International Monetary Fund

Rwanda and the IMF

Press Release:
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April 13, 2005

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

March 25, 2005

Kigali, March 25, 2005

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Rato:

After having successfully devoted our efforts to achieve a broad-based recovery from the devastating genocide in 1994, Rwanda is now focusing on the implementation of an ambitious agenda to enhance the growth potential of our economy and reduce poverty, with a view to achieving middle-income status by 2020. Based on our PRSP, which was adopted in 2002 after consultation with all stakeholders of society, and the two annual progress reports, we intend to pursue strong policies to raise productivity, particularly in the agriculture, infrastructure, and export sectors, which we believe will be key to raising the living standards of Rwandese.

Being aware of the importance of regional peace for the economic development of the Great Lakes region, the Government of Rwanda (GoR) is determined to continue contributing to peace building efforts in the region, in cooperation with regional partners, the African Union, and the United Nations Organization, as demonstrated in our participation in the Great Lakes Summit in Dar es Salaam and successive meetings of the African Union in Gabon and Abuja. Performance under the PRGF arrangement strengthened considerably in 2004. All quantitative performance criteria and indicative targets for end-June were met, with the exception of the performance criterion on priority spending. The latter was affected by a temporary spending restraint following a delay in external disbursements. But as the release of disbursements since then has allowed priority spending to reach the programmed level (excluding contingency spending, which we used to address the electricity crisis) and the nonobservance was of a temporary nature, we are requesting a waiver for the nonobservance of the quantitative PCs on priority spending for end-June 2004. Moreover, as the submission of the revised 2004 budget was delayed by two weeks, we are also requesting a waiver for the nonobservance of the related end-June structural performance criterion as the nonobservance was temporary.

In support of our policies described in the attached Memorandum of Economic and Financial Policies (MEFP), the GoR requests the completion of the fourth review under the PRGF arrangement and the disbursement of the fifth loan in an amount equivalent to SDR 0.571 million. It also requests an extension of the current PRGF arrangement to February 11, 2006 to allow for the disbursement of the rephased amounts.

With the completion of the fourth review under the PRGF arrangement, the GoR expects to reach the completion point under the Enhanced HIPC Initiative. Moreover, since there was a large deterioration in the NPV of external debt to exports ratio since the decision point due to a fundamental change in Rwanda's economic circumstances caused by exogenous factors, the GoR intends to request additional topping up from its creditors.

The GoR believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but we stand ready to take any further measures that may become appropriate for this purpose. Rwanda will consult with the Fund on the adoption of these measures and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Sincerely yours,

/s /	/s/
François Kanimba Governor National Bank of Rwanda	Donald Kaberuka Minister of Finance and Economic Planning

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies of the Government of Rwanda

March 25, 2005

I. Introduction

1. **Rwanda's medium-term economic program is supported by a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) covering the period 2002–05.** The implementation of its poverty reduction strategy is receiving broad-based support from the international community. Consistent with the goals established in the poverty reduction strategy paper (PRSP) and recommendations in two progress reports, this memorandum summarizes the broad economic objectives for the medium term and updates the macroeconomic framework and structural agenda for 2005. Subject to satisfactory performance, we hope that Rwanda will attain the completion point under the Enhanced HIPC Initiative by the beginning of April.

II. Program Performance During 2004

2. **Economic performance improved in 2004, but was adversely affected by exogenous shocks.** Real GDP growth is estimated to have recovered to about 4 percent in 2004, driven by construction, transport, and communication. However, growth in the other parts of the formal sector is estimated to have been weak because of an electricity shortage and increasing energy prices. Moreover, despite an increase in export crops, agricultural production remained flat. Higher energy and food prices raised annual inflation to 10.2 percent at end-December, but underlying inflation remained stable.

3. **While the domestic fiscal balance in 2004 remained broadly at its 2003 level, fiscal policy shifted toward priority spending and capital investments.** The revenue ratio rose to 14 percent of GDP, as the adverse impact on direct taxes from corporate losses due to higher oil prices and electricity shortages was more than offset by an increase in indirect taxes and one-off nontax revenue. Priority spending (including investment in the electricity sector) and capital spending increased by 1.5 percent of GDP, and 2.9 percent of GDP, respectively. This was made possible by a large reduction in exceptional spending mostly related to the 2003 elections and demobilization spending. To address the electricity crisis, the government transferred to Electrogaz about one percent of GDP in December 2004 to purchase additional generators and accessories, and rehabilitate the network.

4. **The 2004 external current account deficit (excluding official transfers) narrowed to 18 percent of GDP.** A good coffee harvest and a strong pick-up in tin and coltan exports raised the value of merchandise exports by 54 percent. This was, however, offset by a 13 percent increase in the value of imports, because of strong demand for fuel as well as food and other consumption goods. including pharmaceuticals. Large donor inflows not only financed the current account deficit, but also allowed for a significant accumulation of international reserves of about US$100 million, raising the reserve cover to 5.8 months of imports from 5.0 months at end-2003. Reflecting these developments, the Rwandan franc

appreciated slightly against the U.S. dollar, and the real exchange rate appreciated by about 8 percent for end-2004.

5. **The National Bank of Rwanda (NBR) kept reserve money growth close to agreed ceilings.** Total bank deposits grew by 11 percent in 2004, mainly because of deposits made by Electrogaz in December 2004. As a result, broad money growth was slightly higher than anticipated. At the same time, credit to the private sector is estimated to have grown by about 11 percent (or remained unchanged in real terms). Lending was restrained for several reasons, including continuing balance sheet weaknesses in some of the commercial banks and the restoration of reserve requirements by all but one bank. The NBR implemented a set of safeguards recommendations and extended the maximum weekly variation in the fixing of the exchange rate, as a step toward increased exchange rate flexibility.

6. **The pace of structural reforms accelerated:**

- In the financial sector, the five commercial banks, with which the NBR had agreed on action plans in June 2004 to bring them into compliance with prudential requirements, have met all requirements at end-2004; there is only one bank that is not complying with some requirements.[1] Foreign investors bought the majority shares in two commercial banks. Moreover, an external auditor completed the audit of the NBR's 2003 financial statements in August 2004.

- The streamlining of the tax system continued with the submission to the Parliament in September 2004 of a revised investment code, a new tax procedures code, and a draft income tax law. The latter eliminates ad hoc exemptions, lowers the tax rates, and provides for tax holidays in the exporting processing zone and free trade zones.[2]

- The Rwanda Revenue Authority (RRA) was reinforced. A Large Taxpayer Department (LTD) and an Internal Revenue Department (IRD) replaced the former VAT and income tax departments. There have also been efforts to modernize customs administration with the launch of the ASYCUDA++ IT system in the two main customs offices, the termination of Pre-Shipment Inspection (PSI) services and the submission of a new customs code to Parliament in September 2004.

- The improvement of public financial management continued. A major overhaul of the legal framework was undertaken with the submission to parliament of a procurement code and the organic budget law, and the approval by Cabinet of the financial regulations supporting the budget law in September 2004. Moreover, a Treasury Management Committee (TMC) was created to coordinate central government

[1] The bank is in breach of two regulations: (i) lending to parties related to the bank's owners; and (ii) the ratio of fixed immobile assets relative to equity capital.

[2] These three laws are expected to be adopted in early 2005.

financial operations in collaboration with the central bank and the RRA. At the same time, the Treasury Department created a cash management unit (CMU) to improve cashflow projections and the Budget Department established a fiscal unit to consolidate budgets for districts and autonomous agencies, and the collection of extrabudgetary fees and charges. To enhance transparency, the Auditor General published the report on 2002 government operations and transmitted the report on 2003 government operations to Parliament.

- In September, Cabinet approved an export promotion strategy and also created an Export Promotion Commission that reports to Cabinet. In addition, the Rwanda Investment Promotion Agency (RIPA) was restructured to become the Rwanda Investment and Export Promotion Agency (RIEPA), to serve as a focal point to coordinate the decentralized implementation of the strategy. Action plans for key sectors of the strategy, including coffee, tea, and tourism, are currently being designed.

- A reform strategy for the civil service has been implemented at the central government level, including: (i) Cabinet approval of a new administrative structure, designed to improve administrative efficiency and move toward decentralization; (ii) a new pay structure; and (iii) the identification of staff to be retrenched (504) or redeployed (150) in the central administration.

7. **The government continued to limit the use of highly concessional loans to finance its development efforts and Rwanda's external debt stock increased to US$1.7 billion at end-2004. However, due to higher US$ GDP growth, the debt stock as a ratio of GDP is expected to remain broadly at the 2003 level of 93 percent.** We have taken the following actions to improve our debt situation:

- In June 2004, the Government repaid in full guarantees for a nonconcessional foreign loan issued in August 2003 in connection with a major hotel project.

- The Government signed a new loan with the Arab Bank for African Development (BADEA), bringing a joint financing package from BADEA and the OPEC Fund above the—previously missed—concessionality threshold of 50 percent, which is stipulated in the PRGF arrangement as a continuous performance criterion.

- Rwanda's Paris Club creditors offered an extension of the consolidation period on the basis of Cologne terms to June 30, 2005, and the Government continued its efforts to reach agreements on debt cancellations or reschedulings with the remaining Paris Club and non-Paris Club creditors.[3]

[3] Paris Club creditors agreed to extend the deadline for reaching bilateral agreements through March 31, 2005. Regarding the group of non-Paris Club creditors, agreements are still outstanding with the Abu Dhabi Fund, and Libya. In addition, the government intends to secure additional debt relief from the Kuwait Fund, the People's Republic of China, and the Saudi Fund at the time of the completion point under the enhanced HIPC Initiative.

8. **In terms of the fourth review under the PRGF arrangement, all but three performance criteria were observed.** The quantitative performance criterion on priority expenditures was missed by 0.2 percent of GDP by end-June 2004, when spending was restrained in response to a temporary delay in donor disbursements. The continuous performance criterion on the nonaccumulation of external arrears was missed, but the payments have been made in July 2004. The revised 2004 budget was submitted a few weeks later than expected in July and as a result, the related structural performance criterion was missed. One structural benchmark relating to the Cabinet approval of the export promotion strategy was met. Implementation of two other structural benchmarks were delayed: the agreement with banks on action plans to bring them into compliance with regulatory provisions, and the completion of an audit of the 2003 NBR financial statements.

III. The Medium-Term Strategy

9. Rwanda aims at achieving a large increase in per capita income to make a sizable dent in poverty. Despite significant progress during the last decade, about two thirds of Rwandans still live in poverty. In recognition of this challenge, the government has developed the Vision 2020 long-term strategy document, which targets middle-income status by 2020 as the key long-term economic policy objective for Rwanda. Our efforts to enhance growth will be accompanied by projects to support the attainment of the Millennium Development Goals (MDGs) and improve living conditions in the country, in particular for the poorest members of society.

10. **To strengthen real growth over the medium term, the government is determined to swiftly implement the sectoral policies outlined in the PRSP.** In close cooperation with our external partners, the government has formulated productivity-enhancing strategies in key sectors including agriculture, energy, water, health, and education. Given the early stage of strategy implementation in many sectors, a subdued growth performance in the 2003–04 period, as well as volatile commodity prices, the government acknowledges that macroeconomic policies for the 2005–07 period must be based on achievable but prudent growth estimates.

11. **Our policies will have to be geared toward managing the large inflows of external development aid.** Macroeconomic stability as evidenced, in particular, by a low and predictable rate of inflation and a prudent level of central bank international reserves, will remain a priority to provide the basis for sustainable high economic growth. Efforts to strengthen administrative capacity, particularly in the area of public expenditure management, will need to continue to ensure an efficient allocation of public resources in line with recommendations in the PRSP. To offset the potential negative impact of a real exchange rate appreciation on the profitability of the tradable goods sector, it will be crucial to implement productivity-enhancing policies that remove structural bottlenecks, improve infrastructure, and reduce rents in the production process.

12. **The impact of new, donor-financed spending programs on fiscal and external sustainability needs to be closely monitored.** In this regard, we are committed to

developing our domestic revenue base, with the aim of reducing, in the longer term, the country's dependence on external financing. To make the impact of current spending decisions on future fiscal sustainability more transparent and improve budget planning, we are in the process of developing a medium-term fiscal framework. We also acknowledge the need to develop our export base and strictly limit new borrowing, even on highly concessional terms, to the minimum possible to prevent a further worsening of our external debt situation. In this regard, we will continue our efforts to mobilize more grants from development partners.

13. **The cornerstone for Rwanda to improve external debt sustainability is to reach the Completion Point under the Enhanced HIPC Initiative in early 2005.** With a strong implementation of the current PRGF-supported macroeconomic program and all of the other floating completion point triggers being substantially met, the government is confident to reach this critical objective, which would trigger substantial debt relief from Rwanda's external creditors committed at the time of the decision point.[4] To this aim, the country's creditors have been contacted to confirm their participation in the completion point debt operation, and an updated debt sustainability analysis was conducted in cooperation with Debt Relief International. Given that Rwanda's NPV of debt-to-exports ratio is projected to remain substantially above the HIPC Initiative's 150 percent threshold even after full delivery of the debt relief committed at the decision point, and that most of the change in the NPV of debt-to-exports ratio since end-2000 is likely to have been caused by a fundamental change in Rwanda's economic circumstances due to exogenous factors, the government intends to request additional topping up from its creditors.

IV. THE PROGRAM FOR 2005

14. **The 2005 program will preserve macroeconomic stability while advancing the medium-term agenda to foster strong and sustainable growth.** The policy framework is based on five pillars: (i) improving the quality of spending by increasing spending in priority areas to strengthen Rwanda's growth potential and reduce poverty; (ii) further improving the public finances by reinforcing expenditure management and tax administration as well as implementing civil service reform; (iii) raising Rwanda's export base by addressing vulnerabilities in the sector; (iv) supporting private sector growth by strengthening the financial sector and progressing in land reform; and (v) reducing the role of government in the economy by privatizing public enterprises.

15. **The government's macroeconomic objectives for 2005** are to sustain GDP growth at 4-5 percent; reduce end-year inflation to 6 percent, including an impulse of 2 percent from increased electricity tariffs; and maintain gross international reserves equivalent to at least 4.8 months of imports.

[4] Rwanda's decision point document shows that, on the basis of end-1999 parameters, debt relief of about US$452 million in NPV terms would be necessary to bring the end-1999 NPV of debt-to-exports ratio down to the HIPC Initiative's threshold of 150 percent.

A. Macroeconomic Policies

Fiscal policy

	2004	2005
Revenue and grants	25.9	25.9
Revenue	13.9	14.0
Grants	12.0	11.9
Total Expenditure and net lending	26.1	26.7
Domestic fiscal balance (excluding contigency expenditures) 1/	-5.3	-4.5
Contingent expenditure	0.0	2.0
Domestic fiscal balance (including contingent expenditures) 1/	-5.3	-6.5

Source: Authorities' data and IMF estimates.

1/ The domestic fiscal balance excludes demobilization expenditures.

16. **The fiscal program aims to reprioritize spending to strengthen growth and reduce poverty.** While the program maintains the revenue-to-GDP ratio at its 2004 level, priority spending (including spending for the electricity sector) is expected to grow by at least about 1 percent of GDP, financed from external budgetary assistance and cuts in nonessential spending. The domestic fiscal deficit (excluding demobilization spending) is projected to fall to 4.5 percent of GDP from 5.3 percent of GDP in 2004. However, it would be adjusted upward by up to 2 percent of GDP to allow additional spending contingent on additional grant financing and reserve money growth remaining in line with program limits. The contingency would be released in equal amounts for priority and nonessential spending. The Minister of Finance has made a press statement on February 25 in line with these understandings, indicating that the changes to the budget would be done during the June Budget Revisions.

17. **The revenue ratio is expected to stay at 14 percent of GDP.** Revenue from oil related taxes is expected to increase from diesel imports for the new generators and the adjustment of the reference price used for oil taxation purposes to its 2003 level. This will offset the revenue loss from a reduction in direct taxes and duties on imported raw material. Reforms to strengthen revenue administration will continue, in particular with a view to widening the tax net and making it more equitable:

a. Efforts to realize efficiency gains in tax administration will continue, centering on the new Large Taxpayers Department (LTD) responsible for about three quarters of domestic tax revenue. To this aim, clear criteria for the inclusion of taxpayers into the LTD have been defined; self-assessment will be introduced upon approval of the income tax law; the new SIGTAS computer system will be launched in March 2005; and 25 risk-based comprehensive audits (i.e., including all taxes) of large businesses will be completed in the LTD in January–April 2005 (structural benchmark). A feasibility study is being conducted with a view to integrate the LTD and IRD under a single responsibility and strengthen the links between tax and customs administration by establishing either a single operational policy unit serving both departments or separate units within the departments by end-March 2006.

b. To broaden the tax base, an action plan to reduce tax incentives, including tax holidays, and exemptions will be submitted to Cabinet by end-September 2005. This plan will be based on a comprehensive review of such tax breaks, undertaken in 2004 with support of DFID, and supported by a new monitoring and monthly reporting system for tax incentives and exemptions introduced in September 2004.

18. **The expenditure program aims at increasing the share of priority spending within the overall expenditure envelope.** Even including the contingency, nonpriority spending will decline by 0.6 percent of GDP compared with 2004. A payment to honor a government guarantee linked to a large hotel project (1/3 percent of GDP),[5] and outlays on peace keeping (0.3 percent of GDP),[6] opening of embassies (0.1 percent of GDP), the recapitalization of a housing bank (0.1 percent of GDP), and a temporary fuel subsidy (0.4 percent of GDP; see para. 22) will be more than offset by cuts in net lending and goods and services spending for some ministries. At the same time, priority spending will increase by 0.8–1.7 percent of GDP, depending on whether the contingency can be released.[7] Priority spending will focus in particular on education, health, electricity, and water. The budget for 2005 also includes 0.6 percent of GDP in arrears repayments to the private sector and the Caisse Sociale du Rwanda (CRS), as part of a medium-term repayment plan based on an audit by the Auditor General's office.

19. **The continued strengthening of public expenditure management remains a priority to ensure a transparent and efficient execution of the spending program**. At the core of the agenda is the implementation of the new organic budget law and the associated financial regulations. In particular, the focus in 2005 will be on actions to improve accounting and reporting of government operations, to be implemented with assistance from our development partners:

a. **Domestic borrowing requirement**. In order to better monitor the full domestic borrowing requirement of the central government, the definition of net domestic financing of the government will be extended to include sales of Treasury bills to the nonbank sector, but to exclude project accounts, which are not under the control of the central government.

b. **Improved accounting critically hinges on systematic reconciliation.** To this aim, a framework for the regular reconciliation between banking and accounting data will be

[5] About 2/3 percent of GDP of the remaining government guarantees related to the hotel project have been rolled over into 2007 and 2008 through restructuring agreements signed in March 2005.

[6] To monitor the costs associated with the peace keeping activities, the Auditor General will conduct an audit of these expenditures that will be published by end-March 2006.

[7] While the PRSP had identified electricity as a priority sector, the definition of priority spending in 2004 had excluded spending in this sector. The definition of priority spending in 2005 has been revised to include such spending in line with our development priorities that call for major investment in power generation to overcome the current electricity crisis and provide a basis for strong output growth in Rwanda (see paragraph 21).

implemented,[8] calling for the regular publication with no more than one month lag of monthly reconciliation statements by (i) the Treasury for the main treasury account at the NBR; (ii) the Rwanda Revenue Authority for its revenue collection accounts and transit accounts; (iii) line ministries for their bank accounts for cash-based operations; and (iv) provinces, autonomous agencies, and extra-budgetary funds for their accounts (end-December 2005 benchmark for the publication of the November reconciliation statement).

c. **Reporting practices will be strengthened in line with the provisions in the new organic budget law.** The government will make the timely production of consolidated annual accounts for 2004, as well as their audit by the Auditor General by end-June 2005, a priority. In addition, we will (i) implement monthly reporting from line ministries on donor funded expenditure (in particular AfDB, EU, DFID, and the World Bank); (ii) establish an inventory of all extra-budgetary resources; (iii) report on a monthly basis financial operations by autonomous agencies and extra-budgetary funds; and (iv) consolidate district fiscal reports by the Ministry of Finance. In particular, a consolidated general government fiscal report (covering the central government, including project accounts, provinces, at least 70 percent of the districts, autonomous agencies and extra-budgetary funds) will be prepared on a quarterly basis starting in December 2005 (benchmark on the basis of September data). These improvements will be facilitated by the implementation of the SIBET II computer system in 2005.

d. **Budget presentation.** Budget documentation for the 2005 supplementary budget and the 2006 budget, will include all the statements that were expected to be annexed to the 2005 budget with the exception of a comprehensive inventory of assets and liabilities. As a pilot, we will complete the inventory of physical assets of at least two line ministries, one province, and two districts by end-December 2005.

e. **The cashflow planning exercise and the Treasury Single Account (TSA) will be introduced in 2005 to improve treasury operations.** As a first step, 80 percent of line ministries' accounts (except for the bank accounts for donor-financed projects) will be converted into zero-balance accounts by end-May 2005 (benchmark), followed by a conversion of all accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies into zero-balance accounts by end-September (performance criterion). These accounts will be integrated in the TSA by end-December 2005 (benchmark). This should be extended to semi-autonomous agencies and possibly to some externally-funded project accounts in 2006.

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[8] The Public Accounts Department has prepared instructions for routine reconciliation. In this regard, the Treasury and the Rwanda Revenue Authority has started publishing reconciliation statements for their accounts in March 2005.

f. **Better integration of the recurrent and development budgets will be pursued** and the unit in charge of the development budget preparation in CEPEX will be integrated in the budget department of the Ministry of Finance by June 2005.

20. **Civil service reform will continue at the central government level, and be further rolled out to provinces and parastatals.** A new pay structure is expected to be implemented in 2005, which will simplify the old pay structure and integrate benefits into the base pay. The 2005 budget includes retrenchment costs of RF 0.5 billion and an additional RF 1 billion for the design of training courses, the funding of income-generating activities for redeployed public servants, and the provision of scholarships for staff in retraining.

21. **With a view to resolving the energy crisis, the government will provide funds for the installation of additional generator capacity and the rehabilitation of the electricity network**. The electricity sector is key for growth as it will have spillover effects to other sectors, particularly agriculture, export promotion, and private sector development. The increased electricity supply will allow farmers to employ more modern technologies, and improve the capacity of production in tea and coffee factories, but also facilitate an expansion of the manufacturing sector. Proposed actions for 2005–07 are (i) the rehabilitation of Electrogaz' infrastructure; (ii) acquisition of additional diesel-fueled generators; (iii) construction of micro-dams; and (iv) the implementation of programs generating alternative energy sources (e.g., biogas). Our efforts in this sector will be complemented by a World Bank emergency energy loan of US$25 million, augmented by US$6 million in grant financing from the Nordic Fund.

22. **In March 2005, we signed a contract with a foreign consortium to extract methane gas from Lake Kivu, and to convert the gas for electrical power generation.** For 2005, the project will involve costs of Euro 5.1 million (0.3 percent of GDP) for the purchase of an equity share of 30 percent in the company and about 0.1 percent of GDP for transmission lines. These costs have been included in priority spending in the electricity sector. Over 2006–08, the government will lend an additional Euro 14.6 million to the gas extraction company. Moreover, the government will finance a letter of credit of Euro 2.7 million and provide a guarantee to the company for a minimum commitment to purchase of Euro 10.7 million. Thus, the maximum government cost for the project (excluding transmission line spending in 2005) is limited to Euro 33.1 million (or 2½ percent of 2005 GDP). The contract does not involve any other costs to the government, including contingent liabilities. In particular, as the program sets limits on the contracting or guaranteeing of new public nonconcessional external debt, this project will not involve any such financing, including in the form of government guarantees. The medium-term fiscal implications will be covered by the next review in close cooperation with World Bank staff. Moreover, to improve the financing prospects of the project, we have requested a partial risk guarantee from the World Bank and are also seeking the participation of the International Finance Corporation. We will only go forward with this project after securing such a risk guarantee either by the World Bank or another development agency.

23. **To avoid quasi-fiscal losses, we have raised the electricity tariff to cover the additional costs associated with the relatively expensive petroleum-based production technology (including petroleum taxes).** The new tariff of RF 82 per kWh envisages quarterly adjustments to reflect changes in the cost of diesel purchases by Electrogaz. This adjustment mechanism is needed to take into account the effect of both changes in international oil prices and rising fuel demand for electricity generation on Electrogaz' operating costs. As the tariff does not cover Electrogaz' payments for taxes related to the fuel imports, a temporary fuel subsidy has been included in the budget. We will gradually increase the tariff further with a view to reaching full cost-recovery with the time table to be decided in cooperation with the World Bank at the time of the next review. The tariff will be restructured to allow some cross-subsidization of the poorer segments of the population.

Monetary policy

24. **The NBR will continue to use broad money as the nominal anchor to control inflation, with reserve money as the operational target.** To reduce headline inflation to 6 percent, it will limit year-end reserve money growth to 12 percent, slightly less that in 2004. Projections indicate that this would allow broad money and extended broad money to grow by 5½ percent and create room for an expansion of credit to the private sector by 12 percent.[9] The NBR will monitor inflation developments carefully and stand ready to tighten the stance should new inflationary pressures emerge, while aiming at gross international reserves of at least US$264 million by end-2005. At the same time, it will monitor developments in money demand to assess whether the unusual rise in currency in circulation observed in 2004 will persist in 2005. Starting in 2006, the NBR will target the extended broad money aggregate including deposits of the Union de Banques Populaires de Rwanda (UBPR) for its monetary program.

25. **Consistent with the use of reserve money as the operational target, the exchange rate of the Rwandan franc will remain market-determined.** With gross international reserves at a comfortable level, the NBR will step up market sales of foreign exchange as necessary. Sterilization of government spending through foreign exchange sales could result in some nominal exchange rate appreciation, which would help to keep the inflation objective under the program. To improve the operation of the foreign exchange auctions, we have increased the variation in the margin by which the exchange rate can vary from the previous day's exchange rate to +/-RF 5 and will finalize a study by end-March 2005 on ways to further increase flexibility.

External sector

26. **The external current account deficit, excluding current official transfers, is projected to widen to about 22 percent of GDP in 2005.** This partially reflects the

[9] Broad money at end-2004 includes foreign currency deposits of Rf 10 billion of Electrogaz, which will be drawn down in the course of 2005.

expectation of slightly lower merchandise export earnings compared to 2004, caused by a decline in unit prices for minerals and a return to more normal coffee export volumes after the exceptional 2004 performance.[10] However, the deficit is mainly a function of the substantially increased import bill. In particular, public capital goods imports are expected to increase to US$119 million, from US$52 million in 2004, reflecting investments in the electricity sector, delayed project spending for which we received grants in 2004, and other PRSP projects.

27. **The government is determined to implement its export promotion strategy (EPS) with strong short-term action plans in the strategic export sectors.** Being cognizant that the rollout of the EPS had been delayed in 2004, we will take steps to ensure the timely implementation of action plans, including in the coffee, tea, and tourism sectors. In particular, RIEPA will put into place a centralized mechanism to monitor the rollout of the EPS and prepare quarterly progress reports to the Cabinet and the Export Promotion Commission on the execution of action plans in key sectors covered by the EPS. The submission of the first report, covering progress through end-June is a structural benchmark for end-July 2005. An increased budget allocation for export promotion will allow for an acceleration of efforts at the sectoral level:

- In the coffee sector, OCIR-Café will reinforce training programs for coffee growers, introduce certification programs for organic and mountain coffee, and step up its marketing efforts to improve the presence of Rwandan coffee in high-priced niche markets. To ease the use of productivity-enhancing inputs, the Rwandan Development Bank (BRD) will increase funding for its working-capital facility aimed at cooperatives of coffee growers and washing station entrepreneurs.

- In the tea sector, the government will launch a second bidding round for the Mulindi tea factory and bring 4 of the remaining 7 tea estates to the point of sale, with a view to improve financing conditions in a sector that suffered from significant underinvestment in recent years.

- To further improve tourism services, the government will develop and enforce hotel standards and, in partnership with private operators, establish the Rwanda Tourism and Hospitality College for training. Moreover, private hotel projects aimed at increasing the number of accommodations are eligible for BRD financing facilities.

- Preparatory work (elaboration of a master plan and carrying out a feasibility study) for the establishment of the Export Processing Zone in Nyandungu is expected to be concluded by end-September 2005, with a view to start construction at end-2005.

[10] Shortage of inputs and limited infrastructure are expected to keep exports of fully washed coffee relatively flat at about 1,100 tons.

- In the mining sector, the Government will undertake, starting April 2005, a study on the mineral potentials of the country and the modernization of the legal framework. At the same time, RIEPA is expected to complete negotiations with a potential strategic investor for the restructuring of REDEMI (Régie de Mines—a Government mining company) by June 2005.

- An export diversification study will be presented to Cabinet by end-September 2005. This plan will particularly focus on ways to capture market potential in mining, horticulture, fruits, handicrafts, and the ICT sector.

  - The government will establish a Horticulture Board by end-June 2005 in partnership with the private sector. The Board will give support to horticulture farmers in providing seeds, marketing products and building capacity. In addition, MAGERWA (the Rwanda Warehousing Company) will start the construction of a Cold Storage Room at Kigali International Airport (Kanombe) to facilitate the export of flowers and other fresh export crops such as fruits and vegetables. A study on the development of the cut flowers industry will be finalized by end-July. An additional study on the expansion of pyrethrum cultivation to other provinces (Gisenyi, Kibuye and Byumba) is expected to be submitted to Cabinet at end-July.

  - To further develop the export of handicrafts products, especially baskets aimed at the external market, we will continue to organize basket weavers into cooperatives around Handicraft Centers. In this regard, four centers will be developed in 2005 mainly for training and the collection of baskets and other handicrafts products. In addition, the government intends to introduce a trade mark label for the Rwandan basket in order to enhance its marketability. Finally, handicraft operators will be given support to enable them to participate in international trade fairs.

28. **In addition, the PRSP update will address cross-cutting issues impeding export performance as identified by the Diagnostic Trade Integration Study (DTIS)**. The DTIS identified significant obstacles to trade in several areas, including transportation, customs administration, energy, water, infrastructure, and access to financing. We intend to use this analysis as an input to define, in cooperation with our development partners, specific actions to improve the business environment for exporters in Rwanda, which will be included in the action matrix of the PRSP update by mid 2005. The MEFP for the fifth review will provide an assessment of the progress made in this area, and, if possible, establish structural conditionality.

B. Structural Policies

29. **An important objective of the structural agenda for 2005 is to improve the climate for private sector activity**. In addition to the measures already described in the previous section, we will therefore continue our efforts to improve the health of the banking

sector, strengthen the legal framework for private business, and progress with our privatization program.

Financial sector reform

30. **Financial sector reform will help mobilize domestic resources for investment and growth**. One priority is to further strengthen prudential supervision of the banking sector and, increasingly important, nonbank institutions that provide rural areas with financial intermediation. In particular, we intend to put in place strong oversight procedures for the new financing facilities that are currently established at the Rwanda Development Bank (BRD). Using the findings of the recent FSAP mission, we intend to develop an action plan, which we will present in our MEFP for the fifth review. In particular, the recapitalization of the housing bank and the payment to banks of government guaranteed loans linked to the hotel project will happen only after assurances are in place that the banks' business plans are sound and/or action plans are in place to address their weaknesses.

Extending and enforcing reforms in the legal framework and institutions

31. **While substantial progress has been made in recent years, the Government continues to improve the environment for doing business in Rwanda**. In order to promote private/public sector partnership, the government has created the Permanent Private/Public Partnership Secretariat in the Ministry of Commerce (MINICOM). Within this framework, a national investment dialogue was held in February 2005 to develop an action plan to address obstacles to investment and an investment conference will be held in March 2005 to encourage joint ventures with foreign investors. Moreover, to develop an action plan for the manufacturing sector, the Government will, in consultation with the World Bank, conduct a study on the performance of the sector by September 2005.

32. **Land reform is critical to stimulate growth in rural areas and develop financial intermediation.** A new land law is being discussed in Parliament and is expected to be approved in 2005. With a land tenure system, farmers will be able to use their land as collateral and gain broader access to credit, including from micro-finance institutions and concessional lending facilities that are currently being established at the BRD. An important step of the reform will be the conduct of a national land survey to develop an accurate and complete database on land.

Privatization

33. **The role of the public sector in the economy will be further reduced by the privatization of several public enterprises.** In addition to the tea sector (see para. 26), we are currently evaluating the bids received for the privatization of Rwandatel, and intend to bring to the point of sale (i.e., invited interested parties to bid, evaluated bids, and started good faith negotiations) the parastatal before end-2005. Steps will also be intensified to prepare for the sale of Primeholdings' hotel projects. In particular, with a view to enhancing transparency about the hotels' profitability, a financial audit and business plan of Prime

Holdings prepared by a foreign-based international audit firm will be published by end-September 2005 (structural performance criterion).

V. PROGRAM MONITORING

34. **Prior actions.** The government will undertake a number of actions prior to the IMF Board meeting that considers the fourth review under the PRGF arrangement, in order to ensure a successful implementation of the economic program described in this memorandum. The prior actions are set out in Table 2 of the MEFP.

35. **Conditionality and program reviews.** Quantitative and structural performance criteria, indicative targets, and structural benchmarks through 2005 are set out in Tables 1 and 2. The fifth review under the PRGF arrangement will assess quantitative performance as of end-December 2004 and structural conditionality through end-March 2005. It will focus on financial sector reform, the medium-term implications of the Lake Kivu project, and structural conditionality related to progress with the export promotion strategy. The sixth review scheduled for completion by December 15, 2005 will review quantitative performance as of end-June 2005 and structural conditionality through end-September 2005.

36. **Technical memorandum of understanding (TMU).** The attached technical memorandum of understanding lays out the details of the program design and terminology. The government will make available to Fund staff all data as specified in the TMU.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks 2004-05
(In billions of Rwanda francs, unless otherwise indicated)

	2004				2005 1/			
	Mar.	Jun.**	Sep.*	Dec.**	Mar.*	Jun.**	Sep.*	Dec.**
	(Quantitative benchmarks*; and performance criteria on test dates**)							
Net foreign assets of the NBR (floor on stock) 2/								
Actual (program exchange rate)	67.6	70.2	76.0	125.4	...	...	...	...
Adjusted program	63.6	53.3	56.5	75.1	...	...	...	...
Program	65.0	55.4	64.5	62.3	109.5	108.3	103.5	101.6
Reserve money (ceiling on stock)								
Actual	50.2	51.7	54.1	56.0	...	...	...	...
Program	53.0	54.0	55.9	56.3	58.8	60.6	61.8	63.0
Net credit to the government by the banking system (ceiling on stock)								
Actual	8.3	2.3	-0.6	-30.7	...	...	...	...
Adjusted program	24.4	25.0	31.4	10.0	...	...	...	...
Program	24.4	25.0	18.1	22.8	...	...	...	...
Net credit to the government (ceiling) 3/								
Actual	...	...	...	...	...	...	...	...
Adjusted program	...	...	...	...	...	...	...	...
Program	...	...	...	...	1.9	-6.1	-5.2	-6.6
Domestic fiscal balance (floor on cumulative flow since Dec. 31)								
Actual	-2.1	-16.6	-31.9	-58.1	...	...	...	...
Adjusted program	-6.1	-26.4	-39.7	-69.0	...	...	...	...
Program	-9.8	-32.6	-54.0	-78.7	-12.4	-32.8	-48.4	-61.8
Total priority spending (floor on cumulative flow since Dec. 31)								
Actual	15.2	34.4	53.6	78.7	...	...	...	...
Program	14.9	37.5	62.5	88.2	23.8	55.6	81.8	109.2
New nonconcessional external debt (ceiling on flow) 4/								
Actual	3.0	0.0	0.0	0.0	...	...	...	...
Program	3.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 5/								
Actual	0.0	0.0	0.0	0.0	...	...	...	...
Program	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of outstanding nonreschedulable external arrears (ceiling on stock) 6/								
Actual	25.1	25.1	0.0	0.0	...	...	...	...
Program	25.1	25.1	0.0	0.0	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on cumulative net accumulation since Dec. 31)								
Actual	-7.4	-13.8	-14.8	-17.1	...	...	...	...
Adjusted program	-14.8	-13.0	-14.7	-17.0	...	...	...	...
Program	-11.2	-13.0	-14.7	-17.0	-3.3	-5.9	-6.2	-6.5
Broad money (ceiling on stock) 2/								
Actual	162.9	161.3	167.7	188.1	...	...	...	...
Program	171.6	177.1	178.9	185.4	190.0	192.5	195.4	198.3
Extended Broad money (ceiling on stock) 2/								
Actual	182.1	182.2	190.1	211.8	...	...	...	...
Program	193.8	200.0	202.0	208.8	213.9	216.7	220.0	223.2
Demobilization and reintegration expenditure								
Actual	0.3	1.7	2.5	3.4	...	...	...	...
Expected	3.5	7.5	9.9	12.6	2.2	4.4	6.6	8.8
Gross accumulated bills payable								
Actual	4.4	1.0	1.5	…	...	...	...	...
Expected	0.8	1.0	1.5	2.0	0.5	1.0	1.5	2.0
General budget support (in US$ million)								
Received	32.6	86.5	115.5	223.1	...	...	...	...
Expected	35.1	90.1	149.4	201.0	32.7	96.2	129.7	169.7
O*f which:* budget support grants (received)	32.4	64.2	70.8	161.7	...	...	...	...
O*f which:* budget support grants (expected)	35.1	70.1	109.4	156.0	32.7	77.2	110.7	150.7

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

1/ Proposed.
2/ Evaluated at the following program exchange rates: For 2004: RF 580.3/US$; for 2005: RF 566.9/US$.
3/ Numbers are cumulative from end-December 2004.
4/ Figures are in US$ dollars. A US$5 million OPEC Fund loan to cofinance, jointly with BADEA, the rehabilitation of three hydroelectric projects, with a grant element of less than 50 percent, was reduced to US$3 million in March 2004.
5/ Ceiling on oustanding stock of external debt (excluding normal import-related credits) owed or guraranteed by the central government, local government, or the NBR with original maturity of up to, and including, one year. Figures in millions of U.S. dollars.
6/ Figures are in thousand US$ dollars. Arrears were accumulated with BADEA in the fourth quarter of 2003; they were repaid in July 2004. This is a continuous performance criterion, implying that the stock of outstanding nonreschedulable external arrears is expected to be constantly kept at zero throughout the program period.

Table 2. Rwanda: Structural Conditionality for 2005

Public Expenditure Management		
Issue draft instructions by the Public Accounts Department for routine reconciliation, and publish December reconciliation statement for the Treasury and the Rwanda Revenue Authority accounts		Prior action
Minister of Finance to give press statement on fiscal program, outlining the changes to the 2005 budget		Prior action
Complete restructuring agreements with all banks on Prime Holdings' government guaranteed loans		Prior action
Convert 80 percent of bank accounts of line ministries (except for the bank accounts for donor-financed projects) into zero-balance accounts (i.e., at the end of each day, remaining balances are transferred back to the main treasury account)	End-May 2005	Benchmark
Convert all bank accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies into zero-balance accounts (i.e., at the end of each day, remaining balances are transferred back to the main treasury account)	End-September 2005	Performance criterion
Integrate the bank accounts of line ministries (except for the bank accounts for donor-financed projects) and autonomous agencies in a Single Treasury Account	End-December 2005	Benchmark
Publish November reconciliation statements by (i) the Treasury for the main treasury account at the NBR; (ii) the RRA for its revenue collection and transit accounts; (iii) line ministries for their bank accounts for cash-based operations; (iv) provinces, autonomous agencies, and extra-budgetary funds for their accounts. For the future, monthly statements are expected to be published on a regular basis with no more than one month lag.	End-December 2005	Benchmark
Prepare a consolidated general government (central government including project accounts, provinces, at least 70 percent of the districts, autonomous agencies and extra-budgetary funds) fiscal report on a quarterly basis (for the benchmark: data at end-September).	End-December 2005	Benchmark
Revenue administration		
Complete 25 risk-based comprehensive audits (i.e., including all taxes) of large businesses by the LTD for January-April 2005	End- April 2005	Benchmark
Export promotion strategy		
Submit the progress report to the Cabinet and the Export Promotion Commission on the execution of action plans in the key sectors covered by the Export Promotion Strategy, covering progress through end-June	End-July 2005	Benchmark
Governance		
Publish a financial audit and business plan of Prime Holdings prepared by a foreign-based international audit firm.	End-September 2005	Performance criterion

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

March 25, 2005

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

2. Revisions to the definitions since the last version of the Technical Memorandum of Understanding (TMU) of May 20, 2004 have been made by (1) extending the performance criterion on net credit to the government from the banking system to include also treasury bills and other papers issued to the nonbank sector, but excluding project accounts; (2) extending the definition of priority spending to include spending on the electricity sector; (3) introducing an adjuster for contingent spending on net foreign assets, net credit to government, and the domestic fiscal balance; and (4) introducing an adjuster for contingent priority spending on priority spending.

VI. Target Variables under the Program

A. External Budgetary Support

3. **Definition:** External budgetary support is defined as all official external grants and official external loans to the central government (including all expected or received HIPC Initiative-related grants), except for external grants and loans related to the development budget. In case a program is over financed (negative financing gap), programmed external budgetary support refers only to that level of external budget support needed to close the financing gap to exactly zero at the time of the agreement. For programming purposes, we establish the following *baseline budgetary support (excluding demobilization grants)*, which is lower than the programmed budgetary support by $0 million for end-March 2005, $0 million for end-June 2005, $17 million for end-September 2005, and $34 million for end-December 2005.

4. **Reporting requirement**: Data on external budgetary support, separately detailing grant and loan inflows, will be transmitted to the African Department of the IMF on a monthly basis within three weeks of the end of each month.

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

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

5. **Definition**: Net foreign assets of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standards (SDDS) template, as external assets readily available to, or controlled by, the National Bank of Rwanda (NBR) net of external liabilities of the NBR. Pledged or otherwise encumbered reserve assets including, but not limited to, reserve assets used as collateral or guarantee for third party external liabilities, are to be excluded. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate.[2] Foreign assets and liabilities in other currencies are converted to U.S. dollars by using the actual end-of-period U.S. dollar/currency exchange rate. Foreign liabilities include, inter alia, use of IMF resources (CCFF and post-conflict emergency assistance purchases and SAF/ESAF/PRGF disbursements).

6. **Target and adjustments**: The program sets a floor on net foreign assets of the NBR (as a performance criterion or benchmark depending on the test date). In case of higher than programmed inflows of general external budgetary support, excess amounts are to be saved as reserves. The program floor on net foreign assets will thus be increased by any positive difference between actual and programmed general budgetary support. The NFA floor will be adjusted downward for contingent spending (see para. 28) up to the amount by which external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support (excluding demobilization grants)* of up to US$0 million at end-March 2005, US$0 million at end-June 2005, US$17 million at end-September 2005, and US$34 million end-December 2005. The program floor on net foreign assets will also be adjusted downward by the amount of any negative difference between actual and *baseline budgetary support (excluding demobilization grants)* up to a maximum adjustor of US$30 million, evaluated at the program exchange rate.

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

C. Net Credit to Government (NCG)

8. **Definition**: For program monitoring purposes, net credit to government will be calculated as the change from end-December 2004 of net credit from the banking system and the change of holdings of treasury bills and other government securities by the nonbank sector. Net credit from the banking system is defined as the difference between:

[2] The program exchange rate for the 2005 program is set at RF 566.9 = US$1.

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

(b) total government deposits with the banking system of the central government, including the fund for assistance to genocide survivors, Rwanda Revenue Authority, the electoral commission, the demobilization commission, *fonds routier,* line ministries, and the main treasury account. Thus, this definition excludes any government deposits, over which the central government does not have any control (i.e., for provinces and districts, project accounts, counterpart funds, *fonds publics affectés*, and privatization proceeds with the NBR).[3] The central government comprises treasury and line ministries.

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

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

10. **Target and adjustments**: The program sets a ceiling on NCG (as performance criterion or benchmark) at the test dates. In case of higher than programmed inflows of general external budgetary support, excess amounts are to be saved as government deposits. The program ceiling on NCG will thus be decreased by any positive difference between actual and programmed general budgetary support inflows. The program ceiling on net credit to government will be adjusted upward for contingent spending (in the Rwanda franc equivalent evaluated at the program exchange rate) up to the amount by which external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support* of up to US$0 million at end-March 2005, US$0 million at end-June 2005, US$17 million at end-September 2005, and US$34 million end-December 2005. The program ceiling on net credit to government will also be adjusted upward by the amount of any negative difference between actual and *baseline budgetary support (excluding demobilization grants)* up to a maximum adjustor of US$30 million. The NCG adjustor for budgetary support will be evaluated in Rwanda francs at the program exchange rate.

11. **Reporting requirement**: Data on net credit to central government (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits) will be transmitted on a monthly basis within three weeks of the end of each month. Deposits of the government with the NBR and with the commercial

[3] The target excludes any transfers from the deposits over which the government has no control into other government deposits.

banks will be separated from the deposits of the public enterprises and autonomous public agencies.

D. Reserve Money

12. **Definition**: Reserve money for the monetary program is defined as currency in circulation (including the FR 5,000 banknotes of 1998 issue and coins that ceased to be legal tender after December 31, 2004, but can still be exchanged at the NBR until end-2005), reserves of deposit money banks (excluding National Bank of Rwanda (NBR) borrowing from deposit money banks on the money market but including cash in vault held by commercial banks), deposits of public enterprises (including Caisse Sociale de Rwanda (CSR) and other autonomous public agencies (*dépôts des établissements publics assimilés à l'état*), deposits of nonbank financial institutions, and deposits of the private sector (*autres sommes dues à la clientèle* are included in reserve money).

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

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

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

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

E. Broad Money

17. **Definition**: Broad money is defined as the sum of currency in circulation, deposits in commercial banks, and nonbank deposits in the NBR. In addition, extended broad money is defined as broad money plus deposits in credit unions and credit cooperatives (mainly UBPR).

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

19. **Reporting requirement**: The balance sheet of the NBR will be transmitted on a weekly basis within seven days of the end of each week. The balance sheets of the commercial banks and of the other banking institutions, both for the individual institutions and for the respective sector in aggregate, and the monetary survey, will be transmitted monthly within five weeks of the end of each month. The monthly transmission will also include a monthly balance sheet for the NBR which will show all items shown also in the weekly balance sheet for the NBR.

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

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

21. In addition, loans contracted with the Arab Bank for Economic Development in Africa (BADEA) and the OPEC Fund for energy rehabilitation financing, contracted in 2002 and 2003, and supplemental BADEA lending for this project in 2004 that is intended to improve the overall concessionality of financing for the project, will be evaluated using the reference interest rates prevailing in September 2002.

22. **Target**: The program sets a performance criterion on the ceiling of the contracting or guaranteeing by the central government, local governments, or the NBR of new nonconcessional external debt with original maturity of more than one year.

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

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

24. **Definition:** The term "debt" has the meaning set forth in point No. 9 of the Guidelines on Performance Criteria with respect to Foreign Debt adopted on August 24, 2000. Excluded from this performance criterion are normal import-related credits. Normal import-related credits are liabilities that arise from the direct extension, during the normal course of trading, of credit from a supplier to a purchaser—that is, when payment of goods and services is made at a time that differs from the time when ownership of the underlying goods or services changes. Normal import credit arrangements covered by this exclusion will contain pre-specified limits on the amounts involved and the times at which payments must be made. Normal import credits will not involve the issuance of securities. Funding provided by an enterprise other than the supplier for the purpose of purchasing goods or services will not benefit from the exclusion under this performance criterion."

25. **Target**: The program sets a continuous performance criterion on the ceiling on change in the outstanding stock of external debt, owed or guaranteed by central government, local governments, or the NBR with original maturity of up to and including one year.

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

H. Domestic Fiscal Balance

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

28. **Target and adjustments**: The program sets a ceiling on the domestic fiscal deficit, i.e., a floor on the domestic fiscal balance (as performance criterion or benchmark). As an adjustment, any shortfall in grants linked to the World Bank led demobilization and reintegration program will be used to reduce the deficit target, i.e. will be added to the target for the domestic fiscal balance. The deficit ceiling will be revised upward for contingent spending (in the Rwanda franc equivalent evaluated at the program exchange rate) up to the amount by which external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support* of up to US$0 million at end-March 2005, US$0 million at end-June 2005, US$17 million at end-September 2005, and US$34 million end-December 2005. Contingent spending is as defined in the attached table (consisting roughly of both priority and nonpriority spending). It will be released (1) only if the monetary program is on track as

evidenced by meeting the quarterly targets on reserve money (which would be unaffected by foreign exchange spending as the NFA floor would be adjusted downward at the same time); and (2) in equal portions for priorities and nonpriorities for all amounts released. In addition, the deficit ceiling will be reduced by the amount of privatization revenue minus any expenditure deemed integral to the privatization operation (recorded under net lending).

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

I. Priority Expenditure (Table 2)

30. **Definition**: Central government priority spending is defined as the sum of those recurrent expenditures and domestically-financed capital expenditures that the government has identified as priority in line with the PRSP process. The definition of priority expenditures is based on the program classification of the annual budget. Table 2 provides the list of the programs included in this definition (including in particular spending on electricity). The computerized SIBET expenditure management system can track priority spending at the program and sub-program levels; the attached Table 2 provides a summary of the SIBET output.

31. **Targets and adjustment**: The program sets a floor on priority expenditure (as performance criterion or benchmark). The floor will be adjusted upward by contingent priority spending as defined in the attached table if external budgetary support (excluding demobilization grants) exceeds the *baseline budgetary support* of up to US$0 million at end-March 2005, US$0 million at end-June 2005, US$17 million at end-September 2005, and US$34 million end-December 2005.

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

J. Net Accumulation of Domestic Arrears

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

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

34. **Target and adjustments**: The program sets a ceiling on the net accumulation of domestic arrears, with a negative target thus representing a floor on net repayment (as performance criterion or indicative target). The ceiling will be reduced downward by the amount of gross accumulated bills payable in excess of RF 1 billion at end-March 2005, RF 1.5 billion at end-June 2005, RF 2 billion at end-September 2005 and RF 2 billion at end-December 2005.

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

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

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

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

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

VII. Other Data Requirements for Program Monitoring

A. Public Finance

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

B. Monetary Sector

40. **Reporting requirement**: The following data will be transmitted on a monthly basis within five weeks of the end of the month: the individual balance sheets and the consolidated balance sheet of deposit money banks; the individual and consolidated balance sheets of the

other bank institutions; the monetary survey (*situation monétaire intégrée*); disaggregated data on "other items net" of the NBR and deposit money banks; required reserves and excess reserves of individual commercial banks, showing separately foreign exchange held as required reserves with the NBR; development bond and treasury bill holdings of individual commercial banks; and nontreasury government deposits at individual commercial banks. The following data will be transmitted on a quarterly basis within five weeks of the end of the quarter: nonperforming loans of individual commercial banks; required and actual provisioning of impaired assets for individual banks; capital adequacy ratio for individual commercial banks a weighted average for all commercial banks; and sanctions issued to banks.[4] Data on the opening and closing balances, and debits and credits of government treasury (OTR) accounts, as well as accounts of the demobilization commission, the Rwanda Revenue Authority (RRA), Fund for Genocide Survivors (FARG), the Road Fund, the Electoral Commission and the Gacaca Commission in the central bank and commercial banks will also be communicated on a quarterly basis.

C. Public Enterprises

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

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

D. External Sector

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

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

parallel market rate (buying and selling) and the weighted weekly average rates of NBR intervention in the interbank market for purchases and sales, respectively.

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

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

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

E. Real Sector

45. **Reporting requirement**: Monthly disaggregated consumer price indices for a new national consumer price index will be transmitted on a monthly basis within four weeks of the end of each month.

F. Electronic Data Reporting

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

(i) Monetary data and exchange rates:

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

Quarterly reporting on details of commercial banks' loan provisioning and capital adequacy; opening and closing balances as well as debits and credits of OTR accounts of, the demobilization commission, RRA, FARG, the Road

Fund, the Electoral Commission and Gacaca Commission in the central bank and commercial banks.

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

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

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

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

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

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

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

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

(iii) Detailed export and import data; and

(iv) Detailed CPI data.

VIII. Program Monitoring Committee

47. **Definition**: The Interministerial Technical Committee, composed of senior officials of key ministries and the National Bank of Rwanda shall meet once a month and be

responsible for monitoring the performance under the program, informing the IMF staff regularly about progress on program implementation, and transmitting supporting information necessary for program monitoring.

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

ANNEX B. RECLASSIFICATIONS

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

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

Table 1. Rwanda: Summary of Reporting Requirements

Status	Variable or Table	Reporting Frequency	Reporting Delay from End of Period Covered	Report Data Electronically
	A. Monetary and Foreign Exchange			
PC	Net foreign assets National Bank of Rwanda (NBR)	Weekly	Seven days	Yes
PC	Reserve money	Weekly	Seven days	Yes
PC	Net credit to central government	Monthly	Three weeks	Yes
Table	Monthly balance sheet of the NBR	Monthly	Three weeks	Yes
Table	Summary balance sheet of the commercial banks	Monthly	Five weeks	Yes
Table	Individual balance sheets of the commercial banks	Monthly	Five weeks	Yes
Table	Details of public sector deposits with individual commercial banks	Quarterly	Five weeks	Yes
Table	Opening and closing balances as well as debits and credits for OTR accounts, the demobilization commission, Rwanda Revenue Authority (RRA), Victims of Genocide Fund (FARG), the Road Fund, and Gacaca in the central bank and commercial banks;	Quarterly	Five weeks	Yes
Table	Details of commercial banks' loan provisioning and capital adequacy	Quarterly	Five weeks	Yes
Table	Monthly data on foreign exchange operations of commercial banks, the NBR, and foreign exchange bureaus	Monthly	Five weeks	Yes
Table	Net open foreign exchange positions of commercial banks and foreign exchange bureaus	Monthly	Five weeks	Yes
Table	Exchange rates	Weekly	Seven days	Yes
	B. Debt			
PC	New external government borrowing	Monthly	Three weeks	
PC	Stock of short-term external government debt	Monthly	Three weeks	
	C. Fiscal			
PC	Domestic arrears (repayment of the end-of-year stock of arrears and accumulation of new arrears)	Monthly	Three weeks	Yes
PC	External arrears	... [1]	...	Yes
OV	External budgetary support with a break down between of loans by creditor and grants by donors.	Monthly	Three weeks	Yes
Table	Fiscal data (revenue, expenditure,[2] priority expenditure, exceptional expenditure, wage bill)	Monthly	Three weeks	Yes
Table	Development budget implementation	Quarterly	Three weeks	Yes
Table	Scheduled debt service and payments	Quarterly	Four weeks	Yes

Table 1. Rwanda: Summary of Reporting Requirements

Status	Variable or Table	Reporting Frequency	Reporting Delay from End of Period Covered	Report Data Electronically
	D. Public enterprises			
Table	Public enterprises financial statements	Semiannual	Four weeks	
Table	Public enterprises bank deposits	Quarterly	Four weeks	
Table	Estimated and actual tax payments of the public enterprises	Quarterly	Four weeks	
	E. Civil service			
OV	Size of the civil service (core civil service and teachers)	Monthly	Three weeks	Yes
	F. Balance of payments			
Table	Export and imports	Monthly	Four weeks	Yes
Table	Detailed Balance of Payments	Quarterly	Four weeks	
	G. Prices			
OV	CPI Kigali	Monthly	Four weeks	Yes

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

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

PC = performance criterion or quantitative benchmark.

QI = quantitative indicator.

OV= other variable.

Table 2. Rwanda: Priority Expenditure 2004-05
(in millions of Rwanda francs)

	2004	2005 proj.
Total	88,267	109,163
Recurrent	69,315	94,810
Internal Affairs	5,552	7,558
Agriculture	2,238	2,828
Commerce	803	1,435
Education	17,379	25,484
Youth and sport	439	298
Health	7,214	10,536
Transport and communication	3,625	5,551
Road fund	3,293	3,873
Other	332	1,678
Gender	299	277
Public service	524	2,176
Lands and natural resources	715	609
Local government	3,766	4,321
Districts	2,832	3,584
Other	934	784
Provinces	24,361	31,104
TIG (MINIJUST)	110	300
HIMO (MINALOC)	290	300
Export promotion	2,000	2,033
Development	18,952	14,353
CDF	2,750	3,500
Electricity	14,000	6,929
Education	...	450
Health (equipment)	...	1,000
Water	...	1,000
Study of manufacturing sector	...	100
Export promotion (capital)	2,002	1,074
Agriculture guarentee fund	200	300
Memorandum items:		
Social spending (as percent of GDP) 1/	5.0	5.3
Health	1.0	1.3
Education	4.0	4.0

Source: Rwandese authorities.

1/ Provinces undertake a large part of health and education spending.

Table 3. Rwanda: Contigency expenditures, 2005
(In billions of Rwandan franc)

	Q1	Q2	Q3	Q4	Total
Total	0.0	0.0	6.9	13.2	20.0
Nonpriority	0.0	0.0	4.2	5.6	9.9
Recurrent	0.0	0.0	3.6	3.8	7.4
Goods and Services	0.0	0.0	2.2	2.8	5.0
Transfers	0.0	0.0	0.7	0.3	1.0
Exceptional	0.0	0.0	0.7	0.7	1.4
Capital	0.0	0.0	0.6	1.3	2.0
Domestic arrears	0.0	0.0	0.0	0.5	0.5
Priority expenditures	0.0	0.0	2.7	7.5	10.2
Recurrent	0.0	0.0	2.7	4.8	7.5
Agriculture-extension services	0.0	0.0	0.4	0.4	0.8
Transport and communications-Roads fund	0.0	0.0	0.8	1.2	2.0
Land an natural resources-purchase of portable water	0.0	0.0	0.2	0.4	0.5
Provices-education material	0.0	0.0	0.3	0.2	0.5
Export promotion	0.0	0.0	1.0	2.7	3.7
Capital	0.0	0.0	0.0	2.7	2.7
Health-primary health equipment	0.0	0.0	0.0	1.0	1.0
Agriculture-fertilizers.	0.0	0.0	0.0	1.7	1.7

Source: Rwandese authorities.