International Monetary Fund

Rwanda and the IMF

Press Release:
IMF Executive Board Completes the Sixth Review of Rwanda's PRGF Arrangement and Approves a New Three-Year PRGF Arrangement
June 8, 2006

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

May 18, 2006

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

Kigali, May 18, 2006

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

Dear Mr. de Rato:

1. Supported by debt relief under the Enhanced HIPC and the Multilateral Debt Reduction Initiatives, the Government of Rwanda is well placed to accelerate its reform agenda aimed at enhancing economic growth and reducing poverty. As noted in the recent Ex Post Assessment, Rwanda successfully recovered from the devastating 1994 genocide by reestablishing macroeconomic stability, liberalizing the economy and rebuilding institutions. Based on our poverty reduction strategy paper (PRSP) of 2002 and three annual progress reports, we intend to focus now on a new wave of reforms to raise productivity, particularly in the agriculture and export sectors, as this will be essential for making inroads in reducing poverty. Cognizant of the importance of regional stability for our economic development, the Government of Rwanda will also continue its peace keeping efforts, in cooperation with regional partners, the African Union, and the United Nations Organization.

2. Our program under the PRGF arrangement remained broadly on track in 2005. All quantitative performance criteria and indicative targets for end-June were met, with the exception of the Performance Criterion (PC) on priority spending. The latter was affected by absorptive constraints and a temporary spending restraint to contain reserve money growth. While priority spending also fell short of the end-September benchmark, it reached its programmed level by end-2005. On the structural front, the publication of the audit of Prime Holdings, a performance criterion for end-September 2005, was delayed to December 2005. As the nonobservance of both performance criteria was of a temporary nature, we are requesting waivers for the nonobservance of the quantitative PC on priority spending for end-June 2005 and of the structural PC on the publication of the Prime Holdings' audit.

3. In support of our policies described in the attached Memorandum of Economic and Financial Policies (MEFP), the Government of Rwanda requests the completion of the sixth and last review under the current PRGF arrangement and the disbursement of the seventh loan in an amount equivalent to SDR 0.571 million. It also requests a new three-year arrangement under the PRGF in an amount equivalent to SDR 8.01 million (or 10 percent of quota) and the disbursement of the first loan in an amount equivalent to SDR 1.14 million (1.43 percent of quota) under this facility.

4. The Government of Rwanda 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 consultations. The first review under the new PRGF arrangement is expected to be completed no later than end-November 2006, and the second review by mid-May 2007.

5. To facilitate a wide dissemination of the memorandum of economic and financial policies, the Government of Rwanda authorizes the Fund to publish it together with the related staff report, including on the IMF website.

Sincerely yours,

/ s /	/ s /
François Kanimba	James Musoni
Governor	Minister of Finance and
National Bank of Rwanda	Economic Planning

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

Memorandum of Economic and Financial Policies of the Government of Rwanda

May 18, 2006

This memorandum sets out the medium-term economic program of the government of Rwanda. Our main objective is to advance in key reforms, as well as in building the capacity to design and monitor growth-enhancing and poverty-reducing policies. Upon expiration of the new PRGF arrangement, we hope that Rwanda would graduate from the use of Fund resources. This memorandum is consistent with the poverty reduction strategy paper (PRSP) of May 2002, and three annual progress reports, whose main objective is Rwanda's progress toward the Millennium Development Goals (MDGs) and reaching middle-income status by 2020.

I. Recent Economic Developments

Program for 2005

1. **Macroeconomic performance strengthened in 2005 with policy implementation broadly on track.** A recovery in agricultural production coupled with strong activity in manufacturing, financial services and communication have been accelerating real growth to about 6 percent. Driven by increased food supplies, inflation declined as programmed to slightly below 6 percent at end-2005. However, difficulties in managing the considerably backloaded fiscal program led to temporary slippages in the third quarter of 2005, which were subsequently remedied. The current account deficit was lower than programmed, reflecting buoyant exports and domestic sterilization of the liquidity impact from the release of the fiscal contingency.[1]

2. **Despite a substantial acceleration in spending in the second half of the year, the end-2005 fiscal targets were met.** For the year as a whole, domestic spending (excluding demobilization and grant-financed peace keeping)[2] was more than 1½ percent of GDP higher than projected. This reflected the release of the contingency, but also unremunerated outlays on the peace-keeping efforts in Darfur, local elections and Gacaca trials, which were partly offset by lower wage and interest bills. Nevertheless, the end-2005 target on the domestic fiscal balance was met as tax revenue overperformed by ½ percent of GDP. However, spending was distributed unevenly over the year. We restrained spending in the first half of 2005 and, as a result, priority spending was 0.6 percent of GDP below the end-June performance criterion. While spending was accelerated starting in the third quarter, it was partly financed through the accumulation of domestic arrears of about one percent of GDP at end-September. Moreover, with continuing absorptive constraints, priority spending also fell

[1] The 2005 program allowed a widening of the fiscal deficit by up to about 1½ percent of GDP from the release of specified contingent spending.

[2] Domestic spending is defined as expenditure and net lending excluding external interest and foreign-financed capital spending.

short of the September benchmark by 0.2 percent of GDP.[3] In the fourth quarter, however, the fiscal program was brought back on track as evidenced by the attainment of all fiscal benchmarks, including on domestic arrears clearance and priority spending.

3. **Monetary management was rendered difficult by large fluctuations in broad money and the backloaded fiscal program.** While all quarterly targets on reserve money were met, broad money fluctuated considerably and ended the year substantially higher than programmed, reflecting higher real growth, several large new projects and also new banking products. These fluctuations together with unusually strong seasonality in currency in circulation translated into instabilities in the money multiplier. Moreover, to ensure that increasing spending pressures in the last quarter of 2005 from the release of the fiscal contingency would not rekindle inflation, the National Bank of Rwanda (NBR) mopped up the liquidity impact through short-term instruments, resulting in an increase in domestic debt of 1½ percent of GDP in that quarter.

4. **Driven by strong exports, the current account deficit was lower than programmed.** Export receipts exceeded projections by 25 percent, owing to a large extent to an increase in coltan exports and also a move into higher-priced coffee markets, which more than offset a fall in coffee volumes. At the same time, a surge in foreign-financed imports mostly for construction and medication was offset by lower-than-programmed imports related to the utilization of project deposits.[4] As a result of these developments, and also due to the increased use of domestic sterilization instruments, net foreign assets substantially exceeded the end-year target and the reserve coverage increased to over 6 months of imports. Correspondingly, the gradual appreciation of the nominal and real exchange rate continued, by 9 percent and 13 percent, respectively, in 2005.

5. **While some structural reforms have not moved forward at the anticipated pace, substantial progress has been made in other areas:**

- To strengthen *public expenditure management* and as an intermediate step to a treasury single account (TSA), the government converted all bank accounts of line ministries and autonomous agencies into zero-balance accounts at the NBR ahead of the target date of September (performance criterion). We have also restructured administrative zones to make the delivery of decentralized services more efficient.[5] However, this restructuring delayed the passage of the Organic Budget Law (OBL)—the key legislation for further reforms in public expenditure management—to March 2006. Moreover, we continued to face severe capacity constraints in both the

[3] Also the end-September benchmark on new nonconcessional external debt was missed when the government guaranteed Electrogaz' expenses related to the lease of generators to address electricity shortages. The lease is for two years to cover the period until the Lake Kivu gas project becomes operational.

[4] Project deposits were at 5 percent of GDP at end-2005, 1.2 percent of GDP higher than in 2004.

[5] A Presidential decree (with agreement of Parliament) in December 2005 reduced the number of provinces from 8 to 5 and districts from 106 to 30.

accounting and auditing offices, partly due to delays in the reform of the core civil service which prevented us from hiring new staff. As a result, the three end-2005 benchmarks on moving to a TSA, the publication of reconciliation statements for most public entities,[6] and the preparation of a consolidated general government fiscal report were not met.

- On the *financial sector*, draft amendments to the banking law to strengthen the role of the NBR were submitted to stakeholders in December (benchmark). Moreover, the NBR reached an agreement on a restructuring plan for a problem bank, including a possible capital injection by shareholders.

- On *export promotion*, memoranda of understanding have been signed in December to clarify the roles of the most important agencies (the associated benchmark was not met, however, as two agencies signed only later in April) and the NBR has published a review of existing exporter financing schemes. We also expect tea exports to benefit from the recent privatization of three factories.

- With a view to enhancing transparency related to *Prime Holdings' two hotels*, we have published a financial audit and business plan of Prime Holdings in December 2005 (missed end-September performance criterion). As the auditors concluded that "it was not possible to determine if proper books of account were kept by the hotels", we have canceled the contract with the management company and are in negotiations with the Intercontinental group to take on the management of the hotels.

6. **While all but two performance criteria for the sixth review and all quantitative end-2005 benchmarks were met, there were slippages in September.**

- Among the quantitative targets, the end-June 2005 performance criterion on priority spending was not observed. Moreover, three end-September benchmarks on the accumulation of domestic arrears, priority spending and nonconcessional external debt were missed.

- On the structural front, the end-September performance criterion on the publication of Prime Holdings' audit was not observed as were three end-December 2005

[6] The treasury, the Rwanda Revenue Authority, line ministries, provinces, autonomous agencies, and extrabudgetary funds.

- benchmarks related to public expenditure management and the end-December 2005 benchmark on signing memoranda of understanding related to export promotion.

Outlook for 2006

7. **Poor rains in past months are clouding the outlook for economic activity and food security in 2006.** A January Crop and Food Assessment Survey conducted by the Agriculture Ministry in conjunction with the USAID's Famine Early Warning System network projects a food deficit[7] of about ½ percent of GDP (US$8.5 million) in the first half of 2006. Moreover, late rains so far this year could lead to a less-than-normal midyear harvest.

II. Medium-Term Strategy

8. **Our medium-term strategy aims at promoting growth to reduce poverty and attain the MDGs.** Accordingly, the government is intensifying its efforts to remove obstacles to private sector development and improving the delivery of public services. Since poverty remains concentrated in rural areas, agricultural development will receive a high priority, as will improvements to infrastructure and energy supply. We are currently reviewing our development strategy in the context of the PRSP update, which we intend to complete in mid-2007.

9. **The medium-term macroeconomic framework is based on prudent projections for growth and external assistance.** This reflects Rwanda's continuing vulnerability to exogenous shocks and reduces the risk of policy errors. Moreover, some reforms, particularly in building human capacity, will take time to translate into higher growth rates. Nonetheless, we believe that there is a high possibility that steadfast implementation of our reform agenda will lead to substantially higher-than-projected growth and we hope that it could also facilitate higher levels of external assistance.

10. **Our key medium-term macroeconomic objectives are as follows**: (i) increasing real GDP growth gradually to 5 to 7 percent by 2009 and further beyond; (ii) maintaining inflation at around 5 percent; (iii) keeping an import cover of reserves of at least 4 months, facilitated by an increase in export receipts and a moderation in import growth when electricity generated by the Lake Kivu project is expected to replace diesel-generated electricity, which will substantially reduce fuel imports from 2007 onward (see paragraph 31); and (iv) increasing the revenue-to-GDP ratio to over 14½ percent of GDP by 2009 while allowing an increase in capital spending and a further reorientation of spending toward priorities.

11. **Agriculture, trade, and private sector-driven initiatives are expected to be the main sources of growth.** Increasing productivity in the agricultural sector will raise rural incomes and, by ensuring food security, help in diversifying the economy. In trade, we aim at

[7] Defined as the difference between the food requirement minus domestic production and projected imports.

reducing transportation, energy and other transaction costs, strengthening trade-supporting institutions, and intensifying our regional cooperation. More generally, continuing macroeconomic stability, improving the delivery of public services and infrastructure, building human capital through better health and education services, and removing obstacles to private sector development should support private investment and an increase in total factor productivity. This is being supported by our efforts in securing lasting peace in the region, which could also facilitate access to larger markets.

12. **Resolving the energy crisis will be key in supporting higher growth.** The Lake Kivu project will reduce our dependence on expensive fuel-generated electricity and lower energy costs. In parallel, we are pursuing hydro-power projects to ensure that energy supply is not becoming a bottleneck to growth. While biomass will for the foreseeable future remain the main energy source, there is a need to conserve wood fuel through efficient conversion and also end-use technologies as well as addressing environmental degradation and health hazards primarily affecting women and children. Both extending electricity to rural areas and improving the management of biomass are expected to play a major role in developing rural areas, where poverty remains concentrated.

13. Managing the development process will be a challenge on various fronts:

- **Sustainable financing sources are needed**. Given the small export base, Rwanda will have to continue to rely on substantial grants in order to maintain external debt sustainability achieved through debt relief under the Enhanced HIPC and MDRI Initiatives. In parallel, the government is committed to further raising the revenue-to-GDP ratio.

- **Large investments in infrastructure and the social sectors could lead to pressures for an appreciation of the real exchange rate**. We will accommodate any such pressures through a nominal appreciation of the exchange rate to avoid a rekindling of inflation as well as a crowding out of private investment, both of which would be detrimental to our development strategy. To offset the adverse impact of a real appreciation on exports, we will continue to enhance the productivity of the sector.

- To **enhance accountability for the use of funds** both with respect to PRSP stakeholders and donors, we will continue advancing in public expenditure management reforms. This will strengthen domestic ownership and reassure our development partners that funds are used efficiently and as intended.

- **We are attaching a high priority to developing human resources and capacity building**. Retaining and motivating scarce technical and managerial experts is a particular challenge. The ongoing civil service reform is expected to address these issues and make our administration more efficient. We also expect that higher spending on education and health will result in an overall better qualified work force in the long run.

III. THE PROGRAM FOR 2006

14. **The 2006 program seeks to maintain macroeconomic stability while setting the stage for stronger medium-term growth.** It is based on a real growth rate of 3–5 percent, a further reduction in inflation to 5 percent,[8] and a level of international reserves of at least four months of imports. Fiscal policies will focus on improving the composition of expenditure toward priorities, while structural policies will aim at enhancing conditions for the private sector and managing the development process.

A. Macroeconomic Program

15. **Prudent management of the domestic demand impact of fiscal policies will be the first priority in the execution of the 2006 budget.** The domestic deficit (excluding spending on demobilization and peace keeping) is projected to increase by about one percent of GDP compared with 2005. Moreover, pressures for a real exchange rate appreciation are expected to continue from a likely drawdown of project accounts. To smooth the domestic demand impact of fiscal policies, we have distributed the quarterly path of expenditure as evenly as possible over the year. Moreover, to safeguard the monetary program and ensure that fiscal policy is not crowding out investment, we will

- make one percent of GDP in spending contingent on (i) grants coming in as programmed; and (ii) monetary developments being in line with projections. Prior to making a decision on the quarterly release of the contingency, we will reconfirm with our development partners the agreed timing of the budgetary grants, review monetary performance through the preceding months, and, in close consultation with Fund staff, ensure the consistency of the additional spending with the monetary targets.

- set up a monitoring system for in- and outflows for project accounts on a monthly basis, covering more than 70 percent of all project accounts at the NBR.[9] In particular, we will prepare rolling 12-month spending plans for these project accounts on a quarterly basis, broken down into foreign exchange and domestic spending. Issuing the first report (with specifics provided in Table 3) will be a performance criterion for end-August 2006.

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[8] The projections assume that the mid-year harvest will be normal and contain inflationary pressures, which reemerged in February due to food shortages (12-month inflation in March was about 7 percent). Macroeconomic policies are based on the lower end of the projection.

[9] See paragraph 42 of the technical memorandum of understanding for a list of accounts.

B. Fiscal Policy

16. Fiscal policies have been designed with two main objectives:

- On the *revenue front*, we aim to at least maintain the current revenue-to-GDP ratio of 14.1 percent of GDP (excluding one-off nontax and tax revenue of 1 percent of GDP in 2005). Revenue losses amounting to about 0.3 percent of GDP are expected in taxes from imports, arising from some nominal appreciation of the exchange rate, but also the reduction in import duties on agricultural inputs. To offset these losses, we have put in place measures, which we describe in paragraph 18.

- The focus on *expenditure* lies in improving the quality of spending both by allocating more funds to PRSP priority spending as well as by improving the delivery of public services. However, should further food shortages emerge, we stand ready to reallocate funds, if needed, to ensure food security.

2006 Budget

17. We have implemented the following measures to prevent a decline in the domestic revenue ratio:

- We have increased in December 2005 and again in February 2006 the reference prices for petroleum products with an estimated revenue gain of 0.1 percent of GDP. This will reduce the implicit subsidy, which we have provided by lowering the petroleum excise tax to cushion the recent oil price increase.[10] If the fall in import-related taxes due to the appreciation of the exchange rate is higher than expected, we will further reduce the petroleum subsidy. Moreover, we will undertake a review of the subsidy (to be completed by June 2006) with respect to its sustainability and the impact on the poor. We have also increased fees and charges, including for permits and visas, and reduced exemptions from their payment, resulting in additional revenue of about 0.2 percent of GDP.

- Our recent review of tax incentives highlights revenue losses of about 3 percent of GDP, but also indicates that most incentives can either not be repealed or, if so, would yield a minimal revenue gain relative to the administrative effort. While the new income tax laws implemented in January 2006 provide additional incentives in support of PRSP priorities, we will review applications carefully to prevent abuse. Moreover, all exporters are now being managed by the large taxpayer department to ensure close scrutiny.

[10] The subsidy amounted to about 2 percent of GDP in 2005.

18. **The composition of spending will be further oriented toward PRSP priorities, envisaging an increase in priority spending by 0.9 percent of GDP, while nonpriority spending is expected to fall** (see text table).

Priority and Nonpriority Spending, 2005-06
(in percent of GDP)

	2005	2006
Domestic spending excl. grant-financed AU peace keeping and demobilization	20.1	20.2
Priority	10.1	11.0
Nonpriority	10.0	9.2
One-off spending	3.1	3.0
Peace-keeping	0.7	0.2
FARG--genocide survivors	0.6	0.7
Gacaca	0.4	0.1
Elections	0.2	0.3
Net Lending	0.6	0.4
Domestic interest	0.4	0.6
Police plot	0.1	0.0
Elektro gaz tax subsidy	0.1	0.3
Transfer to central bank to cover 2005 losses	0.0	0.3
Other Nonpriority	6.9	6.2

- *Priority spending* will focus both on the social sectors and productivity-enhancing strategies. Spending in education and health will increase by 0.6 percent of GDP, reflecting the elimination of school fees for the first three years of secondary education and programs in health, which have been agreed in the context of the PRSC II. We have also increased the allocations for the decentralization process by 0.2 percent of GDP to improve public service delivery. As poverty remains widespread and higher than before the genocide, we will start monitoring priority spending more directly targeted to alleviate poverty, defined in close coordination with donors. With respect to productivity-enhancing strategies, we are maintaining the allocation for agriculture, while there is a slight reduction in infrastructure and energy spending as outlays related to the Lake Kivu project are lower than in 2005

- *Nonpriority spending* will decline, reflecting mostly substantial savings from our new vehicle fleet policy. While there are some increases in one-off spending items (such as the domestic interest bill, the Elektrogaz fuel subsidy,[11] and for the FARG fund), they are offset by a decline in other one-off items.

[11] The retail electricity tariff was increased by almost 40 percent in November 2005 to take into account the costs of additional diesel generators. A revised tariff, including some cross-subsidization of the poor, will be operational by September 2006.

19. **On specific spending items:**

- *AU and UN peace keeping in Darfur.* The Auditor General has published an audit of our peace keeping activities in 2005 (prior action), noting that all funds have been used for their intended purpose. While part of the peacekeeping costs in 2006 (estimated at 0.2 percent of GDP) will require budgetary resources, we expect the operation will be cost neutral over the medium term, as shown in Table 1 of the TMU, presenting a medium-term revenue/cost statement for the peace keeping efforts in line with our understandings with the UN and AU. We also expect a reimbursement for part of our expenses in 2005 (0.2 percent of GDP) later in 2006. Moreover, we will maintain a separate monthly ongoing accounting.

- *Sterilization costs and NBR losses.* As in 2005, the budget will take over the sterilization cost of monetary operations. Moreover, in March we have transferred 0.3 percent of GDP from the government's deposits to the NBR to cover valuation losses due to the exchange rate appreciation in 2005 and ensure that NBR's balance sheet remains sound.

20. **We are prepared to react swiftly in the case of a food emergency, including by using the MDRI relief.** We are closely monitoring the situation together with our development partners to ensure that, in the case of an emergency, there is sufficient time for procurement. Moreover, the government has set aside the resources freed-up by the Fund's MDRI flow relief in 2006 (US$8 million) to cover food shortages remaining after donors' support.[12] In case further budgetary resources are needed, the program would be adjusted by allowing an increase in the deficit and a commensurate reduction in net foreign assets.

Fiscal structural reforms

21. **The reform of the core civil service is advancing and we will design a medium-term reform program for the entire civil service with World Bank assistance.** The core civil service has been substantially streamlined to allow the implementation of a new pay structure, which will better motivate civil servants, improve the retention of qualified staff and be cost neutral over the medium term. Further reforms will aim at restructuring public institutions according to the ongoing territorial reorganization and a review of the legal framework, including the performance appraisal and a code of conduct. Moreover, in the context of a medium-term needs assessment particularly in the social areas, we will review with the World Bank the wage structure of the entire civil service, including fringe benefits and wages included in transfers to local governments (end-December 2006 benchmark).

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[12] If this contingency is not needed, we will use the resources freed-up by the Fund's MDRI relief of US$8 million for poverty-related spending (paragraph 13). The World Bank's and the African Development Fund's flow MDRI relief in 2006 will be used for Lake Kivu. The further use of MDRI relief will be discussed at the first review and implemented through a supplementary budget.

22. **The passage of the OBL and legislative changes related to the restructuring of local governments are expected to revive the momentum in public expenditure management reforms.** Specifically, we intend to implement the following measures:

- **OBL regulations**. To prepare for the effective implementation of the OBL, we plan to issue the financial regulations for the OBL by end-September 2006.

- **Reporting practices and auditing of accounts.** As the accounting and auditing functions have been severely constrained by the lack of qualified staff, we have started in May 2006 the three-year training of about 250 accountants who will work in parallel in the civil service after their initial 6 month training. We have also hired a consulting firm to prepare consolidated government accounts for 2006 by March 2007. Moreover, we are developing draft accounting instructions, forms and procedures for budget users, which we intend to finalize and issue by end-2006 (benchmark).

- **Systematic reconciliation.** We have extended the accounts reconciliation exercise from the treasury and RRA to line ministries, autonomous agencies, and extra-budgetary funds, but compliance has been weak. To enforce this requirement, we have issued a circular to line ministries, provinces, autonomous agencies and extra-budgetary funds, setting a deadline for the reconciliation process, prescribing a reporting mechanism, and setting penalties for noncompliance (prior action). The government will also issue guidelines on doing bank reconciliations and accounting for these entities by end-October 2006 (benchmark) and, where required, provide additional training during 2006. Finally, we are exploring possibilities to also reconcile project accounts and hope to start doing so in the first half of 2007 with World Bank accounts as the pilot case.

- **TSA.** Moving to a TSA has been delayed as it is linked to the approval of the OBL, but the conversion of all government bank accounts to zero-balance accounts has achieved almost all of the advantages of a TSA with the exception of donor-funded project bank accounts. Moving to a TSA is also dependent on the implementation of the payments system reforms. Nonetheless, in moving toward a TSA, we have prepared an analysis of government bank accounts with the NBR, identifying which of them should be closed (mainly dormant project accounts), brought under the TSA, or kept separately for operational purposes (such as those of self-financing agencies) (prior action). We will do the same exercise for government accounts with commercial banks by end-September 2006. We have also started the training of cash flow managers and, after a test phase, we plan to extend the use of 3-month rolling cash flow plans to agencies by end-2006, as is already practice with line ministries.

- **Publication of Accounts**. To enhance fiscal transparency in the interim, we will start publishing budget execution reports on a monthly basis (with a lag of no more than 6 weeks to the end of the month) in May, and data on priority spending on a quarterly basis (with a lag of no more than 2 months) starting in June 2006.

C. Monetary Policy

23. **We are monitoring developments in the money multiplier to ensure that money is serving as a nominal anchor.** Monetary policy aims at further reducing inflation to 5 percent by end-2006 by limiting reserve money growth to 13 percent, while allowing a sizable increase in private sector credit. To minimize the risk that the recent increase in broad money reflects a lowering of lending standards, the NBR has stepped up the supervision of banks with rapid credit growth. Moreover, the NBR will start encouraging a shift into longer-dated sterilization instruments to reverse the shortening of maturities during 2005, which could jeopardize the program's inflation objective. Should new inflationary pressures emerge, the NBR stands ready to tighten its policy, including through increasing interest rates.

24. **The NBR's intervention policy will be key to managing the domestic demand impact of fiscal policies.** In particular, we will mop up the liquidity impact of domestic spending predominantly through the sale of foreign exchange to ensure that execution of the 2006 budget neither rekindles inflation nor requires costly domestic sterilization and an increase in domestic debt, which crowds out private investment by raising interest rates. The NBR's intervention strategy thus will aim to accommodate upward pressures on the real exchange rate through a nominal appreciation (i.e., by raising foreign exchange sales) while smoothening short-term market fluctuations. Moreover, the NBR has requested technical assistance from the IMF to make the current foreign exchange operations system better suited to large donor inflows[13] and also to develop and deepen the interbank foreign exchange market.

D. External Sector

25. **Due to temporary import increases, we expect the current account deficit (excluding current official transfers) to widen by more than 2 percent of GDP compared with 2005.** Exports receipts are expected to grow by at least 6 percent, mostly reflecting an increase in the volume and quality of coffee. In imports, a temporary surge is expected due to a high demand for capital goods stemming from the Lake Kivu project and an expected drawdown of project accounts. Moreover, higher diesel imports to fuel new generators leased by Elektrogaz (and in 2007 to be replaced by the Lake Kivu project) are expected to temporarily increase the oil bill.

26. **The implementation of debt relief under the enhanced HIPC Initiative is advancing.** Most multilateral creditors have provided financing assurances for HIPC completion point assistance and, except for the EU, OPEC Fund, and IFAD, agreed to provide topping up assistance. Among Paris Club creditors, bilateral agreements are in place with Austria, Japan, France, and the USA, and those with Canada and the Netherlands should follow shortly. Regarding non-Paris Club creditors, China has indicated willingness to cancel

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[13] The existing foreign exchange system was designed at a time of scarcity of foreign exchange reserves.

all its claims whereas Saudi Arabia and Kuwait stated they were not prepared to deliver further debt relief. Debt owed to Libya and the Abu Dhabi Fund continues to be passive.

27. **Public debt management is being upgraded, aided by Debt Relief International.** The Sous-Comité de la Dette (charged with coordinating debt management) has been made operational and has formulated an action plan for 2006, which will be monitored through quarterly meetings. As part of this plan, we will reconcile by end-September 2006 the debt databases maintained by the Ministry of Finance and the NBR as of end-June 2006 (benchmark) and publish the first reconciliation statement as well as our general public debt management policies by end-2006. Finally, to ensure timely and full payment of debt service to BADEA, the draft debt rescheduling agreement includes a schedule for principal payments and envisages the forgiveness of interest payments, which in the past have led to misunderstandings.

E. Structural Policies

28. **Structural policies will aim at enhancing the prospects for private-sector led growth**. To this end, we will focus on export promotion, the energy sector, financial sector reform, the business climate, and the agricultural sector.

Export promotion

29. **With clear responsibilities established for all agencies involved in export promotion and RIEPA's monitoring system in place, our export promotion strategy is now focused on specific sectoral measures:**

- **Coffee**. The role of OCIR-Café has been strengthened to focus on regulation and extension services along with facilitating the provision of critical inputs. OCIR-Café will also seek to support research and the development of growers associations. In parallel, RIEPA is promoting our coffee in the specialty market through fairs and exhibitions.

- **Tea.** The pricing structure was last revised in July 2005 and a comprehensive review of the pricing study will be finalized by end-2006. With respect to the remaining state-owned farms, efforts will be geared toward improving quality and developing specialty markets.

- **Mining**. Privatization Secretariat along with the Ministry of Mining has completed negotiations with three strategic investors, including a joint venture with a South African investor, for the exploitation of existing mines commencing in April 2006. Moreover, a study on Rwanda's mineral potential and the modernization of the legal framework is expected to be completed in May 2006.

- **Tourism.** We are seeking to attract investors to construct two new hotels in the national parks. In addition, the Rwanda Tourism and Hospitality College has commenced operation in April 2006 to train staff for the hospitality industry.

- **Export Processing Zone (EPZ).** RIEPA has developed the terms of reference for the development of an EPZ, which is expected to become operational in the second half of 2007.

- **Hides and skins.** A strategy paper for the sector will be completed by June 2006, including the possibility of establishing a leather development center. Moreover, we have repealed the ban on raw hides and skins, which we had temporarily imposed to encourage increasing the value-added in Rwanda.

- **New export products.** An export diversification study is currently being conducted, including on horticulture, fruits, handicrafts, and the ICT sector.

Electricity sector

30. **The Lake Kivu methane gas project is advancing as scheduled.** The project is expected to generate 35 MW of electricity (about the size of current generation) and result in a substantial reduction in power purchase tariffs to about one quarter of the current level. As planned, the costs for the government will not exceed 2 percent of 2005 GDP, consisting of (1) the government's equity share (Euro 3.96 million for a 30 percent stake in the project company); (2) a government soft loan (Euro 5 million) to the project company; (3) a government contribution to sponsor support for cost overruns (up to Euro 10 million); (4) a letter of credit (Euro 2.7 million) for offtake payments; and (5) an offtake guarantee of Elektrogaz's payment obligation to the company for power purchase in the form of bonds (Euro 10.7 million). As an additional enhancement for the project company, the government has requested the World Bank to provide a guarantee to backstop its political risk associated with the offtake arrangements (expected to be about Euro 12.5 million). For 2005, our costs amounted to the equity stake. For 2006, we have included in the program spending of Euro 5.6 million linked to the government soft loan. Senior loans will be provided by PTA Bank, Emerging Africa Infrastructure Fund (EAIF), the IFC, The Netherlands Development Finance Company (FMO), and Finnfund. The project sponsors have signed a mandate letter with the IFC and EAIF, who are jointly undertaking the due diligence and coordination with other financiers.

31. **We are also developing other energy sources.** Studies in cooperation with donors are undertaken on the viability of two hydropower projects. We are also focusing on several rural energy projects, which are scheduled to commence before year-end. These include a biomass project, which is expected to result in a more efficient production of charcoal and also involves an improvement of stoves to make them more economical and environment friendly. Moreover, there are projects on biogas, solar energy, and micro dams.

Financial sector

32. **NBR's supervisory powers continue to be strengthened.** We are incorporating comments on the amendments to the banking law from stakeholders and cabinet with a view to submitting them to parliament by end-September 2006 (performance criterion). Moreover, in cooperation with technical assistance from the Fund, the NBR will devise an action plan by end-2006 to enhance commercial banks' foreign exchange risk management, to set up the monitoring of new financial products such as leasing, and, jointly with the National Payments Council, address weaknesses in the SIMTEL payments system.

33. **We are in the process of developing an agenda for medium-term financial sector reform.** As reported in our memorandum of August 2005, the agenda will aim at (1) enhancing the legal and regulatory framework; (2) fostering the development of financial markets; and (3) broadening access to credit. While we encourage capital market development, we do not intend to provide any budgetary resources for the establishment of a stock exchange or a cooperatives bank. As we have focused on the implementation of the short-term FSAP recommendations in 2005, the donors meeting on the medium-term agenda has been delayed, possibly to December 2006.

Business environment

34. **Addressing the obstacles to trade identified in the Diagnostic Trade Integration Study (DTIS) will substantially improve the business climate and also reduce poverty.** In this regard, we will prioritize the DTIS' main recommendations and set up a system to monitor their implementation in the context of the Economic Development and Poverty Reduction Strategy (EDPRS). Moreover, we will develop an action plan to reduce the number of documents and signatures required for importation and exportation, thereby reducing the number of days taken for cross border trade.

- **To improve our road network,** we will establish a Road Agency charged with developing a medium-term agenda for road construction, rehabilitation and maintenance and also road-related policies, procurement for contracts and supervision of road works.

- **To remove the barriers to participation in commercial activities and trade**, the Private Sector Federation has started to establish Business Development Services, which are offering a range of services for small enterprises, including information dissemination, training, access to financing, networking and consulting. Moreover, in preparation for accession into the EAC, we will strengthen the customs department and review the customs code.

- **To improve the climate for investment**, we have undertaken a review of our business laws and designed a road map to improve existing institutional structures, followed by legal reforms to update or put in place business relevant legislation. To this end, Cabinet will approve by October 2006 draft laws on establishing a commercial registration agency and on intellectual property (benchmark).

Agricultural sector

35. **Increasing agricultural productivity and raising rural incomes will be essential to fighting poverty and enhancing growth.** Our agricultural strategy is based on four pillars. The first pillar focuses on improving irrigation. To this end, we have implemented pilot projects and will finalize by end-February 2007 a Master Plan to expand the successful pilots. Second, we will intensify our efforts to control soil erosion to increase the share of arable land under erosion protection to more than 50 percent by end-2006 from below 40 percent at end-2005. Third, to increase productivity, we are easing supply constraints on the use of fertilizer and also work at improving seed quality with a view to adopt and publish a national fertilizer distribution strategy by end-February 2007 (benchmark). The fourth pillar consists of integrating livestock development into land farming, including by strengthening veterinary services. The agricultural strategy is being supplemented by the gradual implementation of the recently adopted land law. To implement the law, we have started pilot projects on land registry and dispute resolution and will develop, with the assistance of DFID, a road map on rolling out these programs by end-2007.

F. Program Monitoring

36. **Macroeconomic unit at the Ministry of Finance.** We have hired new staff for the unit and we are developing a training program to strengthen macroeconomic management (including the coordination between fiscal and monetary policies) and the monitoring of the program.

37. **Conditionality and program reviews**. The first year of the proposed PRGF-supported program would be monitored through quantitative performance criteria for end-June and end-December 2006 and indicative targets for end-September 2006, as well as quarterly quantitative indicators. We have also set structural conditionality in the areas of public expenditure management, governance, and reforms in the financial sector, civil service, and agriculture. The first review under the PRGF arrangement, scheduled for completion by November 30, 2006, will review quantitative performance as of end-June 2006 and structural conditionality through end-September 2006. It will focus on public expenditure management, the energy sector, and private sector development.

38. **Technical memorandum of understanding (TMU).** The attached technical memorandum of understanding lays out the details of the program design and terminology. We have maintained the broad design of the PRGF arrangement during 2002-06.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks 2005
(In billions of Rwanda francs, unless otherwise indicated)
(Quantitative benchmarks*; and performance criteria on test dates**)

	2005 1/			
	Mar.*	Jun.**	Sep.*	Dec.*
Benchmarks and performance criteria				
Net foreign assets of the NBR (floor on stock) 2/				
Actual (program exchange rate)	133.5	139.0	137.9	185.6
Adjusted program	108.1	103.0	98.8	115.5
Program	109.5	108.3	103.5	101.6
Reserve money (ceiling on stock)				
Actual	58.0	59.2	59.2	62.6
Program	58.8	60.6	61.8	63.0
Net credit to the government (ceiling) 3/ 4/				
Actual	-8.0	-18.8	-21.4	-32.5
Adjusted program	3.3	-0.8	-0.5	-20.6
Program	1.9	-6.1	-5.2	-6.6
Domestic fiscal balance (floor on cumulative flow since Dec. 31, 2004)				
Actual	-1.1	-13.0	-43.7	-67.6
Adjusted program	-11.2	-30.6	-50.0	-83.6
Program	-12.4	-32.8	-48.4	-61.8
Total priority spending (floor on cumulative flow since Dec. 31, 2004)				
Actual	4.4	48.7	81.1	120.3
Adjusted program	23.8	55.6	85.3	119.4
Program	23.8	55.6	81.8	109.2
New nonconcessional external debt (ceiling on flow) 5/				
Actual (in million of US$)	0.0	0.0	7.2	0.0
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 6/				
Actual	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0
Stock of outstanding nonreschedulable external arrears (ceiling on stock) 7/				
Actual	0.00	0.06	0.0	0.0
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on cumulative net accumulation since Dec. 31, 2004)				
Actual	-3.4	-5.9	5.9	-7.0
Adjusted program	-3.3	-5.9	-17.3	-6.5
Program	-3.3	-5.9	-6.2	-6.5
Indicative targets				
Broad money (ceiling on stock) 2/				
Actual	191.3	201.3	200.8	219.6
Program	190.0	192.5	195.4	198.3
Extended Broad money (ceiling on stock) 2/				
Actual	214.8	229.5	229.5	250.9
Program	213.9	216.7	232.9	223.2
Memo items:				
Demobilization and reintegration expenditure				
Actual	1.0	2.2	4.7	7.5
Expected	2.2	4.4	6.6	8.8
Gross accumulated bills payable				
Actual	0.5	0.9	12.6	1.2
Expected	0.5	1.0	1.5	2.0
General budget support (in US$ million)				
Received	30.3	86.9	121.4	229.6
Expected	32.7	96.2	129.7	169.7
O*f which:* budget support grants (received)	29.9	80.6	113.7	197.7
O*f which:* budget support grants (expected)	32.7	77.2	110.7	150.7

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

1/ Approved on April 11, 2005.
2/ Evaluated at the following program exchange rates of Rf 566.9/US$ for 2005.
3/ From June 2005 onward, program monitors total net credit to government instead of net credit from the banking system.
4/ Numbers are cumulative from end-December 2004.
5/ The end-September benchmark was not met when the government guaranteed Elektrogaz' expenses related to the lease of generators.
6/ Ceiling on outstanding stock of external debt (excluding normal import-related credits) owed or guaranteed 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.
7/ Figures are in US$ dollars. Arrears of US$60 (sixty) were accumulated with BADEA in May 2005; they were repaid in July 2005. The Board granted a waiver for the nonobservance in August, 26, 2005. 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: Quantitative Performance Criteria and Benchmarks 2006
(In billions of Rwanda francs, unless otherwise indicated)
(Quantitative benchmarks*; and performance criteria on test dates**)

	2006			
	Mar.	Jun.**	Sep.*	Dec.**
Benchmarks and performance criteria				
Net foreign assets of the NBR (floor on stock) 1/				
Actual (program exchange rate)	...	...	...	...
Adjusted program	...	...	...	...
Program	212.9	221.3	203.7	172.4
Reserve money (ceiling on stock)				
Actual	...	...	...	...
Program	64.9	68.4	69.8	70.8
Net credit to the government (ceiling on flow) 2/				
Actual	...	...	...	...
Adjusted program	...	...	...	...
Program	-23.8	-41.5	-24.1	-10.0
Domestic fiscal balance (floor on flow) 2/				
Actual	...	...	...	...
Adjusted program				
Program	-19.2	-42.2	-61.1	-79.4
Total priority spending (floor on flow) 2/				
Actual	...	...	...	...
Adjusted program	...	...	...	...
Program	32.1	70.5	107.1	144.0
New nonconcessional external debt 3/				
Actual	...	...	...	...
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock) 3/ 4/				
Actual	...	...	...	...
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) 5/				
Actual	...	...	...	...
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow) 2/				
Actual	...	...	...	...
Program	-1.8	-3.5	-5.3	-7.0
Indicative targets				
Broad money (ceiling on stock) 1/				
Actual	...	...	...	...
Program	219.5	224.0	235.7	243.1
Extended Broad money (ceiling on stock) 1/				
Actual	...	...	...	...
Program	250.8	256.0	269.3	277.8
Memo items:				
General budget support (in US$ million) 6/				
Received	...	...	...	...
Expected	16.0	102.5	117.1	123.1
O*f which:* budget support grants (received)	...	...	...	...
O*f which:* budget support grants (expected)	16.0	102.5	117.1	123.1
Budgetary "baseline grants" (TMU, para. 8) 6/	16.0	95.5	103.1	103.1

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

1/ At the program exchange rate of Rf 553.7/US$ for 2006.
2/ Numbers are cumulative from December 31, 2005.
3/ This is a continuous performance criterion.
4/ Excludes arrears on obligations that are subject to rescheduling.
5/ Ceiling on outstanding stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central government, local government, or the NBR with original maturity or up to, and including one year.
6/ Excluding external donor financing for demobilization and peacekeeping.

Table 3. Rwanda: Structural Conditionality

Publication of an audit report by the Auditor General of the 2005 UN peace keeping activities in Darfur.		Prior Action for the new PRGF
Issue a circular on bank reconciliations to line ministries, provinces, autonomous agencies and extra-budgetary funds, setting a deadline for the reconciliation process, prescribing a reporting mechanism, and setting penalties for noncompliance.		Prior Action for the completion of the sixth review
Prepare an analysis of government bank accounts with the NBR, identifying which of them should be closed (mainly dormant project accounts), brought under the TSA, or kept separately for operational purposes.		Prior Action for the completion of the sixth review
Public expenditure management		
Issue draft accounting instructions, forms and procedures for budget users.	December 31, 2006	Benchmark
Issue guidelines on doing bank reconciliations and accounting for line ministries, provinces, autonomous agencies, and extra-budgetary funds.	October 31, 2006	Benchmark
Issuing the first report of a monitoring system of project accounts. The report will show (1) the in- and outflows (the latter broken down into foreign exchange and domestic spending) on a quarterly basis of project accounts at the NBR listed in paragraph 42 of the TMU for January-March 2006 and April-June 2006; and (2) rolling spending plans for the accounts on a quarterly basis, broken down into foreign exchange and domestic spending for July 2006-June 2007.	August 31, 2006	Performance Criterion
Governance		
Reconcile the data bases maintained by the Ministry of Finance and the National Bank of Rwanda of the debt service payments as of end-June 2006.	September 30, 2006	Benchmark
Cabinet to approve draft laws on establishing a commercial registration agency and on intellectual property.	October 31, 2006	Benchmark
Financial sector		
Submit to Parliament amendments to the banking law to bring the legal framework for banking supervision more in line with international best practice (Basel Core Principles). The amendments to the banking law shall, as a minimum, and consistent with the Aide-Memoire entitled "*Revision of Legal Framework for Banking Supervision – Amendments to Central Bank and Banking Law*" dated December 2005: (i) provide limits on large exposures and connected lending, i.e., by eliminating carve-outs for mortgage collateral, and prudential safeguards against connected lending; (ii) grant NBR power to approve and refuse the acquisitions of significant ownership holdings and powers to enforce refusal decisions in cases of non-compliance; (iii) provide NBR with powers to regulate banks' corporate governance; (iv) provide NBR with a set of specific corrective measures against unsound banking practices; and (v) provide a framework for NBR to impose reorganization and liquidation measures on banks, whereby the role of the special commissioner is strengthened.	September 30, 2006	Performance Criterion
Civil service reform		
Undertake a comprehensive review of the wage structure of the public sector, including fringe benefits and wages included in transfers to local governments.	December 31, 2006	Benchmark
Agricultural sector		
Adopt and publish a national fertilizer distribution strategy.	February 28, 2007	Benchmark

Rwanda—Technical Memorandum of Understanding

May 18, 2006

1. This technical memorandum sets out the definitions for quantitative targets under which Rwanda's performance will be assessed and provides specifics on areas of structural conditionality. Monitoring procedures and reporting requirements as well as other program definitions are also specified.

I. Quantitative Program Targets

2. Performance criteria for June 30, 2006, and December 31, 2006 as well as indicative targets for September 30, 2006 are proposed to be established with respect to:

- floors on the domestic fiscal balance of the central government (DFB);
- ceilings on the net credit to the central government (NCG);
- floors on priority spending;
- ceilings on the net accumulation of domestic arrears of the central government;
- floors on the Net Foreign Assets (NFA) of the National Bank of Rwanda (NBR);
- ceilings on reserve money; and
- ceilings on the outstanding stock of external debt with original maturities of one year or less owed or guaranteed by the public sector.

3. Performance criteria that are applicable on a continuous basis are proposed to be established with respect to the ceilings on new external payment arrears of the public sector and new nonconcessional debt of the public sector.

4. Indicative targets are proposed to be established for end-June 2006, end-September 2006, and end-December 2006 for ceilings on broad money and extended broad money.

A. Institutional Definitions

5. The **central government** comprises the treasury and line ministries.

6. The **public sector** comprises the central government, local governments, public enterprises (including Rwandatel, Electrogaz, Ocircafé, Ocirthé, Prime Holdings, and ONP), and the NBR.

B. Targets Related to the Execution of the Fiscal Program

Domestic fiscal balance of the Central Government (DFB)

7. A floor applies to the DFB, which is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006 and end-December 2006 targets.

8. **Definition**. The domestic fiscal balance is defined as domestic revenue (excluding grants, in particular the capital grant in connection with the IMF's MDRI debt relief) minus domestic spending. Domestic spending is defined as current expenditure (excluding external interest due, spending related to Rwandese troops involved in the UN peace-keeping efforts (Table 1), and spending related to the World Bank-led demobilization and reintegration program) plus domestically-financed capital expenditure on a payment order basis, plus net lending.

9. **Adjusters.**

- The floor on the DFB will be *adjusted upward* (that is, the deficit target will be reduced) by the amount of contingent spending, which is not undertaken. Contingent spending is US$20 million (about one percent of GDP). It will be released in equal portions for priorities and nonpriorities in the amount that actual budgetary grants exceed "baseline grants" (see below) IF the monetary program is on track as evidenced by meeting the quarterly targets on reserve money. Budgetary grants include HIPC Initiative-related grants, but exclude grants related to AU peace keeping activities and for the demobilization program as well as capital grants related to the development budget. Quarterly programmed budgetary grants and quarterly "baseline grants" are also provided in Table 2 of the MEFP.

- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure deemed integral to a specific privatization operation (to be recorded under net lending) IF the difference between privatization revenue and this expenditure is positive (see also paragraph 12).

- The floor on the DFB will be *adjusted downward* (i.e., the deficit target will be increased) by the amount of expenditure for food imports (in addition to US$8 million included in the program) (see also paragraphs 12 and 23).

10. **Reporting requirement.** Data on the DFB and its adjusters will be transmitted, with detailed explanations, on a monthly basis within four weeks of the end of each month.

Net credit to the Central Government (NCG)

11. A ceiling applies to the NCG, which is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006 and end-December 2006 targets.

12. **Definition.** For program monitoring purposes, the NCG will be calculated as the change from end-December 2005 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:

- 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

- total government deposits with the banking system of the central government, including the main treasury account, line ministries, the fund for assistance to genocide survivors, Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, and any other of the 15 autonomous agencies. Thus, this definition excludes any government deposits, over which the central government does not have any direct control (i.e., for provinces and districts, project accounts, counterpart funds, *fonds publics affectés*, and privatization proceeds with the NBR).[1] In particular, NCG is not affected by credit to or deposits of public enterprises and autonomous public agencies.

13. **Adjusters.**

- The ceiling on NCG will be *adjusted upward* by the amount of any negative difference between actual and "baseline grants" up to a maximum adjustor of US$30 million, evaluated in Rwanda francs at the program exchange rate.

- The ceiling on NCG will be *adjusted downward* by any positive difference between actual and programmed budgetary external grants and loans.

- The ceiling on the NCG will be a*djusted downward* by the amount of privatization revenue IF the difference between this revenue and any expenditure deemed integral to the privatization operation is positive (see also paragraph 8).

- The ceiling on the NCG will be *adjusted upward* by the amount of expenditure for food imports (in addition to US$8 million included in the program) in the case of a food emergency (see also paragraph 8 and 23).

14. **Reporting requirement**. Data on the NCG (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits) and its adjusters will be transmitted on a monthly basis within three weeks of the end of each

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[1] The target excludes any transfers from the deposits over which the government has limited control into other government deposits.

month. Deposits of the government with the NBR and with the commercial banks will be separated from the deposits of the public enterprises and autonomous public agencies.

Priority expenditure

15. A floor applies to priority spending of the central government, which is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006 and end-December 2006 targets.

16. **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 a summary of the SIBET output[2] and a list of the main programs. It includes US$8 million of priority spending, which has been set aside as a contingency in the case of a food deficit. If the food situation at end-April does not require government intervention, it will be used for other priority spending.

17. **Adjuster.**

- The floor will be *adjusted downward* by contingent priority spending, which is not undertaken (see paragraph 8).

18. **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.

Net accumulation of domestic arrears of the Central Government

19. A ceiling applies to the net accumulation of domestic arrears of the central government, which is measured cumulatively from December 31, 2005 for the end-June, end-September and end-December 2006 targets.[3]

20. **Definition.** The net accumulation of arrears is defined as the difference between the gross accumulation of new domestic arrears (measured as the difference between payment orders and actual payments related to payment orders issued) and gross repayment of any arrears outstanding on December 31, 2005 (including repayment of float in 2005 and the repayment of older arrears).

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[2] The computerized SIBET expenditure management system tracks priority spending at the program and sub-program levels.

[3] A negative target thus represents a floor on net repayment.

21. **Reporting requirement.** 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.

C. Targets for Monetary Aggregates

22. **Net foreign assets of the National Bank of Rwanda (NFA)**

A floor applies to the NFA of the NBR for the end-June 2006, end-September 2006 and end-December 2006 targets.

23. **Definition.** NFA 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 NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets are to be excluded; such assets include, but are not limited to, reserve assets used as collateral or guarantee for third party external liabilities. Foreign assets and foreign liabilities in U.S. dollars are converted to Rwanda francs by using the U.S. dollar/Rwanda franc program exchange rate.[4] 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).

24. **Adjusters** (see paragraph 12 for symmetric adjusters to the NCG, including definitions)

- The floor on NFA will be *adjusted downward* by the amount of any negative difference between actual and "baseline grants" up to a maximum adjustor of US$30 million, evaluated at the program exchange rate.
- The floor on NFA will be *adjusted upward* by any positive difference between actual and programmed budgetary external grants and loans.
- The floor on NFA will be *adjusted downward* by the amount of expenditure for food imports (in addition to US$8 million included in the program) in the case of a food emergency (see also paragraph 8 and 12).

25. **Reporting requirement.** Data on foreign assets and foreign liabilities of the NBR will be transmitted on a weekly basis within seven days of the end of each week. Data on the NBR's foreign exchange liabilities to commercial banks (held as required reserves with the

[4] The program exchange rate for the 2006 program is set at RF 553.7 = US$1 (actual exchange rate of October 21, 2005).

NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money

26. A ceiling applies to the stock of reserve money for the end-June 2006, end-September 2006 and end-December 2006 targets.

27. **Definition.** Reserve money for the monetary program is defined as currency in circulation, reserves of deposit money banks (excluding NBR borrowing from deposit money banks on the money market[5] but including cash in vault held by commercial banks), and deposits of public enterprises (including Caisse Sociale du 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). Reserve money excludes the deposits of the Caisse d'Épargne du Rwanda (C.E.R.) with the NBR up to RF 1 billion, the dormant accounts up to RF 1.4 billion, and import deposits placed at the NBR (*cautions à l'importation*) up to a maximum amount of RF 150 million.

28. **Adjuster.**

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks by the amount of (new reserve ratio - program baseline reserve ratio) multiplied by the reservable deposit liabilities in commercial banks.

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

Broad money

30. A ceiling applies to the stock of broad money and extended broad money for the end-June 2006, end-September 2006 and end-December 2006 targets.

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

32. **Reporting requirement**. The balance sheets of the commercial banks and other banking institutions, both for the individual institutions and for the respective sector in

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[5] Borrowing by the NBR from the commercial banks on the money market is included under the net domestic assets of the NBR (netted out from commercial bank borrowing from the NBR).

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, showing all items as in NBR's weekly balance sheet.

D. Limits on External Debt

Limit on short-term external debt of the public sector

33. A zero ceiling applies to the outstanding stock of external debt with original maturities of one year or less owned or guaranteed by the public sector or other agencies on behalf of the central government. The ceiling is measured cumulatively from December 31, 2005 for the end-June 2006, end-September 2006, and end-December 2006 targets.

34. **Definition.** The definition of "debt", for the purpose of the limit, is set out in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000) and also commitments for which value has not been received. Excluded from this performance criterion are normal import-related credits, defined as 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 are self-liquidating; they contain pre-specified limits on the amounts involved and the times at which payments must be made; they do not involve the issuance of securities.

35. **Valuation.** The amount of debt will be evaluated at the corresponding quarterly exchange rates published in the IMF's International Financial Statistics.

36. **Reporting requirement**: Data on debt and guarantees will be transmitted, with detailed explanations, on a monthly basis within five weeks of the end of each month.

Contracting or guaranteeing of new nonconcessional external debt of the public sector

37. The public sector or other agencies on behalf of the central government will not contract or guarantee new nonconcessional external debt (as specified in paragraph 38) with original maturity of more than one year This is a continuous performance criterion

38. **Valuation.** The amount of debt will be evaluated at the corresponding quarterly exchange rates published in the IMF's International Financial Statistics.

39. **Definition.** This performance criterion applies to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85) of August 24, 2000) and also to commitments contracted or guaranteed for which value has not been received. The use of Fund resources are excluded from the criterion. Included are leases and other instruments giving rise to external liabilities, contingent or otherwise.

40. For program purposes, a debt is **concessional** if it includes a grant element of at least 50 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt (i.e., the grant element is equal to the nominal value minus NPV divided by the nominal value). The NPV of debt at the time of its disbursement is calculated by discounting the future stream of payments of debt service due on this debt. The discount rates used for this purpose are the currency-specific commercial interest reference rates (CIRRs), as published by the OECD. For debt with a maturity of at least 15 years, the ten-year average CIRR will be used to calculate the NPV of debt and, hence, its grant element. For debt with maturity of less than 15 years, the six-month average CIRR will be used. 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.

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

Limit on new external payment arrears

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

E. Structural Conditionality

43. The following project accounts will be monitored on a quarterly basis (see performance criterion on the monitoring of project accounts in paragraph 16 of the memorandum of economic and financial policies): project developpement districts et villes; CDF/programme de decentralisation; Minecofin—CEDP-SME Investment Fund; PDDC/MINALOC/H094 RW; Minisante Global Alliance for Vaccination; Projet Vct Integre; Global Fund Controlling Tuberculosis; Global Fund 3 HIV/AIDs; Global Fund 3 Control Malaria; The Nonproject Grant Aid Assistance; MIGEPROFE PRPAF Fonction. Cellule; MINECOFIN-CEDP-SME Investment Fund; RDRP/Multi-Donor Trust Fund; Basket Fund Health Human Resources; Global Fund 5 Assuring Access; and MINALOC-CDF-Financement Suisse.

F. Other Data Requirements for Program Monitoring

44. Other data will be reported on a regular basis for surveillance purposes (see Table 3).

Table 1. Reimbursements and Cost for Peacekeeping Efforts, 2005–09 1/
(In U.S. dollars)

	2005 2/	2006	2007	2008	2009	2005–09
UN disbursements	**8,917,136**	**11,316,532**	**24,672,000**	**24,672,000**	**24,672,000**	**94,249,668**
AMIS Darfur	7,412,144	8,309,476	21,662,016	21,662,016	21,662,016	80,707,668
UNAMIS - Kharthoum	1,504,992	3,007,056	3,009,984	3,009,984	3,009,984	13,542,000
Costs	**16,215,724**	**18,525,192**	**20,293,889**	**18,202,737**	**18,169,947**	**91,407,489**
Uniform	5,827,444	7,936,561	6,581,169	6,930,807	7,578,000	29,026,538
Equipments	5,307,600	5,563,486	9,361,842	5,657,895	3,645,000	24,228,223
Training & Operation Funds	5,080,680	4,446,197	3,771,930	5,035,088	6,368,000	19,621,215
EASBRIG & CEEAC	0	578,947	578,947	578,947	578,947	2,315,789

1/ Based on the assumption that the UN will take over the financing of the mission with effect from Sept. 2006 so that UN rates are applied for all troops.
2/ Payments were outstanding as of March 31, 2006. A repayment of US$ 3.1 million is expected for 2006.

Table 2. Rwanda: Priority Expenditure 2005-06
(In millions of Rwanda francs)

	2005 Actual	**2006** Budget
Wages	**26,156**	**31,086**
Internal affairs	4,319	4,929
Agriculture	299	257
Education	17,098	20,957
Youth and sport	15	131
Health	2,490	3,396
Decentralization	217	238
Other	1,717	1,178
Goods and services	**35,499**	**45,486**
Internal affairs	3,830	3,648
Agriculture	1,592	1,354
Education	12,495	15,528
Youth and sport	396	153
Health	5,504	7,533
Infrastructure	7,323	9,354
Decentralization	1,174	2,256
Other	3,185	5,659
Transfers and exceptional	**38,372**	**49,607**
Internal affairs	18	531
Agriculture	1,970	4,400
Export promotion	6,234	6,093
Education	16,120	19,354
Youth and sport	178	316
Health	5,087	5,889
Infrastructure	2,867	1,111
Decentralization	4,358	6,647
Other	1,540	5,267
Capital	**20,828**	**17,867**
Internal affairs	0	0
Agriculture	2,003	691
Export promotion	1,041	700
Education	474	1,416
Youth and sport	0	0
Health	2,476	855
Infrastructure	10,347	4,802
Decentralization	0	0
Energy	0	3,700
Other	4,486	5,702
Total	**120,855**	**144,046**
Internal affairs	8,168	9,108
Agriculture	5,864	6,702
Export promotion	7,276	6,793
Education	46,187	57,255
Youth and sport	590	600
Health	15,558	17,674
Infrastructure	20,537	15,267
Decentralization	5,748	9,140
Energy	0	3,700
Other	10,928	17,806

Source: Rwandese authorities.

Table 3. Reporting Requirements for Surveillance

	Frequency of Data[6]	Frequency of Reporting[6]	Frequency of publication[6]
Exchange Rates	D	W	M
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	W	W	M
Reserve/Base Money	W	W	M
Broad Money	M	M	M
Central Bank Balance Sheet	W	W	M
Consolidated Balance Sheet of the Banking System	M	M	M
Interest Rates[2]	M	M	M
Consumer Price Index	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]– Central Government	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	A	A	A
External Current Account Balance	A	SA	A
Exports and Imports of Goods and Services	A	A	A
GDP/GNP	A	SA	A
Gross External Debt			

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I); Not Available