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Rwanda and the IMF

Press Release:
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June 17, 2010

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

May 25, 2010

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 a policy support instrument 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.

LETTER OF INTENT

Kigali, Rwanda
May 25, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C., 20431

Dear Mr. Strauss-Kahn,

1. The attached Memorandum summarizes the economic and financial policies of the government of Rwanda for the period June 30, 2010-June 30, 2013. The government requests that these policies, which aim at macroeconomic stability, laying the foundation for sustainable growth, reducing poverty, and deepening fiscal and financial sector reforms, be supported by the International Monetary Fund (IMF) under a three-year Policy Support Instrument (PSI).

2. A PSI is, in the government's view, the appropriate vehicle at the present time to maintain a close policy dialogue with the IMF and signal commitment to sound policies to the international community. In the government's view, support under a PRGF[1] would not be appropriate as Rwanda currently has no IMF financing needs. Rwanda also has a long record of macroeconomic stability that the government aims to safeguard through the implementation of the policies set out in the attached Memorandum. The government is determined to adhere to the timelines for implementation of the program, as laid out in the Memorandum, and comply with the semi-annual review schedule under the PSI.

3. The government believes that the policies and measures set forth in the attached Memorandum are adequate to achieve the objectives of a PSI program. Given its commitment to these objectives, it will promptly take any additional measures necessary for their achievement. The government will consult with the IMF—at its own initiative or whenever the Managing Director of the IMF requests such a consultation—before the adoption of any such measures or changes to the policies described in the attached Memorandum.

4. The government will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.

[1] Now known as Extended Credit Facility (ECF).

5. The Government of Rwanda authorizes the publication and distribution of this letter, its attachments, and all reports prepared by Fund staff regarding this request for PSI.

Sincerely yours,

/s/	/s/
John Rwangombwa	François Kanimba
Minister of Finance and Economic Planning	Governor, National Bank of Rwanda

Attachment I.
Memorandum of Economic and Financial Policies
of the Government of Rwanda
May 25, 2010

I. INTRODUCTION

1. The Government of Rwanda remains committed to achieving sustained economic growth and poverty reduction and consolidating macroeconomic stability. The strategies to achieve these goals are set out in the Economic Development and Poverty Reduction Strategy (EDPRS) for 2008–12[1] as well as in the Vision 2020 development plan. The Government and the International Monetary Fund (IMF) are cooperating on a three-year Policy Support Instrument (PSI) to support prudent macroeconomic policies and structural reforms that underlie strategies in the EDPRS and Vision 2020.

2. This memorandum of economic and financial policies (MEFP) reviews performance during 2009 and the first quarter of 2010 and describes policies and targets through end-June 2011 and the medium term.

II. ECONOMIC DEVELOPMENTS AND REFORMS IN 2009-10

3. **Performance against targets agreed with Fund staff has been broadly satisfactory**.[2] At end-2009, all but two assessment criteria were met (Table 1)**.** Net credit to the government was missed due to delays in disbursement of budgetary grants (World Bank and Education Fast Track Initiative), a shortfall of US$78 million which has since been disbursed. The zero ceiling on nonconcessional external borrowing was also missed due to US$13.1 million borrowing for the government-owned airline, Rwandair.

Growth

4. **After a strong growth in 2008, economic activity slowed in 2009**. The provisional estimates of the National Institute of Statistics of Rwanda (NISR) indicate that real GDP in 2009 grew at 6 percent compared to 11.6 percent in 2008. Growth was strong in the early part of the year, thanks to a strong agricultural harvest including from ongoing investments in the sector. However, the impact of the global financial crisis and tight liquidity conditions was felt in Rwanda especially in the second half of 2009, as contributions from the industrial

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[1] Rwanda's latest EDPRS (IMF Country Report No. 08/90) and Joint Staff Advisory Note (IMF Country Report No. 08/91) were issued to the Executive Board on February 14, 2008. An Annual Progress Report is under preparation and is expected to be made available to the IMF and other partners before the second review of the PSI.

[2] Before the expiration of the PRGF arrangement in August 2009, the government and IMF staff agreed on a macroeconomic framework for 2009/10, with indicative targets for monitoring purposes.

and service sectors – worst hit by the crisis—declined significantly. CPI inflation (end of period) stood at 5.7 percent in 2009 compared to 22.3 percent in the previous year partly reflecting lower import prices.

Fiscal policy

5. **During the first half of the 2009/10 fiscal year,[3] the overall fiscal deficit (including grants) was some 0.5 percent of GDP lower than budgeted mainly on account of lower spending.** Total expenditure and net lending was 0.4 percent of GDP below the budget, with savings in both current and capital spending. Spending on domestically-financed capital projects registered the largest shortfall (0.7 percent of GDP) mainly as a result of delays in completing tender documents, although there has been a recovery during the first quarter of 2010. On the other hand, net lending was higher-than-budgeted from outlays to Rwandair and the Kigali International Convention Complex—projects that are among the government's strategic investment projects to boost economic growth (see ¶ 23). Domestic revenue collection was slightly higher-than-expected, by 0.1 percent of GDP. Higher collection of direct and indirect taxes offset shortfalls in international trade taxes and non-tax revenues (due mainly to lower recovery of fertilizer receipts and ID cards).

6. **In March 2010 the parliament approved a revised budget for FY2009/10 that reflects a higher resource envelope matched by higher spending, leaving the overall fiscal balance unchanged.** Total resources (revenues and grants) are now budgeted to be higher by Rwf 36 billion (1.1 percent of GDP). Total grants are higher by Rwf 52 billion (1.7 percent of GDP), mainly budget support grants in response to the adverse effects of the global economic downturn on Rwanda. On the other hand, domestic revenues are lower than the original budget, mainly non-tax revenues from continued expected losses in recovery of fertilizer receipts and driving license fees. The higher spending reflects the higher net lending already committed, as well as higher current spending to fund one laptop per child and nine-year basic education policies.

7. **In the area of tax administration, the Rwanda Revenue Authority (RRA) continued its efforts to decentralize its services expand the tax base and increase compliance**. In 2009, RRA established three district branches in Kigali City (block management system) which provide headquarter services (tax payer education, tax payer registration, audit and enforcement) to taxpayers. In addition, taxes can now be paid at some designated commercial banks. In 2009, about 1,257 new taxpayers were registered between September and December 2009, bringing the total number of tax payers to 34,193 at end-2009.

[3] Rwanda's fiscal year runs from July to June.

8. **The RRA has begun to address the collection of outstanding tax arrears.** Our existing enforcement efforts enabled us to recover some RWF 10 billion in arrears in 2009 (0.3 percent of GDP). To further improve collection of tax arrears in a sustainable manner, RRA developed its Debt Management Strategy (RRADMS) in November 2009, an automated management module for tax arrears. At end-2009 total outstanding arrears stood at Rwf 39 billion (1.3 percent of GDP), of which Rwf 27 billion in old and difficult arrears will be written off.

9. **With regard to the current PFM reform strategy, a number of key milestones outlined below have either been completed or are on track to be completed by end-June 2010**:

- Budget calendar aligned with practices in the EAC (July-June fiscal year) (completed July 2009);
- Established Public Investment Program (PIP) and Public Private Partnership (PPP) units within MINECOFIN. Staffing of the units is expected to be completed by end-June 2010;
- Finalize fiscal decentralization strategy by May 2010;
- Strengthening internal controls for financial management and reporting in Ministries, Departments and Agencies and Sub-National governments is ongoing via on-the-job training and sponsorship of professional courses such as the Association of Chartered Certified Accountants (ACCA- 90 staff currently enrolled) and Certified Financial Analyst (CFA- 1 staff currently enrolled);
- MTEF (Medium-Term Expenditure Framework) was successfully integrated into the budget process for the 2009/2010 fiscal year. Capacity building in implementing MTEF, budget preparation, and sector costing was carried out for the staffs in National Budget and Development Planning and Research Units and later extended to all budget officers. Additionally, all externally financed projects and programs managed by the Government are fully reflected in the budget;
- Public Expenditure Reviews (PERs) are being carried out in the Water & Sanitation, Agriculture, Education and Social Protection sectors and will be completed by June 2010;
- A fully fledged Government Portfolio Unit was set up during 2009/2010 and on-the-job training to impart financial analysis skills to the staff is ongoing with an aim of improving performance monitoring of the Government Business Entities (GBEs) and its financial management and reporting, based on government financial systems and regulations and relevant international best practices. Additionally, plans are underway to provide training to Director Generals and Board members of GBEs in financial management, reporting, risk management and corporate governance by end- June 2010;

- On-the- job training for internal audit staff commenced in March 2010. This is aimed at building the capacity of internal auditors to conduct payroll, financial, value-for-money (VFM), and systems and risk based audits;
- Restructuring of the Rwanda Public Procurement Authority (RPPA) was approved by cabinet in November 2009 and is in progress. The restructuring was necessitated by the need to enable RPPA to exit from high value procurement operations and contract approval to pure regulatory and capacity building functions in line with international best practice;
- Greater efforts have been made towards increasing public access to fiscal data, with the Ministry of Finance website (http://www.minecofin.gov.rw) being utilized to disseminate information (e.g. budget guidelines are posted throughout the budgeting cycle, budget speeches, guidelines to the budget, Government economic reports, and budget execution data are posted on an annual basis).
- Progress has been made on the establishment of the PFM Reform Secretariat, although delays have been experienced. The PFM Reform Coordinator was recruited in November 2009 and the procurement specialist was recruited in January 2010, and the recruitment of an M&E Specialist, Procurement Assistant and Accountant was completed in April 2010. The efficiency of the Secretariat is expected to greatly improve now that all the key personnel are in place.

Monetary and exchange rate policies

10. **Monetary policy in 2009 addressed the persistence of high inflation from 2008 as well as the tight liquidity conditions.** The global food and fuel crises in 2008 posed a number of challenges to monetary policy implementation in Rwanda, as these shocks became embedded in underlying inflation and inflation expectations, with inflation rising to 22.3 percent at end-2008. This episode was followed by a domestic liquidity crisis that started in late 2008 and continued into the first half of 2009, following a significant withdrawal of bank deposits by two large institutional depositors. The resulting maturity mismatch on banks' balance sheets contributed to a sharp decline in growth of commercial banks' credit to the private sector from 73 percent in 2008 to 5.7 percent in 2009.[4] During the period, the NBR conducted a prudent monetary policy, controlling reserve money, in order to avoid exacerbating the exogenous price shocks with excessive money supply.

11. **The NBR and the government responded by putting in place a combination of measures to improve liquidity and stimulate private sector credit, including**: reducing the reserve requirements from 8 percent to 5 percent in February 2009; suspending roll-over

[4] Credit to the private sector in 2009 includes credit from Credit and Saving Scheme - Zigama (CSS - Zigama), a newly licensed bank. CSS, a large savings and credit cooperative, was given a license to operate as a bank in 2010. However, in line with standard procedures, NBR has included CSS in the monetary survey for 2009, for benchmarking purposes. Excluding CSS, growth in credit to the private sector was minus 1.7 percent in 2009.

of Treasury Bills that matured during the year; making available to commercial banks new liquidity facilities by the NBR and the Government; reduction of the Key Repo Rate (NBR's policy rate) from 9 percent to 7.5 percent in December 2009, followed by a further decline to 7 percent in March 2010.

12. **The monetary policy measures helped to improve the liquidity conditions.** The sharp reduction in deposits following the liquidity tightening pushed commercial banks to increase deposit rates significantly, restoring positive real interest rates so as to attract deposits. As a result, the average commercial bank deposit rate rose from 5.97 percent at the beginning of 2008 to 8.54 percent by the end of 2009. These, together with the measures implemented by the NBR and the Government, began to yield results at the end of 2009 with early signs of a turnaround in liquidity conditions as broad money picked up in the second half of 2009. Also credit to the private sector started to recover towards the end of the year. Inflation at the same time fell into single digits (5.7 percent at the end of 2009) and 2.5 percent at end-February 2010, reflecting the fall in commodity prices and slowing down of economic activity.

13. **Improvement has been made in the area of liquidity forecasting notably through the coordination of fiscal and monetary policies.** In this regard, Treasury Management Committee (TMC) meetings have been regularly held to discuss the impact of government operations on the banking liquidity situation and coordination of fiscal and monetary policies.

14. **The real effective exchange rate continued to depreciate in 2009**. Movements in the real effective exchange rate (a depreciation of 8.3 percent in 2009) has been driven mainly by movements in inflation differentials as the nominal exchange rate has remained virtually unchanged in the period, with an annual effective depreciation of 2.8 percent in 2009.

15. **With a view to encourage the development of the interbank market, NBR decided to reform its intervention mechanism in the foreign exchange market in such a way to avoid unnecessary competition with interbank transactions**. Since September 2009, NBR has intervened to sell foreign exchange on demand to banks at the NBR selling rate (average reference rate)[5] and based on pre-set criteria[6]. As a further improvement, since

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[5] From January 16th, 2009 to January 11th, 2010, ARR was calculated as the ten days weighted moving average rate of customer deals transacted by both banks and NBR, with buying and selling rates set at 0.6% margin on either side of the ARR. With effect from January 12th, 2010, the NBR's average reference rate has changed to 5 days moving average.

[6] The criteria for NBR intervention are: (i) the foreign exchange net position in the banking system is at least 2 percent; (ii) at least half of the banks are in negative position; and (iii) at least two of the banks had expressed the need for NBR intervention.

March 24, 2010, NBR foreign exchange sales are based on interbank rates and not the NBR selling rate. The timing and rate of NBR foreign exchange sales are announced at the close of business the day before each operation. The new policy which was communicated to banks on March 23, 2010, and aims at stimulating further the already growing foreign currency interbank market and introducing more flexibility in the foreign exchange rate policy.

Financial sector policies

16. **Significant progress has been made in 2009 in deepening the financial sector.** The number of people using formal financial services rose to 2 million in 2009, from 1.4 million in 2007 and 1.8 million in 2008. Also during 2009, the NBR licensed one new commercial bank, 10 new microfinance institutions, and 22 new commercial bank branches, bringing the total number of bank branches to 105 country-wide.

17. **To further deepen the domestic financial market, the NBR entered into a SWAP agreement with the International Finance Corporation (IFC)**. The agreement signed on November 8, 2009, will enable the IFC to provide local currency loans to the private sector. Through this SWAP agreement, IFC will make available foreign exchange resources (up to US$50 million) to NBR at a pre-determined exchange rate and the NBR will make the equivalent local currency available to the IFC for onward disbursement to the private sector at a variable interest rate using local banks. The foreign currency will be recorded at the NBR only as the loans to the private sector are finalized. The foreign currency for this and any subsequent foreign currency swap agreements will be escrowed at the NBR against repayment of the loans. This SWAP arrangement is expected to augment credit delivery to sectors of the economy that currently lack long-term local currency financing such as infrastructure, SMEs, and Manufacturing.

18. **However, 2009 was a challenging year for commercial banks**. The liquidity crisis coupled with deterioration in asset quality affected banks' profitability significantly although banks remained well capitalized. In 2009, banks wrote off some RWF 27.3 billion in non-performing loans, up from RWF 26.9 billion in 2008. Non-performing loans increased from 12.6 percent of gross loans in December 2008 to 13.1 percent in December 2009. Return on equity decreased from 18.5 percent to 5.3 percent and return on assets decreased from 2.4 percent to 0.7 percent during the same period. The consolidated capital adequacy ratio for commercial banks increased from 15.9 percent in December 2008 to 19.7 percent in December 2009.

19. **The NBR strengthened its risk-based prudential supervision policies to safeguard the soundness of the financial system**. However, capacity constraints at the NBR, including high turnover of skilled and experienced bank examiners impacted on the scope of banking supervision. In 2009, only four onsite inspections were conducted (out of 10 planned), of which one was undertaken with the assistance of a senior inspector from the Central Bank of Kenya. However, during the same period, the frequency and efficiency of

off-site surveillance was maintained, including regular meetings with the managements of all financial institutions.

20. **The NBR also adopted a number of regulatory and institutional reforms to further strengthen the supervision of microfinance (MFIs) and non-bank financial institutions (NBFI's).** A new insurance law was passed in March 2009 to better monitor the insurance sector and facilitate the development of the domestic capital markets. Regarding the MFIs, the NBR created a new department tasked with supervising MFIs within the Financial Stability Directorate. The regulatory guidelines for MFIs were published in the Official Gazette in July 2009 and the implementation of this legal and regulatory framework has already started. Also in the area of microfinance, the Government adopted the "UMURENGE SACCO" Program in March 2009 with the objective of establishing at least one Savings and Credit Cooperatives (SACCO) per UMURENGE (the smallest administrative unit).

External sector

21. **The external current account deficit widened from 5 percent of GDP in 2008 to 7 percent in 2009**. Lower exports and higher imports have contributed to a larger deterioration in the trade deficit in 2009. Exports have been lower than expected (mainly minerals) reflecting the continued lagged effects of weak global demand, but more importantly imports are significantly higher than expected. Higher than programmed foreign direct investment (FDI), higher private remittances and foreign aid and reduced import barriers within the East African Community (EAC) and COMESA (Common Market for Eastern and Southern Africa) contributed to an increase in imports, especially for consumer goods and capital goods. Higher than expected current transfers and capital inflows contributed to an overall balance of payments surplus for 2009 and a consequent increase in gross international reserves and improvement in import coverage to 6.2 months.

III. OBJECTIVES AND ECONOMIC POLICIES FOR THE THREE-YEAR PSI PERIOD

22. **Our overriding economic objective is to sustain real GDP growth rates of 6–7 percent a year.** Continued macroeconomic stability is a necessary condition for meeting this challenge. The government's economic policies during the PSI period aim to consolidate macroeconomic stability by:

- establishing a sustainable fiscal position, with strong revenue efforts needed to reduce Rwanda's aid dependency;
- strengthening monetary and exchange rate policies to ensure low and stable inflation; and;
- Pursuing structural reforms that deepen the financial sector, diversify the export base, and improve the business environment.

23. **Achieving the growth objectives also requires a scaling up of infrastructure investment.** The government's strategic investment plan aims to alleviate critical infrastructure constraints to increasing exports of goods and services and improve competitiveness and growth, consistent with the objectives of the government's Economic Development and Poverty Reduction Strategy (EDPRS). The investments are outlined below:

- Broaden energy access to increase household grid connections from 6 percent at end-2008 to 16 percent by 2013, and to reach all public health centers and administrative offices, and connect half of all schools, consistent with the EDPRS objectives.
- Develop high-capacity fiber optic line to provide broadband wireless technology for up to 100,000 users by mid-2010, and connect Rwanda to undersea fiber-optic cables by 2013. This will reduce broadband purchase costs by some 90 percent compared to using satellite technology.
- Build and rehabilitate an international railway connection, together with the governments of Burundi and Tanzania. The initiative has the potential to substantially reduce transportation costs.
- Build a new airport at Bugesera that conforms to strict international standards and has the capacity to turn Rwanda into a Central African hub and gateway.
- Expand Rwandair (the national air carrier) as a complement to the airport project, in order to create links for high-value exports and regional and international air travel. It is expected that Rwandair will be a viable business by end-2014, and be ready for divestment and privatization. The feasibility study indicates a rate of return of 11 percent by 2014.
- Build a convention center together with a five-star hotel, in order to tap into the lucrative convention and business tourism markets. Construction started in 2009 and the center is expected to be open for business by end-2011. The feasibility study indicates a rate of return of about 13 percent from 2012.

24. **The PSI supports poverty reduction and growth objectives outlined in our EDPRS (2008-12).** The key economic policies of the PSI—to consolidate macroeconomic stability and scale up investments—are in line with the strategic pillars of the EDPRS and are designed to ensure pro-poor growth-for-jobs-and-exports, which are critical for poverty reduction.

25. **The external current account deficit (including grants) is expected to worsen slightly to 7.9 percent in 2010, from the increased imports of capital goods associated with the large planned investment projects, before declining over the medium term.** Exports, both traditional and nontraditional, are also expected to improve gradually in response to recovery in global demand and increased domestic productivity. Foreign direct investment and other capital inflows are also expected to recover in response to the improved investment climate in order to provide some of the required funds for imports. Official

assistance is projected to decline slightly over the medium term, as the country reduces its dependence on donor aid. Some draw down of international reserves will be necessary, but gross reserves should remain at comfortable levels (not less than 4 months of imports and services) during the three-year PSI period.

26. **Fiscal policy will balance the competing objectives of meeting our growth and poverty reduction objectives as envisaged in the EDPRS whilst preserving medium-term fiscal and debt sustainability.** The overall fiscal deficit (incl. grants) will decline from 1.1 percent of GDP in FY2009/10 to 0.6 percent of GDP in FY2012/13, reflecting domestic revenue mobilization, as well as lower spending. Increases in domestic revenues of 2 percent of GDP over the PSI period are front loaded, underpinned by revenue administration measures. Our fiscal strategy also envisages prioritization of expenditures to accommodate some additional spending associated with some of the six government strategic investment projects (see para 23). Grant finance is projected to remain high over the period though a gradual reduction is envisaged. Further reforms in revenue administration and PFM will underpin the medium-term fiscal performance.

27. **The National Bank of Rwanda (NBR) is committed to making monetary and exchange rate policies more proactive to respond to changing fundamentals in order to maintain low and stable inflation**. The NBR will aim for 7 percent inflation (12 month rate) at end 2010 and 5 percent over the medium term, consistent with a gradual recovery in domestic, regional and world economies, as well as current expectation of oil and food price developments.

28. **Our structural reform agenda intends to support a growing private sector and reduce vulnerabilities arising from our narrow export base.** We will continue to improve the business environment—building on our achievement in 2009 as the global leader in reducing the cost of doing business, according to the World Bank's worldwide ranking of business regulations—promulgate laws to strengthen the legal and regulatory framework towards the development of the domestic capital market, and deepen the financial sector. We will complement these efforts with our export strategy that intends to reduce our dependence on coffee, tea and minerals as main source of exports.

IV. THE POLICY AGENDA FOR 2010/11

Growth

29. **Under the program, Real GDP growth of 5.4 percent is projected for 2010, with a further pick up to 5.9 percent in 2011, though we expect to achieve higher average growth rates of about 7 percent over the period.** Growth in 2010 will be led by a recovery in services, the sector hardest hit by the global downturn, as well as the agricultural sector which will continue to benefit from increased investments in fertilizers, improved seeds and extension services**.** Already, the season A harvest for early 2010 is showing successes from this strategy. Agriculture is expected to grow by about 6 percent in 2010 and 2011, close to

the past five- year average. The expected recovery in the global economy and pickup in commodity prices would also increase aggregate demand for Rwanda's exports, thus further sustaining growth.

Fiscal policy

30. **The FY20010/11 budget envisages overall fiscal deficit (incl. grants) to widen by 2.5 percent of GDP to about 3.6 percent of GDP, despite unchanged expenditures and higher domestic revenue mobilization.** The higher deficit reflects a decline in grants from the unusually high level in 2009/10. The higher overall deficit will be financed mainly by an increase in domestic borrowing (2.3 percent of GDP). Although overall spending remains somewhat elevated (rising slightly to 27 percent of GDP), composition of spending is tilted toward investment spending. Re-current spending declines by 0.3 percent of GDP while domestically-financed capital spending rises by 1.5 percent of GDP, to 6.3 percent of GDP in FY2010/11, reflecting the government effort to devote more resources to strategic investment projects. The government is committed to keep priority expenditures, consistent with the EDPRS, at 13 percent of GDP.

Priority Expenditure as percent of FY GDP

	2008/09	2009/10	2010/11
Employee Cost	1.9	1.8	1.7
Goods and Services	2.0	2.0	2.0
Transfers and Subsidies	4.0	4.5	4.5
Exceptional Expenditures	0.5	0.2	0.2
Net Lending	0.1	0.1	0.1
Domestic Capital Expenditure	4.5	4.5	4.5
Total	**13.0**	**13.1**	**13.0**
Memo:			
Nominal GDP (FY basis)	2,765	3,149	3,539

31. **Domestic revenues will rise by 1.4 percent of GDP in FY2010/11, underpinned by further tax administration measures.** The revenue targets are ambitious but the government is confident that they can be achieved. The underlying tax administration measures include:

- Submit to Cabinet for approval of draft legislation to transfer collection and audit functions of social security contributions (Pension and RAMA[7]) to RRA is planned for end-December 2010 (structural benchmark). This measure will reduce the burden incurred by taxpayers in meeting payroll obligations and broaden the tax base by bringing into the tax net potential taxpayers who make their social security contributions but do not pay other taxes and vice versa.

- Fully automate the services of the RRA District offices in Kigali City by March 2011 and roll-out to provinces. This will further improve RRA services to the taxpaying community, improve tax education, and widen the tax base.

- Automate the enforcement module in the Standard Integrated Government Tax Administration System (SIGTAS) by December 2010. This will help the tax administration improve enforcement efforts to recover outstanding arrears and stop

[7] La Rwandaise d'Assurance Maladie (RAMA).

them from escalating. Old and irrecoverable arrears will be written off in accordance with the law.

- Improve risk-based assessment of ASYCUDA++ by introducing electronic submission of supporting customs documents by end-June 2010 (structural benchmark). This will help improve the speed and accuracy of customs verification of imported goods, improving the detection, prevention and monitoring of high risk transactions that cause revenue losses and security threat to citizens. Full automation will be completed over the medium term.

- Building on the success of the automated management module for tax arrears, RRA will collect an additional Rwf 7.6 billion (0.2 percent of GDP) in tax arrears by end-2011.

Public Financial Management

32. **Implementation of *Smartgov* (a component of IFMIS)[8] will be piloted in ministries, departments and agencies and local districts[9] starting in July 2010 (structural benchmark).** The pilot of the *Smartgov* software will begin with core modules: budgeting, payables, receivables, and general ledger. The pilot program has experienced delays as a result of deficiencies in the project management arrangements, system design, and functionality as highlighted during a Quality Assurance review conducted in April 2009. This pilot will determine if the software can be rolled out to all agencies.

33. **Public Expenditure Reviews (PER) will be conducted for two more sectors (ICT and Transport) by end-March 2011 (structural benchmark).** This will further improve expenditure allocation and efficiency, as well as medium-term expenditure budgeting and fiscal planning.

34. **Reforms aimed at building capacity and enhancing the professionalism of staff at the Rwanda Public Procurement Authority (RPPA) is ongoing.** To this effect, the Procurement User Guides and Code of Ethics in Public Procurement are being developed. Also a consultancy to build capacity among the members of the Independent Procurement Review Panel is planned to be undertaken in May 2010 and concluded in August 2010. In order to ensure sustainable capacity building efforts, arrangements are being made to establish a Procurement Training Centre at the School of Finance and Banking.

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[8] Integrated Financial Management Information System (IFMIS).

[9] Treasury Department, Ministry of Finance and Economic Planning, District of Nyarugenge, Kigali Institute of Education, and RSSP (Rural Sector Support Project).

35. **Plans are underway to introduce modern audit software in the offices of the Auditor General and Government Chief Internal Auditor and to oversee the establishment of audit committees in key budget agencies** (using a piloting approach) by end-June 2011.

36. **The next PEFA assessment is scheduled to take place between July 2010 and September 2010, and the results will inform the PFM agenda for the medium-term**.

37. **The fiscal decentralization strategy** is scheduled to commence during the 2010/2011 fiscal year, paving the way for the devolution of financial resources and decision-making powers to sub-national governments. The district tax management software is currently being piloted in Kigali district sectors and will be rolled out once the pilot phase is successful.

38. **The government is considering a Public Private Partnership (PPP) model for some of its strategic investments to ensure efficient management, crowd in the private sector and manage investment costs and risks**. To this end, the Government has developed draft PPP guidelines that set the institutional framework and procedures for PPPs. The government will also establish, by September 2010, a Public Investment Committee whose role will be, among others, to ensure that the fore-mentioned guidelines and procedures are respected. Furthermore, a legal and regulatory framework for PPP is being developed and due to be submitted to Cabinet by end-2010. The government will consult with the Fund before implementing a project under a PPP, in particular if it implies any new contingent liabilities for the government.

Debt Management

39. **A revised public debt policy and medium-term debt strategy (MTDS) will be submitted to cabinet for approval by end-December 2010 (structural benchmark)**. The debt management strategy will develop a clear framework for borrowing, establishing the principles that should guide decisions regarding the portfolio mix of debt, currency composition, maturity, interest rates and other risks of debt portfolio. During the PSI period, all avenues for concessional financing will be explored, but some nonconcessional borrowing may be needed to support the implementation of the government's six strategic investment projects. The government will limit the contracting or guaranteeing of new nonconcessional debt to possible debt guarantees for the Kigali Convention Center (KCC) and Rwandair, two of the six strategic investments. The amount of nonconcessional borrowing for this purpose should not exceed US$240 million during the period June 30, 2010–June 30, 2013.

Monetary and exchange rate policies

40. **Reserve money will continue to remain the anchor of the monetary program**. Reserve money and broad money are projected to grow in line with nominal GDP growth. Growth in deposits in response to the net liquidity impact of the budget spending and higher commercial bank deposit rates will allow substantial increases in private sector credit. Private sector credit is projected to grow annually at least in line with nominal GDP growth.

41. **NBR will target the average reserve money rather than the end-period reserve money as a way to smooth the path of liquidity.** This will be done through an appropriate mix of monetary policy instruments, including foreign exchange sales (subject to the conditions of the foreign exchange market), and daily repos and reverse repos. To ensure that NBR does not jeopardize its profit and loss accounts, the budget will assume the sterilization costs.

42. **The NBR will make greater use of monetary policy instruments—exchange rate flexibility, sterilization and interests rate—to keep inflation stable and in low single digits.** To this end, the Monetary Policy Committee (MPC) of the NBR will meet quarterly to assess the state of the economy and sources of inflationary pressure, using the newly developed high frequency data on indicators of economic activity and business and consumer confidence surveys compiled by the NBR. Decisions on the policy rate (the key repo rate) would be made based on developments in the economic fundamentals. These decisions—aimed at making monetary policy more responsive to changes in fundamentals—enhance the effectiveness of monetary policy to achieve the overall objective of stable and low inflation.

43. **We will improve our communication strategy in order to be effective at shaping the expectations of the market and the general public, and provide a forum for greater accountability of the NBR.** Starting in June 2010, we will publish a report and put on the NBR website the underlying economic assessment supporting MPC decisions within a month following each quarterly MPC meeting (structural benchmark). The report would provide an assessment of economic fundamentals, communicate monetary policy decisions and explain their rationale.

44. **To allow for greater exchange rate flexibility, the NBR is committed to putting in place an interbank exchange rate corridor and announce its introduction to all foreign exchange market participants, by end-June 2010, in line with planned MCM TA (structural benchmark)**. The corridor is a transition measure towards greater exchange rate flexibility and is aimed at encouraging interbank market development; and the NBR will only intervene at the extremes of the corridor.

45. **The NBR intends to request a *safeguard assessment* to update the 2007 assessment and help in strengthening the Bank's safeguards and governance**. Given the extensive changes in Rwanda's financial sector since the last bank-Fund Financial Sector

Assessment (FSAP) in 2005, the government would also welcome a FSAP update at the earliest possible opportunity.

Financial sector policies

46. **The NBR will continue to promulgate laws to strengthen the regulation of the financial sector.** By end 2010, depending on the availability of technical assistance and the adoption of the pension law, the non-bank supervision department will embark on an onsite inspection of Caisse Sociale du Rwanda (CSR), the largest social security fund and pension provider in Rwanda. The NBR expects to finalize the remaining insurance regulations to implement the new insurance law before the end of 2011. Additionally, new insurance contract law and mandatory insurance law are in the drafting process and will be enacted in 2010 to 2012.

47. **The Financial Sector Development Plan (FSDP) is expected to be fully implemented by June 2011.** The multifaceted FSDP has the objective of strengthening and deepening the financial sector in Rwanda along the spectrum of microfinance to long term capital markets.

48. **The NBR is in the process of promulgating laws to facilitate financial deepening, including a credit reference bureau.** A law governing the organization of collective investment schemes (CIS) was drafted and handed over in June 2009 to the Capital Market Authority (CMA), the supervisor of the CIS. This draft law, together with two other CMA draft laws, is expected to be passed by the Parliament in May 2010. The legal framework to operate a private credit reference bureau has also been developed. The draft law is in Parliament and a new private credit bureau, CRB Africa, is going through the licensing process and will be operational before end May 2010. At the same time the Central Bank is improving the existing Public Credit Registry which will be used for supervisory purposes.

49. **The NBR is committed to hiring and training new staff to develop capacity for the Banking Supervision Department.** The objective over the PSI period is to be able to conduct on-site inspections for each bank at least once in a 24 month cycle (a total of eight commercial banks and 4 specialized banks in 2010). Given the time needed to fully train seasoned bank examiners, NBR will aim to achieve at least 6 on-site inspections in 2010 with NBR staff (structural benchmark for end-December 2010), an average of two on-site inspections every four months. This is in addition to continual off-site surveillance for all banks and regular meetings with commercial bank management consistent with the risk-based supervision framework. Over the medium-term, the NBR's compensation scheme and professional development should be enhanced to improve staff motivation and increase staff retention. The NBR will also continue to hold joint bank inspection exercises with senior inspectors from other EAC central banks. The NBR will complete revisions to its loan classification and provisioning manual by June 2010. Furthermore, supported by the U. S.

Federal Deposit Insurance Corporation (FDIC), the NBR will embark on a study related to the introduction of a Deposit Insurance Protection Scheme covering the banking and microfinance sector.

50. **Further deepening of the financial sector is also expected in 2010**. One of the credit cooperatives, CSS-ZIGAMA (Credit and Savings Scheme) will be transformed into a commercial bank in 2010. Further pension reforms are also planned. A legal framework underpinning the establishment of a private pension scheme and personal retirement saving accounts is expected to be officially published before end 2010. Regulations to implement this law were drafted and will be issued soon after the law is enacted.

51. **The NBR is embarking on a payment system modernization program.** Under this program the core activity for the period 2010-2012 will be the implementation and operation of the Rwanda Integrated Payments Processing System (RIPPS). RIPPS will be composed of the Real Time Gross Settlement System (RTGS), an Automated Clearing House (ACH), and a Central Securities Depository (CSD) in one integrated software and running on the same platform. Once the RIPPS is completed (June 2011), the National Payment Systems (NPS) will conform to international standards including the CPSS Core Principles for Systemically-Important Payment Systems and the CPSS-IOSCO Recommendations for Securities Settlement Systems.

52. **RIPPS will significantly enhance efficiency of the payment system.** Specifically, it will provide a solid and efficient foundation for the development of a range of innovative payment systems and services in the following ways: accelerate the move towards electronic payment instruments, reduce the systemic importance of cash and checks, support the development of an active market in securities and equities, and support Rwanda's integration into regional economies, particularly the East African Community and COMESA. Between 2010 and 2011 the NBR shall endeavor to do the following:

- Implement and operate the RIPPS (by June 2011);
- Finalize the Electronic Transactions law (by September 2010);
- Finalize the law on the Central Securities Depository (by September 2010);
- Produce guidelines on the cards operations (by December 2010);
- Finalize a regulation on Electronic Funds Transfers and Electronic Money transactions (by December 2010);
- Finalize a regulation governing payment and securities systems (by December 2010);
- Set up an oversight frame work for all Payment Systems (by December 2011).

V. THE MEDIUM-TERM STRUCUTRAL REFORM AGENDA

53. **The government is planning further structural reforms over the medium-term in the following areas**.

Revenue Administration

54. **Further revenue administration measures** are planned for the medium-term. Building on the reforms implemented in 2010/11, RRA plans to:

- Introduce *e* taxes (electronic tax prayer registration, tax filing, reporting and payment systems) at RRA headquarters, and roll out to district and provincial offices;
- Automate the tax audit function by introducing computer-based risk assessments and case selection;
- Automate collection of social security contributions and RAMA
- Evaluate the need for the ASYCUDA++ system in the context of EAC regional integration. The medium-term plan is to automate customs risk management functions that will help in orienting customs verification.

Public Financial Management

55. **We will continue our efforts to improve public financial management over the medium term**. The upcoming PEFA assessment will inform our PFM strategy over the medium term. While awaiting this assessment, priorities for the medium term are as follows:

a. Rolling out of IFMIS core modules to all budget agencies;

b. further strengthening the MTEF through end-user sensitization and the undertaking of more PERs so that all sectors are covered over the medium term;

c. continue our ongoing efforts towards fiscal decentralization; and

d. RPPA will provide further training for procurement officers; and

e. The Ministry of Finance will continue to sponsor staff involved in PFM reforms for training as qualified professional accountants (ACCA- Association of Certified Chartered Accountants);

f. The government will also build capacity to conduct Risk Based Systems Audits, Payroll Audits and Value for Money Analysis and IT (Computeraided audit techniques) audits while piloting the establishment of Audit Committees.

Financial Sector

56. **The central bank supervision action plan targets a full compliance with the 25 Basle core principles (BCPs) as well as standardization of legal and regulatory framework across EAC, both by December 2012.** Commercial banks continue to clean up their loan portfolios in order to bring back the level of nonperforming loans within acceptable levels by 2012—currently defined at around 5 percent (in the immediate post-war period, the rate was in excess of 45 percent). A threshold of 7 percent has been set for 2010. The NBR will harmonize its legal and regulatory framework for the supervision of financial institutions with EAC standards. This harmonization will integrate international best practices, relevant elements of the Basel II framework and the findings of reviews and analysis done since the last global financial crisis.

57. **Supervision of MFIs and further financial deepening is on the agenda as well.** A number of activities are envisaged to start and strengthen SACCOs with the objective of reaching a goal of 30 percent of the financial inclusion in Rwanda by 2012 from 21 percent cited by the Finscope Rwanda 2008 survey. The MFIs will also benefit from the study to be conducted in 2010 with the assistance of FDIC on the introduction of a Deposit Insurance Protection Scheme covering the banking and microfinance sector. By 2011, the Risk Based Supervision (RBS) will be used in some large MFIs.

Fostering economic integration within the EAC

58. **Graduation to full member of the East African Community (EAC) is expected to lead to increased trade with member countries contributing to an increase in exports and a change in the origin of imports.** In the financial sector, joint inspections of cross border financial institutions between EAC Central Banks will continue as provided in the Memorandum of Understanding. In preparation for the move to a monetary union, a council is being established to negotiate macroeconomic convergence criteria for member states.

Export Promotion Strategy

59. **A key priority of the government is to exploit opportunities for higher export revenues**. The Rwanda Development Board (RDB) is preparing a draft Comprehensive National Export Diversification Strategy and action plan to help improve exports, which we plan to submit to Cabinet by end-August 2010 (Structural Benchmark). The strategy focuses on increasing the value added of existing export sectors and developing new products and services centered around six clusters: (i) dairy processing; (ii) fruits and vegetables processing; (iii) silk; (iv) specialized tourism (including business tourism); (v) mining services; and (vi) information technologies. The strategy also aims to address bottlenecks to make local products more competitive (both locally and for exports). The action plan

complements ongoing reforms to improve the business climate and access to credit, as well as ongoing efforts to support companies with export through advocacy and training in management and accounting.

VI. RISKS AND CONTINGENCIES

60. **Key economic and financial downside risks to the program include lower-than-expected exports and government revenues, slower than expected recovery in main trading partner countries, and higher import prices, especially oil.** If these risks materialize, the government stands ready to adjust its policies, in close consultation with the IMF staff, to ensure the achievement of a sustainable external and debt position by the end of the program period.

VII. DATA PROVISION AND PROGRAM MONITORING

Statistics

61. **The NISR has made significant progress in the development of both annual and quarterly national accounts statistics.** In September 2009, annual GDP estimates were rebased from 2001 base year to 2006, and new enterprise and household budget surveys were used to revise national accounts from 1998 to 2008. Moreover, quarterly GDP by activity and expenditure were compiled with back series from 2006 to 2009. In March 2010, the NISR released provisional national accounts data for 2009 as well as revision of the data for 2007 and 2008.

62. **Notwithstanding the progress to date, the NISR recognizes a number of inherent weaknesses in methodology and compilation of annual and quarterly statistics.** Lags in VAT returns and VAT refunds hamper the reliability of using this data as a proxy for production. The use of ex-ante crop assessment reports as a proxy for agricultural production, as well as lack of quarterly BOP, lack of comprehensive annual enterprise surveys, and the existence of a large informal sector further hampers the accuracy of compiling national accounts and projecting GDP growth, which constrains policy-making.

63. **Given the importance of agriculture in the economy, the NISR will request TA to revise the methodology for conducting ex-ante and ex-post agricultural crop assessments (structural benchmark, end-Dec 2010)**. Starting with the 2011 agricultural season (Season A February 2011), the NISR will conduct an ex-post crop assessments for the first time, to ascertain the actual value and production of agricultural output. At the same time, it will continue to use ex-ante crop assessment as a leading indicator of future agricultural production. The NISR will also request TA to design the Living Standards Measurement Questionnaire (structural benchmark, end-September 2010) for the upcoming 2010 household survey. The design of the survey will ensure a better benchmarking of the formal and informal sectors of the economy, which is now derived as a residual. Over the medium term, the NISR intends to conduct an annual survey of all enterprise activities so that

GDP can be more accurately measured from the production side across all sectors of the economy.

64. **In other areas, the NBR intends to request technical assistance and training from the Fund in methodology and compilation of BOP statistics**. This will be done to address weaknesses in BOP statistics and measure BOP statistics accurately at quarterly frequencies, which would inform monetary and exchange rate policy decisions.

Program Monitoring

65. **Progress in the implementation of the policies under the PSI will be monitored through assessment criteria (ACs), indicative targets (IT), and structural benchmarks (SBs).** Quantitative targets and structural benchmarks, which are established for end-June 2010 and end-December 2010, are detailed in Tables 2 and 3. The attached Technical Memorandum of Understanding, an integral part of this MEFP, contains definitions and adjustors. Program performance will be assessed in the course of reviews that will take place before end-December 2010 and end-June 2011, respectively.

66. **We believe that the policies specified in the MEFP provide a basis for sustaining growth, maintaining low inflation, and alleviating poverty—but we stand ready, in further consultation with the Fund, to take additional measures if required.** The government will provide the Fund with the information needed to assess progress in implementing our program as specified in the TMU, and will consult with the Fund staff on any measures that may be appropriate at the initiative of the Government or whenever the Fund requests a consultation.

Table 1. Rwanda: Quantitative Indicative Targets and Benchmarks for 2009
(Billions of Rwandan francs, unless otherwise indicated)

	2009				
	March	June	Sep	December (Original prog)	December (revised)
Benchmarks and performance Criteria					
Net foreign assets of the NBR (floor on stock)[1]					
Actual (program exchange rate)	267.0	312.6	344.6		358.0
Adjusted program	298.3	288.1	327.8		334.5
Program	311.6	298.0	341.6	326.1	351.8
Reserve money (ceiling on stock)[2]					
Actual	112.3	107.1	112.6		115.1
Adjusted program	114.8	107.1	112.6		115.1
Program	123.2	128.3	113.3	114.0	116.3
Net credit to the government (ceiling on flow)					
Actual	41.0	2.5	-8.4		19.3
Adjusted program	-2.3	-14.3	-28.4		8.5
Program	-15.6	-24.2	-38.0	-25.2	-8.8
Domestic fiscal balance (floor on flow)					
Actual	-47.3	-76.0	-130.3		-187.6
Adjusted program	-6.5	-82.1	-159.6		-235.1
Program	-35.8	-72.2	-145.8	-209.3	-235.1
Total priority spending (floor on flow)					
Actual	88.7	170.6	254.7		375.3
Adjusted program	63.6	154.5	260.0		375.0
Program	78.2	159.8	266.9	375.0	375.0
New nonconcessional external debt(Millions of US$)[3]					
Actual	0.0	0.0	0.0		13.1
Program	0.0	0.0	0.0	0.0	0.0
New external payment arrears (ceiling on stock)[3, 4]					
Actual	0.0	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0	0.0
Short-term external debt (ceiling on stock)[5]					
Actual	0.0	0.0	0.0	0.0	0.0
Program	0.0	0.0	0.0	0.0	0.0
Net accumulation of domestic arrears (ceiling on flow)					
Actual	4.0	-5.0	10.0		-10.6
Program	-1.6	-3.3	-5.4	-8.4	-10.1
Indicative targets					
Broad money (ceiling on stock)[1]					
Actual	432.3	436.8	467.3		497.7
Program	543.1	555.4	480.1	474.9	478.4
Actual					
Net Present Value of the Stock of Outstanding Debt (Millions of US$)[6]					
End-December 2007--Actual		240.9		240.9	240.9
End-December 2008--Actual		331.5		331.5	331.5
End-December 2009--Actual					
End-December 2007--Program		200.4		200.4	200.4
End-December 2008--Program		286.4		286.4	286.4
End-December 2009--Program		413.7		413.7	413.7
Ceiling on stock of domestic debt[7]					
Actual	98.8	139.4	140.2		
Program	183.3	168.4	102.0	100.1	100.1
Memorandum items:	53.4	96.4	190.4		245.0
Expected general budget support (Millions of US$)[8]	96.2	173.7	330.1	424.7	424.7
Received	19.5	155.9	263.2		347.0
Of which: budget support grants (received)	19.5	155.9	263.2		347.0
Of which: budget support grants	96.2	173.7	330.1	424.7	424.7
Baseline privatization receipts (RwF billion)	0.0	0.0	4.1	0.0	0.0

Sources: Rwandese authorities and IMF staff estimates and projections.

[1] At the program exchange rate of RF555/US$ through March 2009 and RF576.8 from June 2009 to June 2010.

[2] Targets are calculated as an arithmetic average of the stock of reserve money on the last day of each calendar month in the quarter.

[3] This is a continuous indicative target.

[4] Excludes arrears on obligations that are subject to rescheduling.

[5] 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.

[6] Figures indicate the NPV projections based on debt contracted at the test date.

[7] Numbers show end of period stocks.

[8] Excluding external donor financing for demobilization and peacekeeping.

Table 2. Rwanda: Quantitative Assessment Criteria and Indicative Targets for 2010/11 [1]
(Billions of Rwandan francs, unless otherwise indicated)

	2010			2011	
	June	September	December	March	June
Assessment Criteria [2]					
Net foreign assets of the NBR at program exchange rate (floor on stock) [3, 4]					
Program	369.3	363.0	356.6	333.9	304.2
Actual (program exchange rate)					
Reserve money (ceiling on stock) [5]					
Program	122.5	127.3	130.9	132.8	134.4
Actual					
Net domestic financing (ceiling on flow) [6]					
Program	-7.5	6.3	-11.2	37.7	72.5
Actual					
New nonconcessional and government guaranteed external debt (US$ Millions) (ceiling on stock) [7, 8]					
Program	240.0	240.0	240.0	240.0	240.0
Actual					
External payment arrears (US$ Millions) (ceiling on stock) [8]					
Program	0.00	0.00	0.00	0.00	0.00
Actual					
Indicative Targets					
Domestic revenue collection (floor on flow) [6]					
Program	197.9	311.2	426.5	554.8	677.5
Actual					
Net accumulation of domestic arrears (ceiling on flow) [6]					
Program	-3.0	-5.0	-7.0	-9.0	-11.0
Actual					
Consolidated domestic debt of public sector (ceiling on stock, eop)					
Program	211.1	214.7	187.7	212.5	217.1
Actual					
Total priority spending (floor on flow) [6]					
Program	212.0	326.0	442.0	557.0	672.1
Actual					
Memorandum items:					
General budget grants (Millions of US$) [6 9]	218.2	342.6	499.4	510.3	542.1

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

[1] All items including adjusters are defined in the attached Technical memorandum of Understanding (TMU).

[2] Test dates for assessment criteria are for end-June and end-December, otherwise indicative targets.

[3] At program exchange rate of RWF 571.24 per US dollar for 2010 and 2011.

[4] This will be adjusted upward (downwards) for any excess (shortfall) of budget grants and loans relative to the program baseline. See TMU for details.

[5] Targets are calculated as an arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. program projections are done monthly.

[6] Numbers are cumulative from December 31, 2009.

[7] Cumulative from end-June 2010. The ceiling applies to the duration of the three-year PSI and is tied to two projects as specified in the MEFP. It excludes the IFC SWAP agreement of US$50 million as well as $13.1 million for purchase of two small airplanes both of which were contracted in 2009.

[8] This is a continuous assessment criterion.

[9] Excluding demobilization and AU peace keeping operations.

Table 3. Rwanda: Structural Benchmarks for 2010/11

Measure	Target date	Macroeconomic rationale
PFM 1. Strengthen the MTEF by completing PERs for two more sectors (ICT and transportation).	End Mar 2011	To improve multi-year fiscal planning.
2. Begin pilot of core modules of *Smartgov* (a component of IFMIS) in Ministries and Agencies.	End July 2010	To help budget preparation, reporting and execution.
3. Submit to Cabinet for approval a revised public debt policy and MTDS.	End Dec 2010	To assess costs and benefits of scaled-up nonconcessional financing and analyze fiscal risks associated with PPPs.
Revenue Administration 4. Submit to Cabinet for approval draft legislation to transfer collection and audit functions of social security contributions (Pension and RAMA) to RRA.	End Dec 2010	To improve compliance and widen the tax base.
5. Improve risk-based assessment of ASYCUDA++ by electronic submission of supporting customs documents.	End June 2010	To modernize customs collection and properly assess liabilities.
Financial sector 6. NBR to conduct minimum of [6] on-site bank inspections with NBR staff.	End Dec 2010	To keep up with both on and off site prudential oversight of banks consistent with risk-based supervision framework.
Monetary Policy 7. NBR to publish (and put on its website) the underlying economic assessments supporting MPC decisions within one month after every quarterly MPC meeting.	Start date – End June 2010	To improve communication and shape expectations of market and general public. This would also enhance effectiveness of the monetary policy framework.
Exchange rate 8. Announce the introduction of the interbank exchange rate corridor framework.	End Jun 2010	To improve foreign exchange market efficiency and allow exchange rates to move in line with fundamentals.
Export sector 9. Submit to Cabinet for approval the draft export diversification strategy and action plan.	End Aug 2010	To broaden the export base.
Statistics 10. Finalize design of Living Standards Measurement Questionnaire (EICV).	End Sep 2010	To improve measurement of GDP growth
11. Revise methodology for conducting ex-ante and ex-post agricultural crop assessments.	End Dec 2010	To improve measurement of GDP growth

Attachment II. Technical Memorandum of Understanding
May 25, 2010

1. This memorandum defines the quantitative targets described in the memorandum of economic and financial policies (MEFP) for the period June 30, 2010-June 30,2013 supported by the IMF Policy Support Instrument (PSI), and sets out the data reporting requirements.

I. Quantitative Program Targets

2. The quantitative program will be assessed through assessment criteria (AC) and indicative targets (IT) for the duration of the program.

3. AC will apply to the following indicators for end-June and end-December (the test dates) throughout the program period; other dates are IT:

- Floor on stock of net foreign assets (NFA) of the National Bank of Rwanda (NBR);
- Ceiling on stock of reserve money;
- Ceiling on flow net domestic financing (NDF) of the central government;
- Ceiling on contracting or guaranteeing of new nonconcessional external debt by the public sector; and
- Ceiling on stock of external payment arrears of the public sector.

4. IT targets apply to the following indicators throughout the program period:

- Floor on flow domestic revenue collection of the central government;
- Ceiling on flow net accumulation of domestic arrears of the central government;
- Ceiling on stock of consolidated domestic debt of the public sector; and
- Floor on flow priority spending.

5. Assessment criteria on contracting or guaranteeing of new nonconcessional external debt by the public sector and stock of external payment arrears of the public sector are applicable on a continuous basis for the duration of the program.

6. **Program exchange rates**. For accounting purposes, the following program exchange rates which are end-December 2009 rates apply for 2010 and 2011:

Program Exchange Rates (US$ per currency unit, unless indicated otherwise)	
Rwanda Franc (per US$)	571.24
Euro	1.4599
British pound	1.6241
Japanese Yen (per US$)	89.5610
SDR	1.5822

A. Institutional Coverage of the Fiscal Sector

7. The **central government** fiscal operation table comprises the treasury and line ministries, hereafter referred to as the government unless specified otherwise.

B. Targets related to the Execution of the Fiscal Program

Ceiling on net domestic financing of the government

8. A ceiling applies to NDF, which is measured cumulatively from December 31, 2009 for June 30, 2010; December 31, 2010; and June 30, 2011. Other dates are indicative targets

9. **Definition**. NDF of the government is defined as *change* in the sum of (i) net banking sector credit to the government and (ii) non-bank holdings of the government domestic debt.

10. Net banking sector credit to the government is defined as

- credit to the government from the banking system (as recorded in the monetary survey), including credit to the government, provinces and districts, outstanding consolidated government debt held by the banking system,[1] government debt o the NBR incurred as a result of the 1995 devaluation (RWF 9 billion), the overdraft to the prewar government (RWF 2 billion);[2]

- minus total government deposits with the banking system (as recorded in the monetary survey), including the main treasury account, line ministries, the fund for

[1] Consisting of bank holdings of treasury bills, bonds (domestic), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

[2] The authorities will inform IMF staff of any substantive changes in government accounts with the banking system, which may affect the calculation of net bank claims.

assistance to genocide survivors, the Rwanda Revenue Authority, the electoral commission, the demobilization commission, fonds routier, privatization account, and any other autonomous public enterprises and public agencies over which the government has direct control over their deposits. 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 and *fonds publics affectés*).

11. Non-bank holdings of the government domestic debt consists of non-bank holdings of treasury bills, bonds (domestic and nonresident), old development bonds (pre-1994 debt), new development bonds (including those used for recapitalization of banks), and other accounts receivables.

12. **Adjusters to the NDF:**

- The ceiling on NDF will be adjusted *upward (downward)* by the amount of any shortfall (excess) between actual and programmed budgetary grants[3] (defined in Table 2 of Quantitative AC and IT). This adjustment will be capped at the equivalent of US$24 million, evaluated in Rwanda francs at the program exchange rate.

- The ceiling on NDF will be adjusted *upward* by the amount of expenditure for food imports in the case of a food emergency.

13. **Reporting requirement**. Data on NDF (showing separately treasury bills and government bonds outstanding, other government debt, and central government deposits), each type of debt to be shown by debt holder, and its adjusters will be transmitted on a monthly basis within five weeks from 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 and agencies that the government does not have any direct control over.

Domestic revenues

14. **Definition**. The floor on domestic government revenue is defined as total government revenue (tax and non-tax revenues), per the central government fiscal operation table, but excluding external grants, and privatization receipts.

15. **Reporting requirement.** Detailed data on domestic revenues will be transmitted on a monthly basis within five weeks of the end of each month.

[3] Budgetary grants exclude COMESA grants and HIPC grants.

Floor on priority expenditure

16. The floor applies to priority spending of the government which is measured cumulatively from December 31, 2009.

17. **Definition.** 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 EDPRS. Priority expenditures are monitored through the computerized SIBET expenditure management system which tracks priority spending of the annual budget at the program level.

18. **Reporting requirement.** Data on priority expenditure will be transmitted on a monthly basis within five weeks of the end of each month.

Net accumulation of domestic arrears of the government

19. A ceiling applies to net accumulation of domestic arrears of the government which is measured cumulatively from December 31, 2009.[4]

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, 2009 (including repayment of float in 2009 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 five weeks of the end of each month.

C. Limits on External Debt

Limit on New Nonconcessional External Debt of the Public Sector

22. A ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents (see below for the definition of the public sector, concessionality and debt). The ceiling is given in Table 2 of the MEFP which applies continuously from end-June 2010 to end-June 2013; it excludes the swap agreement of US$50 million signed in November 2009 between the NBR and the IFC and US$13.1 million for purchase of two air planes in 2009. The ceiling also applies to private debt for which official guarantees have been extended, including future swaps involving foreign currency loans guaranteed by the public sector (see below for swaps), and which, therefore, constitute a contingent liability of the public sector.

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

23. **Definition of the public sector**. The public sector comprises the general government (the central government, the NBR, local governments which include provinces and districts) and entities in which the government holds a controlling stake— owning more than 50 percent of the shares or the ability to determine general corporate policy.[5]

24. For program purposes, the guarantee of a debt arises from any *explicit* legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any *implicit* legal or contractual obligation of the public sector to finance partially or in full any shortfall incurred by the debtor.

25. **Definition of concessionality** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt.[6] The discount rates used for this purpose are the currency specific commercial interest reference rates (CIRRs), published by the Organization for Economic Cooperation Development (OECD). For debt with a maturity of at least 15 years, the ten-year-average CIRR will be used to calculate the PV of debt and, hence, its grant element. For debt with a maturity of less than 15 years, the six-month average CIRR will be used. To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD need to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more).

26. **The definition of debt,** for the purposes of the limit in the AC, is set out in point 9 of the Guidelines on Performance Criteria with Respect to External Debt (Executive Board's Decision No. 6230-(79/140), as amended by Decision No. 14416-(09/91), effective December 1, 2009). It not only applies to the debt as defined in Point 9 of the Executive Board decision, but also to commitments contracted or guaranteed for which value has not been received. The definition of debt set forth in No. 9 of the Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements reads as follows:

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[5] Government control of an entity can be established based on the following criteria: (i) ownership of the majority of the voting interest; (ii) control of the board or other governing body; (iii) control of the appointment and removal of key personnel; (iv) control of key committees of the entity; (v) golden shares and options; (vi) regulation and control; (vii) control by a dominant public sector customer or group of public sector customers; and (viii) control attached to borrowing from the government.

[6] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

(a) The term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lesser retains the title to the property. The debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in point 9(a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

Limit on the stock of external payment arrears

27. A continuous assessment criterion applies to the non-accumulation of 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.

Consolidated Domestic Debt of the Public Sector (DD)

28. The ceiling on DD applies to domestic commitments contracted or guaranteed by the public sector. This also applies to private debt for which official guarantees have been

extended either implicitly or explicitly. The authorities would inform Fund staff of any changes in debt position of public sector entities.

29. **Adjusters:**

- In the case of a shortfall in programmed grants, the ceiling on consolidated domestic debt of public sector will be adjusted *upward* by the same amount as the increase in the ceiling in the NDF, but capped per paragraph 12.

- The ceiling on the DD will be *adjusted upward* by the amount of expenditure for food imports in the case of a food emergency but capped per adjustment to NDF in paragraph 12.

30. **Reporting requirement.** Data on domestic debt of the public sector will be transmitted on a monthly basis within five weeks of the end of each month.

D. Targets for Monetary Aggregates

Net foreign assets of the National Bank of Rwanda (NFA)

31. A floor applies to the NFA of the NBR for June 30, 2010, December 31, 2010 and June 30, 2011 targets. Other dates are indicative targets throughout the program.

32. **Definition.** NFA of the NBR in Rwanda francs are defined, consistent with the definition of the Special Data Dissemination Standard (SDDS) template, as external assets readily available to, or controlled by, the NBR net of its external liabilities. Pledged or otherwise encumbered reserve assets (including swaps) 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. 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).

33. **Adjusters:**

- The floor on NFA will be adjusted *downward* by the amount of any shortfall between actual and programmed budgetary grants. This adjustment will be capped at the equivalent of US$24 million, evaluated in Rwanda francs 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.

34. **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. This transmission will include daily and weekly data on the NBR's foreign exchange liabilities to commercial banks (including required reserves with the NBR) and the exchange rate used for their conversion into Rwanda francs will be shown separately.

Reserve money

35. A ceiling applies to the stock of reserve money for the June 30, 2010, December 31, 2010 and June 30, 2011 targets. Other dates are indicative targets throughout the program.

36. The stock of reserve money target for a given quarter will be calculated as the arithmetic average of the stock of reserve money at the end of each calendar month in the quarter. Daily average of reserve money in the last month of each quarter will constitute the actual to be compared with the target.

37. **Reserve money** is defined as the sum of currency in circulation, commercial banks' reserves, and other nonbank deposits at the NBR.

38. **Adjuster:**

- The ceiling on the stock of reserve money will be adjusted symmetrically for a change in the required reserve ratio of commercial banks. The adjustor will be calculated as (new reserve ratio minus program baseline reserve ratio) multiplied by actual amount of liabilities (Rwanda Franc plus foreign-currency denominated) in commercial banks.

39. **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 daily and a weekly balance sheet of the NBR which will show all items listed above in the definitions of reserve money.

II. Other Data Reporting Requirements

40. For the purposes of program monitoring, the Government of Rwanda will provide the data listed in Table 1 below, weekly data within seven days of the end of each week; monthly data within five weeks of the end of each month; annual data as available.

41. The authorities will inform the IMF staff in writing at least ten business days (excluding legal holidays in Rwanda or in the United States) prior to making any changes in economic and financial policies that could affect the outcome of the financial program. Such policies include but are not limited to customs and tax laws (including tax rates, exemptions, allowances, and thresholds), wage policy, and financial support to public and private enterprises. The authorities will similarly inform the IMF staff of any nonconcessional

external debt contracted or guaranteed by the government, the NBR, or any statutory bodies, and any accumulation of new external payments arrears on the debt contracted or guaranteed by these entities. The authorities will furnish an official communication to the IMF describing program performance of quantitative and structural assessment criteria and benchmarks within 8 weeks of a test date. The authorities will on a regular basis submit information to IMF staff with the frequency and submission time lag as indicated in Table 1. The information should be mailed electronically to AFRRWA@IMF.ORG .

Table 1. Summary of Reporting Requirements

	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 public sector and publically-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

[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).