Preface

This national budget brief is one of four briefs that explore the extent to which the Government of Rwanda’s budget addresses the needs of children under 18 years of age in Rwanda. The brief analyses the size and composition of budget allocations for the 2017/18 fiscal year under health, including nutrition, education, social protection, and water and sanitation. The brief also offers insights into the efficiency, effectiveness, equity and adequacy of past spending. The objective of this endeavour is to synthesize complex budget information so that it is easily understood by stakeholders inside and outside the government, and inform financial decision-makers through key messages for policy and financing changes.

Key messages

• The Rwandan economy performed strongly in 2016, with real gross domestic product (GDP) growing by 5.9 per cent, slightly lower than the initially projected 6.0 per cent.

• Despite impressive growth, inflation stood at 7.3 per cent at the end of the year, with food inflation reaching nearly 18 per cent. The Government of Rwanda should continue to closely monitor price indices, including for food and other basic products, and consider options to stabilize rising prices in food markets.

• For the past six years, the services sector made a major contribution to Rwanda’s GDP, with more than 50 per cent share of the total GDP, followed by the agriculture sector at 30 per cent. Given that the majority of vulnerable households rely on agriculture for their livelihoods, increasing productivity and output should be among the key priorities under the new Transformation Strategy.

• Since fiscal year 2013/14, the national budget has increased by more than 25 per cent in nominal terms. However, when accounting for inflation, annual increases amounted to only 1.5 per cent, on average. The Government should ensure that the impact of its budget, especially on social sectors, is not eroded by high inflation.

• Social sector budget allocations have declined in recent years, from 30.3 per cent of the total budget in 2014/15 to 26.5 per cent in 2017/18. The biggest change was observed in the education sector, as its share of the national budget fell from more than 15 per cent to 11.5 per cent over the same time period. Given the widespread prevalence of poverty in the country, it is imperative that social sector spending maintains – at a minimum – or increases its share of the budget. This is also important to achieve basic spending targets, such as 20 per cent of the budget for education and 15 per cent on health, which Rwanda is falling further behind on.

• The social sector budgets allocated to districts increased by 26.5 per cent between fiscal years 2014/15 and 2017/18, reflecting a positive move towards decentralization of social services as well as equity enhancement. This trend should be encouraged and accompanied by efforts to strengthen the capacity of local governments to effectively plan and deliver related services.

• Although capital expenditure (development budget) decreased from 40.9 per cent in 2014/15 to 34.4 per cent in 2016/17, it remains relatively high, which indicates that public investments are likely to boost economic growth in the coming years. Nonetheless, this trend should be viewed as positive, as social services, especially those that support the most vulnerable populations, rely on higher expenditure on recurrent items.

• Total tax revenue increased by 34.3 per cent over the past five years and shows potential to further grow, providing a vital source of domestic financing for development objectives. In contrast, the role of donor support is waning, with the share of external grants decreasing from 23.7 per cent of the total budget in 2014/15 to 17.0 per cent in 2017/18. External support is likely to continue to fall over time, and the Government of Rwanda should strategize on how best to mobilize and use domestic resources to catalyse socio-economic development.
1. Introduction

Table 1: Key development indicators

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total population (2017, projected)</td>
<td>11,809,300</td>
</tr>
<tr>
<td>Child population &lt; 0–17 years (2017, projected)</td>
<td>5,412,051</td>
</tr>
<tr>
<td>Share of child population (0–17 years old) to total population</td>
<td>45.5%</td>
</tr>
<tr>
<td>GDP per capita (2017, projected)</td>
<td>US$753</td>
</tr>
<tr>
<td>Poverty rate</td>
<td>39.1%</td>
</tr>
<tr>
<td>Total government expenditure as a per cent of GDP</td>
<td>15.9</td>
</tr>
<tr>
<td>Total social expenditure as a per cent of the total budget</td>
<td>26.5%</td>
</tr>
<tr>
<td>Share of budget deficit (2016/17) to GDP</td>
<td>4.7%</td>
</tr>
<tr>
<td>Share of external finance to national budget (loan and borrowing) (2017/18)</td>
<td>36%</td>
</tr>
<tr>
<td>Share of tax revenue to national budget</td>
<td>57%</td>
</tr>
<tr>
<td>Public debt to GDP ratio (2016/17)</td>
<td>29.8%</td>
</tr>
<tr>
<td>Headline inflation (2017)</td>
<td>7%</td>
</tr>
<tr>
<td>Food inflation (2017)</td>
<td>17.6%</td>
</tr>
</tbody>
</table>

1.1. Rwanda macro-economic performance

1.1.1. Economic growth

The Rwandan economy recorded a good performance in recent years: the nominal annual GDP growth ranged between 15.7 per cent and 9.7 per cent in 2011 and 2016, respectively. The real GDP fluctuated between 8.8 per cent in 2012 and 5.9 per cent in 2016. The projected growth is 6.2 per cent by the end of 2017 (Figure 1).

1.1.2. Inflation

Inflation headline in 2016 stood at 7.3 per cent in December, up from 4.5 per cent in January. The annual average therefore went up from 2.5 per cent in 2015 to 5.7 per cent in 2016, mainly driven by rising food prices and transport cost. Inflation has continued to increase in 2017, and in February reached a five-year high of 8.1 per cent. This was largely due to food price inflation continuing to be very high and measured at 17.6 per cent, imported inflation reaching a five-year high of 8.8 per cent and transport inflation at 8.3 per cent. The inflation is projected to be 7 per cent by the end of 2017 (Figure 2).
Over the past six years, the service sector has made a major contribution to Rwandan annual output (GDP), with about a 50 per cent share of the total GDP. For example, in 2016, the agriculture sector contributed 31 per cent, and industry contributed 17.6 per cent (Figure 3). In terms of employment by economic sectors, 65.7 per cent of labour forces are in the agriculture sector and 26.2 per cent are in service, while only 8.1 per cent of the employed labour force is in the industry sector. According to a pilot labour force survey conducted by the National Institute of Statistics of Rwanda in August 2016, the labour force participation rate in Rwanda was 82.7 per cent, and the unemployment rate was estimated at 13.2 per cent. According to the World Bank Countries’ Classification per income level, Rwanda remains among the low-income countries category.

1.2. Monetary sector and external sector development

Credit to the private sector slowed down in 2016, as it grew at only 7.8 per cent after the highest growth rate of 30.0 per cent recorded in 2015. By 2017/18, credit to the private sector is expected to grow by 15 per cent in order to support a broad base growth.

The trade balance deteriorated in 2016 by 5.3 per cent due to the import of two RwandAir Airbuses. Imports excluding the Airbuses declined by 2.3 per cent, while exports increased by 9 per cent. The Government of Rwanda launched a broad set of measures - Made in Rwanda Programme - to promote import substitution and diversified exports that aim at reducing the exposure to external shocks and external imbalances over the medium term.
1.3. Guiding strategic documents of social sectors, key performance indicators and targets

Table 2: Social sector strategic guides and key targets

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Performance indicators</th>
<th>Targets</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Health</strong></td>
<td>Reduction of maternal mortality rate</td>
<td>From 1,070 to 200 per 100,000</td>
</tr>
<tr>
<td></td>
<td>Reduction of infant mortality rate</td>
<td>From 107 to 50 per 1,000;</td>
</tr>
<tr>
<td></td>
<td>Reduction of fertility rate</td>
<td>From 6.5 in 2000 to 4.5 children by 2020</td>
</tr>
<tr>
<td><strong>Education</strong></td>
<td>Increase in the adult literacy level</td>
<td>From 83.7 per cent in 2012 to 100 per cent by 2020</td>
</tr>
<tr>
<td></td>
<td>Pupils–qualified teacher ratio</td>
<td>58:1 in primary and 37:1 in secondary in 2012 to 40:1 in primary and 30:1 in secondary by 2020</td>
</tr>
<tr>
<td><strong>Social protection</strong></td>
<td>Reduced population under poverty line</td>
<td>From 44.9 per cent in 2012 to 20 per cent by 2020</td>
</tr>
<tr>
<td></td>
<td>Extreme poverty eliminated by 2020</td>
<td>From 24.1 in 2012 to 0% by 2020</td>
</tr>
<tr>
<td><strong>Water and sanitation</strong></td>
<td>Access to improved sanitation facilities (per cent of population)</td>
<td>From 74.5 per cent in 2012 to 100 per cent by 2020</td>
</tr>
<tr>
<td></td>
<td>Access to clean water (per cent of population)</td>
<td>From 74.2 per cent in 2012 to 100 per cent by 2020</td>
</tr>
</tbody>
</table>

1.4. Recent social sector performance

... Under the education sector

Pre-primary education has seen rapid development since 2011. The net enrolment rate (NER) at the pre-primary level increased from 10.1 per cent in 2011 to 17.5 per cent in 2016. The number of public pre-primary schools has increased from just 2 in 2011 to 1,474 in 2016. Primary schools have realized slight improvements in the teacher-to-pupil ratio, which fell from 60:1 in 2013 to 58:1 in 2015.

... Under the health sector

Maternal and child health realized impressive progress between 2005 and 2014 including: i) maternal mortality decreased by more than three times (from 750 per 100,000 live births in 2005 to 210 per 100,000 live births in 2014/15) and ii) infant mortality decreased from 152 per 1,000 live births to 50 per 1,000 live births in 2014/15. While there was a significant reduction in the stunting level among under 5-year-old children, from 48 per cent in 2005 to 38 per cent in 2014/15, the rate remains unacceptably high and significantly differs among rural and urban areas, as it stands at 40.6 per cent in rural areas compared with 23.7 per cent in urban areas.²

... Under the social protection sector

The poverty rate decreased from 58.9 per cent in 2000/01 to 39.1 per cent in 2013/14, while the extreme poverty rate fell from 40 per cent in 2000/01 to 16.3 per cent² in 2013/14. Social protection coverage, however, remains low.

... Under the water and sanitation sector

Access to an improved water source⁴ was maintained above 86 per cent in urban areas, while in rural areas it increased from 58.9 per cent in 2010 to 71.9 per cent in 2015. At the national level, the rate of the population with access to an improved water source increased from 73.1 per cent in 2010 to 74.7 per cent in 2015. The rate of the rural population’s access to improved sanitation facilities⁵ increased from 57.9 per cent in 2011 to 62.9 per cent, in 2014/15 while the sanitation in urban areas remained closer to 60 per cent.
2. Government budget trends

The budget approved by the Parliament for fiscal year 2017/18 amounted to 2,094.9 billion RWF. The national budget has increased nominally from 1,653.5 billion RWF in 2013/14 to 2,094.9 billion RWF in 2017/18, reflecting an increase of 26.6 per cent over the past five years. When looking at annual budget changes, there have been fluctuations, the annual percentage change of national budget over the past five years has fluctuated between 6.7 per cent and 10.2 per cent, indicating prudent government spending. However, nominal increases have been affected by inflation, as real changes were less than 1 per cent in 2013/14 and 2015/16 and neared only 1.5 per cent in 2014/15 and 2017/18 (Figure 4).

This suggests that while the Government is deciding on budget increases, there is a need to take into consideration the projected inflation rate, which should be maintained at the lowest level possible to avoid a negative effect on the poorest households, including children.

2.1. Public budget allocation by sectors (per cent)

When looking at the allocation by spending sectors, it is important to point out that general public services has taken a large proportion – between 31 per cent and 35 per cent – of the government budget over the past three years. This has mainly been due to recent public sector reforms and the creation of new public agencies as well as boards. The next big share of the public budget is allocated to economic affairs – despite its decreasing trend – which takes between 24.9 per cent and 27.3 per cent. With regard to UNICEF priority areas, namely social protection, education and health, there is an overall declining trend in per cent share of the national budget, with the exception of social protection, as its share increased from 4.3 per cent in 2015/16 to 4.5 per cent in 2017/18 (Figure 5).
There is a need to consider a significant increase of the budget allocated to health and education, not only to fulfill government commitment in international development partnerships and forums, but also to meet the demand for health and education service by the community.

To ensure the sustainability of financing of social sectors, the role of the private sector in health and education should be emphasized, to give room for the government budget to concentrate on low-income households and other vulnerable groups.
2.2. Spending trend by social sector programmes

The social sector budget realized a declining trend in recent years, from 30.3 per cent to 26.5 per cent of the total government budget (overall). The decline was observed under the education sector, as it decreased from 15.2 per cent to 11.5 per cent of the total government budget. Other social sectors – namely, health and water and sanitation – realized small decrease in budget. However, the social protection sector realized a slight increase in recent years, from 4.2 per cent in 2016/17 to 4.5 per cent in 2017/17 (Figure 6).

It is further important to note that the Government of Rwanda needs to increase the budget allocated to sectors in order to maintain the strong achievements realized under the health and education sectors, as well to increase coverage of social protection services.
3. Government spending patterns

When looking at the national budget composition by economic classification, large amounts have been allocated to recurrent expenditures, which include wages and salaries as well as other fixed expenditures. Current expenditure increased from 794.4 billion RWF in 2014/15 to 899.9 billion RWF in 2015/16, and stood at 736.9 billion RWF by the third quarter of the 2016/17 budget. Capital expenditure realized a decreasing trend, from 40.9 per cent in 2014/15 to 34.4 per cent in 2016/17 (Figure 7).

- The Government of Rwanda will need to consider increasing the share of capital expenditure to total government spending by mainly strengthening social investments that create opportunities for children, youth, women and people with disability; and
- The Government of Rwanda needs to prioritize spending that has a high impact on children, thus increasing the budget allocated under the health; education; water, sanitation and hygiene; and social protection sectors.

![Figure 7: Composition of government spending by economic classification](https://www.unicef.org路虎/)

Government spending patterns

<table>
<thead>
<tr>
<th>Year</th>
<th>Current Expenditure</th>
<th>Capital Expenditure</th>
<th>Interest payments</th>
<th>Transfers</th>
<th>% of Capital Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014/15</td>
<td>794.4 billion RWF</td>
<td>787 billion RWF</td>
<td>42.9 billion RWF</td>
<td>301 billion RWF</td>
<td>40.9 %</td>
</tr>
<tr>
<td>2015/16</td>
<td>899.9 billion RWF</td>
<td>776.3 billion RWF</td>
<td>56.1 billion RWF</td>
<td>336.9 billion RWF</td>
<td>37.5 %</td>
</tr>
<tr>
<td>2016/17 (March)</td>
<td>736.9 billion RWF</td>
<td>525.4 billion RWF</td>
<td>53.8 billion RWF</td>
<td>210.4 billion RWF</td>
<td>34.4 %</td>
</tr>
</tbody>
</table>
4. National budget execution

The social sector budget execution rate was consistent with the national budget execution rate over the past five years, ranging between 96.3 per cent and 100 per cent (Figure 8). This is an indicating of strong planning, budgeting and monitoring capacities along public entities both at the local and decentralized levels.

The Government of Rwanda is much appreciated for strong capacity in budget execution, however, there is limited data availability when it comes to disaggregated budget execution per sub-programme. Thus, the Government needs to continue investing resources and effort to avail timely disaggregated budget execution data to enable efficiency tracking or monitoring.

![Figure 8: National budget execution](image-url)
5. Decentralization of the budget in social sectors

There is an increasing trend of budget allocated at district levels across social sectors in recent years. Overall, the budget allocated to districts has increased by 26.5 per cent over the past five years. Importantly, the education sector budget has realized a big increase, from 102.7 billion RWF to 135.2 billion RWF (Figure 9).

6. Financing the national budget

6.1. Fiscal and revenue performance

The expected total revenues, grants and loans for the total state budget in 2017/2018 amount to 2,094,910,480,545 RWF. Tax revenues are estimated at 1,200.3 billion RWF, representing 57 per cent of the total budget, the external grant is estimated at 356.7 billion RWF constituting 17 per cent of the total budget, and loan borrowing will be equivalent to 398.8 billion RWF, at 19 per cent (Figure 10).

6.2. Trends on source of government revenues

When looking at the source of government revenues, the contribution of tax and non-tax revenues has continually increased in recent years, from 997 billion RWF in 2014/15 to 1,339 billion RWF (projection for 2017/18), reflecting an increase of 34.3 per cent over the past three years. The external grants, however, have slightly decreased, from 23.7 per cent of the total budget in 2014/15 to 17.0 per cent in 2017/18 (Figure 11).

Rwanda’s debt level remains at low risk of debt distress, with all the risks indicators positioned well below the indicative thresholds established by the World Bank and International Monetary Fund Debt Sustainability Analysis tool. The Debt Sustainability Analysis done in December 2016 shows that Rwanda’s debt service to export stood at 19.4 per cent (against the debt service to export threshold of 25 per cent), while the external debt-to-GDP ratio stood at 29.8 per cent by the end of 2016.
A decrease in external grants has affected both social and non-social sectors as the budget decreases or is allocated across different government priorities. In order to offset the gap, the Government of Rwanda will have to continue broadening tax bases and increasing tax collection efficiency.

As the Government of Rwanda is well known for effective and efficient use of official development assistance, there is much potential to mobilize more aid for development from development partners. Thus, the Government of Rwanda will need to leverage on aid management capabilities to mobilize more for public investments.

Since the debt level is relatively low, the Government of Rwanda should keep prudential borrowing to invest in strategic projects with high social and economic impacts, accelerating self-reliance, inclusive growth and development

7. Public finance management (PFM)

To coordinate and harmonize the management of public funds, the Government of Rwanda is implementing an Integrated Financial Management Information System (IFMIS), which is an electronic system and single-entry window for all budget agencies’ transactions and supports financial statement consolidation across government entities.

The auditor general report for the years June 2016 to 26 April 2017 covered 85 per cent of the reported government expenditure. The total government expenditure reported in state consolidated financial statements for the year ended 30 June 2016 amounted to 1,923,132,183,998 RWF, compared with 1,826,772,990,826 RWF for the previous year ended 30 June 2015.

This coverage is in line with the PFM audit target of 84 per cent of expenditure incurred by the Government of Rwanda during the year ended 30 June 2016. As a result, the number of reports with unqualified audit opinion on financial statements increased from 78 reports (50 per cent) in 2015 to 88 reports (60 per cent) in 2016, out of the 147 reports issued by 26 April 2016. The audit report published comprised 14 reports for ministries, 58 reports for government projects, 12 reports for central government entities, 1 report for a local government (City of Kigali) and 3 reports for government agencies (boards).

With regard to implementing auditor general recommendations, overall, public entities implemented 50 per cent of the audit recommendations. However, government boards and business enterprises continue to perform poorly in the implementation of the auditor general’s recommendations, having not implemented 56 per cent of the previous audit recommendations.

Efforts to improve public financial management skills need further improvement, with the aim of increasing the number of unqualified audit opinions on financial statements.

Public agencies should endeavour to implement the auditor general’s recommendations to increase accountability in the use of public funds.
### 8. Key events in the budget calendar

<table>
<thead>
<tr>
<th>Month</th>
<th>Activities</th>
</tr>
</thead>
<tbody>
<tr>
<td>October 2016</td>
<td>• Training of Ministry Districts and Agencies (MDAs) on planning and budget requirements for 2017/18, including training on IFMIS planning module and data entry in IFMIS</td>
</tr>
</tbody>
</table>
| November/December | • Inter-sectoral consultations, including districts and the private sector  
• Joint planning session between central and local governments, including infrastructure needs  
• Submissions of 2017/18 planning documentations to Ministry of Finance and Economic Planning (MINECOFIN) |
| January        | • Planning consultations (ministers present sector plans)  
• Public investment committees  
• Dissemination of the second 2017/18 Planning and Budget Call Circular |
| February       | • Preparation of budget proposals, including earmarked transfers to districts  
• Budget submissions in Smart IFMIS and organization of budget consultations |
| April/May      | • Conduct 2017/18 Forward-Looking Joint Sector Reviews  
• Submission of Budget Framework Paper to Parliament and parliamentary budget hearings |
| June           | • Approval of Finance Law by Parliament |
Endnotes


3. The total poverty line was computed at 159,375 RWF = 195.5 US dollars per adult equivalent per year, and the food (‘extreme’) poverty line at 105,064 RWF = 128.6 US dollars (NISR, 2016).

4. The improved drinking-water source includes piped water on premises (piped household water connection located inside the user’s dwelling, plot or yard), and other improved drinking-water sources (public taps or standpipes, tube wells or boreholes, protected dug wells, protected springs and rainwater collection).

5. Improved sanitation facilities refer to the percentage of the population (urban and rural) using improved sanitation facilities. Improved sanitation facilities are likely to ensure hygienic separation of human excreta from human contact. They include flush/pour flush (to piped sewer system, septic tank, pit latrine), ventilated improved pit (VIP) latrine, pit latrine with slab, and composting toilet.

6. Includes budget under Ministry of Local Government (MINALOC), Local Administrative Entities Development Agency (LODA), Ministry of Agriculture and Animal Husbandry (MINAGRI), Rwanda Agriculture Board (RAB), Ministry of Gender and Family Promotion (MIGEPROF), Ministry of Disaster and Refugees (MIDIMAR) and Districts.