Ministry of Finance and Economic Planning

Budget Framework Paper 2019/2020-2021/2022

April 2019

TABLE OF CONTENT

I. INTRODUCTION

As stipulated in article 32 of the Organic Law N° 12/2013/OL of 12/09/2013 on State Finances and Property, the medium term budget framework and annual budget estimates shall be approved by Cabinet before submission to both Chambers of the Parliament to provide orientation for formulating the detailed draft finance law. This Budget Framework Paper (BFP) is therefore prepared in fulfillment of the legal provision and outlines the Government statement of the economic context, global and domestic, in which the forthcoming budget will be presented, along with the fiscal policy objectives for the next three-year period of 2019/20–2021/22. It supports the delivery of the National Strategy for Transformation (NST1), which is the implementation instrument for the remaining period of the Country's Vision 2020 and the first four years of the journey under Vision 2050.

This BFP has been prepared against the background of prospects and challenges on both external and domestic fronts. Regarding the external front, the global economic activity continues to weaken, reflecting the negative effects of tariff increases enacted in the United States and China, combined with tight financial conditions in advanced economies. On the domestic scene, growth is expected to remain strong and will be bolstered by the government's continued implementation of its National Strategy for Transformation (NST1), which has already resulted in strong investment inflows, diversified exports, and more resilient agriculture.

This BFP is organised as follows: section one is the introduction, followed by section two, which gives a summary of economic performance both global and domestic. The global portion includes an outlook for 2019 and 2020 and the domestic portion reviews performance in the real, external, fiscal and monetary sectors. Section three presents a brief description of macroeconomic framework and policy objectives for the medium term. Section four deals with the details of the budget for fiscal year 2019/20 with key policies underlying the budget preparation, including the functional allocations focussing on the priorities to be funded under the NST1 priority areas. Policy issues arising from the 2019/20-budget formulation are discussed in section five. The BFP closes with concluding remarks in section six and finally several annexes providing additional details and numbers for the budget are attached as section seven.

II. RECENT ECONOMIC PERFORMANCE IN 2018 AND OUTLOOK

a) Global Economic Performance and Outlook

i. Output Growth

According to the IMF's April 2019 World Economic Outlook (WEO), global growth momentum moderated in 2018 to 3.6 per cent from 3.8 per cent in 2017, reflecting greater than expected weaker performance in some economies, notably Europe and Asia. The global economy is projected to grow at 3.3 per cent in 2019, which has been revised downward compared to previous forecast. Global growth will start to level off in the second half of 2019 to achieve 3.6 per cent in 2020 based on on-going build-up of policy stimulus in China, recent improvement in global financial market sentiments, stabilization of conditions and waning of some drags on growth in the euro area and emerging markets. Beyond 2020, global growth is set to plateau at about 3.6 per cent.

The economic recovery in Sub-Saharan Africa (SSA) continues after the region faced a tougher external environment in 2015-2016 (decline in global commodities price) and despite moderated global trade, tighter financial conditions and a strong US dollar in 2018. GDP growth in SSA was 3.0 per cent in 2018 compared to 2.9 per cent in 2017 and is set to pick up to 3.5 per cent in 2019 and stabilize at slightly below 4 per cent over the medium term, predicated on diminished policy uncertainty and improved investment in large economies together with continued robust growth in non-resource intensive countries.

Table 1: GDP and Inflation in selected regions/countries

	GDP (%)				*Inflation (%)*			
			Projections				*Projections*	
Region/Country	**2017**	**2018**	**2019**	**2020**	**2017**	**2018**	**2019**	**2020**
World	3.8	3.6	3.3	3.6	3.2	3.6	3.6	3.6
Advanced	2.4	2.2	1.8	1.7	1.7	2.0	1.6	2.1
USA	2.2	2.9	2.3	1.9	2.1	2.4	2.0	2.7
EURO Area	2.4	1.8	1.3	1.5	1.5	1.8	1.3	1.6
United Kingdom	1.8	1.4	1.2	1.4	2.7	2.5	1.8	2.0
Japan	1.9	0.8	1.0	0.5	0.5	1.0	1.1	1.5
Emerging Market	4.8	4.5	4.4	4.8	4.3	4.8	4.9	4.7
China	6.8	6.6	6.3	6.1	1.6	2.1	2.3	2.5
Russia	1.6	2.3	1.6	1.7	3.7	2.9	5.0	4.5
India	7.2	7.1	7.3	7.5	3.6	3.5	3.9	4.2
Sub Saharan Africa	2.9	3.0	3.5	3.7	11.0	8.5	8.1	7.4
South Africa	1.4	0.8	1.2	1.5	5.3	4.6	5.0	5.4
Nigeria	0.8	1.9	2.1	2.5	16.5	12.1	11.7	11.7
Angola	-0.2	-1.7	0.4	2.9	29.8	19.6	17.5	11.1

Source: IMF World Economic Outlook, April 2019

ii. World Commodity Prices and inflation

As the global expansion is losing momentum, volatility in commodity prices has increased, with a sharp fall in oil prices during the last quarter of 2018. Other non-oil commodity (metals and agricultural products) prices have also weakened, partly due to subdued demand from China. Markets are expecting most commodity prices to weaken further in 2019–20. Thus, the terms of trade for the region's oil exporters are expected to deteriorate, while those for the oil importers are expected to improve.

Consumer price inflation has generally remained contained in advanced economies (2 per cent in 2018 from 1.7 per cent in 2017) but has inched up in the United States, where above-trend growth continues. Among emerging market economies, inflationary pressures are easing with the drop in oil prices. Average inflation in sub-Saharan Africa is projected to decline to 8.1 per cent in 2019 from 8.5 per cent in 2018, reflecting the large decline in global energy prices. The pass-through of lower energy prices is expected to more than offset the lingering effects from past exchange rate depreciation but climate shocks likely to impact agricultural output are to watch.

b) Domestic Economic Performance

i. Growth Performance

The economy recorded a good performance in 2018; the growth was at 8.6 per cent over the year, 1.4 per cent higher than the 7.2 per cent initially projected. Industry sector grew by 10 per cent, much higher than its 5 years' average and accounted for 16 per cent of the total GDP. Growth in industry was boosted particularly by the recovery in the construction sector, which grew by 14 per cent compared to -3 per cent recorded in 2017. The recovery in beverages & tobacco and continuing good performance in textile/clothing's production contributed to the positive growth of industry despite the poor performance of mining, especially in the last quarter of 2018. Agriculture sector grew by 6 per cent following favourable weather conditions and various government measures to increase food and other agricultural products production. Growth has been also strong in Services, which grew by 9 per cent driven by a recovery in wholesale and retail trade and continuing expansion of the air transport segment growing at 15 and 18 per cent respectively. The table below shows details of growth performance in 2018 in various sectors:

Table 2: GDP by Type of Activity at 2014 Constant Prices (% change from previous year)

Activity description	2014	2015	2016	2017	2018
GROSS DOMESTIC PRODUCT (GDP)	**6.2%**	**8.9%**	**6.0%**	**6.1%**	**8.6%**
AGRICULTURE, FORESTRY & FISHING	**7%**	**5%**	**4%**	**7%**	**6%**
Food crops	9%	4%	3%	7%	4%
Export crops	-2%	14%	2%	2%	10%
Livestock & livestock products	8%	9%	10%	11%	13%
INDUSTRY	**3%**	**9%**	**7%**	**5%**	**10%**
Mining & quarrying	25%	-5%	10%	23%	2%
Manufacturing	**-13%**	**8%**	**7%**	**7%**	**11%**
Of which: Food	*6%*	*1%*	*8%*	*14%*	*9%*
Beverages & tobacco	*7%*	*6%*	*3%*	*-8%*	*9%*
Textiles, clothing & leather goods	*7%*	*3%*	*10%*	*22%*	*20%*
Construction	10%	15%	5%	-3%	14%
SERVICES	**7%**	**10%**	**7%**	**8%**	**9%**
Maintenance and repair of motor vehicles	4%	5%	7%	4%	7%
Wholesale & retail trade	8%	13%	6%	0%	15%
Transport services	4%	10%	8%	11%	18%
Hotels & restaurants	12%	9%	11%	10%	10%
Real estate activities	6%	5%	6%	5%	5%
Professional, scientific and technical activities	-8%	14%	6%	17%	6%
Public administration and defense; compulsory social security	7%	5%	12%	4%	9%
Cultural, domestic & other services	16%	19%	7%	9%	13%

Source: *National Institute of Statistics of Rwanda*

ii. Inflation

Inflation was maintained below the 5.0 per cent medium term inflation benchmark. Headline inflation stood at 1.1 per cent in December 2018 mainly in line with the ease in exchange rate pressures and the significant fall in food inflation during the year of 2018. The annual average headline inflation eased to 1.4 per cent from 4.8 recorded in 2017. The stability of FRW contributed to ease the imported inflation despite the increase recorded in transport. Core inflation, that excludes energy and fresh products, stood at 1.6 per cent compared to 3.9 per cent in 2017 mainly in line with the still low level of aggregate demand.

iii. External Sector Performance

The overall balance of payment has improved with the build-up of reserves of USD 133.3 million in 2018 from the Gross reserves level of USD 1,163 million USD in 2017 to USD 1,319 million in 2018. This was due to an increase in inflows of the financial account explained by an increase in inflows from foreign grants and borrowing.

In 2018, the trade deficit has increased by 9.3 per cent to USD 906 million from USD 829.2 million in the previous year 2017. This performance was driven by 8.1 per cent increase in imports (FOB) in 2018 compared to a decline of 7.7 per cent in 2017, which outweighs the rise in exports (7.2 per cent) in 2018 compared to 44.5 per cent increase in 2017. The surge in imports was caused by on-going investments in infrastructure projects including Bugesera airports, peat to power plant in Gisagara District, roads, as well as increased imports of energy products following the rise in global oil prices. On the other hand, the increase in Exports in 2018 may be attributed to a base effect and lower prices for some commodities such as tea (-8.8 per cent), coffee (-4.8 per cent), milling products (-24.2 per cent) and other minerals (-54.0 per cent) compared to 2017.

While services net remained almost stable, we can note a significant increase in the secondary account, especially on remittances, which increased in 2018 to 253 million USD from 208 million in 2017. With the above performance, the current account deficit as percentage of GDP stood at 7.8 per cent from 7.7 per cent last year 2017. The export of goods and services as percentage of GDP is now at 21.5 per cent of GDP from 21.7 per cent in 2017. Gross official reserves at end 2018 cover 4.7 months of 2019 imports of goods of services.

Table 4: Key external sector performance Indicators: in million US$

	2014	2015	2016	2017	2018
Current Account	**-945.79**	**-1267.25**	**-1352.46**	**-699.06**	**-736.49**
Trade Balance	**-1268.57**	**-1236.61**	**-1309.54**	**-829.18**	**-906.57**
Exports f.o.b.	723.09	682.04	726.61	1050.21	1125.84
Of which: coffee & Tea	111.44	134.49	121.91	148.38	159.20
Minerals	203.32	117.81	86.42	124.97	142.16
Other ordinary Product	203.32	117.81	86.42	124.97	142.16
Of which: Other Minerals	8.04	31.28	80.06	248.49	204.48
Milling products	30.27	27.83	24.76	51.33	52.98
Iron and steel	11.79	1.57	2.34	5.13	9.31
Re-Exports	165.35	177.87	224.28	292.20	324.85
Imports f.o.b.	1991.66	1918.65	2036.15	1879.39	2032.40
Services (net)	**-66.49**	**-325.56**	**-260.09**	**-157.05**	**-162.52**
Services: credit	589.28	788.32	807.77	929.72	913.34
o/w: Tourism	303.70	338.07	363.05	369.60	374.06
Services: debit	655.77	1113.88	1067.86	1086.77	1075.86
o/w: Net Freight	-289.67	-356.43	-348.86	-338.77	-380.28
Primary income (net)	**-188.77**	**-241.44**	**-307.06**	**-309.21**	**-324.43**
Secondary income (net)	**578.04**	**536.36**	**524.22**	**596.37**	**657.02**
Secondary income: credit	662.21	614.89	612.40	695.11	752.12
o/w workers' remittances	174.90	153.20	167.30	207.60	253.40
Secondary income: debit	84.18	78.53	88.18	98.74	95.10
Capital Account	**337.05**	**299.90**	**190.00**	**189.71**	**244.51**
Net lending(+)/ net borrowing (-) (balance from current and capital accounts)	***-608.74***	***-967.35***	***-1162.46***	***-509.36***	***-491.98***
Financial Account: Net lending(+)/ net borrowing (-)	**-648.78**	**-774.30**	**-1004.64**	**-586.26**	**-705.05**
Direct investment	-310.95	-219.88	-218.54	-254.98	-287.56
Direct investment: liabilities (FDI)	314.74	223.33	266.30	270.66	305.52
Portfolio investment	**-1.00**	**-7.85**	**-4.94**	**74.09**	**18.33**
Other investment	**-336.83**	**-546.57**	**-781.16**	**-405.37**	**-435.82**
Overall Balance	**-90.43**	**-28.55**	**-9.99**	**92.58**	**133.32**
Official Reserve	**950.79**	**922.26**	**1001.48**	**1163.33**	**1319.09**

iv. Public Debt Management Developments

Debt sustainability poses a growing risk across the continent, even as GDP growth picked up and the external environment improved overall. Many low-income countries have had increased risk of debt distress since 2013 and two-fifths now face significant debt challenges including Ethiopia that was assessed as high risk in its latest DSA approved in 2018. The median debt level among low-income countries increased from 33 percent of GDP in 2013 to 47 percent in 2018; That is not that high when looking at all countries but low-income countries often have a more limited capacity to raise public revenue and carry debt. The number of low-income countries in debt distress or facing high risk of debt distress increased from 7 in 2013 to 15 for low income countries in 2018 (*WEO and IMF staff estimates, April 2019*)

Rwanda's external PV of debt-to-GDP stood at 32.9 percent as of end 2018, an increase of 5.2 per cent from 27.7 per cent PV of Debt to GDP as of end 2017. The main reason for this deterioration is an increase in the additional external debt (3.9 per cent of GDP), in order to scale up public investment projects that support trade and tourism. Another aspect is the low performance of the nominal GDP in 2018 (7.8 per cent increase against 10.4 per cent projected).

The majority of Rwanda's debt is external (83.3 percent) and predominantly composed of concessional loans (projected to be at 61.6 percent of the total portfolio at June 2019) mostly provided by multilateral institutions (55.6 percent of total debt at end FY 2018/19). Domestic debt is mainly composed of government securities especially Treasury bills together with Treasury bonds (more than 75 percent of total public domestic debt at end FY 2018/19).

v. Fiscal Developments

In June 2018, Parliament approved a budget amounting to FRW 2,443.5 billion for 2018/19, which was revised in February to FRW 2585.2 billion. As indicated in the July-December 2018 budget execution report, total resources estimates were FRW 1,297.4 billion. The actual total resources accrued to the Treasury amounted to FRW 1,302.7 billion showing an excess of FRW 5.3 billion. The projected amount was made of total domestic revenue of FRW 768.6 billion and external budget support funds of FRW 528.8 billion. Total actual amount shows that total domestic revenues amounted to FRW 805.9 billion and FRW 496.8 billion from external resources. In the case of tax revenue, all main taxes: PAYE, Profit taxes, VAT, Excise duties, Petroleum strategic reserve together with UN-Peace Keeping Operations reimbursements on the Non tax revenue collections contributed to the good performance of total domestic revenue.

The external flows comprising FRW 256.2 billion of total grants and FRW 272.6 billion of total loans registered a shortfall of FRW 31.9 billion from the disbursed amount of FRW 496.8 billion during the July-December period. This shortfall was mainly due to delayed disbursement from DFID and EU money on grants side and delayed finalization of all required documentation for some loans from the creditors including Saudi Fund.

Regarding outlays performance in the July-December 2018 period, total expenditure and net lending that was projected amounted to FRW 1,237.9 billion. However total actual expenditure amounted to FRW 1,214.6 billion showing an under spending FRW 23.3 billion. The lower performance in expenditure was mainly coming from wages and salaries, largely due the late finalization of all payment procedures for some newly recruited teachers and some professionals in the health sector during the last quarter of 2018, and from capital expenditure caused by delayed implementation of both domestically and externally financed projects contributed to this shortfall in spending. Net lending expenditure recorded an over performance that was mainly coming from front loaded working capital funds to Rwandair.

During the July-December 2018 period, a combination of higher than expected flow of primary resources and lower than expected total spending resulted in a smaller overall deficit (including grants) of FRW 183.9 billion compared to a deficit of FRW 213.4 billion estimated for the period.

vi. Outlook for remainder of the fiscal year 2018/19

For the remaining of the fiscal year 2018/19 so far, based on preliminary data, we expect the budget implementation to be in line with the FY 2018/19 revised budget.

Table 5: Fiscal table July-Dec 2018

Government Operations Billion FRW	July-Dec 2018	July-Dec 2018
	Projection	Prov. Actuals
Total Resources	**1,297.4**	**1,302.7**
Revenue and grants	**1,024.8**	**1,040.4**
Total revenue	768.6	805.9
Tax revenue	643.8	656.2
of which Taxes on goods and services	329.5	328.8
Non-tax revenue	124.8	149.7
of which PKO	82.0	98.8
Total External Resources	**528.8**	**496.8**
Total Grants	256.2	234.6
Budgetary grants	128.4	106.8
Capital grants	127.8	127.8
Total Loans	272.6	262.3
Budgetary loan	198.6	198.6
Project loans	74.0	63.7
Total expenditure and net lending	**1,237.90**	**1,224.3**
Current expenditure	666.9	674.0
Capital expenditure	477.8	454.1
Net lending	93.3	96.2
Financing	**227**	**131.7**
Foreign financing (net)	258.3	258.8
Domestic financing	-31.3	-127.1

Source: MINECOFIN

vii. Monetary Policy and Exchange Rate Developments

The National Bank of Rwanda continued to implement the prudent monetary policy. The Monetary Policy Committee (MPC) decided to maintain the Key Repo Rate-KRR to 5.5 per cent which was the same in the previous year in line with the review of the outcome of its previous decision as well as the recent economic developments, especially the ease in inflationary pressures, stability of the FRW exchange rate and still weak aggregate demand.

The Banking sector as a whole remained well capitalized in 2017 with high degrees of liquidity at 43.7 per cent as opposed to a minimum of 20 per cent and capital as a proportion of risk weighted assets at 21.4 per cent as opposed to a minimum of 15 per cent.

Broad money grew by 15.6 per cent from 12.4 per cent December 2017 mainly driven by increase in Net Foreign Assets at 33.1 per cent. The credit to private sector increased by 10.8 per cent compared to 13.9 per cent in the previous year of 2017. In 2018, new authorised loans increased by 17.1 per cent up from 4.6 per cent in 2017, thanks to increasing demand for loan and reducing credit risk. The demand for loans in value increased by 29.7 per cent in 2018 from 10.8 per cent in 2017. During the same period, non-performing loans (NPLs) ratio decreased from 7.6 per cent in 2017 to 6.4 per cent in 2018, while the loan rejection rate dropped to 21.9 per cent from 31 per cent.

Also, due to good performance of external sector and efficient implementation of the monetary and exchange rate policy, exchange rate pressures eased with the FRW depreciating against USD at an average of 3.5 per cent in 2018 compared to 6.0 per cent registered in 2017.

The table below shows key metrics of the monetary sector development:

Table 6: Key monetary statistics in 2018

Monetary Statistics (billion FRW)	2016	2017	2018	% Change
	December	December	December	2017/2018
Net foreign assets	739	803	1069	33.1
Domestic credit	1,341	1,569	1,714	9.3
Central government (net)	12	58	-3	-105.0
Private sector	1,285	1,464	1,622	10.8
Broad money M3	1,595	1,792	2,072	15.6
Currency in circulation	146	163	184	12.6
Deposits	1,449	1,629	1,888	15.9

Source: BNR

viii. Financial Sector Development

The Rwandan financial sector continued to develop and support the economic growth through the allocation of funds to productive investments. In 2018, Total assets of the financial sector grew by 14.4 per cent (year on year) to FRW 4,632 billion mainly because of favourable macroeconomic conditions. The sector remained sound, stable and its profits improved. Capital and liquidity levels of banks and microfinance institutions (MFIs) remained above the statutory limits.

The banking sector remains the largest sub-component of Rwanda's financial sector with 66.7 per cent (in increase of 1.2 per cent) of the total financial sector assets. In the same framework, total assets of banks increased by 15.1 per cent, from FRW 2,685 billion in December to FRW 3,091 billion, compared to the increase of 12.9 per cent recorded during the previous year. In terms of numbers, the banking sector saw no major changes: As by the end of December 2018, the banking sector consisted of 11 commercial banks, 3 microfinance banks, 1 development bank and 1 cooperative bank. The banking sector operates a network of 189 branches, 175 sub-branches and 156 outlets across the country.

Microfinance institutions (MFIs) remain an important component of the financial sector especially its role of driving financial inclusion. In 2018, the total number of MFIs reduced from 473 to 459 as result of two acquisitions - CLECAM EJOHEZA acquired a network of 6 CLECAMS and UMUTANGUHA LTD acquired CLECAM WISIGARA, INZIRA BUTARE and CT-MURAMBI LTD.

In December 2018, total assets of MFIs stood at FRW 279.5 billion indicating growth of 14 per cent from FRW 247.7 billion compared to 10 per cent in the previous year. According to the financial inclusion survey (Finscope 2016), around 2 million adults had/used Umurenge SACCO accounts for saving or borrowing in 2016. The improved growth of total assets of MFIs mainly reflects increased growth of deposits of 16 per cent from FRW 124.1 billion to 144.4 billion) where customer deposits remain the main source of MFIs funds. Total outstanding loans by MFIs increased by 19 per cent from FRW 138.3 to FRW 164 billion as of December 2018.

The Insurance sector performs important economic functions of enabling economic agents to diversify different risks. In 2018, the insurance sector recorded a strong performance as at the end December 2018, total assets increased by 13 per cent to FRW 452 billion and growth premium increased by 11 per cent to FRW 134.8 billion. On the other hand, the profit of insurance sector increased from FRW 40.1 billion to FRW 44.7 billion (i.e. 11.4 per cent). This profit of insurance sector was supported by high investment and measures implemented in the previous years.

The pension sector remains an integral part of the Rwandan financial sector because it provides the retirement assurance for the working population, but also remains a source of long-term funds for financing long-term investments. Actually, 23 per cent of the fund's assets were deposits in banks and 16 per cent equity in local banks. As at End-December 2018, its assets accounts for 17.5 per cent of total financial sector's assets. Total assets of the pension fund stood at FRW 773.2 billion as of December 2018 indicating a year-to- year growth of 8 per cent.

The level of pension penetration in Rwanda remains low at 8 per cent. Efforts to increase this penetration include laying the legal foundation for the development of the private pension scheme. The BNR has licensed several service providers including 3 custodians, 5 investment managers, 4 administrators as well as 1 trustee for these schemes. As at December 2018, these schemes had 37,739 contributing members. The overall rationale for licensing and supervising these private schemes is to ensure their stability and growth.

Long term saving scheme (LTSS) for all citizen was launched in December 2018 during the National Umushyikirano**.** Today, pension barely covers 10 per cent of Rwanda's workforce focusing largely on public and private sector salaried employees. The excluded 90 per cent of the workforce is neither covered by a pension scheme nor a long-term savings scheme. To deal with this, EJO HEZA LONG TERM SAVING SCHEME was put in place to expand social security coverage by introducing pre-retirement benefits. The EJO HEZA will continue to mobilise and sensitize Rwandans to subscribe to the scheme and pay contributions for their retirement.

The Government of Rwanda approved the establishment of the Kigali International Financial Centre (KIFC) on 5th December 2017 in order to increase the value addition of the financial services in the Rwandan economy. To this end, Rwanda seeks to be, in the region and globally, a favourable jurisdiction in relation to international banking and insurance services and wealth management vehicles such as: trusts, foundations, partnerships, philanthropies, real estate, pension, sovereign wealth, private equity, hedge funds, and management of family office. Among other factors, an amendment of identified laws as well as drafting of new laws are prerequisite to attract non-resident investors, High Net Worth individuals, and support services providers to be players in the Centre. Efforts towards the establishment of the Centre continue.

III. OBJECTIVES AND POLICIES FOR THE MEDIUM TERM 2019/20- 2021/22

III.1. Overview of 2019/20 policies and medium term macro-economic framework

The policies and strategies over the medium term are built on Government's ambition to raise Rwandans high living standards and reach the upper middle-income status by 2035 and high income by 2050. This is reflected in the blue print of the Vision 2050 under development. The National Strategy for Transformation (NST1), which has been developed as implementation instrument of the remainder of Vision 2020 and for the first four years of the Vision 2050, provides the direction of the policy objectives over the medium term.

The government continues also to implement a set of measures to promote diversification of exports and reduce exposure to external shocks and imbalances over the medium term. The ***Made in Rwanda*** campaign and policy will continue to play a key role in narrowing the current account deficit overtime in the short to long run and help consolidate private sector domestic activities, create jobs and boost economic growth.

III.1.1. Real Sector Projections for the period 2019 – 2022

The economy grew by 8.6 per cent in 2018 from 6.1 per cent recorded in the corresponding period of the previous year, driven by the industry sector (10 per cent), service sector (9.0 per cent) and agriculture sector (6.0 per cent). The economy is projected to grow by 7.8 per cent in 2019 and 8.1 per cent in 2020, and 8.2 per cent in 2021. The agriculture sector is expected to get good performance in food and export crops due to continuing investments to improve seeds and extend irrigation. However, projections remain moderate at 5.5 per cent in 2019 and 5.2 per cent in 2020 as our Agriculture sector remains dependant on weather conditions, which are highly unpredictable. The industry is expected to grow by 11 per cent in 2019 and 12.1 per cent in 2020 boosted by mining and construction. The construction sector is set to register a good performance in 2019 and 2020 with 10.5 and 12.2 per cent respectively, explained by the construction of Bugesera Airport, industrial parks in secondary cities and roads as well as other construction projects from the private sector. The services sector is likely to sustain the good performance for 2019 and 2020 as well as 2021 with 8.0, 8.2 and 8.2 per cent respectively. The following table highlights the GDP projections over the medium term:

Table 7: GDP Growth Projections for the period 2019 – 2022

	2018	2019 proj.	2020 proj.	2021 proj.
GDP	**8.6%**	**7.8%**	**8.1%**	**8.2%**
AGRICULTURE	**6%**	**5.5%**	**5.2%**	**5.5%**
O/W:				
Food crops	4%	5.1%	5.1%	5.1%
Export crops	10%	5.8%	2.6%	7.8%
INDUSTRY	**10%**	**11%**	**12.1%**	**11.8%**
Mining & quarrying	**2%**	**18.1%**	**19.0%**	**18.5%**
TOTAL MANUFACTURING	**11%**	**8.7%**	**9.0%**	**9.5%**
O/W:				
'Manufacturing of food	9.0%	6.0%	5.1%	5.3%
'Manufacturing of beverages & tobacco	9%	4.3%	7.0%	6.6%
'Manufacturing of textiles, clothing & leather goods	20%	17.2%	20.0%	18.9%
Electricity	10%	11.9%	11.9%	11.9%
Water & waste management	3%	6.6%	6.6%	6.6%
Construction	14%	10.5%	12.2%	11.1%
SERVICES	**9%**	**8.0%**	**8.2%**	**8.2%**
O/W:				
'Wholesale & retail trade	15%	5.8%	7.0%	7.0%
'Transport services	18%	7.4%	8.3%	8.6%
Hotels & restaurants	10%	10%	9.4%	14.1%
Information & communication	18%	14.2%	15%	14.8%
Financial services	10%	8.2%	7.1%	8.1%
Real estate activities	5%	5.5%	5.3%	5.4%
Professional, scientific and technical activities	6%	9.2%	9.7%	10.5%
Administrative and support service activities	-3%	8.8%	10.5%	10.7%
Public administration and defence; compulsory social security	9.0%	9.0%	7.0%	6.0%
Education	4%	5.8%	5.5%	5.2%
Human health and social work activities	0%	4.9%	4.9%	4.9%
Cultural, domestic & other services	13%	12.7%	12.0%	10.6%
Taxes less subsidies on products	**14%**	**7.1%**	**8.4%**	**8.6%**

Source: MINECOFIN

III.1.2. Inflation

Inflation in 2019 and in the medium term is projected to remain stable and below the target of 5 per cent despite the expected increase of imported goods due to the current environment in the region. The inflation development for the first two months of 2019 shows a slowdown of inflation, which reached 0.8 in February from 1.1 in December 2018. For 2019 and in the medium term, inflation is projected to slightly increase but contained at 5 per cent as food inflation after a long period of decrease is expected to rise slightly and imported inflation is expected to pick up.

III.1.3. External Sector Projections

The table below shows projections on External Sector performance

Table 8: Key External Sector Projections

	2019 Proj.	2020 Proj.	2021 Proj.
Current Account	**-960.95**	**-1115.10**	**-1060.61**
Goods (Trade Balance)	**-1014.02**	**-1100.82**	**-1086.21**
Exports f.o.b.	1217.82	1326.54	1480.91
Of which: coffee	162.03	175.70	197.61
Minerals	170.21	194.07	226.40
Other Ordinary Products	388.80	403.24	458.70
Re-Exports	344.80	385.53	413.74
Imports f.o.b.	2231.84	2427.36	2567.13
Services (net)	**-219.29**	**-244.27**	**-181.21**
Services: credit	947.76	1041.26	1181.26
o/w: Tourism	403.98	444.38	511.04
Services: debit	1167.05	1285.53	1362.47
o/w: Net Freight	-401.55	-428.77	-463.51
Primary income (net)	**-375.24**	**-403.59**	**-425.51**
Secondary income (net)	**647.60**	**633.57**	**632.31**
Secondary income: credit	749.80	742.92	751.21
o/w: Remittances	206.22	221.03	234.34
Secondary income: debit	102.20	109.35	118.90
Capital Account	**245.61**	**321.15**	**305.78**
Net lending(+)/ net borrowing (-) (balance from current and capital accounts)	***-715.34***	***-793.95***	***-754.83***
Financial Account: Net lending(+)/ net borrowing (-)	**-824.51**	**-954.30**	**-862.49**
Direct investment	-298.48	-310.94	-257.98
Direct investment: liabilities (FDI)	317.03	330.77	279.11
Portfolio investment	**-0.37**	**-0.39**	**-0.40**
Other investment	**-525.66**	**-642.97**	**-604.10**
Overall Balance	**109.22**	**160.40**	**107.65**
Official Reserve	**1427.31**	**1564.00**	**1635.56**

Source: BNR

In medium term 2019, and 2020 the current account deficit is expected to slightly deteriorate to 9.4 and 10.1 per cent of GDP due to expected higher imports for Bugesera International Airport and for construction projects in general, before reducing to 8.8 per cent of GDP after completion of some of these projects. However, exports of goods are expected to continue increasing especially traditional export due to increasing productivity of coffee production, construction of new tea factories Nyaruguru, Karongi & Nyamasheke by 2021. Investment on 250 ha for vegetables, 65 ha in flowers are expected to significantly boost horticulture exports. Coltan refinery and tin smelter projects will also add value to mineral exports. Exports are expected to increase respectively by 11.2, 14.1 and 19.0 per cent in 2019, 2020 and 2021.

In the Financial account, foreign direct investments are expected to continue increasing in the medium term especially in 2019 and 2020 explained by expected high investment in Bugesera Airport. The expected increase in foreign direct investment and debt flows in medium term will boost the overall external position to reserve build-up of USD 109.2; USD 160.2 and USD 107.7 million in three years ahead 2019, 2020 and 2021 respectively. The expected high level of reserves of 2019 will cover 4.8 months of imports of goods and services in 2020.

III.1.4. Medium Term External Debt Policy

Rwanda's medium term debt policy stance is to remain low risk of debt distress. However, the level of public debt has been growing steadily to fuel public investment projects. The latest Debt Sustainability Analysis (DSA) conducted in April 2019 revealed that the low risk of debt distress status will be maintained – but requires careful monitoring and continuing mechanisms to strengthen export and revenue collection performance.

Rwanda's PV of debt-to-GDP is assumed to remain below the respective threshold (50 per cent of GDP – EAC convergence criteria) with 33.8 per cent of PV of debt to GDP projected for 2019. The PV of debt service-to-exports stands at 7.8 per cent in 2018, but to increase sharply to 17.5 per cent in 2023 (DSA threshold is 22 per cent) the year of Rwanda's Eurobond repayment. However, this a 'one off' servicing spike is assumed to be temporary then the rate will return at normal rate of 5.9 per cent in 2024.

While GDP growth is projected to rise, to ensure continued debt sustainability, borrowing must generate an economic rate of return recaptured by the Government, and economic growth must be translated into increased domestic revenues, enhanced export performance, and reserves. In the medium term, high return in exports receipts are expected from diversification and strengthened export performance in non-traditional products like horticulture and floriculture, as well as the reduction of the import bill through Made in Rwanda strategy. However, in order to do so, public investments should themselves be export enhancing. This combined with a prudent medium-term debt management strategy and a careful assessment of future projects' financing will remain critical to prevent public debt levels from becoming unsustainable.

The medium term debt strategy will be therefore based on Keeping a Low risk of debt distress as fiscal anchor, Maximizing external concessional loans; Careful prioritization during projects selection process and implementation within the time set. Commercial loans will be considered as a last resort, for profitable and forex generating projects, policy on issuance of guarantees that can be extended to State Owned Enterprises with strategic projects, development of domestic capital market (treasury bonds issuances/ re-openings, etc.).

III.1.5. Monetary Sector Projections

In 2019, the monetary policy stance is expected to remain accommodative, in a context of low and stable inflation, subdued exchange rate pressures and non-inflationary aggregate demand. Inflation is projected to be around 3.0 per cent on average, in line with the benchmark inflation band.

In 2019, monetary aggregates will grow at a higher rate than the previous year. Credit to Private sector will increase by 12.7 per cent from 10.8 per cent in 2018. Broad money and reserve money will grow by respectively 20.4 per cent and 17.8 per cent compared to 15.6 per cent and 16.1 per cent in 2018. In this regard, the BNR will shift to a price-based monetary policy framework to further improve the effectiveness of monetary policy.

It is expected that price-based monetary policy implementation would make money market rates more stable and predictable, a condition conducive to developing financial markets further and strengthening the monetary transmission mechanism. The BNR undertook steps to implement preconditions to move to interest-based monetary policy framework, especially those related to management of liquidity and policymaking processes.

Exchange rate policies will focus on a market driven exchange rate, which enables to adjust freely the shocks of external trade balance deficit. In 2019, exchange rate pressures will be moderate considering the Balance of Payments forecast. This will reduce inflationary pressures and allow BNR to continue to support the market.

III.1.6. Financial Sector Development Strategy

The Financial Sector Development Strategy 2019/20 in the medium term will seek to achieve:

a) **Automation and Consolidation of Umurenge SACCOs into a Cooperative Bank, which is expected to be completed in 2019/20.**

As mentioned in the previous budget framework paper, automation and consolidation of U-SACCOs is a key aim of the government. Automation and consolidation of U-SACCOs into Districts SACCOs and establishment of a Cooperative Bank are being handled simultaneously and the establishment of District SACCOs and the Cooperative Bank is expected to be completed in FY 2019/20.

b) **Long term saving scheme for all citizens**

The Long Term Saving Scheme “EJO HEZA” was launched in December 2018 and will continue to mobilize and sensitize Rwandans to subscribe to the scheme and pay contributions for their retirement by carrying out an extensive awareness campaign to ensure that all Rwandans are aware of the existing opportunity:

c) National Financial Inclusion Agenda

In response to the fact that 11 per cent of Rwandans are still not financially included, BNR and MINECOFIN through a consultative process finalized the National Financial Inclusion Strategy to be implemented as part of the next planning stage. This will drive financial inclusion to 95 per cent by 2024.

a) National Payment System

The objective is to turn Rwanda into cash-less economy through building a world-class payment system that is secure, reliable, efficient, scalable, cashless, and promotes financial inclusion. To promote the payment system, a five-year national payment strategy with new innovations to accelerate payment systems has been adopted. The Government, in partnership with the private sector will kick off its implementation in 2019/2020.

b) Capital market Master Plan

The Government of Rwanda has increasingly focused its attention on deepening Rwanda's capital market. This emphasis recently culminated in a directive to the Rwandan Capital Market Authority to produce the 10-year master plan. This plan will set the CMA's policy strategy for the next 10 years. It will advance a strategic agenda for deepening debt markets, expanding listings on the Rwanda Stock Exchange, developing an ecosystem of financial sector intermediaries, and further integrating Rwanda's capital markets with those of its East African neighbours. The Capital Market Master Plan implementation that started in 2018/19 will continue into 2019/20.

c) Establishment of Kigali International Financial Centre (KIFC)

After a Consultancy Firm has been identified and contracted, the year 2019/2020 is expected to involve the real work of amending the identified 19 laws, propose a tax regime policy, and assess skills gap and propose a skills development strategy for KIFC. A Financial Services Delivery Unit has been established and will be equipped with international financial trainings required to be competitive with other centers. Rwanda Finance Limited, a company whose responsibility is be to promote the Center will have to carry out an extensive marketing for the center.

III.1.7. Fiscal Policy Projections for 2019/20 and the medium term

Fiscal policy for the Government in 2019/20 and in the medium term will seek to achieve a medium term fiscal path that allows for more spending to reach the NST goals whilst maintaining public debt at a sustainable level; continue the momentum in mobilizing domestic resources to support the development goals of Government (including through broadening of the tax base and strengthening tax compliance) as well as achieving enhanced fiscal transparency.

Reflecting these policies, the overall deficit (including grants) will rise to 6 per cent of GDP in 2019/20 but thereafter decline to 5.5 per cent of GDP in 2020/21 and further to 5.2 per cent of GDP in 2021/22.

Regarding domestic revenue collections, these are projected to increase by about 0.2 per cent of GDP over the medium term. Accordingly, total collections are projected to reach 16 per cent of GDP in 2019/20 and rise to 16.2 per cent in 2020/21 and to 16.4 per cent by 2021/22. Broadening of the tax base as well as the strengthening of tax compliance over the medium term is expected to boost revenue collections over the medium term.

In the case of expenditures, continuation of on-going expenditure prioritization measures are expected to allow total outlays to decline from 29.3 per cent of GDP in 2018/2019 to 28.5 per cent of GDP in 2019/2020 and to 28 per cent of GDP by 2020/21 and further to 27.2 per cent of GDP by 2021/2022. The on-going prioritization strategy will mostly affect recurrent spending which is projected to decline from 15 per cent of GDP in 2018/2019 to 14.3 per cent in 2019/2020 and to 14 per cent of GDP in 2020/2021 and further to 13.4 per cent of GDP by 2021/2022.Spending on investment projects however is projected to remain robust in the medium term to reach NST goals during this period. In this regard, total capital expenditure, which will amount to 12 per cent of GDP in 2018/19, is projected to decline slightly to 11.7 per cent of GDP in 2019/20 but rise to 11.8 per cent of GDP in 2020/2021 and further to 12 per cent of GDP in 2021/2022. The reliance on concessional finance comprising grants and loans both from bilateral and multilateral institutions will help debt to remain sustainable.

The declining deficits will also ensure the maintenance of public debt at sustainable levels in the medium term. This deficit as mentioned above which is projected at 5.5 per cent of GDP in 2018/2019 will rise to 6 per cent in 2019/20 but decline to 5.5 per cent of GDP in 2010/2021 and to 5.2 per cent of GDP in 2021/2022 thereby ensuring the attainment of an average deficit of 5.5 per cent of GDP over the medium term. The table below shows key fiscal projections for 2019/2020 – 2021/2022 period:

Table 9: Fiscal projections for the medium term covering 2019/20 to 2021/22 ***(Economic classification of the budget)***

Incl. LG, Strategic Reserves levy, AU levy and Infrastructure development levy	Jul-Jun 2019/20 Proj	Jul-Jun 2019/20 %GDP	Jul-Jun 2020/21 Proj	Jul-Jun 2020/21 %GDP	Jul-Jun 2021/22 Proj	Jul-Jun 2021/22 %GDP
Revenue and grants	**2,208.6**	**22.5**	**2,512.4**	**22.5**	**2,792.5**	**22.0**
Total revenue	**1,798.9**	**18.3**	**2,052.8**	**18.4**	**2,315.3**	**18.3**
Tax revenue	**1,572.2**	**16.0**	**1,807.0**	**16.2**	**2,073.9**	**16.4**
Direct taxes	688.2	7.0	789.1	7.1	907.6	7.2
Taxes on goods and services	761.4	7.8	880.4	7.9	1,013.2	8.0
Taxes on international trade	122.5	1.2	137.5	1.2	153.1	1.2
Non-tax revenue	**226.7**	**2.3**	**245.8**	**2.2**	**241.5**	**1.9**
Total Grants	**409.8**	**4.2**	**459.6**	**4.1**	**477.1**	**3.8**
Budgetary grants	150.0	1.5	170.5	1.5	204.7	1.6
Capital grants	259.8	2.6	289.1	2.6	272.4	2.1
Total expenditure and net lending	**2,796.8**	**28.5**	**3,126.0**	**28.0**	**3,452.8**	**27.2**
Current expenditure	**1,406.9**	**14.3**	**1,559.8**	**14.0**	**1,696.6**	**13.4**
Wages and salaries	423.3	4.3	469.3	4.2	526.4	4.2
Purchases of goods and services	235.0	2.4	303.4	2.7	333.9	2.6
Interest payments	128.5	1.3	155.8	1.4	177.4	1.4
Domestic Int (paid)	74.8	0.8	92.7	0.8	102.9	0.8
External Int (due)	53.7	0.5	63.1	0.6	74.6	0.6
Transfers	409.8	4.2	457.4	4.1	470.3	3.7
Exceptional social expenditure	210.3	2.1	173.8	1.6	188.5	1.5
Capital expenditure	**1,152.1**	**11.7**	**1,321.7**	**11.8**	**1,516.9**	**12.0**
Domestic	694.0	7.1	785.1	7.0	949.7	7.5
Foreign	458.2	4.7	536.5	4.8	567.2	4.5
Net lending	**237.7**	**2.4**	**244.6**	**2.2**	**239.4**	**1.9**
Overall deficit (payment order)						
Including grants	**-588.1**	**-6.0**	**-613.6**	**-5.5**	**-660.4**	**-5.2**
Excluding grants	**-997.9**	**-10.2**	**-1,073.2**	**-9.6**	**-1,137.5**	**-9.0**
Change in arrears (net reduction-)	-30.6	-0.3	-35.2	-0.3	-40.2	-0.3
Overall Deficit (cash basis)						
Including grants	**-618.7**	**-6.3**	**-648.8**	**-5.8**	**-700.6**	**-5.5**
Excluding grants	**-1,028.5**	**-10.5**	**-1,108.5**	**-9.9**	**-1,177.7**	**-9.3**
Financing	618.7	6.3	648.8	5.8	700.6	5.5
Foreign financing (net)	456.5	4.6	615.8	5.5	657.9	5.2
Drawings	497.0	5.1	674.5	6.0	733.5	5.8
Budgetary loan	298.6	3.0	427.0	3.8	438.7	3.5
Project loans	198.4	2.0	247.4	2.2	294.8	2.3
Amortization (due)	-40.5	-0.4	-58.7	-0.5	-75.6	-0.6
Domestic financing	162.2	1.7	33.1	0.3	42.7	0.3

Source: MINECOFIN

IV. THE BUDGET FOR FISCAL YEAR 2019/20 AND THE MEDIUM TERM

The budget for the fiscal year 2019/20 reflects the medium term fiscal path, which allows for an increase in outlays to reach the NST goals whilst maintaining public debt at sustainable levels. In this regard, the Budget envelope is projected to increase from FRW 2,585.2 billion in FY 2018/19 to more than FRW 3,560.5 billion in FY 2021/22. The budget envelope for FY 2019/20 is projected at FRW 2,876.9 billion, an increase of FRW 291.7 billion from the revised Budget for FY 2018/19.

IV.1. Projection of Resources and Expenditures in 2019/20 and the medium term

Table 10: Resources and Expenditures over the medium term

Resources and Outlays (Billion Frw)	2018/19 Revised Budget	2019/20 Allocation	2020/21 Proj.	2021/22 Proj.
RESOURCES	**2,585.2**	**2,876.9**	**3,227.0**	**3,560.5**
Domestic revenue	**1,571.4**	**1,726.2**	**1,967.7**	**2,216.1**
Tax revenue	1,373.1	1,535.8	1,763.9	2,022.5
Direct taxes	578.8	651.8	746.0	856.2
Taxes on goods and services	684.9	761.4	880.4	1,013.2
Taxes on international trade	109.4	122.5	137.5	153.1
Non-tax revenue	198.4	190.4	203.8	193.6
Domestic financing	**124.1**	**237.6**	**118.2**	**133.9**
Sale of new Securities to Banks	65.7	170.9	41.3	60.8
Drawdown	8.6	16.9	19.6	7.6
Sales to Securities to non Banks	49.8	49.8	57.3	65.5
Grants	**425.4**	**409.8**	**459.6**	**477.1**
Budget Support	192.3	150.0	170.5	204.7
Project Support	233.1	259.8	289.1	272.4
Loans	**464.3**	**497.0**	**674.5**	**733.5**
Budgetary Loans	295.1	298.6	427.0	438.7
Project loans	169.2	198.4	247.4	294.8
Net lending repayments	0.0	6.4	7.0	0.0
EXPENDITURES	**2,585.2**	**2,876.9**	**3,227.0**	**3,560.5**
Recurrent Budget	**1,310.0**	**1,424.5**	**1,588.5**	**1,723.7**
Wages and salaries	446.0	500.2	469.3	526.4
Recurrent non wage	864.0	924.3	1,119.2	1,197.2
Of which Public debt servicing	181.5	218.8	271.9	318.5
Development Budget	**1,041.0**	**1,152.1**	**1,321.7**	**1,516.9**
Domestically financed	**638.6**	**694.0**	**785.1**	**949.7**
Of which Global Fund	76.1	61.1	63.9	66.8
Externally financed	**402.4**	**458.2**	**536.5**	**567.2**
Net Lending (lending)	**190.0**	**244.1**	**251.6**	**251.6**
Arrears Payment	**27.2**	**30.6**	**35.2**	**40.2**
Accumulation of Deposits	**16.96**	**25.5**	**30.0**	**28.2**

Source: MINECOFIN

IV.1.1. Projection of Resources

As shown in table 10 above, the total resources projected for the fiscal year 2019/20 is made up of FRW 1,726.2 billion of domestic tax and non-tax revenues, external grants and loans of FRW 409.8 billion and FRW 497 billion, respectively and a total domestic financing of the budget deficit of FRW 237 billion.

a) Domestic Revenue Collections

- ✓ **Tax Revenue Collections**

Total tax revenue collections have been projected to reach FRW 1,535.8 billion (excluding Local Governments tax revenues of FRW 36.4 billion) in the fiscal year 2019/20. This amount will exceed the estimated figure of FRW 1,373.1 billion to be achieved in the fiscal year 2018/19 by FRW162.7 billion based among others of continuing economic growth momentum of 7.8 per cent projected for the fiscal year 2019/20 and an increase in the taxable base from new tax administrative measures and policies (Tax Procedures law, Excise duty Law, EBM for all etc.) and on-going tax policy measures from the recently enacted Income tax law, will be expected to increase the tax collection efforts of RRA. Regarding VAT collections, the implementation of the 'EBM for all' policy which aims at rolling out EBMs to selected non-VAT registered taxpayers should increase VAT collections. In the case of Excise Duty Law, the enactment of the law amending excise duties on beer, wines and liquors will be expected to increase excise duties collections. Concerning the Income Law, three main policy changes are to contribute to boost tax collections; 1) the capping of management fees to 2 per cent of turnover, 2) excluding liberal professionals from the lump-sum / flat regime and 3) the implementation of the transfer pricing guidelines which will help RRA conduct proper audits of multinational companies (banks, telecoms, insurance companies and mining companies).

- ✓ **Non-Tax Revenue Collections**

In the fiscal year 2019/20, non-tax revenue collections to the Treasury have been estimated at FRW190.4 billion. This figure is FRW 7.9 billion lower than the projected amount of FRW 198.4 billion in the fiscal year 2018/19. Lower reimbursements from the UN for the cost of peacekeeping operations in the fiscal year 2019/20 will account for the lower figure. The estimated figure for PKO reimbursements in the fiscal year 2019/20 is FRW 138.6 billion, which is FRW 28.8 billion lower than the figure of FRW 167.4 billion disbursed in 2018/19.

The non- tax revenue estimate figure also includes an amount of FRW 27 billion, which represents internally generated non-tax revenue collections of the various government agencies comprising the Rwanda National Police, the Rwanda Development Board, Rwanda Revenue Authority, Rwanda Mines, Petroleum and Gas Board and the Rwanda Correctional Service. These institutions will be allowed to spend these collections and are being added to their allocations in the budget.

b) External resource Projection

In the budget for the fiscal year 2019/20, a total amount of FRW 906.8 billion external resources (loans and grants) has been projected to accrue to the Treasury.

- ✓ **External grants projection**

The amount of FRW 409.8 billion projected for the fiscal year 2019/20 is made up of budgetary grants of FRW 150 billion and capital grants of FRW 259.8 billion. Regarding budgetary grants the amount of FRW 150 billion is FRW 42.3 billion lower than the amount of FRW 192.3 billion realized in the fiscal year 2018/19. This decline is largely due to lower expected flows from the Global Fund. Expected disbursements of FRW 61.1 billion from the Global Fund in fiscal year 2019/20 are FRW 15 billion lower than the amount of FRW 76.1 billion realized in the fiscal year 2018/19.

In the case of capital grants, the projected figure of FRW 259.8 billion in the fiscal year 2019/20 is FRW 26.7 billion higher than the figure of FRW 233.1 billion registered in the fiscal year 2018/19. Improved implementation of some projects funded with these funds accounts for the increase in the disbursement of capital grants in the fiscal year 2019/20.

- ✓ **External Loans Projection**

The figure of FRW 497 billion estimated for the fiscal year 2019/20 is FRW 32.7 billion higher than the amount of FRW 464.3 billion realized in the fiscal year 2018/19.

In the case of budgetary loans, an amount of FRW 298.6 billion has been projected for the fiscal year 2019/20. This amount is FRW 3.5 billion higher than FRW 295.1 billion projected in 2018/19. Three main creditors will provide budgetary loans to the budget in the fiscal year 2019/20. These are the African Development Bank Group, the World Bank Group and for the first time JICA budget support to finance nutrition through agriculture.

Regarding project loans, the figure of FRW 198. 4 billion projected for the fiscal year 2019/20 is FRW 29.2 billion higher than the FRW 169.2 billion in the fiscal year 2018/19. Expected improvements in project implementation especially in the energy and road sectors are responsible for the increase in project loans drawdown in the fiscal year 2019/20.

IV.1.2. Projection of Expenditures

Total expenditure projected in the fiscal year 2019/20 mainly made up of FRW 1,424.5 billion recurrent expenditure, capital spending of FRW 1,152.1 billion and net lending outlays of FRW 244.1 billion.

a) Recurrent Expenditures

The allocated amount of FRW 1,424.5 billion in fiscal year 2019/20 is FRW 114.5 billion higher than the allocated amount of FRW 1,310 billion in the fiscal year 2018/19. The increase in recurrent expenditure is mainly driven by increased allocations for both wage and non- wage related items arising from on-going restructuring exercises including creation of new structures in the public sector.

In the case of wages, the increase in the allocated amount will cater for restructuring of education and health sector salaries including new recruitments as well as increases in allowances of the security agencies. Concerning the increase in the non- wage expenditures, the allocation will fund increased capitation grant and school feeding, required goods and services for the running of the various Government institutions and agencies including the new embassies and institutions.

The non-wage allocations will increase by FRW 60.3 billion, mostly due to higher spending in Peace Keeping Operations and in debt servicing (FRW 37.3 billion additional spending compared to FY2018/19) due to a higher drawdown of both budgetary and project loans as well as an increase in domestic borrowing in the fiscal year 2019/20.

b) Capital Expenditure

Total capital spending in the fiscal year 2019/20 has been estimated at FRW 1,152.1 billion. This figure is FRW 111.2 billion higher than the amount of FRW 1,041.0 billion allocated in the fiscal year 2018/19 and is made up of FRW 694 billion of domestically financed portion and FRW 458.2 billion of foreign financed portion. The increase in the allocated amount will allow adequate funding for several projects in line with the priorities of the NST1.

With regard to the domestically financed portion, the projected figure of FRW 694 billion for the fiscal year 2019/20 is FRW 55.4 billion higher than the amount of FRW 638.3 billion spent in the fiscal year 2018/19. The allocated amount in the fiscal year 2019/20 will allow the implementation of priority projects that will increase access to electricity, water and sanitation as well as education and health.

In the case of the foreign financed portion, the estimated amount of FRW 458.2 billion for the fiscal year 2019/20 is FRW 55.8 billion higher than the amount of FRW 402.4 billion spent in the fiscal year 2018/19. The recent improvements in tendering and procurement processes including the off take of the e-procurement system have led to increased disbursement of capital grants as well as improvements in project loans draw-downs and are contributing to the increase in spending. The main projects to be implemented are mainly in the energy, roads and agriculture sectors.

c) Net lending

Outlays under net lending in the fiscal year 2019/20 have been estimated at FRW 244.1 billion, FRW 54.1 billion higher than the amount of FRW 190.0 billion projected in the fiscal year 2018/19. The increase in the allocated amount is mainly due to the inclusion of funds for the recapitalization of BRD as well as an increase in Rwandair transfers.

Concerning BRD, Government has decided to recapitalize the financial institution to enable it play an increased role in the expansion of the private sector to promote an accelerated growth. The recapitulation process will last for three years and the Government's contribution will amount to FRW 23.3 billion FRW. In the fiscal year 2019/20, which is the first year, an amount of FRW10 billion is required and this amount has been allocated.

With regard to Rwandair, the company has embarked on an expansion process including the acquisition of new planes and new routes. Accordingly, the transfer to the company is being raised from FRW 107.1 billion in the fiscal year 2018/19 to FRW 121.8 billion in the fiscal year 2019/20.

V. 2019/20 DETAILED RESOURCE ALLOCATION TO NST1 PILLARS

The National Strategy for Transformation (NST1) is a government strategy developed as an implementation instrument for the remainder of Vision 2020 and the first four years of the Vision 2050. Particularly, the 2019/2020 FY is at the peak of the implementation of Rwanda's Vision 2020 and thus entails strategies to fast-track implementation of the unfinished business of the vision.

The resources allocation for 2019/2020 and in medium term was guided by the strategic objectives to achieve the transformational goals of NST1 set out in the three pillars namely: Economic Transformation, Social Transformation and Transformational Governance. The key interventions and projects under NST1 pillars have been funded as follows:

Table 11: 2019/20 Resource allocations per NST1 Pillars

Pillar	NST Sector	2019/2020 Budget	% Share	2020/2021 Proj.	% Share	2021/2022 Proj.	% Share
Economic Transformation		1,637,340,557,226	56.9%	1,826,374,701,838	56.6%	2,036,512,880,130	57.0%
Social Transformation		781,798,407,013	27.2%	887,365,021,392	27.5%	980,327,979,521	28.0%
Transformational Governance		457,777,376,550	15.9%	513,301,861,139	15.9%	543,680,626,698	15.0%
TOTAL		**2,876,916,340,789**	**100%**	**3,227,041,584,370**	**100%**	**3,560,521,486,349**	**100%**

Source: MINECOFIN

V.1. Allocation on Economic Transformation Pillar

The overarching objective of the Economic Transformation pillar is to: **Accelerate inclusive economic growth and development founded on the Private Sector, knowledge and Rwanda's Natural Resources.** The above objective will be achieved by emphasizing on the following strategic objectives:

1. Create decent jobs for economic development and poverty reduction
2. Accelerate Urbanization to facilitate economic growth
3. Promote industrial development, export promotion and expansion of trade related infrastructure
4. Develop and promote a service-led and knowledge-based economy
5. Increase agriculture and livestock quality, productivity and production
6. Sustainably exploit natural resources and protect the environment

The table below shows allocation of resources on NST 1 sectors under the Economic Transformation Pillar for 2019/2020 and in the medium term:

Table 12: 2019/20 Resource Allocations to Economic Transformation Pillar

Pillar	NST Sector	2019/2020 Budget	% Share	2020/2021 Proj.	% Share	2021/2022 Proj.	% Share
01 Economic Transformation		**1,637,340,557,226**	**56.9%**	**1,826,374,701,838**	**56.6%**	**2,036,512,880,130**	**57.0%**
	01 Agriculture	127,855,952,415		174,254,893,508		195,907,667,348	
	02 Private sector Development & Youth Employment	137,498,260,021		142,702,953,685		147,632,892,404	
	03 Transport	264,335,664,350		306,471,853,557		350,473,995,997	
	04 Energy	160,665,156,893		183,408,043,223		220,405,633,628	
	05 Water and Sanitation	1,096,320,794		2,272,444,795		2,272,444,795	
	06 Urbanization and Rural Settlement	23,712,308,717		23,510,111,974		20,196,216,382	
	07 Information Communication Technology (ICT)	7,423,616,203		9,018,635,296		9,349,000,026	
	08 Environment and Natural Resources	52,994,738,416		52,307,050,669		52,825,175,652	
	09 Financial Sector Development	6,307,351,859		8,481,211,206		10,954,549,466	
	16 Public Finance Management (PFM)	855,150,302,158		923,947,503,926		1,026,495,304,431	

V.1.1. Job creation:

A total of 213,198 decent and productive jobs are targeted to be created in 2019/2020 through the following strategic interventions to be implemented by the concerned institutions:

- ✓ Closely working with potential companies on the implementation of Work Place Learning (e.g. Andela, CooperPharma, TAI Jeans, etc.) by supporting on-job trainings of 3,300 people;
- ✓ Engaging private companies to host graduates (4,400) industrial attachment and internship as well as apprenticeship;
- ✓ Supporting and empowering youth and women to create business through entrepreneurship and access to finance;

- ✓ Developing and supporting priority sub-sectors in four value chains namely: Potatoes, Diary, Poultry and Horticulture. Outreach training on seeds, fertilizers, handling and storage will be conducted for 2,500 farmers;

- ✓ The number of graduates with skills relevant to the labor market will be scaled up by providing hands-on skills vocational training to (4,925) TVET graduates;

- ✓ Providing toolkit loan facilities to 3,000 TVET graduates for self-employment and supporting ICPC operators to acquire modern equipment;

- ✓ The implementation mechanism for the one model income and employment-generating project per village will be finalized and operationalized in phases.

V.1.2. Urbanization for economic growth

Urbanization and human settlement projects will also be prioritized in 2019/20 to boost the country's economy & improve livelihoods. The following are the key interventions and projects that will be undertaken:

- ✓ Finalizing the revision of secondary cities' and National Land Use master plan and update national base map.
- ✓ Upgrading the Amahoro Multipurpose Stadium;
- ✓ Street lighting of 300 Km for National and District roads;
- ✓ Improving transportation services in urban and rural areas through:
    - Urban roads upgrading project (Ruliba- Karama-Nyamirambo road, Karuruma-Bweramvura Cell asphalt road, Kagarama - Muyange asphalt road)
    - Access roads to Masaka and Rusororo areas
- ✓ On-going construction of Districts' stadia (Bugesera, Ngoma & Nyagatare);
- ✓ Support to secondary cities and City of Kigali in the implementation of Rwanda Urban Development Project (RUDP).
- ✓ Implementation of new affordable housing financing program;

V.1.3. Industrialization and export promotion

Industrial development and export promotion will support the "*Made in Rwanda Policy"* in which targeted interventions will boost exports and substitute imports with locally produced goods. The following interventions and projects will be implemented:

i. Support to industrialization and trade facilitation will be enhanced through;

- ✓ Developing basic infrastructure in industrial parks:
    - o Bugesera (100 ha of phase 1) developed at 100%
    - o Rwamagana at 80% (access road);
- ✓ Expropriation of 19 garages/warehouses in Gikondo Industrial Park
- ✓ Trade logistics development through:
    - o Rusizi bonded warehouse developed at 60%

- Expropriation of 6.5 ha of land for Kigali Logistic Platform (KLP) to facilitate its operationalization;

- ✓ Construction of Cross Border Markets (CBM):
  - Nyamasheke completed at 100%,
  - Bugarama at 100%)
- ✓ Full Operationalization of Cross border markets (Burera, Karongi)
- ✓ Operationalization of Nyanza Ceramics Research and Development Center at 70%

ii. Export promotion and implementation of Made in Rwanda

- ✓ Implementation of textile, apparel and leather strategy
- ✓ Avail standards for Wood, Banana, Textile, tourism and hospitality Products and systems certification
- ✓ Acquire equipment for testing quality of agro-processing products through Hazard Analysis Critical Control Point (HACCP) Certification
- ✓ Support 28,000 start-ups and early growth SMEs to access finance through guarantee provision and Business Development Advisory (BDA) support
- ✓ Support 12 firms to access Export funds through Export Growth Facility (EGF)
- ✓ Support the wood value chain to access appropriate technologies through the Open Calls.
- ✓ Provide technical and business advisory services for "Made in Rwanda" enterprises to improve quality products.
- ✓ Develop pharmaceuticals and wooden furniture strategic plans to support the implementation of Made in Rwanda Policy.
- ✓ 120 locally made products s-mark certified and 150 re-certified to ensure continual compliance to required standards.
- ✓ Promote MICE tourism by attracting 103 regional and international conferences/events to generate USD 88 Million from MICE and USD 118 Million from Leisure tourism.
- ✓ Kigali Cultural Village Auditorium/Kigali Cultural Theatre constructed at 50%
- ✓ Increase earnings from traditional exports with the aim of achieving USD 80 Million from coffee exports in 2019/20 (from USD 69 Million in 2017/18 and USD 102.6 Million from tea exports (from USD 88 Million in 2017/18). This will be achieved through use of fertilizers and improving Coffee/Tea production, productivity and Quality.
- ✓ Develop horticulture infrastructure including the construction of green houses in Gishari with the aim of exporting 43,680 MT of horticulture to generate USD 39.15 Million in 2019/20 from USD 23.4 Million in 2017/18. In particular, stems of flowers equal to 27.44 Million will be produced and exported to generate USD 6.43 Million in 2019/20
- ✓ Implement the sericulture project with the target of producing 100 MT of cocoons to generate USD 1 Million from its export;
- ✓ Continue the implementation of Kigali whole sale market project;
- ✓ Increase the mining exports through promotion of Investments in exploration, mining and mineral trading and enforcement of using modern mining/mineral processing technology and standards. 18,000T worth USD 600M of minerals are expected to be exported.

iii. Major planned transport infrastructures Projects

- ✓ Expansion of Sonatube-Gahanga 14km and Karumuna-Bugesera International Airport of 15.3 km;
- ✓ Rehabilitation and widening of 53km Huye-Kitabi Road;
- ✓ Rehabilitation of Kagitumba - Gabiro road (60km); Gabiro - Kayonza road (56 km) and Kayonza - Rusumo Road (92km);
- ✓ Upgrading Huye-Kibeho-Ngoma/Munini road (66km) and Ngoma-Nyanza road (66.55km);
- ✓ Development of Maritime Transport Infrastructures and Services (e.g. Nkombo boat, 3 ports at Kivu Lake, etc.);
- ✓ Rehabilitation of 534 km of feeder roads
- ✓ Completion and operationalization of Bugesera International Airport phase 1 with a capacity of 1.7 million passengers annually;
- ✓ Construction of Perimeter Fence for Rubavu Airport;
- ✓ Completion of the road connecting the south apron to the main apron at Kigali International Airport;
- ✓ Completion of Kigali International Airport runway strip grading;
- ✓ Rehabilitation of Pindura-Bweyeye-Nyungwe belt roads;
- ✓ Maintenance of 827 km of National Paved and unpaved roads.

iv. **Major energy planned interventions** include**;**

- ✓ Construction of Nyabarongo II Hydro Power Plant (43.5MW);
- ✓ Hakan Peat to Power Plant (80 MW) construction works to be completed at 100%;
- ✓ Rwanda-DRC interconnection substations (220 kV) to be completed at 100%;
- ✓ Establishment of 220kV single circuit Rusumo-Bugesera-Shango;
- ✓ Establishment of 220kV line double Circuit Mamba-Rwabusoro-Rilima and associated substations (Mamba and Rwabusoro) and 110kV Line Gahanga –Rilima;
- ✓ Construction of 74 km of 220 KV transmission lines (Bwishyura-Kigoma-Rwabusoro) to evacuate power from Symbian Peat to Power Project as well as completion of the single circuits for Mukungwa - Nyabihu; Musha - Rwamagana Industrial Park;
- ✓ Prioritization of productive and socioeconomic use areas (i.e. more than 200 Schools and 40 Health Facilities) to be connected with electricity.

V.1.4. Promoting a knowledge-based economy

- ✓ Support Andela Pan Africa hub in Rwanda;
- ✓ Restoration of Kigali – Gatuna internet fiber;
- ✓ Operationalization of Rwanda Innovation Fund;
- ✓ Operationalization of Carnegie Mellon University (CMU);
- ✓ Supporting the centers of Excellence mainly:
    - African Institute for Mathematical Sciences-Next Einstein Initiative

- African Center of Excellence in Internet of Things (ACE-IoT)
- African Center of Excellence in Data Sciences (ACE-DS)

✓ Production and distribution of positivo laptops in public institutions. 16,000 laptops will be produced.

✓ Increase Internet connectivity: 3,000 Public institutions and spaces and 99 commercial establishments will be connected to 4G Internet.

✓ Operationalization of 416 Service Access Points (SAPs) to improve service delivery across government through online portals (IREMBO).

✓ Launch of a pre-venture tech fund that will accelerate ICT industrial growth to boost export and job creation, and the establishment of 4 Knowledge Laboratories (KLabs) in each Province using the CoK model.

V.1.5 Financial services and Domestic saving promotion

✓ Operationalize long-term savings and pension for all Rwandans including those in the informal sector as a basis to support long-term domestic investments (233,000 subscribers to Ejo Heza);

✓ Operationalization of affordable housing fund to facilitate citizens acquire affordable and decent housing;

✓ Develop the capital market and increase dynamism in line with the ten-year capital market master plan e.g. through operationalization of the Capital Market Investment clinics.

✓ Support 10 districts to increase their readiness to meet requirements for issuing municipal bonds.

✓ Increase Payment transactions done electronically as percentage of GDP from 29% to 32%;

✓ U-SACCOs automated and consolidated towards One Cooperative Bank;

✓ Roll out the implementation of the National agriculture and livestock insurance scheme;

✓ Operationalization of Kigali International Business and Financial Services Center.

V.1.6. Increasing agriculture and livestock production and productivity

Agriculture reforms will improve productivity by increasing access to inputs, promotion of priority value chains and making investments that will enable a shift towards private-sector leadership in high-value sub-sectors. The following are key agriculture related interventions planned in 2019/2020:

✓ Area under irrigated land will be increased; 12,812 ha of marshlands and hillsides are targeted to be irrigated while 2,000 ha are planned to be developed under the Small Scale Irrigation Technology;

✓ Promotion of the use of improved seeds and fertilizers through:

- Timely availability of quality seeds and fertilizers to farmers
- Scaling up the use of the electronic system in agriculture inputs supply i.e. ***Smart Nkunganire***

- Engagement of the private sector in local seeds production towards phasing out importation of seeds in future;

- ✓ Post-harvest infrastructure development: 10 warehouses of about 8,000 MT, 50 drying facilities (Shelters) constructed; 40 Potato Collection Centres constructed, 10 storage facilities of 3,000 MT for maize and beans constructed as well as 5 Cold rooms of 15 MT constructed and installed.
- ✓ Livestock will be vaccinated against diseases: Cattle will be vaccinated against diseases as follows; BQ: 631,605, LSD:742,613 FMD:155,000; RVF: 395,220; Brucellosis:81,464 and Rabies: 9,014.
- ✓ Livestock genetics will be improved through artificial insemination of 107,847 cows
- ✓ Milk collection centers will be increased across the country; 5 new MCCs will be constructed, 20 MCCs will be rehabilitated and 50 Milk collection points will be constructed. 30 MCCs will be upgraded into SMEs to increase their milk processing capacity.
- ✓ The National Strategic Grain Reserve will store; 10,000 MT of Maize, 5,000MT of Beans: 5,000MT of Rice and 500 MT of Wheat.
- ✓ Agriculture insurance will cover 7,968 Ha of maize and 937.5 Ha of rice. 21,441 cows will also be insured.
- ✓ To promote export diversification; macadamia and avocado seedlings will be planted on 300 Ha and 400Ha respectively.
- ✓ 600 Ha of radical terraces will be constructed.

V.1.7. Sustainable Management of Natural Resources and Environment

Natural resources and environment will continue to be preserved to promote the green economy, which presents multiple opportunities for Rwanda. Related key interventions to be implemented in 2019/2020 include the following:

- ✓ Implementation of flood control measures that will be proposed by the ongoing study on volcanoes flood control;
- ✓ Rehabilitation of urban wetlands in Kigali City;
- ✓ Implementation of Sebeya Landscape Restoration Pilot Programme;
- ✓ Re-afforestation and rehabilitation of the degraded area of Jali, Mont Kigali and Rebero with 30 ha of new forest planted and 420 ha of forest maintained;
- ✓ Urban Forestry for Sustainable City through beautification, landscaping and greening in urban areas;
- ✓ Increase area covered by forestry focusing on agroforestry, the latter will increase from 268,119 to 50,000 ha while 500,000 fruit trees will be planted countrywide.

V.2. Allocation on Social Transformation Pillar

The overarching goal for the Social Transformation Pillar is to develop Rwandans into a capable and skilled people with quality standards of living and a stable and secure society. This goal will be achieved by focusing on the following strategic objectives:

1. Move towards a Poverty Free Rwanda.
2. Ensure a quality Healthy Population
3. Develop a Competitive and Capable Rwandan Population
4. Ensure Quality of education for all aiming at building a knowledge-based economy
5. Transition to a Modern Rwandan Household in urban and rural areas

The table below shows the allocation of resources on Social Transformation Pillar for 2019/2020 and in the medium term:

Table13: 2019/2020 and medium term resource allocation on Social Transformation Pillar

Pillar	NST Sector	2019/2020 Budget	% Share	2020/2021 Proj.	% Share	2021/2022 Proj.	% Share
02 Social Transformation		**781,798,407,013**	**27.2%**	**887,365,021,392**	**27.5%**	**980,327,979,521**	**27.5%**
	05 Water and Sanitation	71,354,301,429		104,375,442,049		125,166,432,260	
	06 Urbanization and Rural Settlement	32,789,507,472		37,023,508,978		54,726,300,669	
	10 Social Protection	112,309,461,813		120,069,089,422		119,371,323,233	
	11 Health	233,570,501,121		242,856,219,709		278,691,853,983	
	12 Education	310,816,860,448		357,389,371,603		375,304,089,940	
	14 Justice, Reconciliation, Law and Order (JRLO)	621,941,520		325,836,687		325,246,687	
	15 Sports and Culture	20,335,833,210		25,325,552,946		26,742,732,750	

The following are the prioritized interventions in 2019/2020 to achieve the strategic objectives of social transformation:

V.2.1. Social protection and poverty eradication

The social protection interventions in 2019/2020 focus on enabling graduation from extreme poverty and targeting beneficiaries based on household profiling. The following are the key interventions prioritized in 2019/20:

- ✓ Purchasing of 6,363 cows under One Cow per poor Family (GIRINKA Program);
- ✓ Implementation of multi-sectorial action plan for accelerating the eradication of extreme poverty in selected Districts in order to support poorest households with related interventions such as skills development, basic infrastructure provision, agriculture and nutrition support;
- ✓ Increasing the coverage of programs designed to support vulnerable households through national roll out of VUP classic Public Works to reach 152,070 households and 56,250 households under expanded Public Works;
- ✓ Providing VUP Direct Support to 100% eligible beneficiaries;
- ✓ Re-design social programs to improve efficiency in social transformation such as finalization of the review of VUP financial services component;
- ✓ Finalize the review of Ubudehe categorization;
- ✓ Provide direct support and construction of 1,067 houses for Needy Genocide Survivors

V.2.2. Eradicating malnutrition

Cross-sectoral interventions aimed at eradicating malnutrition will be implemented. The following are the key strategic interventions that were been prioritized in 2019/2020:

- ✓ Promotion of systematic weight for age screening at community level to reach >85% of under 5 children
- ✓ Distribution of Fortified Blended Food (FBF) to 86, 531 children between 6-24 months of age and 14,679 pregnant and lactating women.
- ✓ One cup of milk per child distributed in schools to 431,284 children;
- ✓ Providing milk to 12,555 children with moderate malnutrition;
- ✓ Construction of community based ECD facilities;
- ✓ Strengthening nutrition campaigns.

V.2.3. Increasing accessibility to quality health for all

In line with the target of increasing universal accessibility to equitable and affordable quality health services, the following interventions and projects have been prioritized in 2019/2020:

- ✓ Improving the geographical accessibility and the referral system by constructing and equipping District Hospitals including Masaka, Mental Health Day care in Gasabo District, Gatunda, Nyabikenke and Munini Hosital;
- ✓ Health facilities will be provided with adequate basic infrastructure; 40 Health facilities will be connected to electricity while 19 Health facilities will be connected to water;
- ✓ Develop the quality of human resources for health; 100 Graduate General Practitioners, 697 new nurses; 137 new Midwives will be deployed in health facilities;
- ✓ Increase access to specialized medical services in the country through strengthening the Radiotherapy Center at Rwanda Military Hospital and construction of IRCAD (Research and Training Institute against Digestive Cancer);
- ✓ Sustain universal access to treatment of HIV, Tuberculosis and other diseases outbreak. Ensure the effective prevention and efficient management of malaria cases, >95% of structures in targeted areas will receive Indoor Residual Spraying;
- ✓ Mental health services will be integrated in all Health Centers and District Hospitals. Services provided will also be expanded to cover prevention as well as management of drug addiction and harmful use of alcohol;
- ✓ Strengthen the regulation and inspection of Food and Drugs activities.

V.2.4. Improving access to quality education for all

Priorities to be undertaken in the education sector will mainly focus on the improvement of access to quality education and the following are the key interventions and projects to be funded in 2019/2020:

- ✓ Construction and rehabilitation of classrooms countrywide to phase out the double shift in Primary 4 ;
- ✓ Implementation of in-house text books production and distribution i.e. 3,221,883 textbooks will be produced and distributed to achieve a textbook student ratio of 1:4
- ✓ Enhancing smart classrooms through the provision of laptops. 50 secondary schools will be provided with 5,250 laptops.
- ✓ Training teachers on the new competence based curriculum and ICT competence framework as well as improving English proficiency of teachers in primary education;
- ✓ Expansion and provision of adequate facilities to the Rwanda Coding Academy;
- ✓ Continuing the implementation of the new UR financial model;
- ✓ Promotion of STEM in primary and secondary education, 30 competence based curricula developed with more focus on STEM programs
- ✓ Completion of construction of Muhanga TVET and equipping Nyabihu, Rutongo and Muhanga TVET schools;
- ✓ Support the construction and operationalization of centers of excellence including:
    - Regional Center of Excellence for Vaccines, Immunization and Health Supply Chain Management;
    - African Center of Excellence in Energy for Sustainable Development;
    - Africa Center of Excellence for Innovative Teaching and Learning Mathematics and Science.

V.2.5. Modernizing Rwandan households in urban and rural arrears

To achieve the universal coverage to basic infrastructure for all Rwandan households, the following interventions and projects have been prioritized in 2019/2020:

- ✓ Connecting 350,000 new households to the grid and off grid to increase the overall access to electricity to 62% from 49.6%;
- ✓ Finalization of the construction of two water treatment plants namely Kanzenze and Gihira in Bugesera and Rubavu districts respectively;
- ✓ Connecting 109 productive use areas to water including Industrial Parks, commercial centers, schools and Health Centers among others;
- ✓ Undertake construction of Kigali Centralized Sewerage System phase 1;
- ✓ Start the construction of 4 Faecal Sludge Treatment Plants and modern landfills in Musanze, Rubavu, Rusizi and Karongi Districts;
- ✓ Constructing and upgrading the IDP model villages;
- ✓ Implementation of the Digital Ambassadors Program (DAP) targeting 1 million citizens in 2019/2020.

V.3. Allocation on Transformational Governance Pillar

The overarching goal for the Transformational Governance Pillar is to consolidate Good Governance and Justice as, building blocks for equitable and sustainable National Development. This will be achieved through the following objectives:

1. Consolidate values and unity of Rwandans, committed to a self-reliant and peaceful Rwanda
2. Strengthen partnerships between Government, private sector, citizens, NGOs and FBOs to fast track national development and people cantered prosperity
3. Strengthen capable and responsible public institutions committed to citizens' advancement and efficient service delivery
4. Strengthen foreign policy that is driven by economic diplomacy, regional cooperation/Integration and Pan Africanism,
5. Strengthen capacity of security institutions/organs to preserve national security and protect Rwandans, as well as actively participate in socio-economic development of the Nation.

The table below shows the allocation of resources key sectors under the Transformational Governance Pillar for 2019/2020 and in the medium term:

Table 14: 2019/2020 and medium term allocation on Transformational Governance

Pillar	NST Sector	2019/2020 Budget	% Share	2020/2021 Proj.	% Share	2021/2022 Proj.	% Share
03	**Transformational Governance**	**457,777,376,550**	**15.9%**	**513,301,861,139**	**15.9%**	**543,680,626,698**	**15.0%**
	07 Information Communication Technology (ICT)	24,883,020,347		32,196,391,398		33,327,408,687	
	13 Governance and Decentralization	165,182,613,905		179,714,798,116		197,947,016,688	
	14 Justice, Reconciliation, Law and Order (JRLO)	267,711,742,298		301,390,671,625		312,406,201,323	

V.3.1. Reinforcing Rwandan culture and values

The following interventions and projects were prioritized in 2019/2020 to strengthen Rwanda's peace and unity:

- ✓ Organizing activities of Itorero at different levels (Indangamirwa, Urunana rw'Urungano, Intagamburuzwa);
- ✓ Construction of the National Liberation Museum at Mulindi;
- ✓ Upgrading the National Heroes Museum at Remera;
- ✓ Continue the extension and upgrade of the National Ubutore Development Center located in Nkumba;
- ✓ Complete the construction of Nyamagabe Rehabilitation Center;
- ✓ Construction of Gitagata Girls Rehabilitation Center and Iwawa rehabilitation centre
- ✓ Rehabilitation of 7,000 delinquents and among them 5,200 will be provided with vocational training skills.

V.3.2. Safety and Security of citizens and property

To strengthen the capacity of all security and crime prevention organs, the following interventions and projects have been prioritized:

- ✓ Construction of Automated Driving License Testing Center for better service delivery;
- ✓ Acquisition of new fire fighting trucks;
- ✓ On-going Construction of National Intelligence Academy;
- ✓ Rehabilitation of 25 Police and RIB stations;
- ✓ Construction of Rwanda Correction Service (RCS) training School.

- **V.3.3. Strengthening diplomatic and international cooperation**

International cooperation and diplomatic relations will be promoted trough the following key interventions:

- ✓ Provision of necessary facilities for the preparation of CHOGM (Common Wealth Heads of Government Meeting);
- ✓ Rehabilitation and renovation of embassy infrastructure (i.e. Rwanda Chancery in Brussels);
- ✓ Contributions to regional and international organizations;
- ✓ Supporting Peace Keeping Operation missions;
- ✓ Promoting unity and reconciliation programmes as well as Homegrown Solutions among Rwandans living abroad.

V.3.4. Strengthening Justice, Law and Order

Resources allocation has prioritized the following interventions and projects:

- ✓ Construction of Second Phase of the ILPD building;
- ✓ Digitalization and Conservation of Gacaca Records;
- ✓ Rehabilitation of Nyange, Ntarama and Murambi Genocide memorial sites;
- ✓ Continuing support to MAJ services and ABUNZI committees;
- ✓ Implementation of court restructuring to address the issue of case backlog in courts;
- ✓ Implementation of smart NPPA system;
- ✓ Strengthen measures to trace, investigate and prosecute Genocide fugitives domestically and abroad;
- ✓ Implementation of Rwanda Law Revision project with a target of revising 50% of the identified laws & international legal instruments (1,445);
- ✓ Construction of Prisons including Rubavu Prison phase III, Completion of on-going blocks at Mageragere and Nyamagabe Prison.

V.3.5. Strengthening Capacity, Service delivery and Accountability of public Institutions

Service delivery and accountability will be strengthened through the following interventions in 2019/2020:

- ✓ Improving service delivery across government through online portals (IREMBO) and ensuring full operationalization of the Service Access Points;
- ✓ Development of Civil Registration and Vital Statistics into an integrated and centralized system to register birth, death, Marriage, and Divorce events among others at their respective point of services;
- ✓ Enhancing the quality of service delivery through "***Nk'Uwikorera***" campaign and campaign on "***Byikorere***" to increase the use of online services and the provision of quality Government services to citizens;
- ✓ Decentralization of e-Citizens complaints tracking platform at sector level;
- ✓ Strengthening the Public Finance Management by conducting PFM assessments in Non-Budget Agencies (NBAs).

V.3.6. Citizens' participation, engagement and partnerships in development

To promote the citizen's participation and engagement, the following interventions have been prioritized:

- ✓ Strengthen Government partnership with CSOs and Faith Based Organizations for enhanced implementation of government programs;
- ✓ Documentation and promotion of Home Grown Solutions through operationalization of the Home Grown Solutions digital platform;
- ✓ Implementation of local community projects through Umuganda;
- Operationalization of the Cell Development Committee.

POLICY ISSUES FOR CONSIDERATION

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

i. Policy measures for recurrent spending and wage bill containment

The Government has approved an ambitious development process to drive the country to middle Income status over the medium term. To achieve this objective, the Government needs to prioritise its investment in development projects, which through their multiplier effects, contribute to the development of the country. The Government will continue to contain recurrent spending while increasing development budget. Much as institutions require means to operate, innovative delivery modes like leveraging on ICT facilities (electronic communication, Video Conference Facilities, E-Procurement, etc.,), are expected to provide significant savings on recurrent spending of Public Institutions. The Government will also continue to restructure the public institutions to make them more efficient without increasing recurrent spending or even making some savings overall.

VII. POSSIBLE DOWNSIDE RISKS TO ECONOMIC PERFORMANCE AND BUDGET IMPLEMENTATION

The 2019/20 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 markets and developing economies, will be mainly on a possible escalation of trade tensions, slowdown in economic activity in China and financial conditions next year.

Trade tensions between US, China and some other advanced economies are partly responsible for the slowing global demand, and the slower growth of China, leading to a reduction in commodity prices and exports of the region. These increasing trade tensions combined with slower growth in China and lower demand for Sub-Saharan Africa's (SSA) commodity exports, and tighter global financial conditions could lower growth in SSA by 2 percentage points in 2019 (IMF, Regional Economic Outlook, April 2019). China is SSA's main trading partner with 20 percent of total trade. Some estimates indicate that, in a year, a 1 percent reduction in industrial production in China would lead to a 5-7 percent drop in metals and fuel prices.

Other potential risks that could impact our domestic economy performance are:

- Bad weather conditions affecting agriculture production: Agriculture still represents around 30 percent of Rwanda's GDP, and despite efforts put in place to be more climate resilient, our agriculture production still depends on weather conditions.
- Higher than expected inflation from imported products following increased transport costs due to increase in oil and recent development in the East African region. Despite our inflation being currently very low and conservatism around inflation projections, a shock on prices, especially for imported products could spill over and impact inflation.

VIII. CONCLUSION

The budget framework for 2019/2020 fiscal year and the medium term reflects the current economic situation in Rwanda, opportunities and threats in the region and global outlook. The resource allocation is in line with NST1, which is expected to contribute towards attaining NST1 objectives.

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

However, public expenditure levels alone will not be sufficient to generate the required transformation expected in NST1. The Government recognizes the role of private sector towards the achievement of NST1 targets and much effort will be invested in various programmes and projects aimed at harnessing the private sector potential for an accelerated growth, "*Made in Rwanda*" being one of them. Thus public expenditure will then be supported by contribution from a dynamic private sector.

ANNEXES

1. Annex I: Explanatory Note to the BFP 2019/20-2021/22
2. Annex II: Basic Macro Indicators 2011-2022
3. Annex III: Fiscal Projections for 2019/20-2021/22
4. Annex IV: NST1 Sector Shares 2019/20-2021/22
5. Annex V: Budget execution tables for 2018/19
6. Annex VI: External borrowing and loan servicing projections
7. Annex VII: Domestic borrowing and loan servicing projections
8. Annex VIII: Public Enterprises Revenues and Expenditure Projections
9. Annex IX: Summarized CG Transfers to Districts for 2019/20-2021/22
10. Annex X: Consolidated Districts Revenues and Expenditures for 2019/20-2021/22
11. Annex XI: Block grant allocation table for 2019/20
12. Annex XII: Earmarked Transfers Guidelines for 2019/20 fiscal year
13. Annex XIII: Consolidated Gender Budget Statements
14. Annex XIV: Medium Term Debt Strategy