mainly securities for cash flow purposes. The external component of FRW 36.8 billion as against FRW 29.7 billion in 2015/16.

The allocation for transfers and subsidies of FRW 306.1 billion is FRW 24.7 billion higher than the FRW 281.4 billion in the revised 2015/16 budget. The allocation will allow more funds for the boards and other Government agencies that require transfers and subsidies. The allocation of FRW 110.8 billion under Exceptional expenditure is only FRW 10 billion higher than the revised 2015/16 budget figure of FRW 100.8 billion. The increase is mainly due to an expected higher spending of FRW 79.5 billion for PKO compared to FRW 70.5 billion in 2015/16.

b) Net Lending

With regards to expenditure under net lending, the allocation of FRW 108.5 billion is slightly lower than 112.8 billion in 2015/16. The amount for 2016/17 includes FRW 49.6 billion for the operations of Rwandair and FRW 35.3 billion for export promotion.

c) Capital Expenditure

The estimate for capital expenditure of FRW 770.9 billion is FRW 5.4 billion lower than the FRW 776.3 billion in the revised 2015/16 budget. Whilst the externally financed portion is increasing from FRW 287.8 billion in 2015/16 to FRW 341.4 billion in 2016/17, it is the domestic component (including Global Funds) which is being compressed in line with the above-mentioned rationalisation policy. Accordingly, the allocation for this component is being reduced from FRW 488.5 billion in 2015/16 to FRW 409.2 billion in 2016/17, showing a net reduction of FRW 79.3 billion. This tighter fiscal stance will in turn reduce the import bill due to its high elasticity relative to domestic demand and as such reduce the pressure on external reserves.

V. DETAILED RESOURCE ALLOCATION TO EDPRS 2 PRIORITIES

Since the introduction of EDPRS 2, that distinguishes between thematic areas, foundational issues and support functions, much effort is being put on key priority areas under that form the basis for the expected economic growth. In line with this, Emerging priorities 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. Finally, the Support Functions that cut across all the emerging priorities and foundational issues to ensure proper delivery of the EDPRS 2 were not left behind.

Moreover, planning consultations were held to ensure this is achieved and allocation of the scarce resources to identified priorities across sectors which continue to strengthen the linkage between institutional plans and budgets. Some of key priorities for 2016/17 agreed upon include: To accelerate growth in exports, Agriculture reforms to improve productivity, accelerating transport projects, increase access to electricity and water access for productive centers, Urbanization as well as Rural Resettlement.

Expenditure projections 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. The table below shows the resource allocation by EDPRS 2 Clusters.

Table 9: Resource Allocation to EDPRS Clusters 2016/17 – 2018/19 (Billion RWF)

Thematic Areas & Foundational Issues	2016/17		2017/18		2018/19	
	FRW	%	FRW	%	FRW	%
Economic Transformation	517,563,532,040	27%	507,591,686,779	25%	627,197,410,388	27%
Rural Development	262,134,568,724	13%	286,407,441,005	14%	347,528,390,938	15%
Productivity and Youth Employment	107,893,010,186	6%	133,514,184,637	7%	164,273,467,809	7%
Accountable Governance	190,255,872,771	10%	186,814,016,166	9%	197,429,799,819	9%
Foundational Issues	871,534,668,022	45%	928,893,662,746	45%	961,872,574,396	42%
Total Budget	**1,949,381,651,743**	**100%**	**2,043,220,991,333**	**100%**	**2,298,301,643,350**	**100%**

Source: MINECOFIN, April 2016

IV.1. Allocations of resources to EDPRS Thematic Areas

The Second Budget Call Circular, issued on 20th February, 2016 was informed by the preceding planning consultations and provided indicative budget ceilings for the financial year 2016/2017 as well as guidance to ministries and budget agencies to finalize their 2016/2017 – 2018/2019 Medium-term Expenditure Framework. The primary focus of the 2016/2017 budget and the medium term strategy remains to allocate available resources to the priorities in the four thematic areas of EDPRS 2, whilst maintaining the allocations to the foundational programmes and Support functions to sustain gains made under EDPRS 1 and ensure service delivery. The overall macro framework for 2016/2017 – 2018/2019 is characterized by reduction in recurrent expenditures. To reflect this, resources allocated to non-priority programmes and projects were re-evaluated and reallocated where appropriate. In line with this, the Public Investment Committee (PIC) scrutinized areas of duplications and non performing projects were also identified and measures for improvement taken or budget reallocated to other priorities in some cases.
Under EDPRS 2, each thematic area is made up by interventions in different sectors. 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 2016/17 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 2016/17-2018/19 period:

Table 10: Allocation on Economic Transformation for 2016/17-2018/19

THEMATIC AREA	EDPRS SECTORS	2016/2017 BUDGET	2017/2018 BUDGET	2018/2019 BUDGET
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	3,269,911,232	3,532,289,470	3,946,238,289
	Urbanization and Rural Settlements	11,369,752,465	10,564,192,264	10,959,718,797
	PFM	194,369,759,493	191,097,952,988	232,016,332,676
	Financial	7,740,371,923	6,443,161,942	8,230,439,819
	Transport	135,610,560,490	146,183,210,798	161,363,089,491
	Energy	91,050,140,070	75,402,225,418	126,445,777,068
	PSD	70,882,388,944	72,347,444,346	82,234,974,948
	ICT	3,270,647,423	2,021,209,553	2,000,839,300
TOTAL		**517,563,532,040**	**507,591,686,779**	**627,197,410,388**

Key Priorities for 2016/17 and over the medium term under economic transformation thematic area include:

- ✓ Implementing the action plan to develop a textile and garment industry through prioritizing construction of 2 advanced factory units to scale up private sector capacity to exports while also increasing employment for Rwandans;
- ✓ Increasing value addition to mining through sustainably addressing key issues (mineral supply, reliable power supply, conflict free certification) affecting Karuruma tin smelter and supporting a private sector investment to add value to coltan;
- ✓ Completing basic infrastructure (water and electricity) for Gako beef farm and actualizing private investment with a target of beginning operations in 2016/17;
- ✓ Increasing production of Horticulture and Floriculture through increased acreage (new 100 ha for fruits and vegetables, new 65 Ha for Flowers including 20 Ha for Gishali Bella Flowers);
- ✓ Fast tracking the implementation of the coffee zoning policy in all districts to increase fully washed coffee from 45% to 59%. Coffee production to increase from 2.8kg/tree to 3kg/tree through increase of fertilizer application from 4,200

MT to 5,000MT. To Increase tea production from 25,632 MT to 34,497 MT i.e. from 7MT/ha to 7.5MT /ha with export revenues from US$ 71 million to US$ 81 million through Increased fertilizer application from 6,000MT to 6,500MT and mobilizing and supporting investor and out growers to plant 822 ha.

- ✓ Beginning expropriation of Nasho-Ndego Sugar cane project for 10,900 ha
- ✓ Beginning construction for Kigali Logistics Platform (following a PPP agreed with Dubai DP World) to lower the cost of transport for exports and imports;
- ✓ Fast tracking projects in pipeline that will increase energy generation in the medium term working with the private sector including; Hakan Peat to power (80MW), Rwinkwavu Golden Solar (10MW), Nyabarongo II and Rehabilitation of Ntaruka to increase its generation capacity from 8MW to 11.3MW;
- ✓ Reducing energy losses and improving the quality of energy supply through Network rehabilitation and upgrading including: Kibuye -Kilinda-Rwabusoro transmission line with upgrade of Kigoma substation; Kigoma-Rilima-Bugesera transmission line with upgrade of Rilima substation; Mukungwa-Nyabihu transmission line; Mukungwa-Jabana-Birembo-Rwinkwavu transmission line and Jabana-Mont Kigali-Gahanga with related substations.
- ✓ Prioritization of productive use connections through the electricity roll out program including; irrigation centers such as Gabiro and Nasho, milk collection centers across districts, schools, health centers and markets. Improvement of quality of energy will be directed towards industrial parks (Bugesera and KSEZ) and mining sites.

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. The primary objective of rural development is to reduce rural poverty, which in Rwanda remains wide spread even though it has reduced significantly over the past decade.

Given the prevalence of poverty and the range of socio-economic factors that affect rural areas, rural poverty reduction requires comprehensive policy interventions. For growth to be sustainable and its benefits to be equitably distributed, it should be broad-based, multi-sectoral and inclusive of the Rwandan rural labour force, which is currently primarily engaged in agriculture.

In line with this, the focus in 2016/17 will be on implementing agricultural reforms to increase productivity by increasing access to inputs, increasing the number of priority crops, and funding one-off investments to enable a shift towards private-sector leadership in high-value sub-sectors and feeder roads. In addition to agriculture sector, the focus will also be in water and sanitation where the ongoing Rural Water Supply and Sanitation project will be reinforced with special attention to districts with less than 70% of access to clean water. The table below summarises allocation on this thematic area in 2016/17 and over the medium term:

Table 11: Allocation on Rural Development in 2016/17-2018/19

THEMATIC AREA	EDPRS SECTORS	2016/2017 BUDGET	2017/2018 BUDGET	2018/2019 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	4,312,454,676	4,329,707,411	4,595,517,782
	Urbanization and Rural Settlements	2,679,910,222	2,560,823,924	2,823,088,734
	Agriculture	107,024,377,238	138,902,227,318	195,610,856,897
	Transport	64,969,968,697	67,189,916,436	76,510,422,923
	Water and Sanitation	30,892,677,007	31,313,042,728	30,737,102,374
	Energy	13,364,452,892	10,427,028,528	4,155,877,578
	Social Protection	38,907,003,992	31,700,970,660	33,111,800,650
TOTAL		**262,150,844,724**	**286,423,717,005**	**347,544,666,938**

From the above table, the key intervention projects in 2016/17 and over the medium term include:

- ✓ Improving coordination and monitoring of Twigire Muhinzi on season preparation for 2017 Seasons A and B;
- ✓ Scaling up irrigated land on both marshlands and hillsides which requires fast tracking major ongoing projects: Export targeted Irrigation (3000 ha hillside and 3,000ha marshland); Rural Sector Support Project (3,057ha marshland); Land Husbandry and Water Harvesting (1,412ha), Rurambi (1,000 ha hillside), Buffet (1,200ha hillside) and others;
- ✓ Ongoing Rural Water Supply and Sanitation project to support Districts with less than 70% of access to clean drinking water and increase to 100% by 2017/18;
- ✓ Increasing the numbers of days employed under VUP Public works through labor intensive projects and piloting innovations such as child and gender sensitive public works;
- ✓ Engaging the private sector and farmer cooperatives to invest in development of post-harvest facilities while investing in 130 drying grounds in selected areas with high production. Rehabilitating 881km of feeder roads linking farmers to markets;

- ✓ Implementing special plans for six (6) districts with high level of poverty as per EICV 4.

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.

In 2016/17, special focus will be on streamlining National Employment Program interventions that are expected to contribute to creation of 37,450 Off-farms jobs by focusing more on addressing private sector needs. The area will register greater private sector participation through Rapid Response Training for new investors, Industrial Based Training and Business Process Outsourcing training for emerging sectors.

The table below summarises allocation on this thematic area in 2016/17 over the medium term:

Table 12: Allocation on Productivity and Youth Employment

THEMATIC AREA	EDPRS SECTORS	2016/2017 BUDGET	2017/2018 BUDGET	2018/2019 BUDGET
Productivity and Youth Employment (Objective : Move Rwanda from an agriculture-based economy to an industry in services-based economy)	Education	96,305,423,470	112,282,785,324	113,817,928,318
	Youth	708,820,264	791,481,756	838,385,634
	PSD	4,902,898,000	16,265,010,415	45,781,001,179
	ICT	5,975,868,452	4,174,907,142	3,836,152,678
TOTAL		**107,893,010,186**	**133,514,184,637**	**164,273,467,809**

Source: MINECOFIN

The key intervention projects in 2016/17 and over the medium term include:

- ✓ Continuing to promote Entrepreneurship and Business Development through supporting Start-ups and early growth SMEs to access finance through BDF (4,515 SMEs), SMEs accessing start up toolkit loan facility (6,000 SMEs)
- ✓ Special focus to support unemployed graduates to get employment through the reconversion training programme (1,500)
- ✓ Engage more private companies and emerging investments in training framework through Rapid Response Training for new investments (1,500), Industrial Based Training and Apprenticeship (1,750) and Internship programme linked to private sector (1,200)
- ✓ Fast-tracking the full operationalization of the NEP electronic M&E system to track new off-farm jobs created each year and improve targeting at District level based on economic potentialities

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.

The major focus for 2016/17 remains on improving service delivery in both public (including Districts) and private sector, ensuring more effective sectoral decentralization and citizens 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 13: Allocation on Accountable Governance

THEMATIC AREA	EDPRS SECTORS	2016/2017 BUDGET	2017/2018 BUDGET	2018/2019 BUDGET
Accountable Governance (Objective: Enhance accountable governance by promoting citizen participation and mobilisation for delivery of development, strengthening public accountability and improving service delivery).	JRLOS	1,028,797,478	1,024,522,915	1,026,843,165
	Decentralisation	63,784,127,803	59,844,773,896	61,989,340,466
	PFM	1,417,255,153	1,093,324,907	1,240,877,925
	Financial	142,713,713	164,209,189	78,608,261
	Support Function	123,882,978,624	124,687,185,259	133,094,130,002
TOTAL		**190,255,872,771**	**186,814,016,166**	**197,429,799,819**

The key priorities in 2016/17 and over the medium term include:

- ✓ Conducting an e-payments feasibility study to improve regularity, reliability and accountability of payments;
- ✓ Increasing the provision of online services and conducting media/ mass campaigns to promote the use of Rwanda Online for accessing online services;
- ✓ Increase access to Information at community level through radios, mobile phone network and TV penetration;
- ✓ Improving customer service benchmarks for service providers in the Private Sector.
- ✓ Developing a clear framework for increasing mobilization and coordination to address issues such as increased Gross Enrolment Rate, illiteracy, creation of new jobs across districts, promotion of biogas digesters.

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 education, public finance management (PFM) and justice, peace and stability are prominent amongst the latter. As mentioned in the previous paragraphs, the focus in resource allocation for 2016/17 fiscal year is to give priority to emerging priorities under thematic areas while maintaining reasonable allocation to foundational sectors and support functions. This will allow us to sustain achievements registered and foster service delivery that will shape the foundation of achieving targets set. Resource allocation to this cluster is shown in the table below:

Table 14: Allocation on Foundational Issues

THEMATIC AREA	EDPRS SECTORS	2016/2017 BUDGET	2017/2018 BUDGET	2018/2019 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 nutrituion and decentralization that constitute the platform of Rwanda's sustainable development)	Education	117,729,247,848	122,647,430,726	128,884,014,634
	JRLOS	158,862,997,846	164,204,820,889	183,618,468,685
	Environment and Natural Resources	19,836,031,037	22,830,675,862	27,572,956,529
	Youth	227,460,626	8,860,000	9,120,000
	PFM	343,604,640,406	356,088,142,384	417,247,077,855
	Health	191,500,547,693	223,069,531,745	154,864,105,421
	Social Protection	39,773,742,566	40,044,201,140	49,676,831,272
TOTAL		**871,534,668,022**	**928,893,662,746**	**961,872,574,396**

Health, Education and PFM that form building block for the development of society and the economy account for a significant percentage of the total foundational costs. The key focus areas for 2016/17 and over the medium term include:

- ✓ Establishment of centers of excellence: African Institute for Mathematical Sciences and East African Centers of Excellence for Skills and Tertiary education in biomedical sciences (Phase 1);

- ✓ Improving quality of education by implementing the new competence-based curriculum for primary and secondary;
- ✓ Improving relevancy of education by the adoption of 25 competence-based curricula in TVET and training 800 TVET trainers in technical skills upgrading and Pedagogy
- ✓ Implementing the action plan to address rising malaria cases including; indoor spraying of insecticide, training of community health workers to treat cases at community level and addressing hygiene issues at working with districts
- ✓ Fighting against malnutrition by strengthening early identification and management of malnutrition cases.
- ✓ Priority health infrastructure include: construction of Shyira District hospital, construction of Munini District hospital, construction of Nyabikenke district hospital, rehabilitation and extension of Byumba hospital and upgrading Ruhengeri hospital.

VI. POLICY ISSUES FOR CONSIDERATION

Much effort has been put in linking the budget with sector priorities, institutional plans and national wide priorities. In line with this, Ministerial budget consultations for 2016/17 fiscal year that were held during the month of March 2016 and was fully informed by preceding planning consultations where broad priorities were agreed. The exercise was led and coordinated by MINECOFIN supported by MINALOC, MINICAAF and MIFOTRA. Budget requests by sector ministries and affiliated agencies were thoroughly scrutinized for compliance with the priorities agreed upon and where appropriate additional resources were granted to cover for unfunded or underfunded priorities. Sector Ministries were also advised to reprioritize the unfunded priorities and where possible sequence them in the medium term. However, there were a number of policy related issues that emerged from discussions and these are summarized below for Cabinet consideration:

i) Export promotion and import substitution strategies

As highlighted here above, the key strategies to address external sector imbalances have been given priority in formulating the budget policies over the medium term. However, The current global situation and its effects on Rwanda make it imperative that the Government stands ready to take aggressive measures to ensure growth of exports and promote 'Made in Rwanda'. In fact, Government's role is not only limited to financing and where needed, resources constraints have not permitted to satisfy all financing requirements to respond to this call. Since some of the initiatives require other actions beyond financing like rigorous and real time monitoring system, signing MoUs with private Sector players that clarify roles and responsibilities, it is recommended that all concerned institutions draw subsequent roadmaps of implementation that will be reflected in their IMIHIGOs for 2016/17 to ensure any bottlenecks are dealt with immediately as the arise and corrective actions can be taken as soon as possible.

ii) Proper implementation of projects with expropriation component

Government institutions have projects that require expropriation of the citizens during implementation. The experience has shown that institutions plan for financial compensation of the citizens for their properties during project implementation rather than project planning. This has proven to be costly for the Government and in some cases results in citizens' discontent when expropriation is not done effectively and in real time. It is recommended that any institution that has a project that will expropriate citizens should reflect in the project study how people can be relocated in an organized and decent way through coordination with other stakeholders.

iii) Tightening fiscal policy in the medium term will require increased fiscal discipline

The tightening of fiscal policy implies constrained spending in the medium term. To manage this effectively, increased attention will be put on: optimizing project implementation especially from external grants and loans, strictly assessing value for money of new Public Private Partnership projects, clearance and approval of multi-year contracts in accordance with the financial regulations of the Organic Budget Law.

iv) Effective implementation of Public-Private Partnership framework

The public-private partnership has been adopted as a framework for the Government to support the private sector to achieve a private sector-led economy through attracting investments, removing the barriers to the business and jointly undertaking big investment projects aimed at harnessing the private sector potential for an accelerated growth. However, some projects planned to be implemented through this framework have lacked a clear indication of the returns on investment by the Government where the partnership involves incurring government expenditures in cash or in kind. It is therefore reminded that the Government’s role should mainly focus on facilitating the private operators and where the role of Government goes beyond facilitation, it has to be only through equity participation or a subsidy that need a prior approval by Cabinet.

VII. POSSIBLE DOWNSIDE RISKS TO ECONOMIC PERFORMANCE AND BUDGET IMPLEMENTATION

The Government recognises that the 2016/17 macro-economic program and the budget have been formulated against the backdrop of several challenges on both domestic and external fronts. On external front, the downside risks on global growth, which are particularly prominent for emerging market and developing economies, include the following:

- ✓ A sharper-than-expected slowdown along China's needed transition to more balanced growth, with more international spillovers through trade, commodity prices, and confidence, with attendant effects on global financial markets and currency valuations.
- ✓ Adverse corporate balance sheet effects and funding challenges related to potential further dollar appreciation and tighter global financing conditions as the United States exits from extraordinarily accommodative monetary policy.
- ✓ A sudden rise in global risk aversion, regardless of the trigger, leading to sharp further depreciations and possible financial strains in vulnerable emerging market economies. Indeed, in an environment of higher risk aversion and market volatility, even idiosyncratic shocks in a relatively large emerging market or developing economy could generate broader contagion effects.
- ✓ An escalation of ongoing geopolitical tensions in a number of regions affecting confidence and disrupting global trade, financial, and tourism flows.
- ✓ Further declines in commodity prices which would worsen the outlook for already-fragile commodity producers.

On the domestic front, the pressure from worsening current account deficit remains a key threat on economic activity. The Government has therefore developed strategies for export promotion and import substitution over the medium to long term to address external sector imbalances while sustaining growth. However, since these strategies may take longer to materialize than anticipated, combined with the global shocks concerns, adjustment measures include the use of the financing facility under IMF's Standby-Credit Facility which is being negotiated to respond to the increasing demand for imports such as capital and intermediate goods while our reserves are staying above the critical level of three months of imports combined with a significant reduction in the fiscal deficit.

VII. CONCLUSION

The budget framework for 2016/2017 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 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 external financing and aims to sustain the 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. Thus public expenditure will then be supported by contribution from a dynamic private sector.

Cabinet is requested to approve of the macro-economic framework for the medium term and the budget for fiscal year 2016/2017.

ANNEXES

1. Annex I: Explanatory Note to the BFP 2016/17-2018/19
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10. Annex X: Consolidated Districts Revenues and Expenditures for 2016/17-2018/19
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