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

January 10, 2007

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, January 10, 2007

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

Dear Mr. de Rato:

1. The Government of Rwanda is implementing a financial and economic program supported under the Fund's Poverty Reduction and Growth Facility (PRGF), which was approved by the Executive Board on June 5, 2006. We hereby transmit the Memorandum of Economic and Financial Policies (MEFP), which reviews recent economic developments and progress in the implementation of our program in the first half of 2006; and sets out policies the Government intends to pursue in the remainder of 2006 and 2007.

2. Program implementation under the PRGF arrangement has been broadly on track. All quantitative performance criteria and indicative targets for end-June 2006 were met with the exception of the performance criterion (PC) on priority spending. The latter was affected by technical difficulties in the Lake Kivu methane gas project for electricity generation, which resulted in a spending delay. With these difficulties now resolved, about half of the spending was effected in September and the other half will be effected in December. With an acceleration in other priority spending, the end-September target on priority spending was met and we also expect to meet the end-December target. On the structural front, the end-September 2006 PC on the submission to parliament of amendments to the banking law was met. However, issuing the first quarterly report of a monitoring system of project accounts, an end-August 2006 PC, was delayed. It was implemented on January 9 as a prior action. 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 and the structural PC on the issuance of the report on the monitoring of project accounts.

3. In support of our policies described in the MEFP, the Government of Rwanda requests the completion of the first review under the PRGF arrangement and the disbursement of the second loan of SDR 1.14 million.

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 it will take any further measures that may become appropriate for this purpose. The Government of 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.

5. The Government of Rwanda authorizes the publication and distribution of this letter and MEFP together with the related staff report.

Sincerely yours,

/ s /
François Kanimba
Governor
National Bank of Rwanda

/ s /
James Musoni
Minister of Finance and
Economic Planning

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

RWANDA: MEMORANDUM OF ECONOMICS AND FINANCIAL POLICIES
(January 10, 2007)

1. **Rwanda's medium-term economic program is supported by an arrangement under the Poverty Reduction and Growth Facility over 2006-2009.** We are committed to reducing poverty through preserving macroeconomic stability, boosting economic growth, and implementing policies targeted at improving the livelihood of the poor. This memorandum is consistent with the goals established in the Poverty Reduction and Strategy Paper and three annual progress reports. The memorandum reviews the recent performance under the program and describes the policies and targets for the remainder of 2006 and 2007.

I. RECENT ECONOMIC DEVELOPMENTS

2. **Growth remains strong, but inflation has been rising.** GDP growth is expected to exceed 4 percent in 2006, owing to buoyant activity in manufacturing as well as the services and financial sectors, which are offsetting a decline in agricultural production. 12-month end-of-period inflation has increased to 11 percent in November, owing mostly to increased food and energy prices, but annual average inflation in November was at 8.3 percent.

3. **The fiscal program has remained broadly on track through September 2006.**

- Fiscal policy in the first half of 2006 was tighter than programmed because of strong revenue. Revenue over performed by about $\frac{3}{4}$ percent of GDP, reflecting mostly an increase in payroll-related taxes due to a widening of the tax net and a broadening of the tax base to fringe benefits. With overall spending broadly in line with the program, the end-June targets on the domestic deficit was met by a wide margin.¹ However, technical delays in the Lake Kivu project led a postponement of the spending, and thus end-June priority spending was below its target by 0.1 percent of GDP.²
- Preliminary data for September point to continuing revenue buoyancy. Thus, despite some unforeseen outlays, the September target on the domestic deficit was met (as were the ones on priority spending and arrears clearance). The end-September target on the net credit to government was met by a small margin. However, a discrepancy of about Rf 10 billion with revenue and expenditure data indicate that this reflected that expenditure released to budgetary agencies was not yet effected.

¹ Also the end-June target on domestic arrears clearance was met.

² Without this delay, the end-June target would have been met.

4. While the reserve money targets for end-June and end-September 2006 were met, monetary management was rendered difficult because of:

- *A larger-than-programmed domestic spending component of the budget.* The National Bank of Rwanda (NBR) could not step up the sales of foreign exchange sufficiently to keep reserve money within the program limits and thus had to resort to sterilization using domestic instruments. As a result, consolidated domestic debt stayed broadly at its end-2005 level (instead of being reduced as envisaged under the program) and net international reserves exceeded both the end-June and end-September targets.
- *A large increase in broad money,* owing mostly to an increase in private sector credit.³ Credit increased by 26 percent (year-on year) in September, pushing broad money well beyond the indicative target (by 8 percent).

5. The external current account is expected to be tighter than programmed. This reflects mostly lower-than-programmed government imports during January-September, and the NBR's increased sterilization of government spending through domestic instruments. Exports are projected to slightly exceed projections, due to higher volumes in coffee and tea. The nominal exchange rate depreciated by 1.5 percent during January-September, while there was a 5 percent appreciation in the real effective exchange rate .

6. Substantial progress has been made on the structural front.

- To bring *banking supervision* in line with international best practice, amendments to the banking law were submitted to Parliament in September (performance criterion). Moreover, in June 2006, the NBR closed 9 mismanaged Microfinance Institutions (MFIs), which had experienced significant deposit withdrawals. To help stabilize the situation and avoid contagion, we reimbursed deposit holders for half of their net deposits (about 0.1 percent of GDP) and appointed the Union des Banques Populaires (UBPR) to administer the recovery of outstanding loans.
- To enhance *public financial management*, guidelines for undertaking bank reconciliations and accounting for government agencies were issued in mid-2006 (end-October benchmark). To improve the monitoring of project accounts (end-August performance criterion), the backward-looking part on historical quarterly disbursements and expenditures was completed on time, while the forward-looking part on quarterly projections for January-December 2007 was implemented in

³ Broad money was also affected by a temporary large deposit of a repatriated private investment.

January (prior action). The Organic Budget Law (OBL) was gazetted in September and its supporting financial regulations were approved by Cabinet in October.

- To facilitate *decentralization*, Cabinet approved the creation of a Decentralization Unit in the Ministry of Finance in October.
- To strengthen *debt management*, we have reconciled in September the debt databases maintained by the Ministry of Finance and the NBR as at end-June 2006 (benchmark). The two institutions now maintain a unified database.
- To improve the investment climate, Cabinet approved the *draft laws on establishing a commercial registration agency and on intellectual property* in June (benchmark) and the laws are now at parliament.
- As a long-term solution to the management of *Prime Holdings' two hotels*, a 30-year lease contract has been signed with an international hotel chain.

II. MEDIUM-TERM STRATEGY

7. **As outlined in our MEFP of May 2006, our medium-term strategy is based on the following pillars, which will also be reflected in the new PRSP (expected to be finalized in the first half of 2007):**

- Removing obstacles to *private sector development* to make it the engine of growth. To this end, we will continue building human capital through better health and education and address Rwanda's poor infrastructure links, insufficient and expensive energy supply, its shallow financial system, and high costs of doing business.
- Enhancing *agricultural development and trade* as vehicles to empower the poor by having them participate in economic activity.
- Improving the *delivery of public services* through better expenditure management, civil service reform, and better analyses of the links between policies and growth and poverty reduction.
- Relying on sustainable *financing sources* with an emphasis on grant financing and raising the revenue ratio in the long run.

While our medium-term macroeconomic framework is based on prudent projections for growth and external assistance, we believe that that steadfast implementation of our reform agenda is likely to lead to substantially higher-than-projected growth and we also hope that it could facilitate higher levels of external assistance. Moreover, to further improve the policy dialogue with stakeholders and development partners, starting with the new PRSP, we will maintain a rolling medium-term expenditure and macroeconomic framework.

III. POLICIES FOR THE REMAINDER OF 2006

8. **Despite unforeseen outlays, we expect to meet most end-2006 fiscal targets.** Revenue over performance is expected to more than cover unanticipated spending for restocking the fuel reserve, a transfer to the deposit holders of the recently closed MFIs, and a higher-than-anticipated domestic interest bill. However, if AU reimbursements of our peacekeeping efforts continue to be delayed (see paragraph 15), it is possible that we will not meet the end-2006 target on net credit to government.

9. **To prevent the recent credit expansion from fueling inflation, the NBR will maintain a tight monetary policy.** It will continue to monitor inflation and private sector credit and stand ready to tighten the stance, if needed. Moreover, the NBR audited a bank, which had shown a particularly large increase in the consumer credits. As this audit found that the credits had not been provided with sufficient guarantees, the bank has now slowed down the pace of granting new credits.

IV. THE PROGRAM FOR 2007

10. **Our policies in 2007 will continue to safeguard macroeconomic stability while laying the base for stronger medium-term growth.** They are based on a real growth rate of 4½–6½ percent, keeping inflation at 5 percent, and a level of international reserves of at least 4.3 months of imports. Macroeconomic and structural policies will focus on improving the living standards of the poor, and growth-enhancing investments and reforms.

A. Macroeconomic Program

11. **Managing the domestic demand impact of fiscal policies will lie at the heart of our macroeconomic policies.** The domestic deficit (excluding spending on demobilization and peace keeping) is projected to increase by about 1 percent of GDP compared with 2006, financed by higher aid flows, but also some draw down of the NBR's reserves. Thus, pressures for a real exchange rate appreciation are expected to continue and could be exacerbated by a likely drawdown of project accounts.⁴ To protect the monetary program and ensure that fiscal policy is not crowding out investment, we will, if grants exceed program projections, release any further spending (so called "contingent spending," see paragraph 14) only in the context of the second review under the PRGF of macroeconomic developments.

⁴ The programmed draw down of project deposits in 2006 (which stood at 5 percent of GDP at end-2005) did not materialize until September 2006. We are now projecting a partial draw down during 2007.

Fiscal Policy

12. **Fiscal policy is guided by the following main considerations:**⁵

- On the *revenue front*, we will maintain the revenue-to-GDP ratio at its 2005 level of 15 percent of GDP, despite a revenue loss of almost ½ percent of GDP from the removal of the Magerwa warehouse handling fees and a reduction in the corporate tax rate. Our revenue measures are described in paragraph 13.
- The focus on *expenditure* lies in increasing the share of priority spending in the budget while improving the quality of public services. Given uncertainties related to weather conditions, the program continues to include an adjuster allowing an increase in the deficit and a commensurate reduction in net foreign assets for food imports related to a food emergency.

2007 Budget

13. **With respect to revenue measures, we have:**

- Implemented a tax on mobile and fixed telephone usage (revenue gain of 0.1 percent of GDP);
- Increased the excise tax on cigarettes (revenue gain of about 0.1 percent of GDP);
- Introduced licenses for importers (replacing part of the Magerwa loss; revenue gain of about 0.1 percent of GDP);
- Increased the reference price on petroleum (revenue gain of about 0.1 percent of GDP).

These measures are expected to offset the revenue loss. In the case of a shortfall, we will increase the reference prices for petroleum products. Moreover, on the basis of a survey on the informal sector, we will study ways to increase our tax base in the medium term.

14. **The budget focuses on improving the living standards of our population while boosting the economy's productivity.** Spending will increase by about 2 percent of GDP and could increase further, including through the release of contingent spending of about 1 percent of GDP (half of which is for priorities) and spending for education through the Fast

⁵ While the budget submitted to Parliament was not fully in line with program understandings, amendments were made during the budget discussions and the published budget is in line with the program.

Track Initiative of about 1 percent of GDP.⁶ In releasing contingent spending, we will ensure that more than half is going to priorities (in particular rural terracing, the common development fund, energy savings devices, forestation and road maintenance).

Fiscal Program, 2006-07
(Percent of GDP)

	2006	2007 without conting.	2007 with conting.
Revenue	15.0	15.0	15.0
Expenditure (excl. foreign financed projects and interest)	21.9	22.9	24.0
Priority	10.9	12.5	13.0
Nonpriority	8.9	8.8	9.4
Domestic interest	0.8	0.6	0.6
Peacekeeping operations	0.8	0.7	0.7
Demobilization	0.5	0.3	0.3
Domestic fiscal deficit (excl. AU peacekeeping and demobilization)	-5.6	-6.8	-7.9

- Priority spending* will increase for both social sectors and enhancing the productivity of the economy. An increase in the capitation transfers (i.e., funds provided per pupil) by 60 percent will allow to improve the quality of teaching (see paragraph 15). Moreover, the allocation to the water sector has increased substantially to provide access to safe water to a larger part of the population. Allocations have also been made to establish land offices in districts, which will start the registration of land ownership (the titles could be used as collateral for bank lending). To address the issue of limited and expensive electricity supply, we will continue financing the Lake Kivu project, and start several hydropower electricity projects. The budget also covers Electrogaz's costs related to the rental of diesel generators and the fuel cost of one of the diesel generators (of 5MW) to avoid a further increase in electricity tariffs, which would adversely affect the private sector (see paragraph 15). These subsidies will be for 2007 only as we expect a heavy fuel generator to become operational by end-2007, which would replace some of the more expensive diesel generators. Part of the increase in priority spending (about 0.5 percent of GDP) is financed through the

⁶ As long as additional grants are available, the program would allow an increase in spending beyond contingent spending and the education spending if it is used for priorities.

MDRI debt relief, which will be used for improving the rural water supply, and spending related to the Lake Kivu project.

**Priority spending
(Percent of GDP)**

	2006	2007	2007
		w/o cont.	with cont.
Priority	10.9	12.5	13.0
Agriculture, land, and water	0.7	1.4	1.5
Health	1.4	1.6	1.6
Education	4.5	4.8	4.8
Infrastructure and energy	1.5	2.0	2.3
Export and investment promotion	0.5	0.3	0.4
Internal security	0.7	0.7	0.7
Decentralization	1.0	1.3	1.3
Other	0.6	0.5	0.5
<i>Memorandum items:</i>			
Use of MDRI relief	0.5	0.5	0.5
Water	0.0	0.2	0.2
Lake Kivu	0.3	0.3	0.3
Food imports	0.2	0.0	0.0

- Nonpriority spending* would fall slightly as a percent of GDP (and increase by about ½ percent of GDP including contingent spending). This includes about 0.4 percent of GDP for social cohesion (gacaca courts, genocide survivors, prison feeding, repatriation of refugees), 0.6 percent of GDP for administrative issues (including 2 new important embassies, an increase in the transfer to the Rwanda Revenue Authority, new identity cards, the establishment of the accountant general's office and arbitration courts, and the rehabilitation of laboratories for quality control), and 0.3 percent of GDP for ICT, feasibility studies, and new energy savings devices. There also is a substantial decline in some one-off items compared with 2006.

**Nonpriority Spending
(Percent of GDP)**

	2006	2007 without cont.	2007 with cont.
Nonpriority	8.9	8.8	9.4
Gacaca courts	0.1	0.3	0.3
Fund for genocide survivors	0.7	0.8	0.8
Refugee repatriation	0.0	0.1	0.1
Prison feeding and rehabilitation	0.3	0.3	0.4
New embassies in Sudan and the Netherlands	0.4	0.5	0.5
Identity card	0.0	0.1	0.1
Establishment of the Accountant General's Office	0.0	0.1	0.1
Establishment of arbitration courts	0.0	0.1	0.1
Rwanda Revenue Authority	0.4	0.5	0.5
Rehabilitation of special laboratories for quality control	0.4	0.6	0.6
Full-year salary impact from new hirees	0.00	0.05	0.05
Energy savings devices	0.00	0.01	0.03
New ICT projects	0.0	0.0	0.1
Feasibility studies for roads, electricity lines	0.0	0.0	0.2
Elections	0.3	0.2	0.2
Military spending	2.5	2.4	2.4
Reimbursing deposit holders of bankrupt MFIs	0.1	0.0	0.0
Restocking of fuel	0.2	0.0	0.0
Transfer to central bank for losses in 2005	0.3	0.0	0.0
Other	3.2	2.9	3.2

15. **On specific spending items:**

- **AU peace keeping in Darfur.** The AU had agreed to reimburse Rf 9.4 billion in 2006 for outlays related to peace keeping activities, but has, so far, provided only a partial reimbursement of Rf 3.1 billion. While we would be willing to continue our efforts, we are concerned that the ensuing financial burden would hamper our own development and will thus review the situation by January 2007. To monitor the costs associated with the peace keeping, the Auditor General will conduct an audit of the spending in 2006 expenditures that will be published by end-March 2007.

- **Military spending.** Military spending is about 2.4 percent of GDP due to an increase in wages for conscripts, implemented in 2006.

This restores their salaries in real terms as of 2000. Our total military outlays are as indicated in the table below.

Military spending
(Billions of Rwandese francs)

	2006		2007
	Program	Rev. Proj.	
Wages	17.9	21.0	21.0
Current spending	9.4	9.4	10.7
Transfers	1.3	1.3	1.3
Capital	0.8	0.8	1.2
Total	29.4	32.5	34.2
Total as percent of GDP	2.23	2.47	2.37

- **Stipends for tertiary education students.** To reallocate funds from tertiary to lower

education, we are designing a plan to target stipends for tertiary students with a view to gradually reduce the share of students with scholarships to half by 2010. The implementation plan will be completed by end-June 2007.

- **Capitation grant for primary education.** The increase in the capitation grant will allow districts to improve the quality of education by hiring more teachers and providing districts and schools with more control of incentive schemes to reduce teacher absenteeism. With respect to the latter, the ministry of education is designing performance guidelines and contracts, which would be signed between districts and schools. The capitation grants will stay at Rf 2,500 per pupil with the balance of Rf1,500 to be released after contract signature.
- **Electricity tariff.** We have adopted a structured tariff in October, which will be implemented starting in January 2007. We will review by end-June 2007 the subsidies to Electrogaz.⁷ If they are insufficient to ensure Electrogaz' cost recovery in 2007, we stand ready to raise electricity tariffs. If the needed subsidy is smaller, the savings will be allocated to the agricultural sector.

Fiscal structural reforms

16. **Civil service reform is proceeding.** Parliament is reviewing a civil service law, which regulates issues such as recruitment, grading, and promotion and we are also in the process of developing performance standards for ministries and agencies. However, the

⁷ The size of the subsidy depends on the oil price and when the heavy fuel oil generator will become operational.

review of the wage of the entire civil service, which was to be completed by end-December 2006 (benchmark) is now expected to be delayed to March 2007.

17. **To further enhance the monitoring of project accounts at the NBR**, we will complete a study and publish it on the Ministry of Finance's website by end-September 2007 (1) showing annual budgets with donor disbursements and spending for 2004-2006 as well as quarterly projections (including a breakdown into imports and the domestic component) for July 2007-June 2008; and (2) providing an analysis of the causes for the large accumulation of the specific project accounts since January 1, 2004 (performance criterion).

18. **Public Financial Management (PFM) reforms have been given further impetus with the establishment of the PFM Steering Committee.** A PFM Secretariat at the Ministry of Finance is charged with coordinating, monitoring and evaluating reforms in cooperation with our development partners, who are supporting us through a multi-donor trust fund within the public sector capacity project. Pending the completion of a comprehensive medium-term PFM agenda, expected to be finalized by June 2007, we have developed an interim action matrix including:

- **Legal Framework.** We plan to conduct by end-2006 workshops for senior and mid-level officials on the implementation of the OBL and its financial regulations. To monitor and review implementation, a progress report on the OBL implementation will be published in September 2007 (benchmark).
- **Reconciliation.** Agencies have improved the reconciliation of their accounts after the issuance of guidelines in mid-year, but some are still not compliant in submitting their monthly statements. To improve reporting discipline, we wrote in October letters reminding agencies of reporting requirements and indicating that their funds could be cut withheld if they do not comply with the reporting requirements. Acknowledging that further training is needed for budget managers to fully reconcile all bank accounts, line ministries, provinces, and autonomous agencies will be expected to produce the following monthly financial reports: (i) bank reconciliation statement; (ii) budget execution reports, and (iii) statements of revenue and expenditure. The first progress report on financial reporting by budget agencies covering January to March 2007 will be finalized by mid-June 2007 (benchmark).
- **Public Accounts.** We will produce as envisaged by March 2007 the consolidated government financial statements for 2006. Moreover, to facilitate moving to a treasury single account, we will close by end-June 2007 all dormant government accounts in commercial banks.
- **Budget Preparation and Execution.** In January 2007 we will begin work on revising the economic and functional classification of the budget for implementation by September 2008. We will also by March 2007, decentralize the authority to

ministries and districts to effect expenditure commitments and virements. Moreover, line ministries, provinces, and autonomous agencies with extrabudgetary resources will start producing quarterly reports on extrabudgetary resources received.

- **Development Planning.** In collaboration with donors work has begun on strengthening the performance-based budget. We will by end-December 2007 improve the capacity to undertake strategic planning, logical framework analysis and costing activities. Additionally, by end-September 2007 we plan to produce a poverty profile of provinces, districts, and communities of Rwanda using the results of the census and the household living conditions survey (benchmark).
- **Public Procurement.** If the Public Procurement Code and the law establishing the Rwanda Public Procurement Regulatory Authority (RPPA) are adopted by end-2006, the RPPA could be operational by March 2007 and, through recruitment and training, procurement capacities could be established in budget agencies by end-2007 with assistance from the World Bank.

Monetary and Exchange Rate Policy

19. **The NBR will continue to use reserve money as the operational target to control inflation.** To maintain inflation at 5 percent, it will limit year-end reserve money growth to 13 percent, which would create room for an expansion of credit to the private sector. The NBR will continue to follow closely inflationary developments and aggressively mop up excess liquidity, in particular through sales of foreign exchange.

20. **We will allow more flexibility in the exchange rate.** Acknowledging that an increase in spending from higher aid flows in 2007 is likely to result in further pressures for a real exchange rate appreciation, we will forcefully implement our intervention strategy. Our interventions will accommodate upward pressures on the exchange rate through a nominal appreciation by raising foreign exchange sales while smoothing short-term market fluctuations. This will ensure that the execution of the 2007 budget does not rekindle inflation or crowd out private investment.

21. **While NBR's foreign exchange auction system serves Rwanda well, we have started to prepare for a smooth transition to an interbank-based market.** The NBR has issued in June an instruction, which (1) improves auction procedures; and (2) abolishes Article 10, which allowed the NBR to check whether the foreign exchange purchased at the auction was used in accordance with regulations. We have also issued amendments to the foreign exchange regulation that address further regulatory constraints and reduce reporting requirements.

External Sector

22. **Owing to the increase in fiscal spending, we expect the external current account deficit (excluding official transfers) to widen to more than 21 percent of GDP (by almost 2 percent of GDP compared with 2006).** Export receipts are projected to grow by at least 7 percent, driven mainly by increased volumes of traditional exports owing to our sectoral strategies (see paragraph 27). The expected increase in imports by more than 20 percent stems from an expansion in the fiscal deficit as well as a draw down of project accounts and the Lake Kivu project.

23. **The implementation of debt relief under the enhanced HIPC Initiative is at an advanced stage.** In addition to the IMF, IDA, and AfDB, completion point and topping up assistance have been provided by BADEA and the OPEC Fund. IFAD, the Kuwait Fund, the Saudi Fund and the EU have provided HIPC debt relief without topping up. Bilateral agreements have now been signed with all Paris Club creditors. Regarding non-Paris Club creditors, China has indicated a willingness to cancel all outstanding loans, while Saudi Arabia and Kuwait noted the possibility of future debt relief. Debt owed to Libya and the Abu Dhabi Fund continues to be passive.⁸

24. **Debt management will be strengthened through improved recording and monitoring.** A new debt recording system is expected to be in place by January 2007, with a live link between the Treasury and the NBR. Moreover, we have introduced an indicative target on the Net Present Value (NPV) of external debt for 2007, which will ensure that the level of contracted debt remains sustainable and allow a review of the medium-term debt profile (see technical memorandum of understanding, paragraphs 42-44).

25. **At end-November, Rwanda became a member of the East African Community (EAC) and signed the protocol for a customs union.**⁹ We expect that membership will have a positive welfare effect by reducing import prices and also provide an opportunity to promote regional development and address common issues, including infrastructure needs. We will negotiate the terms of the treaty and customs union protocol during 2007 with implementation envisaged by end-2008. Regarding other trade arrangements, negotiations are ongoing on a customs union in the Common Market for Eastern and Southern Africa (COMESA); and discussions have begun on an Economic Partnership Agreement (EPA) with the European Union, following the finalization of an impact study.

⁸ The last contact was in October 2006.

⁹ The Customs Union provides for the removal of duties and nontariff barriers among members and establishes a three-band structure for its common external tariff of 0, 10, and 25 percent.

B. Structural Policies

26. **The focus on the structural side will remain on enhancing the productivity of the agricultural and export sectors and improving the conditions for the private sector.**

27. **Our export promotion strategy will continue to focus on enhancing the productivity in the traditional sectors and diversifying our export base.**

- **Coffee.** Extension services are now available in most districts. To move into higher value added markets, the number of washing stations will be further increased while existing stations are being made more efficient.
- **Tea.** To increase export volumes of the remaining state-owned farms, efforts aim at reducing the cost of fertilizer, strengthening tea growing cooperatives, planting of high yielding clones, and increasing acreage under cultivation. Meanwhile, discussions are underway to accelerate privatization.
- **Tourism.** Private operators are expected to open eight hotels and work focuses on offering a one-week trip to extend the average stay of tourists. Moreover, a training needs assessments for the hospitality industry will be undertaken by early 2007.
- **Export processing Zone (EPZ).** The first phase of construction, which includes the development of infrastructure, is expected to start in 2007. With respect to financing, negotiations for a grant from the AfDB to the tune of US\$22 million are ongoing.

Financial sector

28. **The agenda for medium-term financial sector reform, which will be coordinated with donors in a meeting in early 2007, focuses on:**

- **Strengthening NBR's supervisory powers.** In its supervision activities, the NBR has been putting more emphasis on new banking products such as leasing (including through on-the-spot inspections). We will submit to Cabinet by end-2006 a draft law on Anti Money Laundering/Combating the Financing of Terrorism.
- **Preventing a recurrence of the recent crisis in the MFI sector.** We are in the process of drafting the micro finance law and will be submitting it to parliament by June 2007 (benchmark). The NBR will raise the minimum capital requirements significantly for MFIs that take deposits other than for collateral only and increase exposure limits for group loans. It will grant licenses only to MFIs with adequate management.
- **Addressing the weaknesses of the payments system.** The NBR will create by March 2007 a unit that coordinates all elements related to payments system. We will

also by end-June 2007 reorganize and financially restructure SIMTEL with World Bank technical assistance.

- **Developing long-term savings and insurances.** To this end, we will draft an action plan to define the legal framework for the regulation and supervision of insurances and the contractual savings industries (including the Caisse Social du Rwanda); and the introduction of government bonds.
- **Improving accounting standards.** With a view to adopting IFRS (International Financial Reporting Standards), we are in the process of establishing a training program for accountants. Moreover, we will amend relevant tax laws to allow companies to base tax returns on IFRS standards.

Cost of doing business

29. To improve the business climate and remove the obstacles to business development as identified in the World Bank's cost of doing business index, we

- Are in the process of drafting 14 *business related laws*. While five of these laws have already been submitted to parliament, including a bankruptcy law, further laws will follow in the course of the next years, including a contract law, an e-commerce law, and a labor law.
- Will set up by March 2007 a “*Commercial Justice, Business, and Land Registration Program*” in partnership with the private sector, which will focus on key legal and regulatory constraints to private sector development. This will include the fair and speedy resolution of commercial disputes, including the establishment of Commercial Courts, and the provision of key business registration services, particularly for land.
- Will make operational by October 2007 the *Office of the Registrar of Land Titles* (benchmark).
- Will reduce the number of documents required for exports and imports by August 2007.

V. PROGRAM MONITORING

30. **Conditionality and program reviews.** The second review under the PRGF arrangement, scheduled for completion by May 30, 2007, will review quantitative performance as of end-December 2006 and structural conditionality through end-March 2007. It will focus on expenditure management and financial sector reform. The second year of the PRGF-supported program will be monitored through quantitative performance criteria for end-June and end-December 2007 and indicative targets for end-March and end-September 2007, as well as quarterly quantitative indicators, that will be subject to the third

and fourth program reviews to be completed no later than end-November 2007 and end-May 2008 respectively. We have also set structural conditionality in public expenditure management, private sector development, poverty reduction, and financial sector reforms.

31. **Technical memorandum of understanding (TMU).** The attached TMU lays out the details of the program design and terminology. We have maintained the broad design of the program for 2006, but have added an indicative target on the net present value of external debt to ensure that our debt remains sustainable.

Table 1. Rwanda: Quantitative Performance Criteria and Benchmarks for 2006
(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)	225.2	236.6	228.0	...
Adjusted program	219.8	221.3	206.7	...
Program	212.9	221.3	203.7	172.4
Reserve money (ceiling on stock)				
Actual	63.7	68.3	69.4	...
Program	64.9	68.4	69.8	70.8
Net credit to the government (ceiling on flow) ²				
Actual	-48.9	-47.2	-27.7	...
Adjusted program	-30.6	-41.5	-27.1	...
Program	-23.8	-41.5	-24.1	-10.0
Domestic fiscal balance (floor on flow) ²				
Actual	-8.3	-29.3	-59.2	...
Adjusted program	-19.2	-39.1	-60.3	--
Program	-19.2	-42.2	-61.1	-79.4
Total priority spending (floor on flow) ²				
Actual	28.0	68.3	115.6	...
Adjusted program	32.1	68.9	106.7	...
Program	32.1	70.5	107.1	144.0
New nonconcessional external debt ³				
Actual	0.0	0.0	0.0	...
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock) ^{3,4}				
Actual	0.0	0.0	0.0	...
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) ⁵				
Actual	0.0	0.0	0.0	...
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow) ²				
Actual	-2.5	-4.4	-6.4	...
Program	-1.8	-3.5	-5.3	-7.0
Indicative targets				
Broad money (ceiling on stock) ¹				
Actual	221.0	241.2	258.2	...
Program	219.5	224.0	235.7	243.1
Extended Broad money (ceiling on stock) ¹				
Actual	254.5	283.1	303.3	...
Program	250.8	256.0	269.3	277.8
<i>Memorandum items:</i>				
General budget support (in US\$ million) ⁶				
Received	28.4	97.7	122.6	...
Expected	16.0	102.5	117.1	123.1
Of which: budget support grants (received)	28.1	96.8	115.7	...
Of which: budget support grants (expected)	16.0	102.5	117.1	123.1
Budgetary "baseline grants" (TMU, para. 9) 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\$.

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 2. Rwanda: Quantitative Performance Criteria and Benchmarks for 2007
(Billions of Rwanda francs, unless otherwise indicated)
(Quantitative benchmarks*; and performance criteria on test dates**)

	2007			
	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	208.1	244.3	206.8	179.3
Reserve money (ceiling on stock)				
Actual				
Program	72.4	77.9	78.9	80.3
Net credit to the government (ceiling on flow) ²				
Actual				
Adjusted program				
Program	-11.5	-49.8	-25.7	4.7
Domestic fiscal balance (floor on flow) ^{2,3}				
Actual				
Adjusted program				
Program	-21.1	-46.0	-70.6	-98.7
Total priority spending (floor on flow) ^{2,3}				
Actual				
Adjusted program				
Program	38.6	86.7	132.4	181.1
New nonconcessional external debt ⁴				
Actual				
Program	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock) ^{4,5}				
Actual				
Program	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock) ⁶				
Actual				
Program	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow) ²				
Actual				
Program	-1.6	-3.9	-5.4	-7.0
Indicative targets				
Broad money (ceiling on stock) ¹				
Actual				
Program	254.5	267.3	271.5	278.1
Extended broad money (ceiling on stock) ¹				
Actual				
Program	290.9	305.6	310.3	317.9
Net Present Value of the Stock of Outstanding Debt (Millions of US\$) ⁷				
As projected for end-December 2007		200.4		200.4
As projected for end-December 2008		239.8		239.8
As projected for end-December 2009		279.5		279.5
<i>Memorandum items:</i>				
General budget support (Millions of US\$) ^{3,8}				
Received				
Expected	65.2	186.5	193.0	196.6
Of which: budget support grants (received)				
Of which: budget support grants (expected)	65.2	186.5	193.0	196.6
Budgetary "baseline grants" (TMU, para. 9) ⁸	60.2	176.5	178.0	176.6

Sources: Rwandese authorities and IMF staff estimates and projections.

¹ At the program exchange rate of RF 549.9/US\$.

² Numbers are cumulative from December 31, 2006.

³ The domestic fiscal balance and the priority spending targets will be adjusted by the amount of grants exceeding or below programmed grants.

⁴ This is a continuous performance criterion.

⁵ Excludes arrears on obligations that are subject to rescheduling.

⁶ Ceiling on the stock of external debt (excluding normal imported-related credits) owed or guaranteed by the central governments, local government, or the NBR with original maturity of up to, and including one year.

⁷ Figures indicate the NPV projections based on debt contracted at the test date.

⁸ Excluding external donor financing for demobilization and peacekeeping.

Table 3. Rwanda: Structural Conditionality, March-October 2007

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 46 of the TMU for July-September 2006; and (2) rolling spending plans for the accounts on a quarterly basis, broken down into foreign exchange and domestic spending for January – December 2007.		Prior Action
Public expenditure management		
Complete progress report on financial reporting by budgetary agencies (line ministries, provinces, autonomous agencies). Agencies are expected to produce the following monthly financial reports: (i) bank reconciliation statement; (ii) budget execution reports, and (iii) statements of revenue and expenditure.	June 15, 2007	Benchmark
Publish on the Ministry of Finance's website the progress report on the OBL implementation.	September 30, 2007	Benchmark
Complete and publish on the Ministry of Finance's website a study on project accounts (for projects listed in paragraph 46 of the TMU) at the NBR (1) showing annual budgets with donor disbursements and spending for 2004-2006 as well as quarterly projections (including a breakdown into imports and the domestic component) for July 2007-June 2008; and (2) providing an analysis of the causes for the large accumulation of the specific project accounts since January 1, 2004.	September 30, 2007	Performance Criterion
Private sector development		
Make operational the Office of the Registrar of Land Titles.	October 31, 2007	Benchmark
Poverty reduction		
Produce a poverty profile of provinces, districts, and communities of Rwanda using the results of the census and the household living conditions survey.	September 30, 2007	Benchmark
Financial sector		
Submit to Parliament a micro finance law to bring the legal framework for microfinance broadly in line with the Guiding Principles on Regulation and Supervision of Microfinance Institutions as published by the Consultative Group to Assist the Poorest.	June 30, 2007	Benchmark

RWANDA: TECHNICAL MEMORANDUM OF UNDERSTANDING

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, 2007 and December 31, 2007 as well as indicative targets for March 31, 2007, and September 30, 2007 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-March 2007, end-June 2007 end-September 2007, and end-December 2007, for ceilings on broad money and extended broad money;
- for end-June 2007, and end-December 2007, for ceilings on the contracting or guaranteeing of concessional external debt.

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, 2006 for the end-March 2007, end-June, 2007, end-September 2007 and end-December 2007 targets.

8. **Definition.** The domestic fiscal balance is defined as domestic revenue (excluding grants) 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 downward* (i.e., the deficit target will be increased) by the amount of the positive difference between actual and programmed budgetary grants in the context of a review with Fund staff **IF** this review establishes that a further fiscal expansion would not lead to a rekindling of inflation or an undue increase in domestic debt. The increase in the deficit would be used for contingent spending. A list of contingent spending of about one percent of GDP is provided in Table 1; this contingent spending will be released equally for priority and nonpriority spending. For example, if contingent spending of Rf 2 billion is released, at least Rf 1 billion should go to priority spending (so called contingent priority spending; see also paragraph 17). Any further spending in addition to the one listed in Table 1 would be for priorities only, including spending under the Fast Track Initiative for Education.¹ Budgetary grants include HIPC Initiative-related grants,² but exclude grants related to

¹ In the following, the contingent priority spending plus any further unprogrammed priority spending financed by additional grants will be referred to as “additional priority spending (see paragraph 17).”

² HIPC grants exclude debt relief from IDA and the AfDB.

AU peace keeping activities and for the demobilization program as well as capital grants related to the development budget. Quarterly programmed budgetary grants are also provided in Table 2 of the MEFP.

- The floor on the DFB will be *adjusted upward* (that is, the deficit target will be reduced) by the amount actual grants are below programmed grants with a maximum adjustment of up to US\$20 million. Spending would be reduced in equal shares for priority and nonpriority spending (see also paragraph 13).³
- 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 13).
- 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 the case of a food emergency (see also paragraphs 13 and 24).

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, 2006 for the end-March 2007, end-June 2007, end-September 2007, and end-December 2007 targets.

12. **Definition.** For program monitoring purposes, the NCG will be calculated as the change from end-December 2006 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

³ Privatization receipts are recorded under nontax revenue.

- 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 project accounts, counterpart funds, *fonds publics affectés*, and privatization proceeds with the NBR).⁴ 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” (defined in Table 2 of the MEFP) up to a maximum adjustor of US\$30 million, evaluated in Rwanda francs at the program exchange rate.
- The ceiling on the NCG will be *adjusted 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 9).
- The ceiling on the NCG will be *adjusted upward* by the amount of expenditure for food imports in case of a food emergency (see also paragraph 9 and 24).

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 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, 2006 for the end-March 2007, end-June 2007, end-September 2007, and end-December 2007 targets.

⁴ The target excludes any transfers from the deposits over which the government has limited control into other government deposits.

16. **Definition.** Central government priority spending is defined as the sum of those recurrent expenditures, domestically-financed capital expenditures, and net lending 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 output⁵ and a list of the main programs.

17. **Adjuster.**

- The floor will be *adjusted upward* by additional priority spending (see paragraph 9, footnote 1 for definition).
- The floor will be *adjusted downward* by half of the amount actual grants are below programmed grants with a maximum adjustment of up to US\$10 million.

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, 2006 for the end-March 2007, end-June 2007, end-September 2007, and end-December 2007 targets.⁶

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, 2006 (including repayment of float in 2006 and the repayment of older arrears).

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.

⁵ The computerized SIBET expenditure management system tracks priority spending at the program and sub-program levels.

⁶ A negative target thus represents a floor on net repayment.

C. Targets for Monetary Aggregates

Net Foreign Assets of the National Bank of Rwanda (NFA)

22. A floor applies to the NFA of the NBR for the end-March 2007, end-June 2007, end-September 2007, and end-December 2007 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.⁷ 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 13 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 downward* by the amount of expenditure for food imports in the case of a food emergency (see also paragraphs 9 and 13).

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

⁷ The program exchange rate for the 2007 program is set at Rf 549.9 = US\$1 (actual exchange rate of September 30, 2006).

Reserve Money

26. A ceiling applies to the stock of reserve money for the end-March 2007, end-June 2007, end-September 2007, and end-December 2007 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 market⁸ 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-March 2007, end-June 2007, end-September 2007, and end-December 2007 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).

⁸ 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).

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 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, 2006 for the end-March 2007, end-June 2007, end-September 2007, and end-December 2007 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 debt¹ (as specified in paragraphs 39 and 40) with original maturity of more than one year. This is a continuous performance criterion.

¹ As the performance criterion refers to "new" debt, rescheduling or restructuring of existing debt is excluded.

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.

Contracting or guaranteeing of concessional external debt

42. A ceiling applies to the contracting or guaranteeing of concessional (see paragraph 40) external debt of the public sector or other agencies on behalf of the central government for the end-June 2007, and end-December 2007 targets. The ceiling on the contracted debt becomes binding through a disbursement profile over 2007-09.

43. **Definition and valuation.** The ceiling on the contracting or guaranteeing of new concessional external debt will be measured by the U.S. dollar nominal sum of all loan agreements that have been contracted. Disbursed debt will be converted to U.S. dollars, based on prevailing WEO test date exchange rates; for loans contracted but not yet disbursed, the profile disbursement will be measured at the actual exchange rate at the test date, based on the projected drawdown consistent with the medium-term fiscal framework as discussed with IMF staff. If export growth rates average about 8 percent in the next three years, Rwanda's NPV of debt- to-export ratio will be below 125 percent over the medium term and not exceed

90 percent in 2009. The Net Present Value of debt is calculated by discounting the future stream of payments of debt service due, based on a uniform discount rate of 5 percent.

44. **Reporting requirement.** Data on the NPV of the stock of outstanding debt will be provided on a semi-annual basis within five weeks of the end of each month.

Limit on new external payment arrears

45. 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.

II. STRUCTURAL CONDITIONALITY

46. The following project accounts will be monitored on a quarterly basis (see performance criterion on the monitoring of project accounts in paragraph 17 of the memorandum of economic and financial policies): projet 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; RDRP/Multi-Donor Trust Fund; Basket Fund Health Human Resources; Global Fund 5 Assuring Access; and MINALOC-CDF-Financement Suisse.

III. OTHER DATA REQUIREMENTS FOR PROGRAM MONITORING

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

Table 1. Contingent spending, 2007
(in billion of Rwandese franc)

Priority spending	7.4
Rural terraces	0.10
Common development fund	0.60
Export Free Zone	0.6
Afforestation	0.10
Road fund FER	4.00
Export promotion	0.90
Expo, DBS, business support	0.40
Block grant to local governments (LABSF)	0.15
Energy	0.50
Nonpriority spending	8.5
Construction of police head office	0.5
Income generation in prisons	0.2
MININFRA (ICT)	0.4
Energy savings devises	0.4
Construction and rehabilitation of borders	0.3
Youth, culture	0.9
Feasibility studies	2.6
Across the board cuts in goods and services by 5 percent	1.9
Across the board cuts in transfers by 5 percent	1.1
Transfer to PTA bank	0.2
Total	15.8

Table 2. Priority spending, 2007
(In millions of Rwanda francs)

		2007
1 WAGES AND SALARIES	04 PRIMATURE	95.00
	07 MININTER	583.20
	0701 NATIONALE POLICE	5,372.49
	09 MINAGRI	164.83
	11 MINISTR	73.01
	14 MINEDUC	298.42
	140- DECENTRALISE EDUCATION	21,224.83
	15 MIJESPOC	169.75
	16 MINISANTE	450.33
	160- DECENTRALISE HEALTH	3,707.62
	18 MININFRA	331.95
	20 MIFOTRA	222.51
	22 MINITERE	282.46
	23 MINALOC	861.11
	Total	33,837.51
2 GOODS AND SERVICES	04 PRIMATURE	240.40
	07 MININTER	463.81
	07- DECENTRALISE PRISONS	30.96
	0701 NATIONALE POLICE	3,028.51
	09 MINAGRI	1,018.22
	10 MINICOM	410.84
	11 MINISTR	376.37
	14 MINEDUC	7,023.30
	140- CAPITATION GRANT	0.00
	140- DECENTRALISE EDUCATION	2,584.23
	140- TEXT BOOKS	1,754.67
	15 MIJESPOC	213.92
	16 MINISANTE	3,569.50
	160- DECENTRALISE HEALTH	360.00
	160- CONTRACTUAL APPROACH	4,420.75
	1636 HOPITAL ROI FAYCAL (KFH)	350.00
	1638 COMMISSION NATIONALE DE LUTTE CONTRE LE SIDA	23.53
	18 MININFRA	2,223.72
	180- ROAD FUND	5,000.00
	20 MIFOTRA	1,385.49
	22 MINITERE	1,492.04
	23 MINALOC	630.90
	230- DECENTRALISE MINALOC	1,317.20
	Total	37,918.36
3 TRANSFERS	04 PRIMATURE	0.00
	0701 NATIONALE POLICE	73.00
	090- DECENTRALISED ECONOMIC DEVELOPMENT AND EMPLOYMENT	706.00
	090- REFORESTATION	1,000.00
	090- TERRASSING	1,000.00
	0904 OFFICE RWANDAIS DE DEVELOPPEMENT DES RESSOURCES ANIMALES (RARE	994.12
	0912 INSTITUT DES SCIENCES AGRONOMIQUES DU RWANDA	1,878.08
	0913 OFFICE RWANDAIS DE DEVELOPPEMENT DE L AGRICULTURE (RADA)	687.74
	10 MINICOM	132.88
	100- EXPORT PROMOTION	1,000.00
	1007 OFFICE RWANDAIS DE NORMALISATION	957.01
	1009 AGENCE RWANDAISE DE PROMOTION DES INVESTISSEMENTS	897.70
	1010 CENTRE D'APPUI AUX PETITES ET MOYENNES ENTREPRISES DU RWANDA(CAF	101.00
	11 MINISTR	1,056.40
	12 MINECOFIN - FOOD IMPORT	0.00
	120-SUBSIDES TO RWADAN PRIVATE SECTOR FEDERATION	500.00
	14 MINEDUC	1,475.79
	140- CAPITATION GRANT	10,573.00
	1409 AGENCE DE FINANCEMENT DES BOURSES D'ETUDIANTS	6,839.95
	1408 CONSEIL NATIONAL POUR LES EXEMENS (CNER)	1,291.14

Priority spending, 2006-07 (continued)
(In millions of Rwanda francs)

		2007
3 TRANSFERS (continued)	1409 NATIONAL COUNCIL FOR HIGHER EDUCATION (NCHE)	57.79
	1410 UNR	4,310.91
	1411 KIST	3,015.18
	1412 KIE	1,469.73
	1413 KHI	1,310.80
	1414 ISAE	1,390.45
	1419 IRST	0.00
	1426 ECOLE DES HAUTES ETUDES DES FIANCES ET DES BANQUES	1,060.14
	15 MIJESPOC	138.38
	1506 REGIE DU MUSEE NATIONALE DU RWANDA	268.01
	16 MINISANTE	276.23
	160- DECENTRALIZED COMMUNITY CONTRACTUAL APPROACH	900.00
	160- DECENTRALIZED DISTRICT HOSPITAL PERSONNEL MOTIVATION	1,682.89
	160- DECENTRALIZED FUNCTIONING OF THE DISTRICT HOSPITALS	684.00
	160- DECENTRALIZED HEALTH CENTERS PERSONNEL MOTIVATION	1,078.53
	160- MUTUELLES	432.69
	1609 CENTRE DE TRAITEMENT ET DE RECHERCHES DU SIDA (TRAC)	465.59
	1612 LABORATOIRE NATIONALE DE REFERENCE	236.05
	1630 CENTRE HOSPITALIER DE KIGALI (CHK)	809.35
	1631 HOPITAL NEURO PSCHIATRIQUE DE NDERA (HNN)	216.85
	1633 LABORATOIRE PHARMACEUTIQUE DU RWANDA	174.00
	1635 PROGRAMME NATIONAL DE TRANSFUSION SANGUINE (PNTS)	220.51
	1636 HOPITAL ROI FAYCAL (KFH)	1,737.37
	1637 HOPITAL UNIVERSITAIRE DE BUTARE	658.12
	1638 COMMISSION NATIONALE DE LUTTE CONTRE LE SIDA	297.00
	18 MININFRA	1,243.87
	180- SUBSIDIES FOR RENTING POWER	2,700.00
	180- SUBSIDIES FOR FUEL IMPORTS	4,600.00
	20 MIFOTRA	23.00
	22 MINITERE	589.62
	23 MINALOC	1,982.94
	230- DISTRICTS TRANSFER	8,174.49
	Total	73,368.31
7 DOMESTIC CAPITAL	09 MINAGRI	2,064.00
	10 MINICOM	467.00
	1007 OFFICE RWANDAIS DE NORMALISATION	419.00
	1008 AGENCE RWANDAISE DE PROMOTION DES INVESTISSEMENTS	650.00
	12 MINECOFIN	1,685.00
	14 MINEDUC	1,401.00
	15 MIJESPOC	200.00
	16 MINISANTE	954.00
	18 MININFRA	9,490.00
	22 MINITERE	8,876.00
	23 MINALOC	5,255.00
	Total	31,461.00
EXCEPTIONAL EXPENDITURE	TIG	767.04
	HIMO	500.00
	Total	1,267.04
NET LENDING	MINECOFIN / LAKE KIVU	3,200.00
	Total	3,200.00
	Total	181,052.23

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			

¹Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

²Both market-based and officially-determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Daily (D); Weekly (W); Monthly (M); Quarterly (Q); Annually (A); Semi-annually (SA); Irregular (I); Not Available