Rwanda

Financing for Transformation

An INFF Assessment and Diagnostic Report

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Executive Summary:

The purpose of this report is establish an Integrated National Financing Framework (INFF) that brings together Government, the private sector, and other stakeholders to operationalize a more integrated approach to better mobilize and align the financing of Rwanda's development priorities. This *Diagnostic and Assessment (A&D) Report* sets the analytical baseline for this and constitutes the main product of the first building block of the INFF process. The report proffers initial recommendations on a package of reforms including strategies, policies, a novel monitoring platform and governance framework as well as the opportunities to harness a more integrated and effective approach to financing the SDGs. It serves as the background to a refined financing strategy that will, among others, inform a transformational development finance policy and an INFF Roadmap that the Government of Rwanda and its partners can pursue in a coordinated way to meet the NST-1 and the SDGs. By comparison and design, the A&D emphasizes empirics and data analysis and relatively light on policies, while the financial strategy is the obverse.

The report covers initiatives for development finance in the International Community highlighting the OECD Long Term Investment Project, International Tax Architecture and the global response to COVID-19; the African Union 2063 agenda including the African Continental Free Trade Area (AfCFTA) and African Export Import Bank (AFREXIM), and, East African Community (EAC) to exploit protocols on macroeconomic, financial sector and free trade links. The report then turns to the Rwandan context and the linkages between the Vision 2050, the UN 2030 Sustainable Development Goals (SDGs) and first National Strategy for Transformation (NST-1: 2017-2024). It delves into the social and economic transformation of Rwanda highlighting world record gains in life expectancy and human capital indicators, and the rapid increase in agriculture productivity. Significant results were achieved in the implementation of the NST-1 by mid-term and implementation of the Economic Recovery Plan (ERP), the Government's response to the COVID-19 pandemic. On both policy imperatives, the country also registered high standards of effective and efficient service delivery answering to the transformational governance pillar.

The report recognized the country's financing needs as the investment requirements of the NST-1, which was reviewed, and pending actual data on NST-1 costs and spending to go further. The report assessed the financing landscape, i.e. supply of resources, in greater detail through public finance – revenue and expenditure, public debt and the medium-term budget, 2020/21 – 1922/23. It covered financial deepening in the money and capital markets to assess flows through credit and bonds, highlighting sources of financial savings such as pensions and insurance as well as the depth of financial inclusion while referencing gender sensitivity in the development finance effort. The report reviewed and emphasized leveraging the private sector for infrastructure investment through public-private partnerships, foreign direct investment, blended and innovative finance. It then presents advantages of tapping into international finance capital and re-engaging the Diaspora for national investment. It justifies upscaling relationships with development partners (DPs) for increased Official Development Assistance (ODA) to meet the SDGs, while expanding opportunities in South-South Cooperation and exploiting climate finance including new financing flows under "Net Zero" climate finance.

The monitoring and governance framework is intended to facilitate integrating development finance with national planning and the fiscal budget to achieve the Vision 2050, UN 2030 SDGs and NST-1. Thus, the report proposes adoption of the Integrated Planning and Reporting Toolkit (IPRT) as it concretizes these linkages on an e-platform, supporting accountability and transparency in resource use through empowering INFF oversight with accurate and regular reporting on financing results based on timely and reliable data.

Rwanda's development financing demand is initially determined by funding NST-1 , projected to cost Rwf 41,735 billion over the seven years; of which, Rwf 24,623.7 (59%) and Rwf 17,111 (41%) are expected from public and private resources, respectively. In the absence of mid-term cost and spending data, the narrative in the report follows a macro level estimate of total investment which is projected to rise from 22.7% in 2017 to 31.1% of GDP in 2024. Actual investment underperformed this NST-1 projection in 2018, over-performed in the following year and stayed on target at 25% of GDP in 2020, while registering a marginal decline in that year due to the pandemic. The actual divide of investment between public and private averaged 45:55 annually, between 2017 and 2020. This desirable outcome bucks the ratio projections of the NST-1 and however, stands in tune with the Government's professed policy stance of a private sector-led economy. However, there are no annual cost and investment targets for planning and monitoring purposes – a measure of private sector participation in public investment and NST-1 implementation. This data gap ought to be filled in furtherance of the objectives of the INFF. Albeit Government makes proactive efforts by designing and costing projects under the National Direct Contribution for private participation in climate finance.

Beyond the NST-1 investment, achieving the SDGs by 2030 requires additional investment estimated at 15.7% of GDP per year, which was increased by 5.6% of GDP due to the economic recession precipitated by the pandemic. This estimate by the IMF amounts to 21.3% of GDP for investment in infrastructure, health and education; whereas Oxford Economics estimated 14.6% of GDP for infrastructure and World Bank at 8.79% of GDP annually for transport, energy, water and ICT. This report draws from these model-based studies to establish a financing need or demand for financing to meet the SDGs using the IMF estimates. The report sought to fill financing gap of 21.3% to meet the NST-1 and SDGs in 2030.

The report assessed policies and diagnosed the financing flows to identify the financing flows with the potential to contribute to filling this gap. The aggregate supply of financing from all sources increased by 15%, from USD 5 billion in 2015/16 to USD 5.7 billion in 2019/20. During the same period, financing raised on annual average basis was the equivalent of 56% of GDP and USD 467 per capita in the last year, with a peak at 61% of GDP in 2016/17. In 2019/20, domestic financing contributed 55% of total financing at USD 257 per capita and external financing registered 45% of the total at USD 210 per capita. This level of growth in development financing puts Rwanda among the leading performers in Africa.

In terms of weights or share of contribution to total financing flows in 2019/20, the order was led by total domestic revenue (31%), development cooperation or ODA (28%), domestic private investment (21%), foreign private capital (9), remittances (4%) and net domestic borrowing (3%). The performance of every financing aggregate was significantly affected by the pandemic in that year over the previous year, as growth plummeted across the globe depressing supply and demand for goods and services. The share of revenue declined by 8 percentage points; while on the obverse, official development assistance rose by 6 percentage points as Rwanda resorted to concessional external borrowing to fund interventions to mitigate the health emergency and fund the Economic Recovery Plan. Likewise, domestic private investment also increased by 3 percentage points, largely reflecting higher inventories due to slower sales and locked-in contracts for construction and machinery. Foreign private capital constituted by foreign direct investment (FDI), portfolio and short-term capital, was dominated by FDI buoyed by longer-term commitments, which led to this aggregate staying unchanged between the two years. Remittances declined by 1 percentage point, as it is dependent on income in source countries which are under a COVID induced economic recession. Net domestic borrowing increased by 2 percentage points as the private sector resort to bridging finance loans for meeting working capital, accessing the Economic Recovery Fund and repayments slowed.

The report assessed the medium term growth record of each financing flow finding that, in order of strong performance: the leading flows were 72% and 71% respectively; remittances carry a relatively smaller weight in the basket however, this aggregate followed at 58% growth; ODA comes next through multilateral

and bilateral partners in loans and grants at 55%, which spiked due to the pandemic, while domestic revenue grew less than of half of that at 21%, and only higher than foreign private capital constituted by foreign direct investment, portfolio and loans at 2%.

The INFF is driven by the overarching goal of the GoR to raise the totality of development financing from these sources well above the annual average growth of 3% achieved before and set on higher trajectory to have adequate financing for the Vision 2050, the SDGs and NST-1. Accelerating these flows entails addressing challenges, assessing and mitigating risks and relaxing constraints, and improve the effectiveness and efficiency of resource use and management. Already, much work has been done by the GoR and its development partners in these regards, and this report reviewed and assessed them against interventions and results achieve. The policy aspects shall largely be reflected in the refined financing strategy.

The Findings on all aggregates are available in the main body of the report below. However, preceded by an estimated share of flows to fill the financing gap of 21.3% of GDP per year to achieve the results of the of NST-1 SDGs 2030 and Vision 2050, each financing flow is highlighted and discussed by drawing from findings of the report as follows:

Total revenue - To raise tax effort by an estimated of 7% of GDP per year additional growth between 2023 – 2029.

The country is projected to raise revenue of 17.3% of GDP, and not on track to meet the NST-1 revenue target of 20.4% of GDP (SDG 17.1.1) by 2024. While there is variance in the definition of revenue, as tax and non-tax by the NST-1 document and tax, non-and as well as grants by the SDGs, the revenue target will be missed in 2024 by 3% of GDP, even by the latter definition. The policy of national reliance in budget financing experienced setbacks in 2019/20 due to the pandemic when revenue and domestic borrowing as share the budget (SDG 17.1.2) declined to 49%, from 66% in 2015/16, as external concessional loans surged to fund the ERP. Getting back to the pre-pandemic trajectory is demonstrably a priority for achieving greater reliance on domestic resources. However, revenue collection’s past declining trends exacerbated by the pandemic raised concerns that the phenomenal growth in the past has lost stream and strategies and policies need to be revisited to reinvigorate the tax effort.

However, revenue collection’s past declining trends exacerbated by the pandemic raised concerns that the phenomenal growth in the past has lost stream and strategies and policies need to be revisited to reinvigorate the tax effort.

Just before the pandemic, tax revenue was dominant and also the fastest growing source of financing for Rwanda’s development plan and represents the only flow in the full control of the Government and citizens. The INFF will facilitate further participation of citizens, taxpayers, in the budget process to promote not only accountability, but also voluntary compliance, which is the most cost-effective way of collecting taxes. Thus, it remains the primary target for deliberate Government intervention to tap its potential. The Government and UNICEF are already engaged in this regard with provision of enabling instruments such as budget information and data for informed dialogue among stakeholders in taxation.

The starting point is to measure the potential through a tax gap analysis, which is not available. As an alternative, this report quoted a C-efficiency study that showed VAT collection at only 30% of its potential, pointing to the depressing effects of a sub-optimal VAT tax base, high exemptions and a need for, at minimum, a review of VAT offsets. Another approach using tax burden analysis revealed that agriculture accounted for a quarter of the economy and yet, contributed as little as a 1% share of total revenue. Although, agriculture stands at a tax discount in a number of countries, the 96% in Rwanda is quite high. Here, a structural

solution with a medium term perspective is proposed through increasing commercialization and exports, exploiting value chains and a bias for high value horticultural products and in the short-term, rationalizing the subsidies and tax exemptions.

It is a surprise that Financial Services and Insurance sector at is at -23% tax discount when in the plurality of countries, this sector is only next to mining in terms of the plethora of taxes and fees charged to it. The efforts to establish the Kigali International Financial Center (KIFC) and the associated investor incentives is partly responsible for this status. Another sector, real estate is outside this data set however, it is a sector with much tax potential yet, usually registering a discount – and Rwanda appreciated this potential by enacting a property tax law No. 75/2018 of 07/08/2018. This tax burden analysis identifies sectors to target for expanding the tax base and prioritizing projects with high taxation potential beyond a perfunctory mention in project documents. Such an approach constitutes a strident step towards integrating development financing with planning.

Official Development Assistance: The IMF estimates that if development assistance countries (DAC) meet their UN monitored ODA target of 0.7% of gross national income (GNI), that would release USD 200 billion; and if it is distributed according to current (2020) shares, then this flow will provide two-thirds of the financing gap of the LIC's, including Rwanda.

Development cooperation is the leading form of DPs' support to Rwanda, and received for projects or budget flexible funding, managed by the GoR. In 2019/20, this type of flow increased by 42% to a record $1.523 billion, from $1.056 billion in the previous year, and substantially over the $970 million registered in 2017/18. The rapid response funding under the ERP provided in the second half of the year by the multilaterals was responsible for the spike in financing. It came from the IMF (16.9%), the World Bank (16.6%), and AfDB Group (16.1%) and AfDB Group (16.1%). Other DP contributors were USA at 12.4%, the Global Fund 5.1%, and European Union 7.6%. Development Cooperation from this these 6 DPs accounted for 74.7% of total support to Rwanda's public sector.

A sector-wise breakdown of ODA in 2019/20 indicated that the largest share of support went to Health, Energy, Agriculture, Transportation, and Education. Over the past five years, outlays to the same sectors have increased driven by NST-1 financing, while funding to Health and WASH accelerated in the pandemic year. ODA is increasingly being delivered with and through the private sector with more DPs forging partnerships with the private sector which has taken an increased role in financing development activities. A reality that the INFF will nurture and engender for a coordinated approach between the public and private sectors.

The Developing Partners Assessment Framework (DPAF) assesses the performance of DPs against mutually agreed indicators that measure their progress in the provision of quality and volume of development assistance to Rwanda. DPs' performance against the Budget Support indicators (G1 and G4) saw marked improvement albeit missing their targets. However, there was a worsening in performance for G3 – also missing its target. These results indicate that GoR and DPs would need to substantially increase their efforts, if the quality of development cooperation is to improve. A dialogue is warranted to have a mutual understanding of what did not work and how to make amends going forward. The usefulness of DPAF lies in its ability to generate a reset for better results. This report advises the Rwanda authorities to approach ODA with renewed vigor as estimates show (Subsection 3.1) that without increasing it, the country achieving the SDGs by 2030 will be difficult.

Public Debt – In the short-term maintain the budget around 5.5% of GDP to 2023and thereafter, at 3% of GDP to keep the golden rule.

The growth in debt financing discussed under the medium term trends, spiked in 2020 due to the pandemic resulting in a higher fiscal deficit of 9.7% of GDP that led to more borrowing. Consequently, The IMF IDA rating of the country's public debt moved from low debt distress to moderate debt distress signaling heightened vulnerabilities in contracting more debt. The present value (PV) of external public and publicly guaranteed (PPG) debt surged from 29% in 2019 t0 34.1% of GDP in 2020, while PV of public debt to GDP increased from 41.1% to 45.5% of GDP between the same periods. The authorities concur with the DPs that a reduction in debt financing stays as central plank of fiscal consolidation intended to support funding the NST-1 while maintaining sustainable debt level. The framework bears two fiscal rules: (i) keeping to a fiscal deficit of 5.5% of GDP in the medium term; and (ii) maintain the EAC agreed 50% debt to GDP ratio as a fiscal anchor. It is also strongly in favor of concessional borrowing as the grant element of new external borrowing deteriorated from 46.4% to 48.1%. Adherence to this framework bodes well for debt sustainability and macroeconomic stability, a precondition for achieving the Vision 2050, SDGs and NST-1 results.

This report endorses fiscal rules to underpinning fiscal consolidation agenda and goes further that after achieving a deficit of 2.8% of GDP after the five-year period of this fiscal framework. The authorities ought to consider maintaining the fiscal deficit golden rule of 3% of GDP, mindful of the elevated risks that the increasing exposure in international capital markets have placed the country. Experiences from the Asia and Greek sovereign risk related crises provide ample lessons to proceed with caution to avert Government debt being the source of national financial instability. For this reason, this report urges the GoR to strengthen capacity for public and private debt management.

Other Sources of financing estimates in the report: (a) Fiscal expenditure rationalization and restructuring estimated to yield fiscal space of 1.5% of GDP**; and (b) Foreign direct investment** – leveraging international private finance through PPPs and blended finance, among others.

Main Findings and Recommendations

1. Going forward, confronted with multiple waves of the COVID-19 pandemic, Rwanda must continue to address the health, jobs and livelihoods without losing a long term planning perspective. The amount of resources to achieve development goals is significantly more than past and current trends, and every wave addressed with lockdowns will set a premium on achieving desired results in the projected timelines. Achieving the NST-1 targets in 2024 is on track, using SDGs definition of revenue; however, multiple COVID-19 waves causing further significant setbacks to keep growth near the 9.1% projected for the NST-1 will pose serious challenges and make achieving the targets elusive well past the NST-1 timeline. The tax-to-GDP target for the NST-1 previously achievable is now threatened by the long-term impact of the pandemic. The immediate impact of the pandemic was to delay the increased reliance on domestic financing sources that Rwanda had gained in the recent past. Furthermore, trade-offs in short-term macroeconomic stability and NST-1 spending with particular regard to debt management will be necessary to deal with the long-term impact of the COVID-19 pandemic – including a reiteration of the Economic Recovery Plans (ERP). As a global pandemic, there is a semblance of a global response beginning to shape around vaccine access under COVAX and bilateral DPs as well as other resources aimed at supporting countries most affected – Rwanda will need a coherent plan to tap into these resources for a V-Shaped Recovery. *(BB2, Short term)*
2. Medium-term financing needs to achieve the targets have been significantly underestimated and now require the equivalent of 21.3% of GDP for the last

decade of the SDGs. This level of additional financing is needed after domestic resource mobilization has reached a plateau, the implication is that ODA, which also reached a plateau, would be continued and needed at levels Rwanda did not project under the current national plans. It will therefore be important to continue to advocate internationally for the increase in ODA for countries to meet the 0.7% target recommended by the UN while positioning to access more of the recent IMF SDR allocation increase beyond the national share – through a combination of bilateral and multilateral mobilization. *(BB2, Short term)*

3. Based on the IMF top-down approach to estimating the financing need for meeting the SDG, HMIC and HIC goals must be estimated in a bottom-up approach via the SIC sectors[1]. Furthermore, quarterly public and private investment targets must estimate and set for monitoring and achieving the targets. This INFF should support a joint initiative headed by MINECOFIN to make shared projections on financing needs and targets for filling financing gaps. *(BB2, Short term)*
4. Further, the GoR ought to continue to seek reliance on domestic sources by seeking to get on a higher trajectory of domestic resource mobilization (DRM). Articulating a DRM strategy that supplements Rwanda's MTRS with structural reforms may be considered. Also, in pursuance of an accelerated DRM, conduct tax gap analysis. *(BB2, Short, Medium term)*
5. Reduce revenue loss by reducing or eliminating subsidies and tax exemptions, and accordingly, conduct a cost-benefit analysis as condition precedent to revise the Investment policy and code – and review some of the clauses in the tax law to align with the country's drive to attract investments – especially those that support SMEs. *(BB2, Short, Medium term)*
6. Consolidate the digitalization of taxation with regard to VAT taxpayers, management of non-tax revenue through ministries, departments and agencies, and interactions with taxpayers for registration, reporting and payment of taxes – targeting a lower tax administration to GDP ratio. It will also be important to engage with stakeholders to mainstream increasing taxation in sector medium term development plans as a deliberate strategy to get sectors from tax discount to premium sector. *(BB2, Short, Medium term)*
7. South-South cooperation will continue to have a significant potential for the socio-economic development of Rwanda – especially as the country positions as a 'proof of concept' nation, builds-up of the reputation of the Kigali International Finance Centre (KIFC) and further strengthens its 'Peace Keeping Operations (PKO)' as well as its 'Home-Grown Initiatives (HGI)'. As Rwanda begins to reap gains from this South-South cooperation through the African Continental Free Trade Area (AfCFTA), the EAC, COMESA, the Organisation Internationale de la Francophonie (OIF) and other regional groupings - a separate development cooperation strategy should be developed to deepen these financing gains. *(BB2, Short, Medium term)*
8. A holistic approach to development financing is the central plank of elaborating a Financing Strategy, which is the next stage of INFF process. This will include the consolidation of the capital market gains by introducing a corporate debt instrument along with the current treasuring. And to increase economies of scale and deepen the equities market, advocate to integrate the stock exchanges of the member countries of EAC on a unified electronic

[1]The Standard Industrial Classification (SIC) is a system for classifying industries by a four-digit code – classifies the economy by the following major divisions: agriculture, forestry, and fishing; mining; construction; manufacturing; transportation and public utilities; wholesale trade; retail trade; finance, insurance, real estate.

platform similar to a NASDAG Model – and introduce / float a Diaspora Bond. *(BB2, Short term)*

9. Rwanda has rightly put information technology at the heart of its socio-economic development – a journey started much earlier than most of its peers. In the ongoing pandemic, a combination of earlier investments into ICT and significant social capital enabled Rwanda to manage better the pandemic onslaught. As top global universities (Carnegie Mellon, University of Global Health Equity, African Leadership University, and more expected) begin to position in the Kigali Innovation City alongside start-up funds focused on ICT innovations, the potential for a vibrant digital economy will begin to emerge. There are opportunities to develop a tax framework for peer-to-peer, digital economy - starting with a Digital Service Tax that is fully aligned with the KIFC aspirations. *(BB2, Short, Medium, Long Term)*
10. With aspirations of a knowledge economy, Rwanda will need to strengthen its 'research and development (R&D)' capability through a cohesive and coordinated framework to encourage private sector investments into R&D. This would also tap into the research capabilities of the top global universities that continue to set up shop in Rwanda – and link them with the private sector to support the innovation and competitiveness of the economy. *(BB2, Medium, Long term)*
11. Consolidate the integration of SDGs in the budgeting process and strengthen linkages between the long-term vision, the medium-term national plan and the national budget, including SDG budgeting – and incorporate a "DFA Dashboard" in the mid-term review of NST-1 while increasing the role of non-state actors in the budgeting process. Increase the reporting on budget performance including current. *(BB2, Short term)*
12. For integrating the SDGs, Africa 2063 and NST-1 under the INFF, the report proposed the use of the Economic Commission for Africa's Integrated Planning and Reporting Toolkit (IPRT) for monitoring progress and report simultaneously on three and policy frameworks. The IPRT does alignment at the level of goals, targets and indicators. It allows for assessment across development agendas and degree of alignment by sector and thus, ideal for the coordination role of the INFF. *(BB3, Short. Medium term)*
13. Build on Rwanda's Law on Disaster Management Law N°41/2015 of 29/08/2015 of August 2015 that provides a framework for disaster risk management as well as internal efforts at MINECOFIN to establish a "National Disaster Response Fund (NDRF), akin to a 'Financial Trust' - with a fast-disbursement mechanisms as a vehicle for the rapid financing of public post-disaster reconstruction operations and mitigate the bureaucratic constraints that often delays resource availability for timely responses for post-recovery efforts. *(BB2, Short term)*
14. A robust and holistic monitoring framework will be critical for the Rwanda INFF. For a comprehensive monitoring framework that integrates across the SDGs, Africa 2063 and NST-1, the report proposes the use of the Economic Commission for Africa's (ECA) Integrated Planning and Reporting Toolkit (IPRT) - which allows assessment across development agendas and by sector – aligning at the level of goals, targets and indicators. The IPRT tracks progress and identifies performance gaps in the implementation of SDGs and AU 2063 – establishing a stronger linkage between the national plans and SDGs and adept at obtaining readily accessible data reports. Furthermore, it is less cumbersome and easier to use than other platforms. *(BB3, Medium term)*
15. It will be important to map out and optimize the INFF M&E. To this end, the IPRT above should be considered alongside the UNDP's support *to 'establish*

an integrated financing dashboard to consolidate and monitor data from existing data tracking systems on all key financial flows (public, private, international and domestic), *from mobilization, allocation, to disbursement and spending – for improved transparency, synergy and optimal decision-making coordination around financing policies and measures.* *(BB4, Medium term)*

16. Effective INFF governance through responsible institutions and policies will be critical for a coherent and successful INFF process. Drawing from Rwanda's track record on a 'strong political commitment and ownership', governance should utilize existing mechanisms that work well to ensure there is timely access to knowledge and stakeholder collaborations; effective coordination to maximize synergies around the design, execution and monitoring of the entire INFF process – including the consensus on trade-offs. *(BB4, Short term)*

Abbreviations:

AAAA Addis Ababa Action Agenda
AfCFTA African Continental Free Trade Area
AfDB The African Development Bank
AFREXIM African Export Import Bank
AgDF Agaciro Development Fund
ATAF African Tax Administration Forum
AUC African Union Commission
BEPS Base Erosion and Profit Shifting standards
BLJSR Backward-Looking Joint Sector Reviews
CEPI Coalition for Epidemic Preparedness Innovations
CHWs Community Health Workers
COMESA Common Market for Eastern and Southern Africa
COVAX COVID-19 Vaccines Global Access
CPIA World Bank's Country Policy & Institutional Assessment
CPMI Committee on Payments and Market Infrastructure
CSOs Civil Society Organizations
DAC Development Assistance Countries
DAD Development Assistance Database
DFA Development Finance Assessment
DMFAS Debt Management and Financial Analysis System
DPAF Developing Partners Assessment Framework
DPCG Development Partners Coordination Group
DPs Development Partners
DRM Domestic Resource Mobilization
DSA Debt Sustainability Analysis
DTAs Double Taxation Agreements
EAC East African Community
EATAI East African Tax Administration Institute
EBAFOSA Ecosystem-Based Adaptation for Food Security Assembly
ECA Economic Commission for Africa
EFGCI Economic Forum Global Competitiveness Index
ERP Economic Recovery Plan
FDGR Future Drivers of Growth in Rwanda
FDI Foreign Direct Investment
FEDA Export Development in Africa
FID Financial Index Data
FLJSR Forward-Looking Joint Sector Reviews
FPC Foreign Private Capital
FSDP Financial Sector Development Program
GAVI Global Alliance for Vaccines and Immunization
GCF The Green Climate Fund
GCI Global Competitiveness Index
GFCF Gross Fixed Capital Formation
GGCRS Green Growth and Climate Resilience Strategy
GNI Gross National Income
GoR Government of Rwanda
HGI Home-Grown Initiatives
HIC High-Income Country
IFIs International Financial Institutions
IFMIS Integrated Financial Management Information System
IIR Inclusion Rule
IMF International Monetary Fund
Imihigo Performance Contracts in Rwanda
INFF Integrated National Financing Frameworks
IOSCO International Organization of Securities Commissions
IPRI International Property Rights Index
IPRT Integrated Planning and Reporting Toolkit
JSRs Joint Sector Reviews
KIFC Kigali International Financial Center
LDCF Least Developed Countries Fund

LIC	Low-Income Country
LMICs	Low Middle Income Countries
MDAs	Ministries, Departments and Agencies
MDGs	Millennium Development Goals
MICE	Meetings, Incentives, Conferences, and Exhibitions
MINECOFIN	Ministry of Finance and Economic Planning
MMI	Military Medical Insurance
MNEs	Multinational Enterprises
MPFS	Monetary Policy and Financial Stability Statement
MTEF	Medium Term Expenditure Framework
MTRS	Medium-Term Revenue Strategy
NAPAs	National Adaptation Programs of Action
NBER	National Bureau of Economic Research (USA)
NBR (BNR)	National Bank of Rwanda
NDCs	Nationally Determined Contributions
NGOs	Non-Government Organizations
NIRs	Net Investment Returns
NISR	National Institute of Statistics of Rwanda
NLAs	New Loans Authorized
NST-1	National Strategy for Transformation
ODA	Official Development Assistance
OIF	Organisation Internationale de la Francophonie
OLIP	OECD Long-term Investment Project
PAC	Public Accounts Committee
PAPSS	Pan-African Payment and Settlement Platform
PEFA	Public Expenditure and Financial Accountability
PFMR	Public Financial Management Reforms
PIC	Public Investment Committee
PKO	Peace Keeping Operations
PPG	Public and Publicly Guaranteed (debt)
PPPs	Public-Private Partnerships
PRI	Principles for Responsible Investment
PSF	Private Sector Federation
RAI	Rural Access Index for roads
RCI	Rwanda Cooperation Initiative
RNIT	Rwanda National Investment Trust
RRA	Rwanda Revenue Authority
RSE	Rwanda Stock Exchange
RSSB	Rwanda Social Security Board
SAATM	Single African Air-Transport Market
SACCOs	Savings and Credit and Co-operatives
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SMEs	Small and Middle–sized Enterprises
SPIUs	Single Project Implementation Units
SSA	Sub-Saharan Africa
STTR	Subject to Tax Rule
SWGs	Sector Working Groups
TADAT	Tax Administration Diagnostic Assessment Tool
TFP	Total Factor Productivity
TICPI	Transparency International Corruption Perception Index
TVET	Technical and Vocational Training
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund,
UTPR	Undertaxed Payment Rule
VNRs	Voluntary National Reviews
WB	World Bank
WEF	World Economic Forum
WHO	World Health Organizations

1.0 INTRODUCTION

1.1 Purpose of the Report:

The INFF process brings together government, the private sector, and other stakeholders to operationalize a more integrated approach to better mobilize and align the financing of Rwanda's development priorities. This *Diagnostic and Assessment Report* sets the analytical baseline for this and constitutes the main product of the first building block of the INFF process.

The main content of this report includes: a review of the national policy and institutional arrangements in place for sustainable development financing; an overview of the development financing landscape; an evaluation of medium-term financing needs to achieve the NST-1 and domesticated SDG targets; and an assessment of key financial and non-financial risks and binding constraints, particularly in relation to COVID-19's impacts on the socio-economic context and financing national development the SDGs. It proffers initial recommendations for strengthening policies, strategies, governance and oversight structures, institutional capacities and systems.

The GoR and its development partners have already done substantial work in many of these areas. The main 'value add' of this report is derived from the collation of a wide range of studies, analyses and data sets from the Rwandan Government, UN Agencies, International Financial Institutions (IFIs), non-government organizations (NGOs) and other international agencies. This comprehensive, in-depth assessment represents an alternative to a standalone Development Finance Assessment (DFA) and focuses on building synergies and ironing out contradictions from past analysis whilst setting a focus on the big picture to set a trajectory to achieve the SDGs by 2030.

The report also serves as a stepping stone toward the ultimate outcome of the INFF process, namely, a refined financing strategy and an INFF Roadmap that GoR and its partners can pursue in a coordinated way to meet both the NST-1 and the SDGs. It proffers initial recommendations on a package of reforms in terms of the policies, that need to be put in place or improved as well as what opportunities exist to harness a more integrated and effective approach to financing the SDGs.

1.2 The International Context:

1.2.1 The Global Context:

A. The UN 2030 Agenda:

In 2015, the world embarked on the UN 2030 Agenda for Sustainable Development (2030 Agenda) in pursuance of ambitious goals for national economic, environmental and social development – a complicated and multi-faceted endeavor to achieve the Sustainable Development Goals (SDGs). The 2030 Agenda is a universal, collective action plan under the United Nations for people, prosperity, and the planet. It established ambitious global goals to advance economic, environmental and social development across seventeen (17) areas known as the Sustainable Development Goals (SDGs). These international commitments are domesticated and monitored through 169 targets and built upon what the Millennium Development goals (MDGs) had achieved, and address those MDGs that

could not be achieved. The SDG targets adhere to key principles around what makes development truly sustainable: that no one should be left behind; that all three dimensions (economic, social and environmental)[2] should be achieved in synergy and not at the expense of each other; and that eradicating poverty in all forms and dimensions, including extreme poverty, remains the greatest challenge. Countries, including Rwanda, report periodically on progress through their Voluntary National Reviews (VNR).

At the national level, Rwanda elaborated a Vision 2050 to lift Rwandans from low-income country (LIC) status to upper middle-income country (MIC) by 2035 and high-income country (HIC) by 2050[3]. The overarching objective for Vision 2050 is 'to achieve a high quality of life for all Rwandans'. A starting point for Vision 2050 was the articulation of the first National Strategy for Transformation (NST-1: 2017-2024[4]) focused on Rwanda's economic, social and governance transformation. Since the Government of Rwanda (GoR) has domesticated the 17 SDGs in the NST-1, financing the latter puts the country on a firm footing to achieve both the Agenda 2030 and vision 2050. To this end, the first Voluntary National Review (VNR) was conducted in partnership with the UNDP in 2019[5].

In recognition that financing stands out as a critical enabler for achieving the Agenda 2030, as well as the diversity of resources, stakeholders and partnerships required ensure sustainable financing flows to meet the SDGs - the UN further put in place the Addis Ababa Action Agenda (AAAA)[6] as the framework for financing the 2030 Agenda. The AAAA places a nationally-owned Integrated National Financing Framework (INFF) at the center of strategies for garnering the sustainable financing needed to achieve the 2030 Agenda. Also, the INFF is a critical enabler for the country to garner the requisite resources to grow out of the COVID-19 recession and "build forward better" towards Vision 2050[7]. The INFF will provide a structure for Government to form and implement a strategic, holistic and results-driven approach to financing development objectives. By developing and implementing the INFF, Rwanda's intention is to effectively mobilize the investments needed and provide a structure that supports coherence across government in channeling resources to the areas they are most suited, especially in light of the emerging transformation in global development dynamics as a result of the COVID-19 crisis. Rwanda will need to develop new, more effective and integrated approaches to the management of public and private finance.

B. The OECD Long-term Investment Project:

Long-term capital will be critical in financing Rwanda's development ambitions, hence the importance in understanding the related international financial architecture – especially the "OECD Long-term Investment Project (OLIP)" launched in 2012 (*and is much relevant to a 'post pandemic recovery' future*) to respond to the increasingly short supply of long-term capital after the 2008 financial crisis that had deep implications for growth and financial stability. It was intended to facilitate long-term investment by institutional investors (pension funds, insurance companies, and sovereign wealth funds) by addressing both potential regulatory obstacles and market failures.

The G20 / OECD Taskforce to drive the OLIP puts long-term investment at the heart for inclusive growth, job creation, stability and environmental sustainability.

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[2]Transforming our World: the 2030 Agenda for Sustainable Development - https://sdgs.un.org/2030agenda;

[3]Republic of Rwanda, Ministry of Finance and Economic Planning: Vision 2050;

[4]Republic of Rwanda - 7 Years Government Programme: National Strategy for Transformation (NST 1), 2018–2024, Final;

[5]NST– 1, 2018-2014; Rwanda 2019 Voluntary National Review;

[6]Addis Ababa Action Agenda of the Third International Conference on Financing for Development - https://sustainabledevelopment.un.org/frameworks/addisababaactionagenda;

[7]Development Finance Assessment (DFA) Guidebook, Version 3.0, *Supporting governments to build forward better through integrated national financing frameworks, p.9;*

It now focuses beyond institutional investors and long-term financing – to the structural reforms that reflects the complex and interrelated nature of long-term investment such as corporates; banks and multilateral banks; taxation and development of financial markets; technologies, governance, environment, development, transport, and connectivity.

The OECD associates Long-term investments by institutional investors (*pension funds, insurers and sovereign wealth funds that typically have long duration liabilities and consequently can consider investments over a long period provided these are prudent and capable of producing a reasonable risk-adjusted return*) with 'patient', 'engaged' and 'productive' capital. Despite the potential benefits for investments by institutional investors, there are cyclical and structural impediments to investment that include the current environment of low interest rates, uncertainty over future growth prospects in a consequential pandemic and policy developments as well as an ageing population – that impact investors' willingness to invest in long-term assets, a reduced risk appetite and the time horizon for investments. P*atient capital* that allows investors to access illiquidity premia, lowers turnover, encourages less pro-cyclical investment decisions – with high Net Investment Returns (NIRs) and greater financial stability; *engaged capital* with active voting policies – leading to better corporate governance; and *productive capital* that supports infrastructure development, green growth initiatives, SME finance, etc., lending to sustainable growth. It is therefore important for regulatory authorities to play a key role in facilitating long-term investment through appropriate and consistent policies.

The OECD has proposed high-level principles that identify a set of general recommendations to promote long-term institutional investments and improve the functioning of markets while fulfilling prudential requirements and avoiding potential detrimental impacts on other investments – fostering consistency in approaches for long-term investment across different policies and jurisdictions. They cover a diversity of areas including Corporate Governance; Core Principles for Occupational Pension Regulation; Guidelines for Insurers' Governance; Principles for Public Governance of Public-Private Partnerships; the OECD Green Growth Declaration; the OECD Agreement on Officially Supported Export Credits; Guidelines for Multinational Enterprises; and the OECD Code of Liberalizations of Capital Movements – while complementing international standards in other areas, such as IOSCO's Principles of Securities Regulation, the IAIS Core Principles on Insurance, the IOPS' Principles for Private Pension Supervision, the Santiago Principles for Sovereign Wealth Funds, as well as broader recommendations applicable to all investors such as the Principles for Responsible Investment (PRI). The eight (8) OECD high-level principles include: (1) Preconditions for long-term investments; (2) Development of institutional investors and long-term savings; (3) Governance of institutional investors, remuneration and asset management delegation; (4) Financial regulation, valuation and tax treatment; (5) Financing vehicles and support for long-term investment and collaboration among institutional investors; (6) Investment restrictions; (7) Information sharing and disclosure; and (8) Financial education, awareness and consumer protection.

C. The International Tax Architecture:

The landmark' G7 tax agreement reached in London on the 7th June 2021 presents a new beginning toward a more inclusive, democratic, and accountable global tax architecture with stronger and more credible sanctions for non-compliance, especially in tax heavens. The agreement sets a global minimum corporation tax of at least 15%, and a reallocation of taxing rights for the largest and most profitable multinationals with 20% of their profits above a 10% margin awarded for market jurisdictions, where sales are made. It builds on past technical work done by the OECD which assumed the coordination of the global tax governance following the global financial crisis.

The G7 tax agreement has since gained a broader 'geopolitical acceptance' with the recent 'G20/OECD' agreement reached on 1st July 2021 for a more transparent and fair international tax system through the adoption and implementation of the tax transparency and Base Erosion and Profit Shifting (BEPS) standards. This latest agreement brings together 130 member jurisdictions (90% of the worldwide GDP) of the G20/OECD Inclusive Framework on a 'two-pillar' solution to address the tax challenges arising from the globalization and digitalization of the economy. It is expected that this agreement would be finalized in Oct 2021 and implemented from 2023 to support governments to begin to raise some additional revenues to mitigate the shrinking fiscal space and appropriately invest in a post-COVID recovery. It is designed to ensure that large multinationals pay their fair share everywhere – bringing tax certainty and stability to the international tax system. The need for a fairer distribution of 'profits and taxing rights' in respect to large multinational enterprises (MNEs) is addressed under pillar one, while pillar two puts a 'floor' on competition on corporate income tax with a 'global minimum' of at least 15%. These agreements are a result of more than a decade-long of hard work to balance different global interests, initially through the OECD 'Inclusive Framework (IF)' established in 2016 that begun shifting some of the decision-making towards emerging economies and developing nations – working through the 24-country committee that includes China, India, Brazil, Nigeria and others alongside six of the seven G7 members.

The agreement, when implemented, will begin to address the 'Base Erosion and Profit Shifting (BEPS)' whereby multinational enterprises (MNEs) exploit gaps in national tax rules to avoid payment of taxes that might otherwise be due. The impact of this is more pronounced for developing countries who heavily rely on Corporate Income Tax (CIT) for their tax revenue receipts that leads to annual lost revenues in the range of USD 100 – 240 billion globally. This important work on BEPS is narrowing about 15 measures that would address avoidance, improve the coherence of the international tax rules and ensure a more transparent global tax environment[8]. A Reuter's review of corporate filings by Google and the medical group Johnson & Johnson suggests that both could see a 7% and 50% increase in taxes payable respectively if these measures were applied or USD 0.6 billion and USD 1 billion in additional taxes.[9] In the context of a growing 'new' digital economy, where countries like Rwanda wants to play, the emerging international tax architecture is timely – with the insistence that digital giants like Google, Amazon, Facebook, Apple or Microsoft as well as other MNEs, pay their fair share of taxes in countries where they make profits, rather than in low-tax jurisdictions chosen to minimize their tax exposure. It also has implications that need to be watched for Rwanda's positioning under the new Kigali International Finance Centre (KIFC). The tax clarity and certainty these agreements bring is timely for Rwanda as the country consolidates the setup of the KIFC.

1.2.2 The COVID-19 Pandemic and the Global Responses:

D. The Global Response to the COVID-19 Pandemic:

As the pandemic continue to ravage its way into all facets of socio-economic life, the standard mitigations measures have included: restrictions on travel, shuttering nonessential businesses and implementing universal social distancing practices – and all this has had severe economic consequences. As a global pandemic, the speed with which vaccines have been brought to market has been breath-taking too. As a defining event of this century, the fear and manner in which nations have looked inwards to protect their citizens threatens the rest of the world with a 'vaccine nationalism' – where a few countries with the means

[8] OECD (2021), OECD Secretary-General Tax Report to G20 Finance Ministers and Central Bank Governors – July 2021, OECD, Paris, www.oecd.org/tax/oecd-secretary-general-tax-report-g20-finance-ministers-july-2021.pdf

[9]Reuters reporting, Rasmus Corlin Christensen and Tom Bergin, 7th June 2021;

and influence stand in the way of a global vaccine equity. The immediate response to this vaccine inequity has been the COVID-19 Vaccines Global Access (COVAX) - a worldwide initiative aimed at equitable access to COVID-19 vaccines through GAVI, the Coalition for Epidemic Preparedness Innovations (CEPI) and World Health Organizations (WHO). As the world begins to realize that the pandemic needs a global response, the COVAX initiative has also slowly began to receive the necessary support in form of funds and vaccine access. Plans are also underway for vaccine manufacturing under license to be established in Morocco, South Africa and Rwanda.

Beyond the initial reaction where developed countries have tended to look inwards - as manifested through vaccine nationalism, there is a growing recognition that a global response is much more sustainable and that nations will do better together. For example, the WHO sponsored the COVAX facility aims to pool the global procurement of vaccines in order to ensure fair and equitable access. The IMF planned to increase its reserve asset, the Special Drawing Rights (SDRs) as part of its pandemic response, subject to the approval of shareholders holding 85% of the total votes. Although a draft G20 communique (2020) gave a green light to the $650 billion SDR issuance, the distribution would be skewed in favour of countries that least need it because SDRs are allocated *pro rata* in relation to a country's "quota". Analysts had estimated that this would deliver about $21 billion SDRs in added reserves to low-income countries.[10] On August 23, the IMF 's 2021 General SDR Allocation amounting to USD 650 billion became effective. Overall, the allocation will benefit all members and augment international reserves levels, engender resilience in the global economy and countries, particularly low income countries struggling to cope with the impact of the COVID-19 pandemic. The allocation will be in accordance with country quotas. Under these arrangements, Rwanda was allocated USD 217.5 million (SDR 153.3 millions) based on a quota of SDR 160.2 million or 0.03 percent of total IMF quota[11] - an allocation with no IMF conditionality. The IMF published a 'Guidance Note for Fund Staff on The Treatment and Use of SDR Allocations' and highlight the following pertinent considerations: (a) statistically, it should be treated in accordance with Sixth Balance of Payments and International Investment Position (BPM6); (b) on the macroeconomic front, to consider a number of factors – such as how much of the allocation to expense or use as reserves depending on current adequacy; (c) the current state of the pandemic areas deserving urgent attention to save lives; (d) level of debt sustainability; (e) current financial stability and constraints; and (f) other country-specific requirements[12]. This A&D report proposes using a part of the allocation to build the resilience of health systems including supporting combating the impact of the pandemic and innovative IT solutions to support more permanent effects in health service delivery through PPPs; drawdown of enough commercial debt to get the country back from moderate to low debt distress; use the fiscal space released by debt service to support digitalization and strengthening digital skills across the public service; and, the rest on green energy finance.

E. The Shape of the Post-Pandemic Economic Recovery:

There were already significant financing gaps for the UN Agenda 2030 before the COVID-19 pandemic impact. As one for the defining events of this century, this pandemic has left no facet of life unaffected – starting with the global economy. The world real GDP is set to recover to 6% in 2021 after shrinking to minus 3.3% in 2020 and then grow to 4.4% in 2022. The world's advanced economies (USA, Euro Area, Germany, France, Italy, Spain, Japan and UK) will see their

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[10] IMF, Morgan Stanley analysts – Reuters reporting by Mark Jones and Larry King;

[11] IMF Special Drawing Rights: https://www.imf.org/en/About/executive-board/members-quotas#; Rwanda's voting rights is at 3.061 votes or 0.061 percent of IMF's total voting rights

[12] IMF, Guidance Note for Fund Staff on The Treatment and Use of SDR Allocations, July 2021.

real GDP grow by 5.1% this year from a negative of 4.7% in 2021 and then to 3.6% in 2022. Real GDP is expected to grow by 6.7% this year from a minus of 2.2% in 2020 and by 5% in 2022 for the Emerging Market and Developing Economies (China, India, Russia, Brazil and Saudi Arabia). For Sub Saharan Africa, which shrank to negative 1.9% in 2020, growth is set to recover to 3.4% this year and then 4% in 2022.[13] As governments scrambled with economic stimuli to mitigate the sharp decline in the global economy, the impact of COVID-19 mitigation measures, the heightened expenditure on health, the significant dampening of global movement of goods and services, the massive loss of jobs, the devastation of SMEs and much more …, more countries have been pushed into significant debt distress and a portion of the global population is expected to fall back into poverty again!

The question to ask today is if this 'pandemic-induced recession will be V-Shaped, U-Shaped or W-Shaped, L-Shaped or even K-Shaped'[14]– and the answer will perhaps only be clear with hindsight. The US National Bureau of Economic Research (NBER) defines a recession as "a significant decline in economic activity spread across the economy, lasting more than a few months, normally visible in real GDP, real income, employment, industrial production, and wholesale-retail sales." The base-case scenario is that the COVID-19 is a 'V-Shaped' recession – and that the economy will rebound as quickly as it declined (a steep decline followed by a quick economic recovery) - this would require equitable access to vaccines, enough testing to allow people to safely go back to work as well as the development of a 'herd immunity'. If the opposite occurs – and recovery takes months or years, then we would have different-shaped recoveries. In this scenario, many business will continue to downsize or go bankrupt impacting jobs and more economic dislocation. Moreover, as the virus continue to mutate into much deadlier variants, nations have no control as to when their economies can fully re-open, instead we are beginning to experiment with partial lock-downs – where essential parts of the economy are allowed to continue while all else shuts down. The prolonged uncertainty will restrict consumer spending and negate the two critical assumptions of a V-shaped recovery (the rapid re-opening of economies and little adverse change in consumer behavior). Additionally, it would be difficult for governments to sustain their rapid mitigation responses to the resultant long-term economic damage through jobs and business protection as well as strong social protection measures.

1.2.3 Regional Processes:

Rwanda belongs to a number of regional bodies and processes that advance a number of national interests. Being a double-landlocked nation, these regional frameworks are especially important in relation to economic development and finance for development. The most significant of these with the greatest potential impact on Rwanda's future INFF implementation plan include: the Africa Agenda 2063; the African Continental Free Trade Area (AfCFTA); and Rwanda as a Peace Keeping Nation.

F. African Union Agenda 2063:

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[13] MINECOFIN, Office of the Chief Economist Office DPCD Briefing (16th June 2021);

[14] Alphabet Soup: Understanding the Shape of a COVID-19 Recession | David Rodeck | Updated: Jul 15, 2020; V-shaped (optimistic: steep decline, quick recovery), U-shaped (somewhat pessimistic: period between decline and recovery), W-shaped (pessimistic: recovery, second decline), L-shaped (most pessimistic: extended downturn), W-Shaped (double-dip recession - with a quick recovery followed by another quick decline as a result of multiple layers of the pandemic waves – where the two economic declines create the shape of a 'W', L-Shaped - with an extended downturn for years. A K-shaped recovery may be more realistic (and unpleasant) than standard economic recoveries according to JP Morgan – who add a different scenario 'where large firms and public-sector institutions with direct access to government and central bank stimulus packages will make some areas of the economy recover fast but leave others out' – including SMEs, blue-collar workers and the middle class;

Agenda 2063 is Africa's blueprint for transformation into the global powerhouse of the future – the 'The Africa We Want!'. It is Africa's strategic framework to deliver inclusive and sustainable development towards continental 'unity, self-determination, freedom, progress and collective prosperity pursued under Pan-Africanism and African Renaissance.' It is intended to deliver an envisioned 50-year developmental trajectory for an '*integrated, prosperous and peaceful Africa, driven by its own citizens, representing a dynamic force in the international* arena'. It captures seven (7) aspirations for Africa's future; commits to fifteen (15) flagship programmes with a 10-year implementation plan to deliver quantitative and qualitative transformational outcomes.

The seven aspirations include: (1) A prosperous Africa based on inclusive growth and sustainable development with seven goals; (2) An integrated continent, politically united and based on the ideals of Pan-Africanism and the vision of Africa's Renaissance with three (3) goals; (3) An Africa of good governance, democracy, respect for human rights, justice and the rule of law with two (2) goals; (4) a peaceful and secure Africa with three (3) Goals; (5) an Africa with a strong cultural identity, common heritage, shared values and ethics with a goal of an African cultural renaissance; (6) An Africa, whose development is people-driven, relying on the potential of African people, especially its women and youth, and caring for children with two (2) goals; and (7) Africa as a strong, united, resilient and influential global player and partner with two (2) goals.

The fifteen (15) flagship programmes are initiatives to accelerate Africa's economic growth and development while promoting a common identity that celebrates Africa's history and its vibrant culture – cutting across infrastructure, education, science, technology, arts and culture as well as initiatives to secure peace on the continent and include: (1) an Integrated High Speed Train Network; (2) an African Commodities Strategy; (3) the African Continental Free Trade Area (AfCFTA); (4) the African Passport and Free Movement of People; (5) the Silencing the Guns by 2020; (6) the Grand Inga Dam Project; (7) the setup of a Single African Air-Transport Market (SAATM); (8) an Annual African Economic Forum; (9) the establishment of African Financial Institutions; (10) the Pan-African E-Network; (11) an Africa Outer Space Strategy; (12) an African Virtual And E-University; (13) Cyber Security; (14) the Great African Museum; and (15) Encyclopedia Africana. The first 10-year agenda 2063 implementation plan (2013 – 2024) identifies priorities areas for the continent, targets, strategies and the necessary policy measures; it seeks to fast track the 'Malabo Decisions of the African Union (AU)' for the big push and breakthroughs for Africa's economic and social transformation; provides tracking information to stakeholders; outlines a framework for resource mobilization as well as citizens' engagement; and a results framework.[15]

G. The African Continental Free Trade Area (AfCFTA):

AfCFTA will be the world's largest free trade area since the formation of the World Trade Organization (WTO), bringing together 55 member states of the African Union covering a market of more than 1.2 billion people.[16] Rwanda's draft strategy to implement the AfCFTA[17] and ensure Rwanda's readiness to participate in the anticipated growth in 'intra-Africa' trade has the overarching objective to: *"complement Rwanda's broader development framework, especially in relation to trade and industrialization policies…by deepening the country's integration into regional and continental markets"*. Rwanda's intra-Africa trade has already been

[15] African Union (AU) Website;

[16] Rwanda's National AfCFTA Implementation Strategy Draft 1, Dec 2020;

[17] The agreement was signed on 21st March 2018 in Kigali by 44 African Union Member States at a historic African Union summit. Subsequently, the number of signatories rapidly rose to 54 of the 55 African Union Member States, representing a remarkable degree of consensus across the continent and since then, AU Member States have ratified the Agreement as of December 2020.

increasing over the years, with exports to Africa increasing by around 50% over the last five years, from Rwf 108 billion (2015) to Rwf 160 billion in 2019, before seeing a sharp decline following the COVID-19 outbreak in 2020'.[18]

To build on this, Rwanda has set up the Kigali International Finance Centre (KIFC) and aims to have the greatest number of Double Taxation Agreements (DTAs) in Africa – targeting 32 DTAs in the next five years. Rwandair, the national airline, also plans to expand its route network across Africa and major trading blocks to take advantage of Rwanda's open visa policy. To start with, Rwanda has room to expand its exports to the East African Community (EAC) beyond the current 25% as the EAC continues to expand to include the DRC – and thereafter, the entire continent starting with countries that enter into DTAs. Rwanda will however need to urgently address the constraints (structural and trade facilitation) to its competitiveness that include high transport costs; high energy cost; the high cost and limited diversification of capital; low skill levels, lower firm productivity and persistent Non-Tariff Barriers (NTBs) in destination markets.

H. African Export-Import Bank (AFREXIMBANK):

The Fund for Export Development in Africa (FEDA) was created in 2019 with Rwanda as its headquarters following an agreement signed on 22nd Nov 2020 between Rwanda and the African Export-Import Bank (Afreximbank). FEDA will fund African businesses to promote intra-African trade, and facilitate foreign direct investment flows into Africa's trade and export sectors. It is mandated to provide seed capital to companies in agri-business, manufacturing, consumer and retail, and financial services. It will also support other sectors including businesses in technology, travel and tourism, transport and logistics, as well as industrial parks operating across Africa – developing an intra-Africa trade infrastructure necessary for the AfCTA to succeed with a special focus on SMEs whether mature or startup companies where there is a gap in the marketplace and where investments have a high level of value addition and development impact in Africa. With USD 500 million initially, the FEDA is expected to grow to over USD 1 billion within the next few years - Afreximbank has already committed $350 million towards the fund. Rwanda was selected on the basis of its flexible visa on arrival regime, the conducive business environment, and low cost of doing business.[19]

I. Rwanda as a Peace Keeping Nation:

The role of Peacekeeping Operations (PKO) in Rwanda's economy will remain consequential and the resultant spinoff benefits from this soft diplomacy can reinforce Rwanda's positioning as a destination for FDI and economic partnerships. Already, Peace Keeping Operations (PKOs) is a significant contributor to the Rwandan economy – averaging 10.8% of total revenues and grants for fiscal years 2017/18 and 2021/22 (*projected*)[20]. Rwanda now ranks as the third (3rd) most generous contributing nation toward global PKOs[21], and this strategy increasingly forms part of Rwanda's national identity, grounded in its commitment to the *"Responsibility to Protect (R2P)"* doctrine and the *"Kigali Principles on the Protection of Civilians"*[22] PKO deployments include those under UN, regional, as well as bilateral agreements. The latest peacekeeping mission to Mozambique, for example, includes a deployment of the Rwanda National Police (RNP) and

[18] NSIR intra-Africa trade data set, 2020;

[19] Afreximbank website | The NewTimes, 22nd Nov 2020;

[20] IMF Country Report no. 20/9, Table 2c. Rwanda: Budgetary Central Government Flows.FY17/18-21/22, Jan 2020;

[21] Contributor Profile: Rwanda, Marco Jowell, School of Oriental and African Studies & Africa Research Group, version 22 April 2018;

[22] KG-Principles on the Protection of Civilians (13-April-2020);

Rwanda Defense Force (RDF) to support Mozambique restore its territorial integrity against the Islamic-State linked terrorists. In a world beset with conflict, Rwanda's reputation as an effective peacekeeping force (well trained, disciplined, resourceful and with a growing women participation) is likely to continue to yield an 'economic-diplomatic dividend'.

1.2.4 Promoting Global and Regional Trade-Links:

Trade is clearly at the heart of vision 2050. While development assistance inflows have largely financed investments and GDP growth in the last two decades, this is expected to taper-off as Rwanda pursues its high-income nation ambition. Growth in export trade provides the much needed foreign exchange necessary to acquire technology, machinery and special skills. Trade expansion also implies the need to attract foreign direct investment (FDI), since multinational companies bring in managerial, technical, and design skills at the same time that their networks facilitate access to new export markets (Freund and Moran 2017). As East Asia did with labor-intensive manufacturing for export, trade expansion is critical in creating new and high-productivity jobs. Rwanda, as with much of Africa, will require not only labor-intensive manufacturing, but also agribusiness, horticulture, and selected services—what some have called "industries without smokestacks" (Newfarmer, Page, and Tarp, forthcoming).[23]

Global and regional trade links are important for any economy, including Rwanda. Rwanda was among the first few countries to ratify the African Continental Free Trade Area (AfCFTA). The AfCFTA is expected to deepen intra-African trade and attract significant FDI to the continent to tap into a market of more than 1.2 billion people and arguably the world's largest free trade area since the formation of the World Trade Organization (WTO). The overarching goal of AfCFTA is to create a liberalized continental market for goods and services, facilitated by movement of persons with a view to better integrate African economies, in support of the continent's development Agendas and its scope covers two phases: (a) *phase 1* - the Protocols on Trade in Goods, Trade in Services, on Rules and Procedures on the Settlement of Disputes, Schedules for Tariff Concessions, Schedules of Specific Commitments for Trade in Services, and Protocol on the Rules of Origin; and (b) phase 2 - dedicated to investment, competition policy and intellectual property rights and e-commerce. Its operationalization will be governed by the following five operational instruments: (a) Rules of origin (RoO); (b) Online Tariff Negotiation Portal; (c) Non-Tariff Barriers (NTB) mechanism; (d) Pan-African Payment and Settlement platform (PAPSS); and (e) African Trade Observatory.[24] Rwanda has committed to align with other EAC member states as it implements the AfCTA. The role of Afreximbank in financing AfCTA will be very important with a focus as the 'Trade Finance Bank for Africa' is timely for Rwanda as it hosts one of its new regional branches.

The positioning of Rwanda as a 'continuously reforming nation' is designed to leverage a favourable business environment and competitiveness as a reforming country – where it is mostly leading its sub-Saharan African peers – a positioning that will be reinforced by the recent setup of the Kigali International Finance Centre (KIFC) to attract more FDI - as Rwandair expands its route network to take advantage of Rwanda's open visa policy. As Africa positions as the next high growth opportunity, including its demographic dividend – the intention is that the FDI flowing into KIFC would be facilitated to reach the vast continental market with goods and services using Rwanda as a base. It is also understood that Rwanda will need to urgently address the constraints (structural and trade facilitation) that include high costs in transport, energy, and capital; low skills; and low firm productivity.

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[23] Future Drivers of Growth in Rwanda, chapter 2: transformation through trade;

[24] Rwanda AfCTA Draft Strategy 1st Dec 2020;

1.3 The Country Context:

1.3.1 National Development Vision and Plan:

Rwanda elaborated its Vision 2050 to lift Rwandans from a low-income country (LIC) status to an upper middle-income country (MIC) by 2035 and a high-income country (HIC) by 2050 with a GDP per capita of USD 4,036 and USD 12,476 respectively[25]. The overarching objective for Vision 2050 is '*to achieve a high quality of life for all Rwandans*'. It builds on the success of Rwanda's vision 2020 and is underpinned by a joint Rwanda / World Bank analytical work, the "Future Drivers of Growth in Rwanda (FDGR)" centred on innovation, integration, agglomeration and competition. FDGR lists six (6) reform priorities: (1) a highly developed human capital – investments for five (5) policy areas to reduce children stunting, expand access to basic education, improve education quality, strengthen technical and vocational training, build the tertiary sector and foster innovation; (2) establishment of export dynamism and leverage regional integration through regional hubs (EAC, COMESA, SADC and the new AfCFTA), closely monitor the exchange rate to maintain export competitiveness, Invest in economic diplomacy, Improve trade connectivity by lowering transport costs through railway lines along the two East African trade corridors, and increase service sector productivity visa backbone services (such as transport, telecommunications, and professional services); (3) leverage the urban dividend by unleashing Kigali's potential, strengthening land markets and fostering institutional coordination; (4) enable the emergence of competitive domestic enterprises by addressing cross-cutting constraints, improving targeting and monitoring of industrial incentives, defining the future role of SOEs, building an effective national innovation system, and maximizing gains from the mining sector; (5) transitioning agriculture and food to be an engine of growth by strengthening research and regulatory institutions, strengthening vertical coordination, engaging the region more effectively, profiting from the big-data revolution in innovation, improving targeting of public investment in infrastructure, developing a more robust policy on high- level human capital formation in agriculture, and addressing land degradation and the impact of climate change; and (6) the developing capable and accountable institutions of governance by building the state's core capabilities based on capacity, meritocracy, coordination, and rule-based authority, strengthening market economy foundations, and strengthening accountability of the state to ensure that policies and programs are aligned with the needs of citizens.[26]

Rwanda then articulated the National Strategy for Transformation (NST-1: 2017-2024[27]) - focused on economic, social and governance transformation as the first national development plan under this new vison. Both vision 2050 and NST-1 have domesticated the UN 17 SDGs. Nationally appropriate key performance indicators have been established for NST-1 as well as the majority of the SDGs at this point, although some are still under elaboration or refinement – notably SDG 13 and 14. In addition, in 2019 Rwanda conducted and lodged its first Voluntary National Review (VNR) to the UN, with support from UNDP[28].

The successful execution of Vision 2020 and the NST-1's strong emphasis on infrastructure development and the productive sectors have enabled Rwanda to consistently record strong economic growth, averaging above 8% for over a decade and reaching a peak at 9.5% in 2019[29]. The Country ranks among pacesetters

[25] Vision 2050;

[26] World Bank. 2019. "Future Drivers of Growth in Rwanda: Innovation, Integration, Agglomeration and Competition." Conference Edition;

[27] Republic of Rwanda - 7 Years Government Programme: National Strategy for Transformation (NST 1), 2018–2024, Final;

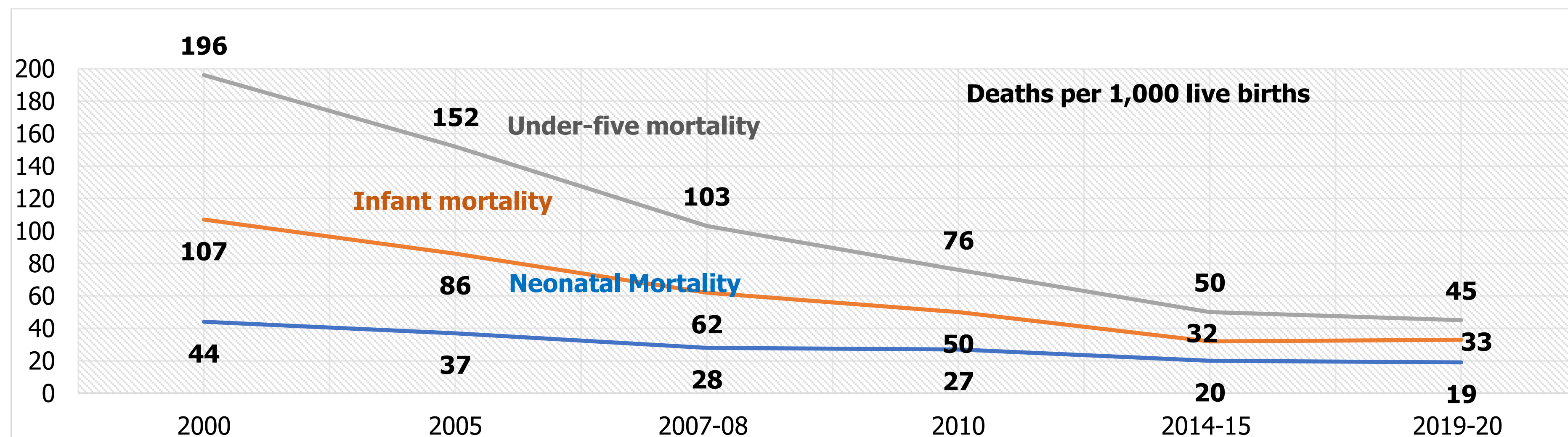
[28] NST– 1, 2018-2014; Rwanda 2019 Voluntary National Review;

[29] NST-1 (2017-2024);

in Africa and Low-Income Countries LICs globally with regard to many development metrics including economic growth, poverty reduction, private sector investment friendliness and environmental sustainability – and overall, Rwanda continues to fare well against peers in its socio-economic development indicators. Its human development indicators suggest better outcomes than peers in most areas – although income levels remain below the average for LICs and education outcomes have lagged. The World Economic Forum (WEF) has ranked Rwanda 4th for gender inclusion and the World Bank's Country Policy and Institutional Assessment (CPIA) scores Rwanda at 4.0, the highest in South Saharan Africa (SSA) while life expectancy has improved from about 29.1 years in 1991 to 67.5 years in 2017 against the vision 2020 target of 66 years and actual outturn of 67.8 years in 2020. The under-five (5) child mortality rate declined consistently over decades from 196 in 2000 to 76 deaths per 1,000 live births in 2010 and then to 45 in 2020. Likewise, similar progress was registered with the Maternal Mortality Rate (MMR) which improved from 1071 in 2000 to 476 in 2010 and down to 203 in 2020. While under-five (5) stunting has improved from 48 (2010) to 44 (2010) and to 33 in 2020 - see figure 1 below.[30] This consistent socio-economic progress gives Rwanda much credence for the bold aspirations towards an upper MIC status (2035) and upper HIC by 2050.

Figure 1: Select Socio-Economic Indicators

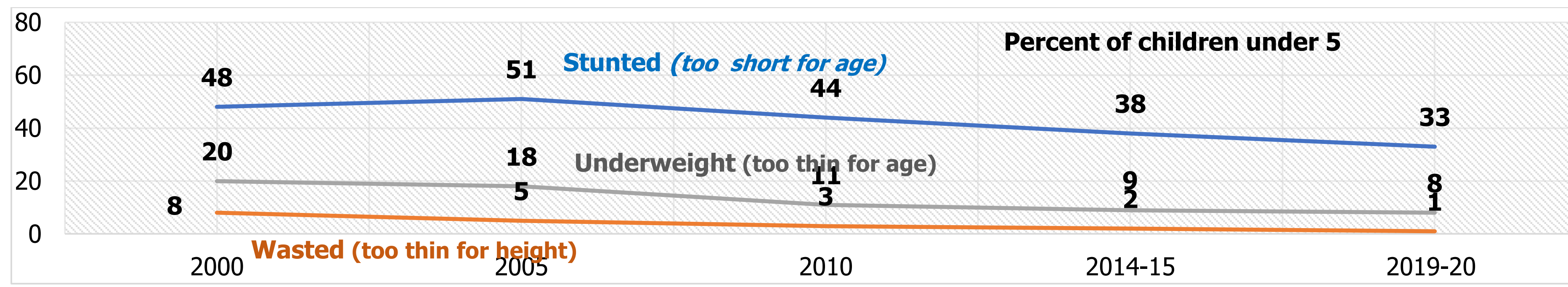
Figure 1a: Trends in Childhood Mortality



Source: RDHS-6 (11th May 2021)

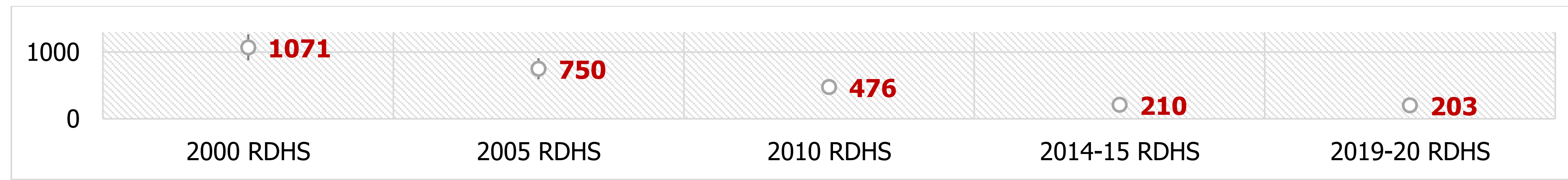
[30] NISR Website, 11 May 2021 | Ibid;

Figure 1b: Trends in Nutritional Status of Children



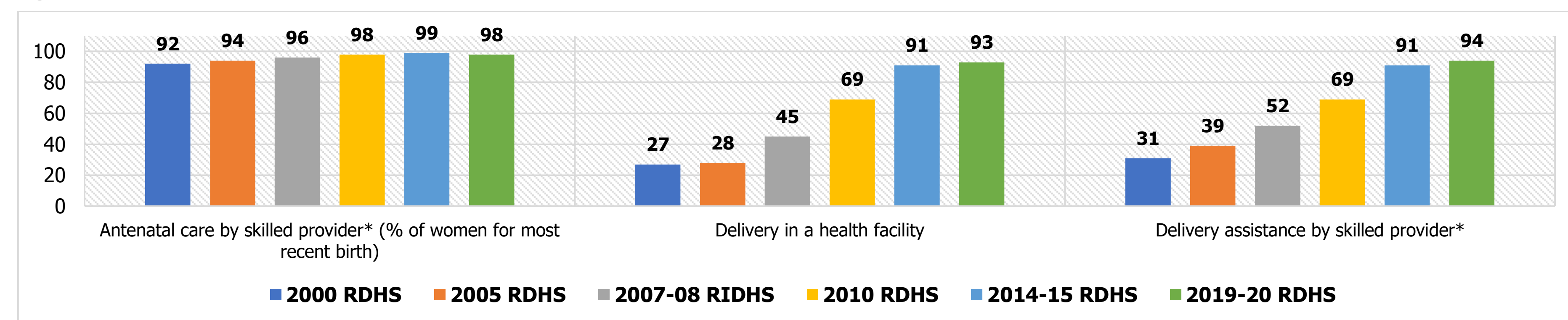
Source: RDHS-6 (11th May 2021)

Figure 1c: Trend in Maternal Mortality Ratio (MMR)



Source: RDHS-6 (11th May 2021)

Figure 1d: Trends in Maternal Health Care



Source: RDHS-6 (11th May 2021)

1.3.2 COVID-19 impact and Response:

The COVID-19 pandemic is as global as it is far-reaching in its impact on all socio-economic assumptions – and Rwanda is no exception. It continues to change lives – leaving no sector of the economy (tourism, services, manufacturing, agriculture, health, etc) untouched. This pandemic is by all intents and purposes a defining event of this century with the deepest impact on livelihoods - sparing no sector of the economy. Although its long-term impact on Rwanda's nascent private sector is yet to be determined, the short-term consequences have been devastating – including the drop in the pre-COVID GDP of 9.4% (2019) to the negative 2% registered in 2020.[31] The jury is still out as to whether Rwanda will have a 'V-Shaped' or other form of recovery - largely dependent on how long the pandemic lasts and the available fiscal space to repeatedly intervene in the economy.

COVID-19 has compelled the reprioritization of spending and slowed down budget expenditures to combat the pandemic. The priority was to moderate the impact of the pandemic which by 3rd Sept 2021 had recorded about 88,682 infection cases and claimed 1,105 lives[32]. The IMF estimated that 1 million Rwandans had relapsed into poverty with significant disruptions in social services. Employment and consumption for the poor was hard hit, health services such as immunization and child care were interrupted, and education losses are significant as 3.5 million stayed out of school into remote learning. The participation rate was lower than expected as children with lower access to ICT benefitted less, lack of teacher and pupil interactions, and English presented a hurdle for some[33].

Like most countries, the GoR has responded quickly with mitigation measures through a Social Economic Recovery Plan (ERP) that included temporary monetary quantitative easing and fiscal stimulus initiatives – as well as an Economic Recovery Fund (ERF). The ERP is focused on five (5) priorities: (a) containment of the pandemic and strengthening the health system; (b) the scaling up of social protection to mitigate the impact on households' incomes; (c) increased food production for food security; (d) support to businesses and protection of jobs; and (e) ensure a coordinated multi-sectoral government response to the pandemic. This is intended to steer the country back towards sustained economic recovery while increasing allocations to the safety net and social protection programmes to cushion significant losses in incomes for a large part of the population. The quantum of the government response is likely to exert significant additional pressure on Rwanda's fiscal space and lead to a new prioritization. At the end of June 2020[34], the ERF had disbursed about USD 379.5 million against USD 616.78 million in the fund. The ERF is focused on safeguarding jobs, stabilizing the economy and cushioning the vulnerable.

While the economic growth rate plummeted, the budget deficit is anchored by a fiscal rule that allowed for NST-1 funding while keeping debt sustainable[35]. The spending pressures under COVID-19 were largely financed by inflows from International Financial Institutions (IFIs). The inflation rate remains dampened at 0.1% in May 2021 from 2.4% in Apr 2021 (and 2% by end-March 2021) – much lower than the 1.6% a year earlier. This as a result of a good agriculture Season A, very good performance in the construction sector as critical projects are fast-tracked and ICT maintains its high growth – but most importantly, a drop in food inflation in May 2021 (at 0.3% vs 1.2% in Apr 2021); and the base effect of transport (minus 13.8% vs 23.9% in May 2020). Rwanda leads with the lowest

[31] Economic Recovery Plan mitigating impact of COVID-19 in Rwanda, November 2020; IMF Executive Board Completes Third Review Under the Policy Coordination Instrument (PCI) for Rwanda;
[32] WHO website on 3rd Sept 2021;
[33]Economic Recovery Plan mitigating impact of COVID-19 in Rwanda, November 2020; IMF Executive Board Completes Third Review Under the Policy Coordination Instrument (PCI) for Rwanda;
[34] Source: Rwanda Biomedical Centre (RBC);
[35] Rwanda has an ongoing Policy Coordination Program with the IMF under which the Authorities agreed to this fiscal rule which keeps the deficit below 5.5%;

price hike in the EAC where inflation remains below 5% as at March 2021[36]. Private sector financing has also resumed – reaching 49.7% in New Loans Authorized in Q1-2021 from a decline of 10.6% (2020) while credit to the private sector grew by 3.5% between Dec 2020 and Mar 2021 – and is projected to reach 10.4% 1n 2021. The second ERF (ERF2) with USD 150m in financing is expected to be launched in Aug 2021 with a focus on buttressing the manufacturing sector's working capital needs, supporting microbusinesses, risk sharing, refinancing and institutional and firms' capacity strengthening. As a result of these measures, GDP growth is expected to recover to 5.1% in 2021, grow to 6.7% in 2022 and 8% in 2023.[37]

In anticipation of a post-COVID-19 recovery supported by vaccine equity to reset the socio-economic conditions around the goals of the 2030 Agenda, Africa Agenda 2063[38] and AAAA - Rwanda is seeking to return to the pre-pandemic socio-economic growth path towards its vision 2050 milestones. For this to be achieved, NST-1 would require a substantial increase in investments of between 35% - 40% of GDP from Rwanda's current investment rate of around 26%. An IMF Pre-COVID 19 study had estimated the financing needed to achieve the SDGs would greatly surpass all current development finance flows by 19% points of GDP in spending – where two-third of this must come from public sources. For NST-1, it would need an average growth of 9.1% over its seven year period for Rwanda to remain on its socio-economic transformation – requiring strong efforts to boost investments (private and public) financed through domestic savings and capital flows; significant improvements in education; efficient and innovative management of land resources; significant improvements in the production of goods and services for the domestic market and exports; and the harnessing of the demographic dividend to impact the socio-economic development of Rwanda.

Meanwhile, the share of Foreign Private Capital (FPC) has lagged Official Development Assistance (ODI) for the period 2015 – 2019, averaging at 32% to 68%. The FPC flows moderately grew from USD 476m in 2015 to USD 505m in 2019 – averaging USD 488m over the period. ODI was at USD 1,042m in 2015, dropped to USD 977 in 2018 before rising to USD 1,056m in 2019 – with an average of USD 1.035 over the period. The Total Foreign Financing Flows in USD millions were 1,519 in 2015, 1,576 (2016), 1,520 (2017), 1,440 (2018) and 1,561 in 2019 – averaging USD 1,523m over the period.

In light of the significant resources needed to finance vision 2050, Rwanda recognizes the critical role private sector will need to play in private sector-led economy. This is however against a number of issues that will need to be overcome to scale the contribution of Rwanda's nascent private sector – including: sustaining investment rates of between 35% and 40%, well above the current average of 10%; lack of risk-adjusted returns for investors; a decline in traditional external development assistance; a small banking sector that has largely been ineffective in meeting SMEs financing needs of affordable interest rates and a longer tenure; market demand challenges; weak value chains; and weak skills in project initiation and execution.

A Private Sector Development and Youth Employment Strategy (PSDYES) tracks four (4) outcomes critical for the NST-1 Economic Transformation Pillar.[39] Its Mid-Term Review (MTR) recommends a significant mid-course correction including the 'Value Chain Approach (VCA)'; the Growth Anchor Firm Initiative (GAFI); the setup of a Domestic supplier Development Unit (DSDU); and strong institutional coordination with the Rwanda Private Sector Federation (PSF) as a way to accelerate the strengthening of Rwanda's nascent private sector. Implicitly, the successful execution of the PSDYES will continue to have impact on Rwanda's

[36] Unpublished Inflation Brief, MINECOFIN;

[37] Unpublished DPCG Brief, Office of the Chief Economist, 16th June 2021;

[38] AGENDA 2063: THE AFRICA WE WANT, HTTPS://AU.INT/EN/AGENDA2063/OVERVIEW;

[39] Executive Summary PSDYES MTR Report, Cerrium Advisory, June 2021. The PSDYES 4 outcome indicators include: (a) productive and descent jobs created, (b) improved trade balance and growth of diversified exports, (c) increased private sector investments and (d) enhanced entrepreneurship, productivity and innovation;

quest to improve the 'business environment' as it consolidates its position as an investment destination. Rwanda' latest ranking in 2nd position in Africa on the World Bank Ease of Doing Business Index (behind only Mauritius), is expected to be boosted through the setup of the Kigali International Finance Centre (KIFC) to rival Abu Dhabi with the most DTTs in Africa at 20. Rwanda is ranked 2nd in Africa by Transparency International Corruption Perception Index; ranked 3rd in Africa by both Fraser Institute and Heritage Foundation for Economic Freedoms (laws that are compliant to international standards – with strong and competent regulators); ranked 4th in Africa by the Economic Forum Global Competitiveness Index (EFGCI); and 2nd in Africa by the International Property Rights Index (IPRI) – with laws that give multiple alternatives for structuring their business. The KIFC is positioning as a tax efficient and safe jurisdiction.[40]

1.3.3 Environmental Context:

In a demonstration of its commitment to global climate change solutions, Rwanda was one of the first countries to ratify the United Nations Framework Convention on Climate Change (UNFCCC), among the first to sign and ratify both the Paris Agreement COP21 and the Kigali Amendment to the Montreal Protocol. In line with SDG-13[41], climate change is at the core of vision 2050 and has been mainstreamed into the NST-1 through critical green growth milestones: (1) *Agriculture and Forestry*. Soil erosion control (development of new 31,595ha and 84,020ha of radical and progressive terraces); investments into post-harvest infrastructures to reduce post-harvest losses; Increased irrigation from 48,508ha (2016) to 102,284 ha by 2024; research into new seed varieties that are climate resilient; agro-forestry development to increase and maintain forest cover at 30% of total surface area; *(2) Energy.* Reduce firewood usage for cooking from 83.3% (2014) to 42% by 2024; and Promote off grid connections at household level and generation through renewable and clean energy; (3) *Urbanization and Rural Settlement.* Promote climate resilient human settlements (households settled in integrated planned settlements will increase from 55.8% 2014 to 80% by 2024); and Create green spaces in urban and semi urban areas including secondary cities; (4) *Transport.* Promoting efficient public transport systems to reduce emissions - construct 22 km of dedicated bus lines in Kigali City to reduce average waiting time for buses); (*Disaster Management.* Build capacities for Institutions involved in weather forecasting and early warning systems operationalization i.e., to increase reliability and accuracy of information; and enhance implementation of the District Disaster Management Plans (DDMPs) and other contingency plans Ecotourism; (5) *Water and Sanitation.* Manage and protect water catchments to mitigate disasters and efficient storm water management Catchment restoration; and develop waste management systems in cities, towns and rural areas; (6) Industries. Encourage cleaner production and resource efficiency practices in industries (water recycling and pollution control); (7) *Land.* Rationalization and harmonization of land use master plans at both national and districts level, ecosystem rehabilitation; (9) *Environment and climate change.* Improve cross sectoral coordination for smooth implementation of environmental policies and regulations; and strengthen Environmental and Social Impact Assessments conducted for new projects.

Rwanda is committed to a much more ambitious revision of its first Nationally Determined Contributions (NDCs) for mitigation (to -38% GHGs) and adaptation for the period to 2030 - with more detailed and robust assessment of mitigation / adaptation measures informed by in-depth analysis, improved information, increased ambition, and an extensive stakeholder-driven consultation process. Its climatic change vision is informed by the need for urgent action to mitigate climate change vulnerabilities – including the intense and variability of rainfall, changes in temperatures that lead to whether-related disasters (droughts, floods, and landslides) that impact the economy and the livelihoods of people. As a Party to the United Nations Framework Convention on Climate Change (UNFCCC),

[40] Unpublished Comparisons of KIFC with other IFCs, KIFC, 15 Feb 2021;
[41]Take urgent action to combat climate change and its impacts;

Rwanda ‘seeks to contribute to the ambitious goal of limiting temperature rise to 2°C with efforts to reach 1.5°C agreed under the Paris Agreement’. Although its contribution to climate change through greenhouse gas (GHG) emissions is relatively small; emissions from deforestation, agriculture, and land use, combined with strong expected emission growth from expected economic development and energy use is significant enough within its carbon footprint to demand a mitigation response. The 2011 Green Growth and Climate Resilience Strategy (GGCRS) provides Rwanda’s vision for a climate resilient and a low carbon economy, and its projected actions informs its Vision 2050. The GGCRS provide the basis for the development of the NDC, as well as other key national guiding documents informing the country’s low carbon development, culminating most recently in the National Environment and Climate Change Policy enacted in 2019 to become a climate resilient nation with a clean and heathy environment[42].

[42] UNDP-ndcsp-rwanda-ndc2-2020;

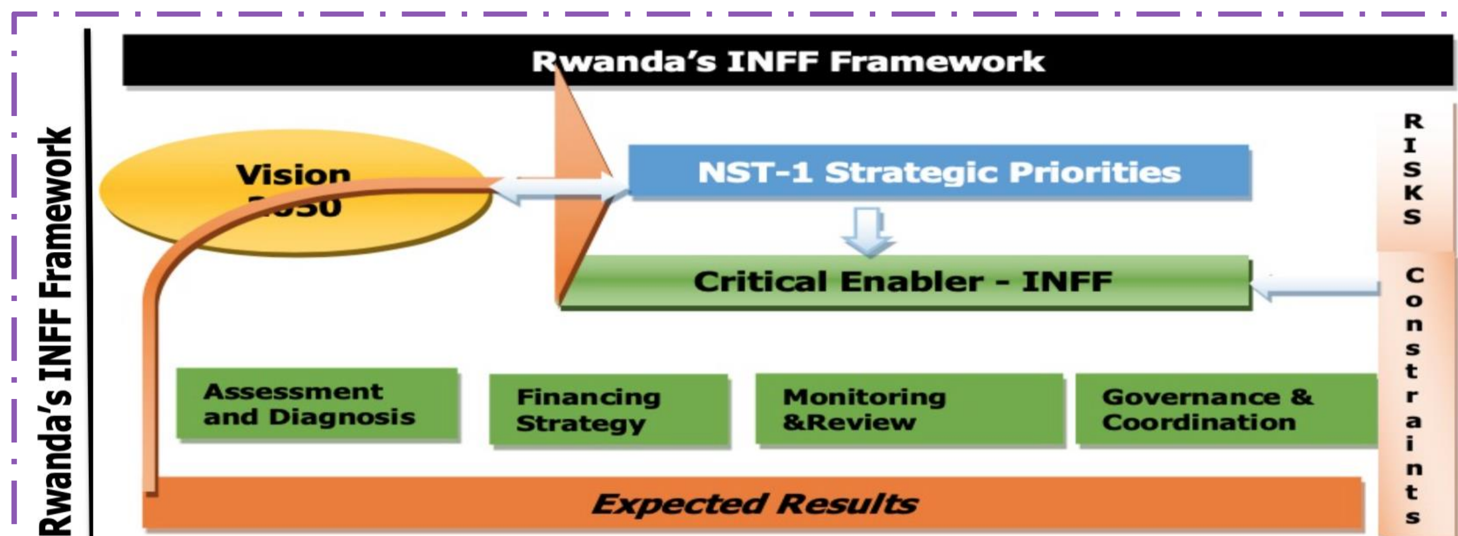
2.0 NATIONAL STRATEGY FOR TRANSFORMATION (NST-1)

2.1 The Rwanda INFF:

Integrated National Financing Frameworks (INFFs) are "planning and delivery tools to finance development at the national level" that are initiated, owned and led by countries. These are aimed at strengthening the links between medium term development plans and financing strategies so as to mobilise and align public and private finance with sustainable development – entailing new financing strategies, policies, and institutional arrangements to bring more coherency, co-ordination, and effectiveness to sustainable development financing. The INFF development process has four, non-sequential building blocks (annex 1: INFF Framework); (a) Assessment and diagnostics; (b) Design of a financing strategy; (c) Mechanisms for monitoring and review; and (d) Governance and coordination mechanisms. In this process, the financial landscape is mapped, financial and non-financial risks can be better managed, and key constraints are identified.

Rwanda's development path is mapped under vision 2050, for which the National Strategy for Transformation (NST-1) lays the foundation – and both vision 2050 and NST-1 have domesticated the UN SDGs. Executing on NST-1, vision 2050 and the SDGs will require significant resources that will be difficult to mobilize without an effective framework to maximize results – drawing on the discipline, policy coordination and national resolve to transform. The Rwanda INFF provides the framework to mobilize the required resources and monitor the results[43] (see figure 2 below).

Figure 2: Rwanda's INFF



Source: Consultants Analysis, adapted from the IATF INFF

[43]Integrated National Financing Frameworks – Inter-agency Task Force for Development Finance, Version November 2020;

2.2 National Strategy for Transformation (NST-1):

The National Strategy for Transformation (NST-1) is the first seven-year plan intended to complete any unfinished business under vision 2020, while laying the necessary foundation for vision 2050. The three NST-1 pillars of economic transformation, social transformation and transformational governance are anchored on the foundations of: economic (the private sector as the engine of the economy; knowledge; and natural resources – including a critical role for agriculture); social (capable and skilled people; quality standards of living; and a stable and secure society); and governance (values and unity; partnerships for development; and diplomacy, peace and security). Whilst both the domestication of the SDGs and the 'national character' will continue to ensure inclusive growth and progress against socio-economic indicators, the funding challenge will remain. "Going forward, the NST 1 aims to make progress toward the Sustainable Development Goals and help crowd in the private sector as an engine for growth. However, financing the strategy will be challenging. Initiatives such as the African Continental Free Trade Area and the Compact with Africa should help leverage additional private financing."[44]

The social and governance transformation pillars are also specified, with goals to eradicate extreme poverty and malnutrition, improve the quality of education and health, build capable and accountable public institutions, ensure continued citizen participation and engagement in development strategies, continue international development cooperation, and ensuring security and safety, as well as justice, law and order. On top of the strategic interventions under the three pillars, "NST-1 has considered seven (7) cross-cutting areas to attain inclusive and sustainable development. These are: Capacity Development, HIV/AIDS and Non-Communicable Diseases, Disability and Social Inclusion, Gender and Family Promotion, Regional Integration and International Positioning, Environment and Climate Change, and Disaster Management."[45]

A clear linkage exists between the Vision 2050's goal of a middle-income country by its mid-term review in 2035 and that of the National Strategy for Transformation (NST-1), 2017 – 2024, to a focus in Rwanda's public policy to "developing and transforming Rwandans into a capable and skilled people ready to compete in a global environment". The priorities of the Vision 2050 with particular reference to High Quality and Standards of Life, Developing Modern Infrastructure and Livelihoods and Transformation for Prosperity and aligned to the pillars or headline priorities of the NST-1 namely, Economic Transformation focused around accelerated growth and employment with seven priority areas; Social Transformation emphasizes eradication of extreme poverty and reduction of poverty with five priorities; and, Transformational Governance highlighting peace and unity with six priorities.

The Sustainable Development Agenda 2030 and SDG targets have been domesticated in the NST-1, the 1st development plan under Vision 2050[46] - and these linkages are shown in Table 1, , and the "Division of Labour" used to steer external development cooperation by the GoR also reflects the SDG linkages to sectoral priorities. According to the IMF, sector-specific costing estimates are yet to be reconciled with the top-down multiyear rough budget estimates for NST-1 implementation"[47]. This will allow for closer and regular monitoring of the NST-1 and SDGs spending. However, since NST-1 is now over the half-way mark in implementation, this alignment exercise is best done in the next plans (NST-2 and its 16 sector strategies).

[44] IMF Country Report No.19/211 – Rwanda Article IV Consultations (July 2019);
[45] NST-1 (2017-2024), page 30;
[46] 2019 Rwanda Voluntary National Review (VNR) Report, Figure 1;
[47] Rwanda IMF Article IV Consultations, Annex II, p.37;

Table 1: Linkages between Goals / Priorities for Vision 2050 and NST-1:

Vision 2050 Pillars	National Strategy for Transformation (NST-1)	SDGS
(1) **Competitiveness & integration (High value industries, Innovation, Integration of markets, Value addition)** (2) **Agriculture for wealth creation (Increased productivity, & Commercialization)** (3) **Urbanization & Agglomeration (Focus on sustainable cities)**	**(a) Economic Transformation Pillar:** ▪ ***Priority 1:*** Create 1,500,000 (over 214,000 annually) decent and productive jobs for economic development; ▪ ***Priority 2:*** Accelerate sustainable urbanization from 18.4% (2016/17) to 35% by 2024; ▪ ***Priority 3:*** Establish Rwanda as a globally competitive knowledge-based economy; ▪ ***Priority 4:*** Promote industrialization and attain a structural shift in the export base to High-value goods and services with the aim of growing exports by 17% annually; ▪ ***Priority 5:*** Increase domestic savings and position Rwanda as a hub for financial services to promote investments; ▪ ***Priority 6:*** Modernize and increase productivity of Agriculture and Livestock; and, ▪ ***Priority 7:*** Sustainable management of Natural Resources and Environment to transition Rwanda towards a green economy.	**1,2,3,4,6, 7,10, 11, 17**
(4) **Human development (A healthy, well educated & highly skilled labor force to drive the economy)**	**(b) Social Transformation Pillar:** • ***Priority 1:*** Promote resilience and enhance graduation from Poverty and Extreme Poverty; • ***Priority 2:*** Eradicating malnutrition; • ***Priority 3:*** Enhancing the demographic dividend through ensuring Access to Quality Health for All; • ***Priority 4:*** Enhancing the demographic dividend through Improved Access to Quality Education; and, • ***Priority 5:*** Moving towards a Modern Rwandan Household.	**1,2,3,4,6,7, 10,11,17,18**
(5) **Accountable & Capable Institutions (Modern institutions & Governance, accountable to citizens, and rule of law).**	**(c) Transformational Governance Pillar:** • ***Priority 1:*** Reinforce Rwandan Culture and Values as a Foundation for Peace and Unity; • ***Priority 2:*** Enhanced peace and security; • ***Priority 3:*** Strengthen Diplomatic and International Cooperation to Accelerate Rwanda and Africa's Development; • ***Priority 4:***Strengthen Justice, Law and Order; • ***Priority 5:*** Strengthen Capacity, Service Delivery & Accountability of Public Institutions; & • ***Priority 6:*** Increase citizens' participation, engagement and partnerships in development	**1,2,3,4,8,10, 13,15,17**

Source: NST-1 (2017-2024)

2.3 Performance of NST-1 at Mid-term:

As with many countries, Rwanda's headline economic indicators have been thrown off course in the wake of the COVID-19 pandemic. As a result, the country is off track to reach its targets as set out under the NST-1, with some reports suggesting recovery to pre-pandemic rates of more than 8% is not expected before 2024[48]. GDP growth was 7.9% in 2018, 8.8% in 2019 before droping off in 2020 to 2.3% as a result of the pandemic effect while headline inflation remained within the target band of 2-8% at 6.3% in the fiscal year 2019-2020 from a low 0.8% in 2018-19. In the same period, the depreciation of the Rwanda Franc (Rwf) against the USD was lower at 4.3% from 4.5% in 2018-19 as a result of resultant low economic activity while credit to the economy was at 26.4% in 2020 from 33.8% in 2019.[49]

The NST-1 intention of industrialization and a structural shift in Rwanda's exports towards higher value goods is tracked through three important indicators of: manufacturing as a share of GDP; services as a share of total exports of goods and services; and industry as share of GDP. Annual growth in exports was at minus 8.7% in 2020 from 15.9% in 2019 - against an annual target of 17%. Although exports of goods increased by 22.8% from Rwf 1,108 billion in 2019 to Rwf 1,361 billion in 2020, this was however more than counterbalanced by the decline in services by 47% - mainly tourism from Rwf 924 billion to Rwf 493 billion in the same period. The annual growth of exports of goods only averaged 16.94% while that for services was negative at 6.97% during the same period, mainly reflecting the effects of the COVID-19 pandemic on travel and tourism. Manufacturing as a share of total exports was up at 3.25% (target: 6%) in 2020 from 2.95% (target: 5.5%) in 2019 but much lower from the 5.36% achieved in 2018 against a 5% target. For the period 2018 to 2020, services as a share of GDP was 45.43% (target: 48%), 45.49% (target: 49%) and 26.58% (target: 50%) respectively. Industry performed alittle better at 19.33% (target in 2020: 19.40%) from 18.87% (target 2019: 18.10) and 17.35% against a target of 17.60% in the year before.[50] The contribution of the agriculture sector to GDP growth was at 26% in 2020 from 24% in 2019 and 25% in the year before.

NST-1 anticipates that private capital stock contribution to real GDP would average of 2.8% and total investment as a share of GDP would grow from 22.6% (2017) to 31.1% in 2024 on the back of increases in public and private investments – with significant share of private investment increase funded through a higher domestic saving rate and FDI inflows – growing from 6.9% (2017) to 7.8% in 2024. This is important for jobs creation, technology upgrading and even exports growth – and this is tracked through the ratio of FDI to GDP; the ratio of Private Investment to GDP; and the ratio of Credit to SMEs as a share of GDP. The Private Sector Development and Employment Strategy (PSDYES) where these NST-1 targets are tracked invisaged a number of critical interventions that include the establishment of the Rwanda Factoring Platform; Value Chain Financing; Investment Promotion Outreach Missions; Establishment of Industrial Parks among others. The growth in Foreign Private Capital (FPC) and especially FDI has been fairly stable in absolute amounts and also as a share of GDP for the period 2018 – 2019, averaging 85% of annual targets before the onset of COVID-19 at 3.41% in 2019 (target: 4.5%) – and lower from 2018 at 3.96% (target: 4.3%). Private investments (local and foreign) to GDP was at 14.21% in 2020 (target: 16.80%) from 11.16% in 2019 (target: 16.1%) and 14.87% in 2018

[48]Third Review Under the Policy Coordination Instrument—Press Release; IMF Staff Report; and Statements by the Executive Director and Staff Representative for Rwanda, January 2021, IMF Country Report No. 21/1;
[49]BNR Annual Report, 2020;
[50]PSDYES MTR Evaluation Report;

(target: 15.9%) while credit to SMEs as a share of GDP was at 1.98% in 2018, 1.97% in 2019 and 2.08% in 2020 against an annual target of 7.8%. Although there was no banks credit to private sector as a share of GDP target set, perfomance averaged 22% between 2017 and 2019 before a spike to 25.91 in 2020 due to significant loans rescheduling to mitigate the pandemic effect.

With the goal of a 'private sector-led and knowledge' economy, entrepreneurship, productivity and innovation are critical ingredients. Rwanda is tracking this through its NST-1 target for decent and productive jobs; the SME graduation and mortality rates; Total Factor Productivity (TFP)[51]; and R&D as a share of GDP. Against the NST-1 target of 1.5m decent and productive jobs, 778,136 jobs (91% of the NST-1 Mid-Term Target of 857,200 jobs) were added in the period 2018 – 2020 with an 8.5% increase in the total number of off-farm jobs in 2019 before a 14.1% decline in 2020 as a result of the pandemic. In the absence of indicators and the baseline for labour productivity, the closest proxy numbers from the ILO and the World Bank indicates that the annual growth in labour productivity was at 6.4% in 2019 from a 2.9% low in 2017 and grew in absolute terms from US$3,981 to US$4,868 in the same period (2017-2019).[52] Without specific SME graduation and mortality rates, the number of active firms that are 2 years or more with 4 or more employees was at 15,458 in 2020 (target: 13,257) from a low 11,799 in 2017 (target: 12,507).[53] Rwanda is yet to set the all-important targets and baselines for both TFP and R&D as a share of GDP. Rwanda's R&D expenditure as a share of GDP[54] of about 0.67% is quite small against developed economies but significant against peers in the African region – but not to the level expected for its ambitions.[55] Equally, R&D expenditure is scattered and difficult to track (both in quantum and impact) while current incentives have room for improvement, especially in incentivizing the private sector – and yet, Rwanda's quest for a 'knowledge economy' in and 'innovative society' will depend on this. SME graduation and mortality rates can be improved by data-led interventions sustained over time while R&D spend can be incentivized (both in the public and private sectors) and results tracked.

2.4 Progress towards National Transformation:

The ultimate development goals and results Rwanda seeks to achieve define the financing requirements for national transformation. Overall, the country aims to achieve the SDGs by 2030, and under the Vision 2050 transition from a LIC to an Upper MIC by 2035 and thereafter to a HIC by 2050. In the medium-term, goals under the NST-1 goals fall under economic transformation, social transformation and transformational governance pillars – this section assesses progress made excluding governance for lack of data while the country's economic management governance structure is described below under sub-section 7.2.3.A.

2.4.1 Social Transformation - Equity and Poverty Elimination:

Social equity and poverty reduction are the lynchpins of the country's social transformation under the NST-1. Through a succession of poverty reduction strategies and programmes, Rwanda made remarkable progress in reducing poverty and improving the livelihoods of citizens, lifting one million out of poverty from 1994

[51]TFP is important for tracking the improvement in overall competitiveness of the economy after considering growth that is attributable to land, labour and capital;

[52]LFS (2016-2017) and MIFOTRA reported during the June 2021 JSR Meeting (2018-2020); World Bank | ILO: https://ilostat.ilo.org/topics/labour-productivity/;

[53]Establishment Census (EC: 2017) | IBES (2016-2019);

[54]The World Bank [add resource];

[55]PSDYES MTR Evaluation Report;

to 2020. In Box 1, highlights of the social progress registered are presented including a life expectancy increase from 49 (2000) to 66.6 years in 2017. This consistent progress was dramatically and adversely affected by the global COVID-19 pandemic in 2020.

The UN framework COVID-19 impact assessment of Rwanda [56]noted that economic growth plummeted from close to double-digit in the pre-COVID period into negative territory in 2020, while, in line with weakening in global demand, the external balances are expected to weaken including prices and volumes of exports, FDI, remittances and service receipts. The value chain disruptions on the import of inputs and capital goods are likely to create price pressures and undermine retail, transport, manufacturing, and construction activities.

The banking sector was adjudged to show resilience however, additional pressures were expected from hotels and import-dependent sectors, with adverse consequences on assets asset quality and profitability which would impact private credit growth. Private consumption has also been drastically curtailed for various reasons, including income uncertainties and limited options. While the assessment expected declines under public finance, the impact on revenue collection was less drastic as initial expectations while the pace of spending slowed. In terms of poverty and human development, new households previously categorized as "non-poor insecure", just above the poverty-line, were expected and have indeed relapsed into poverty because of the pandemic.

The UN framework recommendations were wide ranging and covered public finances, trade and regional integration, poverty and human development, labor market, food security and food prices, gender and social services delivery. The highlights include strengthening community health financing to ensure adequate capacity and tools to deal with COVID-19 at community level; fiscal support for the poor and vulnerable as well as jobs; rapid and emergency financing for social protection; improve targeting of existing food and essential needs distributions; introduce a Domestic Market Recapturing Strategy (DMRS); fast-track use of mobile money and promote digital income earning opportunities; address the impact of COVID-19 on women and girls; capacitate Community Health Workers (CHWs) to be effective in combating the pandemic; lighten the burden for payment of health insurance premiums for most vulnerable; and, design and expedite measures to facilitate for low-income households to have access to radios for schooling and water and sanitation.

In Rwanda, household welfare is 9.3% below the level of the no-COVID scenario, incomes fell by 6.3% as unemployment increased, and retail trade and earnings declined during the lockdown. The poverty headcount is “likely” to rise by 5.1 percentage points or more than 550,000 people in 2021. Since the pandemic impacted agriculture more less than manufacturing and services, then increase was greater in the urban than in rural areas, marginally bucking the usual reverse trend in inequity between urban and rural household. In line with the underlying structure of poverty whereby 90% of the poor live in rural areas, the new poor is 3.2 times higher there than in urban areas.[57]

Box 1: Social Progress

A lot of progress has been made due good governance – and Kigali City is a good representative although Rwanda is much focused on inclusive growth: a Clean and green city, with the lowest crime of any capital city in the region; Winner of UN Habitat Award (2008) - the highest award for an urban area; Safe for women to walk alone (2nd Globally – Gallup report) and much more. The following statistics bear this out:

Description	Results

[56] United Nations, The Socio-Economic Impact Of COVID-19 in Rwanda, June 2020;

[57] Rwanda Economic Update, Jan 2021Eddition no.16 (Protect and Promote Human Capital in a Post-COVID-19 World);

Under 5 Mortality per 1,000	50 (MDG Target: 50.1)
Maternity Mortality per 100,000:	210 (MDG target: 268)
Life expectancy	49 years in 2000 to 66 years by 2017
Literacy rates (aged 15 to 24)	48% in 2000 to 86.5% in 2017
Financial inclusion	48% in 2008 to 89% in 2016
Pupils – qualified teacher ratio in Secondary	28:1 in 2016
Access to improved sanitation facilities (% of population)	87.3% in 2017
Access to clean water (% of population)	88.5% in 2016
A hub for rapidly integrating East Africa	located centrally bordering three countries in East Africa, part of EAC Common Market and Customers Union with market potential of over 125 million people
Population	over 12 million people with a rapidly growing middle class

Source: MINECOFIN

According to a recent survey, the COVID-19 impacted women and men disproportionately at 6.2 and 4 percentage points, while overall index declined by 5 percentage points from 48.3 to 43 percent during the lockdown period. The inherent gender inequality in employment also played out during this period with women facing the brunt of it as they accounted for 44 percent versus 31 of seasonal workers and more likely to take care of the sick person by a ratio of 4 to 1. While poverty increased, the prevailing initial conditions of social inequities between urban and rural which coincides income disparities, and gender disparity were reinforced by the pandemic whereas to impact on job loss was higher in the non-agricultural sectors.

In the development context, impact of the health emergency on human capital, so critical for achieving development, is a major concern. Already, significant investment is required in health, education and social protection to get the human productivity required to achieve the NST-1, the advent of the COVID-19 causes setbacks. As at July 10, 2021, Rwanda registered 47,557 cases and 551 deaths, which is however, below the average for East and Southern Africa. Health services have been impaired but deemed to be temporary while the more permanent effects are related to disruption of children's nutrition which compromised outcomes on stunting of children. This will ultimately have an effect on the productivity of the affected ones in later life. With regard to education, school closings increase dropouts and disruption of schooling would have permanent effects on future productivity of the children.

Agriculture as a priority under the NST-1 addresses equity and poverty alleviation as the bulk of the rural poor households are engaged in the sector and therefore supports livelihoods. The effects of COVID-19 pandemic on global extreme poverty has been a net increase of 6% or 40 million people, from 656 million people in 2018 to 696 in 2020 post COVID-19. The pandemic crisis is dramatically increasing poverty in both rural and urban areas by 5.1 percentage points (about 550,000 people) in 2021, compared to the no-COVID scenario. The impact was greater in the urban areas as agriculture was affected less than services and manufacturing. However, 90% of the poor live in rural and thus the poverty dynamics leads to more new poor that is 3.2 times greater than the urban area.

Overall, the World Bank recommended that reversing the impact of the COVID-19 on Rwanda's investment in human capital should be an important priority in the short and medium-term. The Bank's human capital index (HCI) revealed Rwanda to be a less than average performer pointing to the urgent need to refocus on health, education and social welfare. "Rwanda's HCI score is quite low at 0.38; a child born in Rwanda today will only be 38 percent as productive when she

grows up as she could be if she enjoyed complete education and full health"[58]. That score is lower the LIDC average (0.375), Sub-Saharan Africa average (0.40) because of lower results in education in comparison with both groups and higher stunting rate with regard to the latter. Adequate and productive human capital is a necessary condition for sustainable investment in the Rwandan economy. The current efforts in schooling at the high school, technical education and vocation training as well as tertiary education ought to be supported in short-term and accelerated in the medium-term.

The Government ERP included a strong fiscal and monetary stimulus package to cushion the negative impact on livelihoods of the poor but also to promote faster recovery from the recession. It included relief to vulnerable households making easier to access ongoing assistance programs, reaching down to local communities with in-kind assistance, and improving access to health and primary education services; and (ii) financial assistance to households and micro-enterprises to support jobs through labor-intensive investment projects. Revised social protection policies placing emphasis on targeting and human capital development ought to be maintained in the medium term.

2.4.2 Economic Transformation:

A. Securing Macroeconomic Stability:

NST-1 seeks to lay a foundation for Rwanda's ambition to become an upper middle-income country by 2035 and a high-income country by 2050 by creating the environment for the Rwandan economy to thrive through an accelerated transformation that provides quality livelihoods for all Rwandans. It assumes an average GDP growth of 9.1% (12% from 2025 – 2035 and thereafter at 9%) during the NST-1 period. It further assumes significant private and public investments financed by domestic savings and capital inflows; massive improvements in education; significant increases in land efficiency and innovative capacity; and sustained efforts to boost production of tradeables as well as the rising working-age share of the population to generate gains in per capita income as Rwanda benefits from a demographic dividend with a growing labor force. Along this growth path, GDP per capita will reach USD 1,382 (current US$) and GNI per capita will reach USD 1,320 by the end of the NST1 period. This GDP growth will be primarily driven by the services and industry sectors, averaging 9.3% and 13.0% per year respectively as well as a robust performance in the agriculture sector with annual growth averaging 5.7%. On average, agriculture would contribute 1.4%, industry 2.7%, and services at 4.5%, with the remaining growth accounted for by taxes and subsidies[59].

Table 2: Output and Growth Rates by Sector

	2017 (A)	2018 (A)	2019 (A)	2020 (A)	2021 (F)	2022 (F)	2023 (F)	2024 (F)
Real GDP Growth *(in %)*	5.2	6.8	8.6	9.2	9.9	10.5	11.0	11.6
GDP per capita *(in current USD)*	754	791	847	923	1,013	1,118	1,240	1,382
GNI per capita *(in current USD)*	726	759	810	881	969	1,069	1,185	1,320
Agriculture (NST-1 Average: 9.1%)	5.5	4.6	5.0	5.0	5.9	6.0	6.7	6.7
Industry (NST-1 Average: 9.1%)	4.8	12.4	14.2	13.6	14.4	14.8	14.5	15.2
Trade & Services (NST-1 Average: 9.1%)	5.4	6.1	8.5	9.6	10.1	10.9	11.5	12.3

[58]Ibid;
[59]NST-1;

Source: NST-1 Estimates and Projections

Rwanda's future economic prospects and the achievement of the NST-1 targets (especially the target of creating 1.5 million new decent and productive jobs was predicated upon structural shifts in the sectoral composition of GDP. The share of GDP in agriculture shifting over time into industry and, to a lesser extent, services while the share of services in GDP remained relatively stable – increasing from 47.7% (2017) to 48.3% in 2024. For the period of NST-1, The share of industry in GDP was expected to increase from 16.5% (2017) to 21.8% in 2024 while the share of agriculture in GDP would fall from 29.6% to 22.9% over the same period[60].

Growth under NST-1 would benefit from the following factors: (a) an economic shift towards higher value added activities and the production of tradeables through increased investments, scale, innovation and strengthened trade connections (regional and global) to expand factors of production; (b) growth in labour inputs on the back of a growing labour force, quality improvements and productivity of workers – with an average contribution to real GDP growth of 3.4% (1.8% growth in employment and 1.6% from growth in human capital). Private capital stock would also contribute an average of 2.8% of real GDP growth. In light of physical limitations on land, improvements would largely come from increased efficiency of land utilization – contributing an average of 0.04% to real GDP growth. Also, Total Factor Productivity (TFP) would make a contribution of about 2.9% (1.2% in Public Capital Growth and 1.7% in other productivity factors, including ICT-led innovation); and (c) a dramatic increase in the Domestic Savings Rate (DSR) would be necessary to drive the necessary investments – increasing the DSR from 12.1% (2017) to 23.9% in 2024. A higher DSR would reduce Rwanda's reliance on foreign financing and keep debt sustainable. All the while, private consumption growth would average 7.6% in the period of NST-1.

Under NST-1, total investment as a share of GDP was expected to grow from 22.6% (2017) to 31.1% in 2024 on the back of increases in public and private investments. Public investments as a share of GDP (including PPPs) would gradually increase from 8.3% (2017) to 9.9% in 2024 – with a significant portion of this growth directed towards expenditure on education and human capital growth. Also, private investments would grow from 14.4% (2017) to 21.2% in 2014 – mainly focused in mining, construction, textile and agro-processing. Increases in public investments would largely be funded from higher tax and non-tax revenues expected to grow from 18.3% (2017) to 20.4% of GDP in 2024 while the rest of the expenditure would be mainly funded at an average of 4.4% of GDP per year from concessional foreign borrowing – while keeping external debt at sustainable levels of below 35% of GDP and below 150% of exports during the NST1 period. A significant share of private investment increase would be funded through a higher domestic saving rate and FDI inflows – growing from 6.9% (2017) to 7.8% in 2024, leading to a gradual increase in private debt and stock of FDI.

Under the real sector, significant productivity improvements in *agriculture* were expected to maintain a relatively stable growth rate of 5.7% during NST-1 on the back of considerable gains in land and agricultural efficiency through improved farming methods and climate resilient techniques as well as stronger value chain linkages for domestic and export markets. *Industry* was expected to grow much faster at 13% average growth rate (from 11.2% up to 2020 and to 14.7 from 2021) through significant improvements in mining production (23% average growth) and construction (11.4%) – focusing in the competitiveness of the new Bugesera Airport and several industrial parks to boost agro-processing and the textile sectors – expected to grow at an average of 9.7% and 14.2% respectively during NST-1. Services would continue to power the Rwandan economy, averaging 9.3% through tourism and hospitality (including MICE), the new

[60]NST-1;

Bugesera airport and continued expansion of Rwandair routes. A large import growth would lead to an 8.5% annual growth for the wholesale and retail trade.

For the External Sector, Rwanda was expected under NST-1 to strengthen regional and global trade linkages – growing from 53.1% (2017) to 63.9% in 2024 as a share of GDP. Goods exports would increase by 20.3% annually on average as Rwanda plugged into global value chains while export of services would grow by 12.1% on average. The trade deficit was expected to narrow from 10.5% of GDP (2016) to 7.2% in 2024 despite high import growth. Similarly, the current account balance was expected to reduce from 8.7% (2017) to 8.3% of GDP in 2024 as a result of rapid growth in exports of goods and services as a result of improvements in economic productivity, innovations and global firm competitiveness. This would especially be so for mining with exports growing from 32.9% (2017) to 49.6% in 2024 and a 17.8% average growth rate in services. Firm competitiveness would increase the import bill for intermediate inputs, machinery for expansion and as a result the rate of imports to GDP would average 8.2% during NST-1. The high growth rate would require financing at the level of Rwf 41,735 billion of the seven year period of NST-1 (59% from public and 41% from private resources).

B. Economic Transformation:

The Vision 2050 is focused on transformation of the entire economy and society predicated on "self-reliance through a private sector led growth and transformation economic model". Economic transformation has two components, a shift by capital and labor to more productive firms in the same sector or across sectors from one to the other. The NST-1 takes a total factor productivity (TFP) approach in its design to measure that aspect of economic growth explained by the level of technology and not increases in capital and labor. This shifts the focus to technological change through importation of capital and intermediate goods, but to graduate from LIC to MIC, a country must generate home-grown TFP. At the point of reaching international productivity levels, only TFP is sustainable development.

Almost all African countries experienced increased factor productivity growth as workers moved out of agriculture into manufacturing and services between 2000 to 2010. The Strategic Plan for Transformation of Agriculture (2018 – 2024) is the vehicle for implementation of the agriculture policy and seeks to raise productivity of the sector by shedding jobs and increasing the value of production. Rwanda is succeeding in having a similar experience as the rest of Africa, agriculture is reducing as a share of GDP by 10% of GDP to 38% in 2019 from 48% in 2005, in favor of manufacturing and services (Figure 3). However, an IMF study of structural transformation in Rwanda between 2010 and 2014 using TFP found that this change in TFP in Rwanda sectors was due to inputs, labour and capital, and not technology. Comparatively, the study found robust TFP with regard to Kenya's growth due to technology and widespread use of mobile phones.[61]

B-1 Agricultural Productivity:

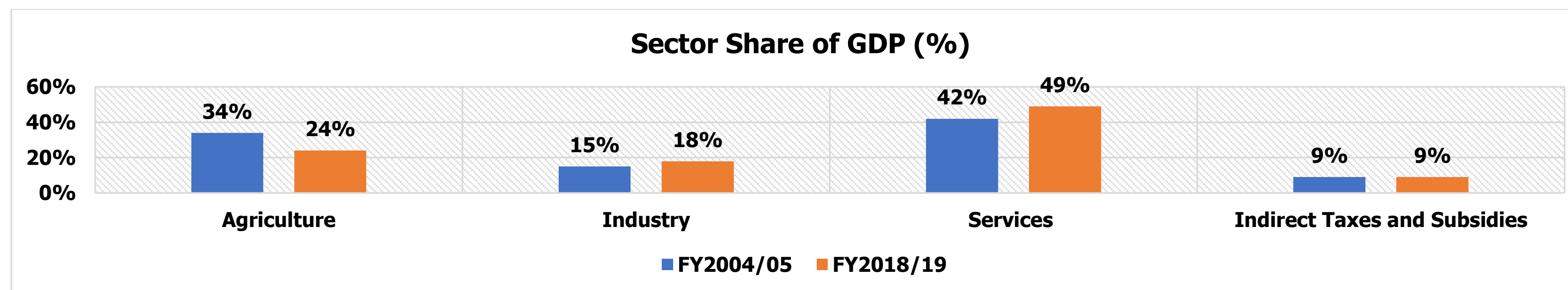
Economic transformation has two components, a shift by capital and labor to more productive firms in the same sector or across sectors from one to the other. The NST-1 takes a total factor productivity (TFP) approach in its design to measure that aspect of economic growth explained by the level of technology and not increases in capital and labor. This shifts the focus to technological change through importation of capital and intermediate goods, but to graduate from LIC to MIC, a country must generate home-grown TFP. At the point of reaching international productivity levels, only TFP is sustainable development.

Rwanda's agriculture policy focused on productivity is has been geared towards addressing the equity and poverty challenges in rural areas. "Furthermore, these

[61] IMF Country Report No. 17/214, Rwanda Selected Issues, July 2017;

increases in agricultural efficiency will facilitate labor movement out of agriculture towards the higher value-added industry and services sectors." The strategy involves moving from rain-fed to irrigation and extended fertilizer use to increase productivity and diversifying output to promote regional exports. The irrigation strategy has already registered significant gains in acreage and supported still by improved seeds and consolidation of land for mechanized farming. Irrigation is also key to increasing the cropping from two to four a year. Rwanda has since 2018 been implementing the 4th Strategic Plan for Agriculture Transformation (PST 4) with four priorities: innovation and extension; productivity and resilience; inclusive markets and value addition; and enabling environment and responsive institutions. The 2019/2020 Agriculture Sector Backward Looking Joint Sector Report (BLJSR) reported that the cumulative land under irrigation was at 63,742 ha (37,273 ha of marshlands; 8.780 ha of hillsides; and 17,689 ha of small scale irrigation).

Figure 3: Sector Share of GDP (FY2004/05 and FY2018/19)



Source: MINECOFIN

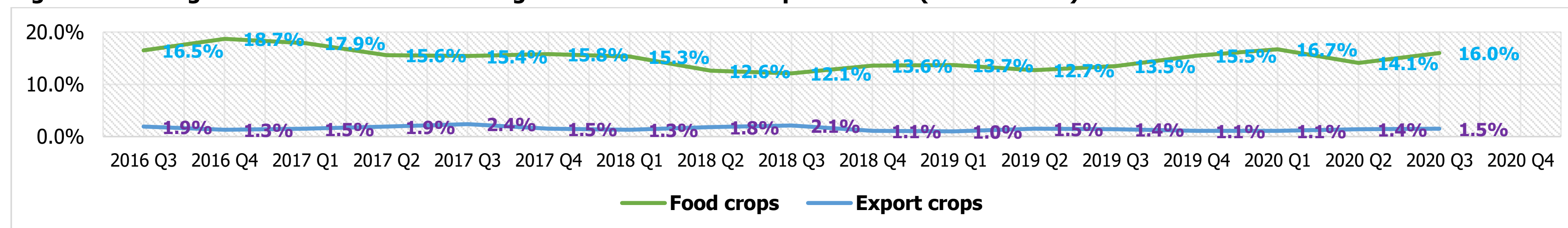
The investment in agriculture has improved crop yields of the main cash crops, to achieving with almost all annual targets being achieved in 2019/20, with the exception of rice : maize, climbing beans, Beans, soybean, cassava Irish potato, and wheat, while rice was off target (Table 3). Export products have benefitted through diversification and coffee and tea production is receiving much incentives through income tax breaks. Progress has been registered with regard to yield; however, as a share of GDP, both food crops and export crops have virtually remained unchanged in their shares of GDP at (around 16% and 2% of GDP respectively), between 2016 and 2020 (Figure 4). This suggests that fundamental transformation in relation to services and industry is yet to take firm hold. Other exports that help in the quest to save foreign exchange are hides and skins, meat, dairy and cereals. Crops that mitigate against climate change risks are featuring more in the country's agricultural production basket.

Table 3: Crop Yield

Crop	Maize	Climbing Beans	Beans	Rice	Soybean	Cassava	Irish Potato	Wheat
Target	3.8	2.3	1.5	5.2	1.0	16.0	16.7	3.0
Actual	4.4	2.5	2.0	4.4	1.5	16.7	16.8	3.1
Achieved (+) | Missed (-)	0.6	0.2	0.5	-0.8	0.5	0.7	0.1	0.1

Source: **INFF** Consultants' Analysis, MINECOFIN Data

Figure 4: Agriculture Sector as Percentage of GDP - Food and Export Trends (2016 – 2020)



Source: NISR Data and Consultants' Analysis

B-2 Services:

Rwanda's services sector objectives seek to increase exports through expanding Rwandair, tourism though developing the hotels and restaurant sub-sector as well as Meetings, Incentives, Conferences, and Exhibitions (MICE). Significant investments have been in the Kigali Convention Center, expansion of the airport and three new large hotels (Marriott, Radisson and Zinc). A key factor in the development of these service is a skilled workforce. The high school graduates ought to increase while the employability of graduates from Technical and Vocational Training (TVET) centers is enhanced to meet the jobs demanded by the market[79].

The authorities have embarked on significant ventures to address the skills gap at the upper skills levels. In the short-term it is promoting the free flow of labor from other EAC countries, in particular, Kenya and Uganda[80].The TVETs have received a boost from a strong financing from the German and Swiss development agencies. The Africa Center for Excellence in data science and the Africa Center for Excellence in Innovative Teaching and learning Mathematics and Science have been established in Kigali through a grant from the World bank. However, upgrading the knowledge and competences of the teaching cadre to impart the requisite skills to a potential workforce remains work-in-progress. At the lower end of the education spectrum, the government is offering laptops to primary school students through the one laptop per child program. Education system is going through a digitalization programme supported by Microsoft and the Government is succeeding with its one child per laptop policy. The success of both programmes hinges on reliable internet services that are contingent on reliable electricity supply.

B-3 Industry:

The Government seeks leverage on the EAC regional market to mitigate against the economies of scale constraints to investments in industry to reach a potential market of 120 million inhabitants. While the trend for the last decades have shown an overwhelming growth of activities in industry and services over agriculture, under NST-1 the focus has shifted to agriculture. Light manufacturing is being pursued with incentives in the investment code 2021 to promote exports. These include special economic zones and Economic Processing Zone (EPZ) that accords tax exempts such as VAT, import duties, and corporate tax. It is argued that the tax incentives would compensate for higher transportation cost incurred by firms. To be eligible to be located in the EPZ, the enterprise must export 80% of

its output.

The New Investment Code prioritizes sectors in exports, manufacturing in the textiles and apparel, electronics, information communication and technology equipment, large scale agricultural operations excluding coffee and tea, pharmaceuticals, processing in wood, glass and ceramics, processing and value addition in mining, agricultural equipment; energy; outsourcing and financial services, construction, tourism, agro-tourism energy generation, transmission and distribution. . Some of the tensions in the new investment code is that the lower corporate tax provisions relate to all exports including traditional goods while all investments can also unlock generous tax holidays.

The generous tax incentives must be measured in tax expenditures and published as cost factors which are equivalent to the revenue loss. This trade-off between investment and tax revenue foregone must assessed in cost-analysis to determine whether the benefits in the investment code outweigh the revenue lost under the revenue code – tax expenditures are discussed later in the document.

B-4 Research and Development for a Knowledge Economy:

Rwanda's desire to transform into a knowledge economy will require significant efforts to develop a strong and coordinated research and development (R&D) capability. R&D plays a critical role in driving technology, innovation, productivity and the competitiveness of the economy. According to World Bank Indicators, Rwanda spent 0.67% of its GDP in 2016 on R&D which although small when viewed against developed economies, it is nonetheless significant when viewed against spending by countries in the African region. Nevertheless, Rwanda's R&D is still 'siloed' without a credible tracking mechanism[62] - and efforts should be made to create the necessary environment that attracts significant private sector-led investments into R&D, including well targeted tax breaks as well as a cohesive national framework for R&D. With a number of top global universities setting up shop in Rwanda, an opportunity exists to strengthen the link between industry and academia for a productive research environment across all spheres of the economy.

2.5 Environmental Sustainability:

2.5.1 Environment, Climate Change and National Disaster Risk Management:

Climate change financing is a veritable source of non-traditional development finance, particularly under the Paris Agreement. The livelihoods of the entire Rwandan population are susceptible to being adversely affected by climate change, degradation in the environment, deforestation, poor sanitation and inadequate clean water supply. The vulnerable poor in the rural areas dominated by women headed households who have limited recourse to adapt, bear the brunt of climatic shocks and should be primary targets for any strategy aimed at enhancing climate change resilience. Overall, the nationally designed projects to be financed are consistent with the principles of the Paris Agreement and intended to strengthen adaptation capacity to climate change at all levels, community, regional, and national as well as firms.

The Paris Agreement (195 countries) resolved to cut greenhouse gas emissions and enhance adaptation to keep global temperature increase to "well below 2°

[62]PSDYES MTR, Cerrium Advisory Report to MINICOM and GiZ, 2021;

degrees Celsius (C)" and, more optimistically, to attempt to limit it to 1.5 C. For Africa, the allocation of adaptation resources to climate change is welcomed. The Paris Agreement is considered a win because "it presents a unique opportunity to create and implement strategies that use new approaches and technologies to realize the dream of an environmentally sustainable and economically flourishing continent[63]". The African Union Commission (AUC) and UNEP have already established the Ecosystem-Based Adaptation for Food Security Assembly (EBAFOSA) as a policy and an implementation platform. This platform is expected to promote and support agro-value chains through an EBA-driven agriculture approach. To achieve sustainable and inclusive growth, countries will be urged to integrate these techniques in their agricultural policy implementation. For the funding of projects USD 100 billion is envisaged for developing countries by 2020.

The Paris Agreement, Article 4 paragraph 6, states: "The least developed countries and small island developing States may prepare and communicate strategies, plans and actions for low greenhouse gas emissions development reflecting their special circumstances". The LDC work program includes support for the preparation of National Adaptation Programs of Action (NAPAs); Strengthening existing and establishing national climate change secretariats; provide training; Promotion of public awareness programs; Development and transfer of technologies; and, Strengthening the capacity of meteorological and hydrological services. An estimated US$2 billion is needed for capacity support to draft the NAPAs prepared by the LDCs and strengthening institutional capacity for climate change management.

The sustainable development agenda puts environmental sustainability with more emphasis on investment in mitigation and adaptation to climate change. "It should be noted that closing infrastructure gaps, providing energy access, and climate adaptation and mitigation projects have significant potential for spurring higher levels of economic growth, creating jobs and raising incomes for those in the lower income deciles, as well as generating savings which could further finance sustainable development investments"[64]. The NST-1 prioritizes the promotion of sustainable management of the environment and natural resources – promoting alternative sources of energy for home use away from dependence on the natural environment.

The international community is fully engaged in mitigating the adverse effects of climate change – and the World Bank estimated that investment of nearly USD 48 billion per year (from 2020 to 2030) would be required to achieve universal energy access by 2030 for the SSA (IEA, 2011).[65] Likewise, World Bank estimated the costs for adaptation to climate change would amount to 11 billion from 2020 to 2030 (World Bank). The global focus on combating climate change and the Paris Agreement received a major political and financial boost with the return of the United States under President Joe Biden in 2021.

2.5.2 National Disaster Response Fund:

The environmental and climate change challenges facing Rwanda include land degradation, deforestation, dependency on biomass for fuel, soil, water and air pollution, a lack of environment-friendly transport systems, vulnerability of natural ecosystems, lack of low-carbon materials for housing and green infrastructure development, inadequate waste treatment for both solid and liquid waste, increase of electronic, industrial and nuclear/radioactive wastes, limited coordination in environmental and climate change governance, among others. Mainstreaming environmental priorities and implementation across sectors will be strengthened and develop critical infrastructure such as waste resource management, and "positioning Rwanda to tap into opportunities of international climate finance". This

[63]Net Zero by 2050 – A Roadmap for the Global Energy Sector, Flagship Report, May 2020 – 2021;
[64]Ibid;
[65]IEA,2015,Energy For All;

extensive environment agenda provided ample evidence for the revision of the long standing 2003 National Environment Policy to the National Environment and Climate Change Policy.

The GoR's environment policy seeks to have green solutions and disaster risk mitigation in partnership with the private sector and local communities. Central to the national strategy is the efficient management and sustainable use of the nation's water resources. The GoR's interventions in forest management include increase and sustain areas covered by forest through landscape restoration, which is done as a cooperative venture with the private sector. Likewise, encouraging the use of gas instead of firewood for cooking is progressing with significant private sector interventions. The GoR's expenditure on the environment and disaster-risk mitigation ought to resort to strengthened public and private partnerships while preserving the integrity of services, while the level of funding must be revised in line with the global agenda to accelerate cutbacks in carbon emissions, among others. The global climate financing options available, or already accessed by Rwanda, are discussed below under the section on Climate Change.

More frequent disaster events (natural and man-induced) increases Rwanda's vulnerability and exposure, lowers coping capacity and increases the impact in terms of loss of lives and property as well as the displacement of people. Natural hazards in Rwanda are grouped into two categories:) hydro meteorological (floods, landslides and droughts); and geo-physical (earthquakes and volcanic eruptions). According to the national disaster information and communication system, 90% of these hazards have materialized during the last decade only, increasing the national overall risk exposure and lowering the coping capacity in coming years. A combination of Rwanda's unique geological setting and the complexity of its population settlements have generally led to increased disaster occurrence with a tendency for significant human impacts (e.g., loss of life and economic disruption). High and increasing population density in the capital city of Kigali and some district towns, continues to increase Rwanda's vulnerability to recurrent and large-scale disasters.

These disasters negatively affect public expenditure with a broad range of impacts – from potentially long-lasting to multi-generational effects - while causing direct damage to lives, infrastructure, cause business interruption, loss of employment and output, decreased tax revenues, impaired institutional capacities and a rise in poverty levels. The impacts in terms of lost income and destroyed wealth may become catastrophic for a country with limited resources.

Rwanda's disaster management has evolved from an activity-based reactive setup to a proactive institutionalized structure; from single faculty domain to a multi-stakeholder setup; and from a relief-based approach to a 'multi-dimensional pro-active holistic approach for reducing risk'. The shift from 'relief and response mode', Rwanda's disaster management has started to address the issues of early warning systems, forecasting and monitoring setup for various weather-related hazards. A multi-stakeholder high powered group was setup by involving representatives from different ministries and departments. Some of these Ministries were also designated as the nodal authorities for specific disasters. The National Disaster Management framework has been designed to ensure coherence between all documents in the Ministry in charge of Emergency Management and directly related to Disaster Management.

Rwanda's Law on Disaster Management Law N°41/2015 of 29/08/2015 of August 2015 provides a framework for disaster risk management in Rwanda – tasking GoR with the role for disaster management and post disaster financing (emergency relief operations and recovery, reconstruction of public infrastructure and buildings). It establishes the National Disaster Management Committee (NADIMAC); the National Disaster Management Technical Committee (NADIMATEC); the District Disaster Management Committee (DIDIMAC); the Sector Disaster Management Committee (SEDIMAC) and the National Platform for Disaster Management (NPDM) as bodies to deal with disasters and empowered to coordinate with key stakeholders in case of such events. This legislation is an enabling framework for the establishment of the proposed "National Disaster Response Fund (NDRF)" – perhaps with an Order of the Prime Minister.

The NDRF (akin to a financial trust) with a fast-disbursement mechanism could be the vehicle for the rapid financing of public post-disaster reconstruction operations and mitigate the bureaucratic constraints that often delays resource availability for timely responses for post-recovery efforts. The fund objective would be to 'improve the budgetary management for adverse natural events and support the rapid reconstruction of the state infrastructure, low-income housing and eligible natural environment assets' – and work as a common mechanism to pool various contributions from a diverse base of contributors and serve as a vehicle for GoR' donor coordination on disaster risk management. The fund would be managed by the Ministry for Emergency Management (MINEMA) and MINECOFIN with focus on: (a) disaster risk mitigation; (b) design, development and seeding of disaster risk financing strategies and instruments; and (c) partnerships with other organizations to provide relief and recovery support, including livelihood restoration initiatives and reconstruction and rehabilitation of key public infrastructure.[66]

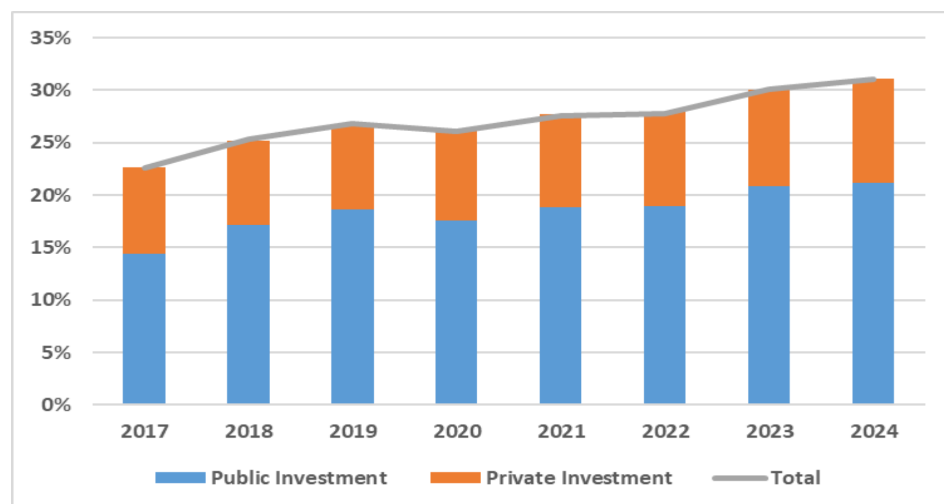
[66] The National Disaster Response Fund (NDRF) - Abstract - Concept Paper, MINECOFIN, Dec 2020;

3.0 The Financing Requirements for National Transformation

The investment priorities of the NST-1 have a central role for the transformation of Rwanda's economy towards an Upper Middle Income by 2035. This financing needs assessment under this INFF assessment and diagnostics is focused on costing and investment required for the implementation of the 7-year NST-1. The financing needs pertain to funding Rwanda's SDG compliant NST-1 and using its costing and required investment as the basis for identifying financing needs. Total investment is estimated to rise from 22.7% in 2017 to 31.1% of GDP in 2024 (Figure 7). Actual investment underperformed the NST-! projection in 2018, over-performed in the following year and stayed on target at 25% of GDP in 2020, while registering a marginal decline over the previous year due to the pandemic (Figure 5).

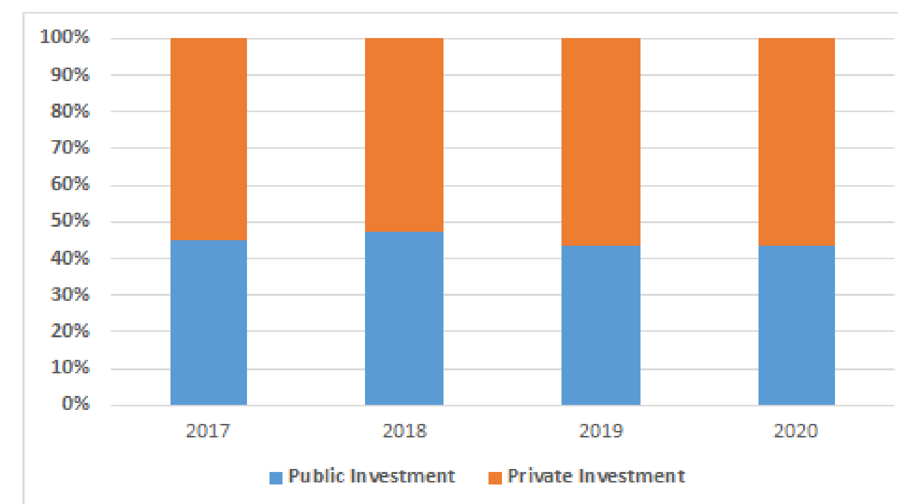
In absolute terms, total investment of the NST-1 spells a financing need of RWF 41,735 billion over the seven years; of which, RWF 24,623.7 (59%) and RWF 17,111 (41%) are projected through public and private resources, respectively. The actual divide of investment between public and private averaged 45:55 annually, between 2017 and 2020 (Figure 5). This desirable outcome bucks the expectations of the NST-1 and stands in tune with the Government's professed policy stand of a private sector-led economy. The greater share of public investment envisaged under the NST-1 was largely driven by infrastructure investment. However, the major investment projects implemented during these four of the NST-1 such as the Rwandair and the airport, do have significant private participation. The leading role of the private sector enunciated in the NST-1 will be assessed throughout this report to ensure that its pride of place will consistently be facilitated and not hindered as the engine of growth.

Figure 5: NST-1 Projected Investment Spending Needs



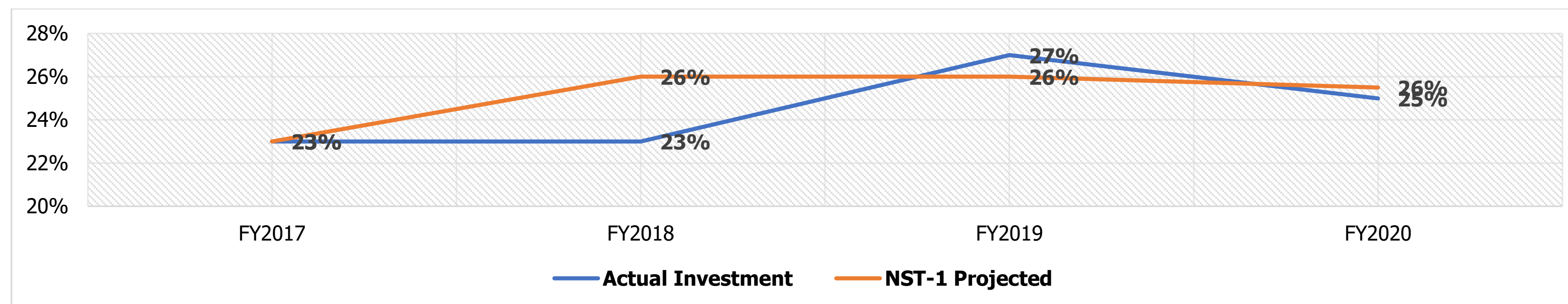
Source: MINECOFIN, Consultants' Analysis

Figure 6: Actual Public and Private Investment Spending



Source: IMF Data, Consultants' Analysis

Figure 7: NST-1 Financing Projected Vs. Actual Investment (2017-2024: %)



Source: NST-1, Consultants' Analysis

IMF Staff estimates showed that the pandemic has widened Rwanda's SDG financing gap to 21.3 percent of GDP a year for outlays to health, education and infrastructure (Table 3). The resultant revenue losses, expenditure increases, and a planned fiscal consolidation needed to keep debt at sustainable levels have constrained Rwanda's ability to invest in the SDGs. As the country returns to its pre-pandemic potential growth rate over the medium term, Rwanda potentially faces a permanent output loss of approximately 10 percent. Reflecting lower nominal GDP and reduced fiscal space, the pandemic is estimated to have increased Rwanda's SDG needs gap by 5½ percentage points of GDP, to 21.3 percent of GDP.

Table 4: Projected NST-1 Expenditure on Pillars and SDG Required Spending on Health, Education & Infrastructure

NST Pillars (Budget)	2022/2023	2023/2024
Pillar 1: Economic Transformation	23%	23%
Pillar 2: Social Transformation	10%	10%
Pillar 3: Transformational Governance	5%	5%
Total	**39%**	**38%**
Average Annual Additional spending required for Meeting SDGs by 2030		
Health and Education	5.9%	5.9%
Infrastructure	15.4%	15.4%
Total	**21.3%**	**21.3%**
Memorandum: GDP (Rwf Billion)	**14,022**	**15,535**

Source: INFF Consultant's Analysis, MINECOFIN

To meet the NST-1 financing needs, the NST-1 envisages an increase in domestic savings to 23% of GDP in 2024 from 12.1% in 2017. To achieve this target,

financial deepening in the money and capital markets will be pursued while venturing into from innovative financing schemes, among others. The aim is to fulfill the plan's investment and in doing so, gradually increase the share of private investment financing from domestic resources. It is also intended to "reduce Rwanda's reliance on foreign financing and keep indebtedness sustainable"[67]. However, given that a savings and investment gap to the tune of 7% of GDP already exists for NST-1 financing, which would have to be almost tripled to achieve an upper MIC status by 2035 and the SDGs in 2030, substitution of domestic savings for foreign savings in the intervening period would be a tall order. This assertion is analyzed in the rest of this section.

In 2020, The COVID-19 crisis has adversely blunted the development records achieved by Rwanda. The country's economy declined year-on-year by 12% in the second quarter of 2020 when the pandemic reached Rwanda. Rwanda's economy plummeted into negative territory by 3.4% in 2020 from a high of 9.4% in 2019[68], has grown by 3.5% in the first quarter of 2021 (Q1-2021) and is expected to recover to 5.1% at the end of 2021.[69]The growth of budget deficit more than doubled over the previous year to almost 10 percent of GDP, due to spending under the Economic Recovery Plan to cushion declines in livelihoods and economic support to selected businesses; albeit against minimal revenue loss as significant part of the year's intake occurred in the first quarter. However, the IMF model projects permanent output loss of 10%, even if the country returns to the past growth trajectory in five years. This recovery period is two years more the MINECOFIN projections for a complete rebound. The INFF platform would a place to facilitate a dialogue on reasons behind the divergences in projections.

An earlier IMF study estimated that for Rwanda to meet the SDGs by 2030 in the education, health, roads, electricity, water and sanitation sectors would require up to 19.6% of GDP in additional spending. The Rwanda IMF 2019 Article IV Consultations – 'Annex II – Spending Needs for Reaching the SDGs', using the same methodology espoused in the 2019 IMF Staff Discussion Note "Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs" recurrent and investment spending in these five sectors is at the core of sustainable and inclusive growth spending on roads, electricity, water and sanitation were highlighted as sectors where Rwanda lags peers the most in SDG performance.

The selected sectors in the study are priorities for human capital development and social transformation under the NST-1. However, IMF Article IV Consultations estimated that Rwanda suggested a slightly higher financing need to increase total education spending by 7 percent to reach 6.3 percent of GDP, or US$254 per student per year. The country currently (2020) spends US$58 per capita per year on health and achieved an SDG 3 index of 62, higher than the median of 49 peer countries, already above the original NST-1 plan to increase per capita public spending on health by 36%, from US$38 in 2016 to US$52 per capita per year (2024).[70]However, the study estimated that double that increase would be needed to achieve a rank among the best performers.

Rwanda's rural access index for roads (RAI) at 52 out 100 is quite low, given that there is only 5% paved and 10% all-weather roads. To achieve RAI higher than 75, an increase equivalent to 4% of GDP per annum is required. The World Bank WASH costing model estimates that 4.5% of GDP per year spending would achieve water and fixed-point latrines to all households. Universal access to electricity would require an additional spending of 2% of GDP. It is imperative that a mid-term review of the NST-1 ought to reflect the level of financing required to meet the SDGs.

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[67] NST-1, 2018-2024;

[68]National Accounts, NISR;

[69]BNR, Monetary Policy and Financial Stability (MPFS)Statement, 9th Sept 2021;

[70]Rwanda IMF 2019 Article IV Consultations;

Consequently, it will remain important for Rwanda to continue on the following reform track: (a) *Revenue Mobilization and Structural Reform.* The authorities are considering a medium-term revenue strategy (MTRS) - which is we estimated to boost domestic revenue by 7 percentage points of GDP a year between 2023 and 2029 would reduce Rwanda's annual SDG financing gap by some 4.2 percentage points of GDP; (b) *Spending Rationalization.* Reallocating 1 percentage point of GDP toward SDG projects and boosting spending efficiency would cover another 1.5 percentage points of GDP; and (c) *Private Finance.* Pursuing policies to bring annual foreign direct investment in line with the top quartile of Rwanda's peers could reduce the gap by a further 1.9 percentage points of GDP. Taken together, these policies would provide more than a third of Rwanda's SDG financing needs and would enable the country to meet its SDGs by 2040. Moreover, these policies would result in significantly higher per capita income and boost human capital (Figure A4). However, to meet its SDG targets by 2030 Rwanda would still need additional resources of 13.7 percent of GDP each year until 2030.

However, even if this reform agenda is executed, the IMF estimated that Rwanda will meet the SDGs in 2040[71]. Therefore, international cooperation and financing would be needed to supplement this effort for Rwanda to meet the 2030 timeline. The study estimated that if OECD countries adhered to the United Nations recommended official development assistance (ODA) target of 0.7% of gross national income (GNI) over the next decade, it would release some $200 billion (in 2020 US dollars) for development. If the distribution of this amount is consistent with current trends, it would fill two-thirds of the financing needs of LIDCs. As such, Rwanda will meet the SDGs in the five sectors considered by 2031. The question must be asked whether this timeline can be shortened further? At least by another year to the SDGs timeline of 2030..Indeed, the potential source lies in attracting international private capital however, it would have to be at levels unpreceded in SSA. Mobilizing the requisite financing at the desired level stand as the current historical calling for achieving the SDGs by 2030 and an Upper Middle-Income country by 2035. Achieving these goals would allow the country to set a financing trajectory towards a High-Income Country in 2050.

Achieving the required levels of investment warrants a coordinated approach among public, private and civil society stakeholders as well as development partners. An INFF platform is the missing link that would bring stakeholders together with a common sense of purpose and shared Government policy agenda driven by dialogue while maximizing synergies and minimizing overlap as well as wasteful duplication of efforts. This is the overall value-added that the INFF will bring into the effort to garner development financing Rwanda needs.

The foregoing identified the 'demand-side of financing' associated with implementation of the NST-1 and SDGs. In response, the supply side is enveloped in the financing landscape which follows next starting with public finance, tax, non-tax, treasuries, public debt and pensions. Increased private sector participation would be critical to achieving the NST-1 and SDGs. Already, there are private schools, clinics, and PPPs in electricity generation, airline and airport infrastructure. A persistent challenge is leveraging private sector infrastructure investments which in some cases, has greater social returns considerations than profitability, such as roads. However, Across Africa, Governments are packaging projects to attract commercial finance through blended innovative finance. In addition, this report will dilate on a private sector promotion agenda that aims to increase savings and investment through financial deepening in money and capital markets and pushing forward the Government's initiative to establish the Kigali International Financial Center (KIFC) - with Rwanda as a center of excellence for investment in Africa and highly attractive for foreign direct and portfolio investments, blended finance, PPP and financial inclusion. Selected international indices that capture private investment and business promotion criteria will be reviewed for better performance aimed at making Rwanda attractive to international finance capital.

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[71] A Post-Pandemic Assessment of the Sustainable Development Goals, IMF Staff Discussion Note, Dora Benedek, Edward Gemayel, Abdelhak Senhadji, and Alexander Tieman;

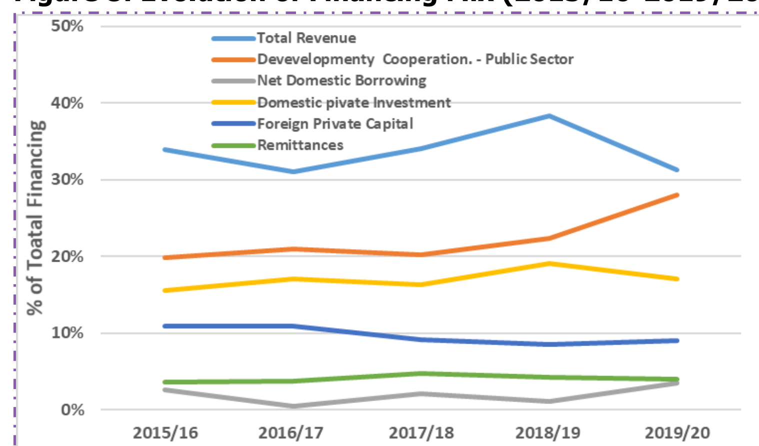
4.0 ASSESSING THE DOMESTIC PUBLIC FINANCING LANDSCAPE

4.1 Financing Landscape and Deepening:

4.1.1 Financing Landscape:

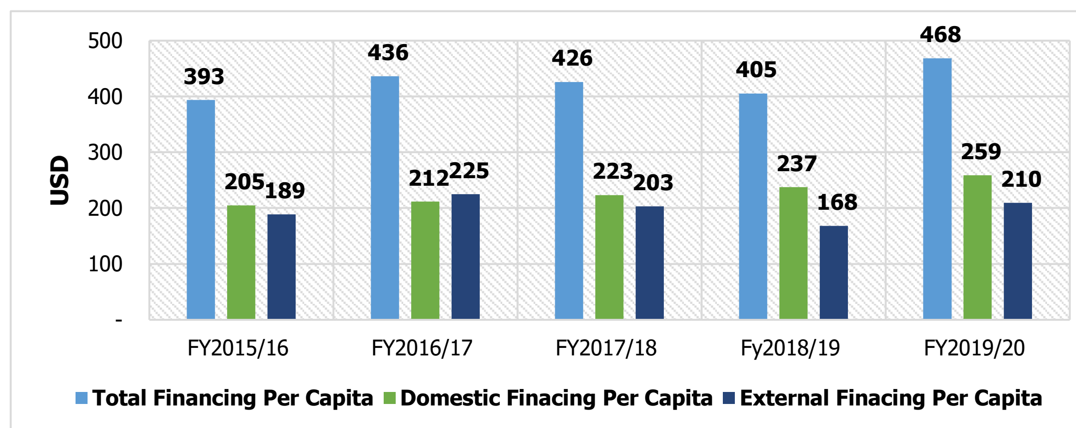
Rwanda's financing landscape has exhibited changing fortunes led by external financing in some years and then domestic financing in others. Domestic resources consist of domestic public revenue - tax and non-tax, total public debt and private investment; and, external inflows are development cooperation or official development assistance (ODA) received directly by the public sector, via the private sector or civil society organizations (CSOs), private foreign capital and remittances (Figure 9).

Figure 8: Evolution of Financing Mix (2015/16-2019/20)



Source: Consultant's Analysis, MINECOFIN Data

Figure 9: Aggregate Financing Per Capita in USD mlns (FY2015/16 – FY2019/20)



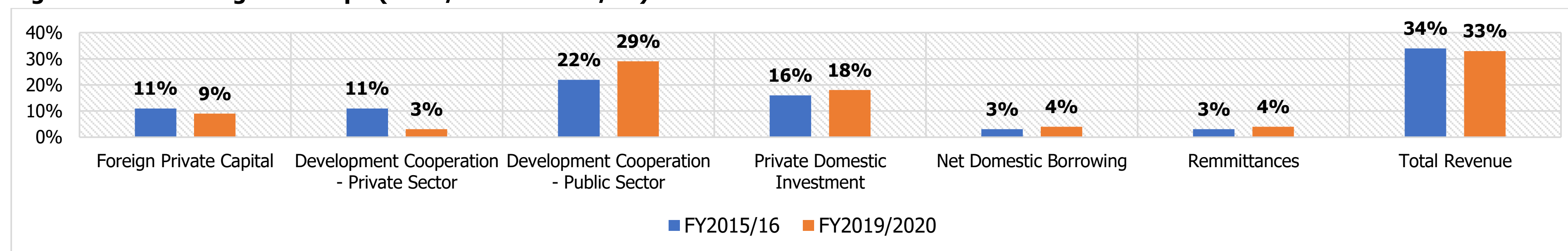
Source: Consultant's Analysis, MINECOFIN Data

The aggregate financing from all sources increased by 12%, from USD 5 billion in 2015/16 to USD 5.7 billion in 2019/20. During the same the period, financing raised on annual average basis was the equivalent of 56% of GDP and USD 467 per capita in the last year with a peak at 61% of GDP in 2016/17. In 2019/20, domestic financing contributed 55% of total financing at USD 257 per capita and external financing registered 45% of GDP at USD 210 per capita. Domestic financing accounted for 54% of total financing of USD 5.5 billion in 2019/20. Of this, 37% went towards the GoR's expenditure sourced from tax, 28%, and non-tax, 4%, treasury bills and bonds, 5%. Private investment contributed 17%. Taxation makes up the bulk of domestic revenue, while most external inflows were delivered on-Treasury through development cooperation. Private investment has been growing over the years, while public debt, domestic and external, due to the pandemic.

The INFF road map should facilitate the integration of the strategies and policies behind the financing flows at two levels - between the sources, domestic and

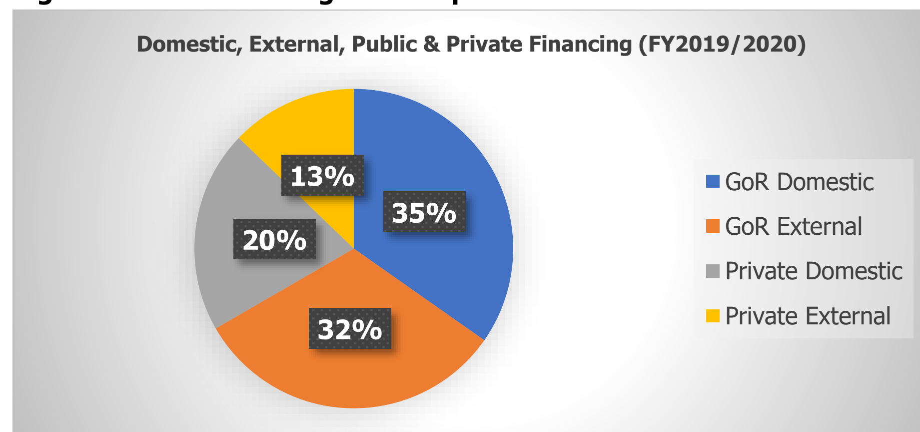
external, and uses, public and private sectors as well as public-private partnerships. The main institutions responsible for administering these flows conclude every section and intended to highlight the institutional capacity required to implement the requisite reforms. This report presents an analysis of each of the mentioned flows in the financing landscape and opportunities for how they might be leveraged for increasing flows, using the SDG Accelerator tools. The Toolkit is a compendium of tools developed by the UNSDG Task Team on Integrated Policy Support for analysing system interconnections, enhancing policy coherence, ensuring that no one is left behind, identifying risks and building resilience. It is designed for UN Country Teams, policy experts and Governments for accelerating progress toward the 2030 Agenda and socioeconomic response to the COVID-19 pandemic, as well as building back better.

Figure 10: Financing Landscape (2015/16 and 2019/20)



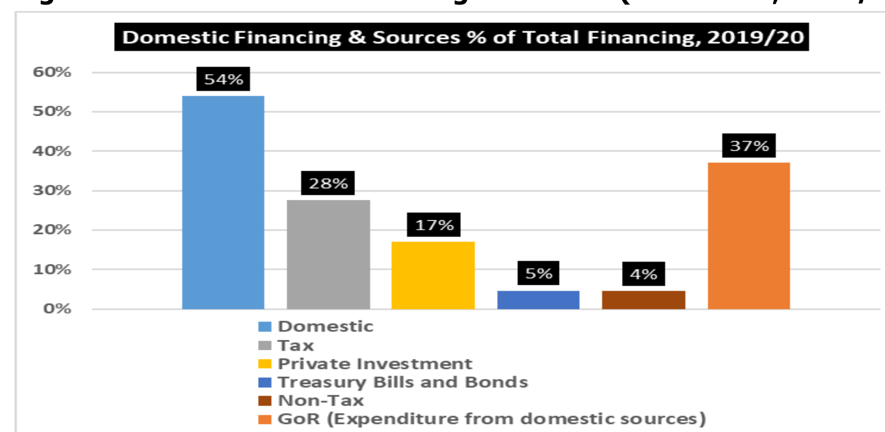
Source: Consultant's Analysis, MINECOFIN Data

Figure 11: Financing Landscape Sources



Source: MINECOFIN Data and Consultant's Analysis

Figure 12: Domestic Financing & Sources (% of Total, 2019/20)



Source: MINECOFIN Data and Consultant's Analysis

Over the past decade, Rwanda's financing landscape did show domestic revenue growth, with tax and non-tax revenue gaining by 5 percentage points to 18%

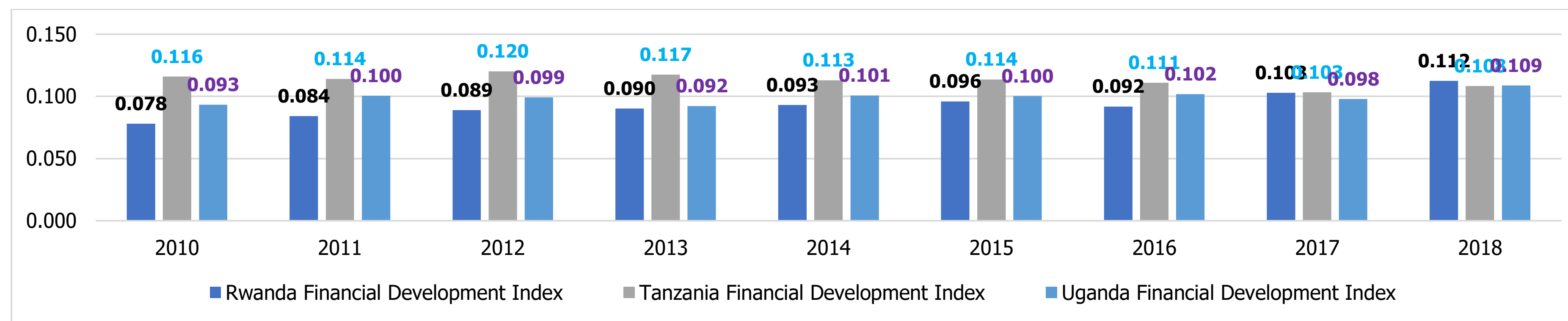
of GDP in 2019/20. Net domestic borrowing stayed below 6% throughout the same period but spiked to more than double that to 13% of GDP in the 2019/20 fiscal year. The country's tax-to-GDP ratio is higher than the Sub-Saharan (SSA) average (16%), the Low-Income Countries (LIC) average (11.4%), and two members of the East African Community (EAC) - Tanzania (14.3%), and Uganda (15.4%). This tax revenue effort is comparable to Kenya's at 18.2% of GDP; however, well below South Sudan (32.4%)[79] and Burundi (22.2%)[80]. Furthermore, it just was below Upper MICs that mostly registered tax-to-GDP ratios of 20% and higher.

4.1.2 Financial Deepening

Rwanda's level of financial development (FD) or deepening is another field of inquiry critical to explore in this diagnostic for promoting private sector access to finance and investment sector. FD metrics look at a combination of depth (size and liquidity of markets), access (ability of individuals and companies to access financial services), and efficiency (ability of institutions to provide financial services at low cost and with sustainable revenues, and the level of activity of capital markets[72]. While Rwanda has made significant progress in FD, largely on the efficiency indicator; however, depth and access lag behind. Albeit significant gains have been registered recently with regard to the latter and financial inclusion. These three FD criteria drive the assessment in the rest of this section.

Rwanda has made progress in terms of revenue generation to the public sector, stocks and flows of deposits and credit in the banking sector and capitalization and participation in the capital markets. Access is dilated with regard to financial inclusion in the money and capital markets driven by digital inclusion and highlighting small and middle–sized enterprises (SMEs), gender and youth participation. Past efforts to raise efficiency, focused on institutions, RRA, banks and capital markets activity, have propelled Rwanda from being the laggard in the EAC in 2010 to leading the pack.

Figure 13: Financial Development Index (2010-2018) – Rwanda, Tanzania and Uganda



Source: IMF Financial Index Data | Consultants' Analysis

In 2019, the Ministry of Finance and Economic Planning (MINECOFIN) entered into an agreement with UNDP to implement a five-year programme focused on

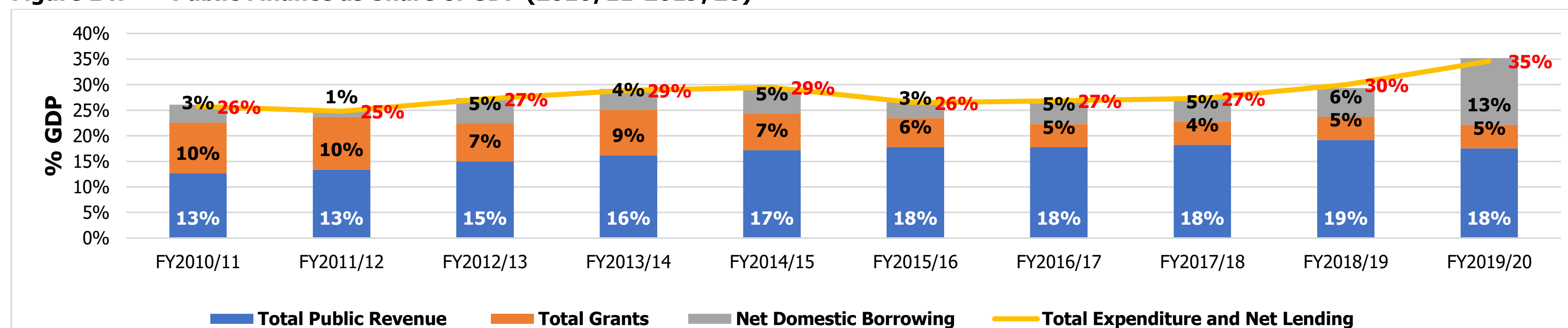
[72] Introducing a New Broad-based Index of Financial Development, Katsiaryna Svirydzenka, IMF, 2016;

Innovative Development Policy and Finance for Impact. One of the agreed objectives of this cooperation is to enhance MINECOFIN's capacity to manage, monitor and coordinate development cooperation to achieve national development objectives, including through the development of strategies and diagnostics to better capture and manage external development finance flows.

4.2 Domestic Public Finance:

Public finance management involves fiscal policies, revenue and spending for the implementation of Government's policy priorities and entails efficient use of resources, income distribution of citizens and economic stability[73]. Public finance is measured and discussed through total revenue, net domestic borrowing and total expenditure, while official grants are treated under the external sector below. A pillar of financing sustainable development results is to raise domestic revenues, have greater access to borrowing together with effective and efficient utilization of those resources[74]. This recognition brings to the fore both levers of public finance, revenue and expenditure, as critical elements to achieving sustainable domestic financing of health, education, water and sanitation services and infrastructure investment.

Figure 14: Public Finance as Share of GDP (2010/11-2019/20)



Source: Consultants' Analysis, MINECOFIN data

Growing domestic financing flows reflect the strengthening of public finance policies and institutions and a declining role of official transfers largely driven by humanitarian assistance in the aftermath of the genocide. Net domestic borrowing was stable around 5% most the period, but more than doubled to 13% of GDP in 2019/20 which catered for the entire 5% increase in total expenditure and a marginal decline in revenue in that year. While domestic revenue has generally been sufficient to cover past spending increases, the recent spike in 2019/20 to fund the emergency and economic COVID-19 responses COVID was financed mostly through new debt (Figure 14).

[73] Public Finance for Poverty Reduction: Concepts and Case Studies from Africa and Latin America, Blanca Moreno-Dodson Quentin Wodon, 2008;

[74] Addis Ababa Action Agenda, 2015;

Actual fiscal budget spending averaged annually 32% of GDP between 2017/18 and 2020/21, four years of the NST-1. The COVID-19 pandemic occurred in the country in March 2020 and adversely affected growth and slowed public spending during a series of lockdowns. The current budget for 2021/22, stood at 9.8% over the previous year's revised budget to FRW 3.8 trillion (USD 3.79 billion) and started a full fiscal year of the Economic Recovery Plan. Domestic resources will finance 67% of the budget and the remaining 33% from external sources. Over half of the budget spending was directed at crowding in private investment to take a greater part in the country's efforts to have a quick economic rebound. Looking forward to the remaining three years of the NST-1, the IMF estimated that an additional average annual investment equivalent to 21% of GDP from 2020/21 until 2030, to meet the country's SDG targets by that timeline[75].

Table 5: Financing Requirements to meet the SDGs in 2030 (% of GDP)

NST-1 Pillars (Budget)	Average Annual: 2017/18-2019/20	Budget 2020/2021	Budget 2021/2022
01 Economic Transformation			22%
02 Social Transformation			10%
03 Transformational Governance			5%
Total	**32%**	**42%**	**37%**
Post Covid Budget Increase over 2017/18-2019/20 trends		9.8%	5.1%
Post Covid-19 Financing Gap to meet the SDGs		13.3%	18.0%
Total Financing Needs to Meet SDGs by 2030		**55.1%**	**55.1%**

Source: MINECOFIN, Consultants' Analysis

In Rwanda and most countries, financing gaps appeared wider in the 2019/20 fiscal budget with regard to outlays to mitigate against the economic recession induced by the Corona Virus health emergency. Provisional data showed that revenues fell by 12.5% y-o-y in Q2 2020 while total expenditure is estimated to increase by 1.1% of GDP from 31.8% in FY2019 to 32.9% of GDP in FY2020 (excluding net lending)[76]. The revenue downturn at those levels did not extend beyond the quarter when the lockdown was in place.

The recession was not as deep as initially projected because of strong revenue performance due to high tax collection in the first half of the fiscal year and a sharp rebound of VAT immediately after the lockdown coupled with slower pace of spending on account of "lockdown savings" that included "delayed civil servant hires, lower operational expenses, fewer travels, and slower implementation of infrastructure projects"[77]. The financing need for the ERP was estimated at 9.4% of GDP however, inflows from development cooperation partners reached 10% of GDP in net foreign financing which was more than enough to precipitate a

[75] A Post-Pandemic Assessment of the Sustainable Development Goals, Dora Benedek, Edward Gemayel, Abdelhak Senhadji, and Alxander Tieman, IMF Staff Discussion Note, 2021;

[76] Third Review Under the Policy Coordination Instrument—Press Release; IMF Staff Report; and Statements by the Executive Director and Staff Representative for Rwanda, Jan 2021, IMF Country Report No. 21/1;

[77] Ibid;

decline in net domestic borrowing of 0.6% - though Rwanda' debt sustainability rating moved from low to moderate debt distress.

This emerging accent on debt will remain pronounced for as long as the COVID-19 induced recession endures[78]. The widespread nature of COVID-19 pandemic and worldwide economic recession that has spared no country, makes it even more challenging to raise the requisite resources to meet the imperatives of sustaining spending in health, water, sanitation and social protection as well as jobs - just to cushion lost livelihoods. In other words, the COVID-19 health emergency has taken some the wind behind the sails of generating development cooperation financing for the NST-1. With particular regard to public finance, critical counter measures have been proposed by the Rwandan authorities, UN, IMF, World Bank and AfDB and bilateral partners – and these will be reflected in this report[79]. Rwanda's MTRS, 2020/21-2022/23, proposes domestic resource mobilization reforms by expanding the tax base and increasing the efficiency of tax administration through digitalization and eliminating tax incentives and exemptions that undermine the efficiency, equity, neutrality, and simplicity of the tax system. However, more may be required, a domestic resource mobilization strategy underpinned by tax gap, C-efficiency and tax burden analyses, would reveal the magnitude of potential revenue in the economy and going beyond tax rates to structural reforms in economic sectors to expand the tax base. As detailed in medium-term projections below, the 1% of GDP increase in revenue in 3 years proposed by the MTRS would not be enough to meet the NST-1 revenue target by 2024. Furthermore, i-here ought to be a robust improvement in the management of public assets by making bold attempts to reprioritize spending to create more fiscal space for human capital and infrastructure funding. This is a recovery agenda from the recession of the pandemic and building back better. These are the main themes that underpin the assessment and diagnosis of domestic revenue and public finance.

4.2.1 Domestic Revenues (Tax and Non-Tax):

Given Rwanda's overarching development objective of reaching middle-income status as well as a state of self-sufficiency, it has unsurprisingly focused on improving Domestic Resource Mobilization (DRM), and specifically, nationally-generated public and private savings, to implement the NST-1. DRM has been a key success factor for those countries that have successfully graduated from low-income to middle-income status. Furthermore, DRM not only expands the fiscal space, but also widens the policy space by limiting the potential for conditionality. Domestic resources are also generally the largest untapped source of financing for national development plans.

Expansion of the fiscal space from domestic sources to meet the financing requirements of NST-1 involves strengthening tax and non-tax revenues, enhanced access to local savings and reprioritizing and enhancing effectiveness and efficiency of public expenditure by aligning to development results. Prudent public finance management is also critical to achieve the Government's counter-cyclical fiscal policies to support macroeconomic stability[77]. Toward these objectives, the country has developed policies and plans for domestic resource management aligned to the NST-1 that include the Public Financial Management Sector Strategic Plan (PFM SSP 2018-2024) and the 2019-2024 Rwanda Revenue Authority (RRA) Strategic Plan. However, mid-term reviews of these policy frameworks are due and to take on board the impact of the COVID-19 pandemic in the remaining three years of the NST-1 ending in 2024. This report will highlight pertinent issues for these reviews.

The ensuing discourse under Public Finance integrates domestic and external resource mobilization involving public spending. Integration also takes place across

[78] "Protect and Promote Human capital in a Post-COVID-19 World", Rwanda Economic Update, Jan 2021, Edition No.16;

[79] See details of proposed interventions by the Government and DPs under sub-sections 1.2, 2.2 and 3.1;

financing via the public sector, private sector, civil society and public-private partnerships as well as domestic and external development partners. Domestic financing is defined as Government spending from tax and non-tax revenue, borrowing - Treasury bills and Bonds; and, domestic private investment. External financing in predicated upon development cooperation through the public sector, civil society and private sector; Foreign direct investment and remittances; GoR international market borrowing; and, Public-Private-Partnerships with foreign investors[78].

A. Tax Revenues:

Rwanda's Medium Term Revenue Strategy (MTRS), 2021/22 to 2023/24, aligns the tax system with the long-term social and economic objectives of Rwanda. It is geared towards achieving upper MIC by 2035 and HIC by 2050, through tax policies, administrative and legal reforms to promote businesses, investment and redistribution of wealth. By 2050, to have a world-class tax system that is equitable and efficient, business-friendly with minimal exemptions, which encourages the repatriation of capital and facilitates broad and deep capital markets. The MTRS seeks to have a paradigm change in the tax system enabled by an open dialogue between the GoR and the governed on how they are taxed. This makes a national consensus among stakeholders including the citizens, a criterion for a successful tax system. The MTRS elaborated a domestic resource mobilization strategy to generate tax revenues to fund basic services that benefit all citizens, particularly the poorest segments of Rwandan society. It is primarily intended to finance the NST-1 investments estimated at RWF 39,246 billion over (2017-2024) of which 56 percent will be funded through public resources with 41 percent from the private sector. To achieve upper MIC by 2035 and HIC in 2050, tax revenue is projected to grow from 16.2% of GDP in 2017 to 21.5% and 34% of GDP, respectively. To achieve these results, tax revenue need to increase by 5.5% of GDP in the next fourteen years which the MTRS seeks to do by reducing rates, broadening the tax base, improving tax compliance, and curbing tax evasion.

Consequently, the 1% of GDP increase in tax revenue envisaged under the MTRS in 3 years must be accelerated above that figure in the following years to achieve that stated results. The policy and administrative reforms are projected to yield 0.52% and 0.48% of GDP respectively. The revenue raised will help to achieve these NST-1 goals and SDGs, support fiscal consolidation to slow down public debt increases, and expand the fiscal space through greater reliance on domestic resources and less reliance on foreign aid.

Tax revenue is the dominant and fastest growing source of financing for Rwanda's development. The NST1 envisages an increase in total revenue, tax and non-tax, from 18.3% of GDP (SDG Indicator 17.1.1) in 2017 to 20.4% of GDP in 202480. Already, in 2018, total revenue and grants reached 24.1% of GDP and above 23% of GDP since then to June 2020. This has been accompanied by rising share of domestic resources in financing the fiscal budget. Tax as proportion of the budget (SDG Indicator 17.1.2) rose from 46.8% in 2010/11 to 54.5% in 2018/1981. The country has already achieved both indicators before the timeline of 2024 Revenue growth has consistently outpaced spending increases which makes the deficits and resulting debt to grow at a slower rate.

Rwanda made significant headway in the past decades to tap the tax potential; however, revenue growth rates have recently decelerated, exacerbated by the COVID recession. The MTRS is projected to make up in 3 years, 20% of the total tax effort required to achieve the goal of achieving upper MIC status by 2035.

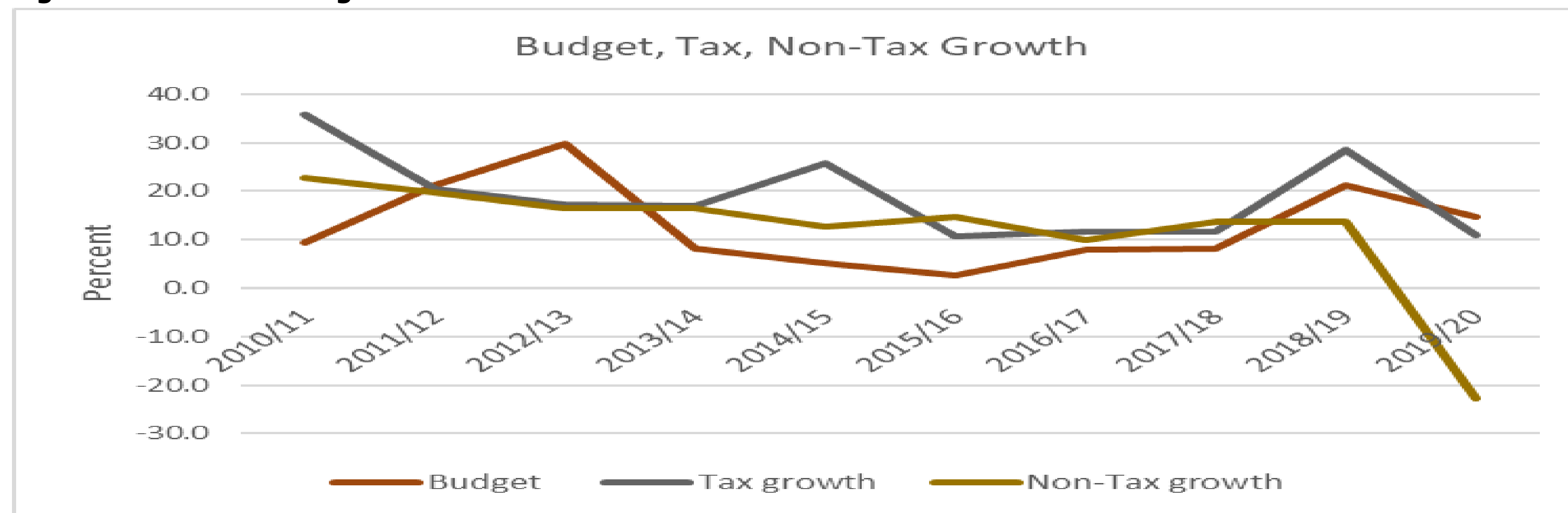
[80] NST-1, 2018-2024

[81] 2019 Rwanda Voluntary National Review, Republic of Rwanda, June 2019

The MTRS presents a blueprint for a transformational tax system, which countries in the Asia Pacific realm found to be critical to sustained revenue growth. Countries achieve that milestone have done so by rationalizing consumption, capital gains and income taxes and their rates, broadened the tax base, minimized tax avoidance and evasion and strengthened effective and efficient revenue administration[82]. The MTRS largely entails these critical enablers for a modern and transformational tax system.

During the past six years to 2018, the bulk of domestic resources for financing the fiscal budget came from taxation, accounting for an annual average of 85% of the total revenue with non-tax at 15%. VAT accounted for about a third of total tax revenue on average in Rwanda between FY2013/14 and FY2017/18. Rwanda recorded strong tax revenue growth, while the tax (including LGT)-to-GDP ratio rose by an annual average rate of 0.4%, from 11.8% of GDP in FY2008/19 to 16.2% in FY2019/20[83]. This tax effort was higher than the annual average performance of 0.1% registered by the thirty-two (32) countries that constituted the African Tax Administration Forum (ATAF) in FY2016/17 including Kenya, which recorded marginal negative growth, while being comparable to an Upper MICs like Mauritius, also at 0.4%; but, below Uganda at 0.7%[84].

Figure 15: Tax to Budget Nexus



Source: Consultants' Analysis, MINECOFIN data

[82] Financing for Transformation: From Agenda to Action on Sustainable Development in Asia and the Pacific, UN ESCAP, 2015
[83] Tax Statistic in Rwanda, 2017/18, RRA NISR; 2019 African Tax Outlook, ATAF
[84] Ibid

However, the growth in the tax-to-GDP ratio decelerated and fluctuated around 15.9% of GDP between 2015 and 2017 before gaining higher to 16.5% of GDP in 2018 but then dipped marginally to 16.2% of GDP in 2020 due to the Corona Virus pandemic. However, this level of tax collection is below the tax effort of 19.9%, 28.6% and 31.6% of GDP recorded by Mauritius, South Africa and Seychelles respectively[85]. To secure a place among Upper MICs by the Vision 2050 timeline of 2035 and in terms of tax-to-GDP ratio, Rwanda needs to increase the tax effort by about 4 percentage points which it was on track to achieve until the COVID-19 hit and interrupted this trajectory. Rwanda and all other countries share the singular focus of ensuring the pandemic induced recession in 2020 is short-lived.

Notwithstanding the pandemic, tax revenue decreased only marginally below expectations in 2020, because of good collection performance in the first half of the fiscal year. Since taxes on non-individuals are based on the previous year's balance sheets, the impact of the COVID-19 on these accounts will only take effect with a lag in 2021/22. While the actual revenue intake held up to 16.2% of GDP in 2020, the IMF projections present lower tax levels to 15.4% in 2021 before increasing to 15.9% by the end of the NST-1 timeline in 2024[86]. Given the quantum of public resources required to fund the remaining three years of the NST-1, a stronger growth trajectory of tax revenue is critical to financing a successful implementation of the plan(s). Thus, a slower rate of growth in generating public resources presents a significant challenge and necessitates concerted efforts to implement the MTRS which ought to be a central tenet of the mid-term reviews of the NST-1 and ancillary sector strategies, policies and plans.

The strategic approach of the MTRS is pivotal however, raising the tax effort technically involves ascertaining and filling the tax gap. We present estimates of the tax potential and tax burden of the Rwanda's tax system from two perspectives, C-efficiency and tax premium and discount sectors respectively. Both measures indicated that the country has much room left for greater tax effort. A tax gap is narrowly defined as the variance between the level of taxes prescribed by the tax code and revenue actually collected by the Revenue Authority. It has two parts, policy and compliance gaps[87]. After providing estimates of the tax gap and tax burden, this report assesses the efficacy of strategies and policies intended to fill those gaps.

A compliance efficiency (C-efficiency) ratio is measured by way of tax types which in Rwanda consists of direct taxes - income and profit, and indirect taxes - value added tax (VAT), excise and international taxes, as well as withholding taxes. In the five years between 2014 to 2018, the relative shares of these tax types have remained more or less stable with direct taxes and indirect taxes accounting for 40% and 60% respectively, while VAT was responsible for half of the latter.   VAT revenue collection in Rwanda remains suboptimal. One study showed VAT revenue collection in Rwanda at just a third of its potential in 2018, Using C-efficiency ratios that "compares actual VAT revenues to theoretical revenues from a perfectly enforced tax levied at a uniform rate on all final consumption". The tax gap consists of Government policy induced and taxpayer compliance gaps. The former reflects government policies on tax exemptions and the latter hinges on non-compliance by tax payers for various reasons. the same vein, the 2020 MINECOFIN annual tax expenditures report revealed the VAT as amounting

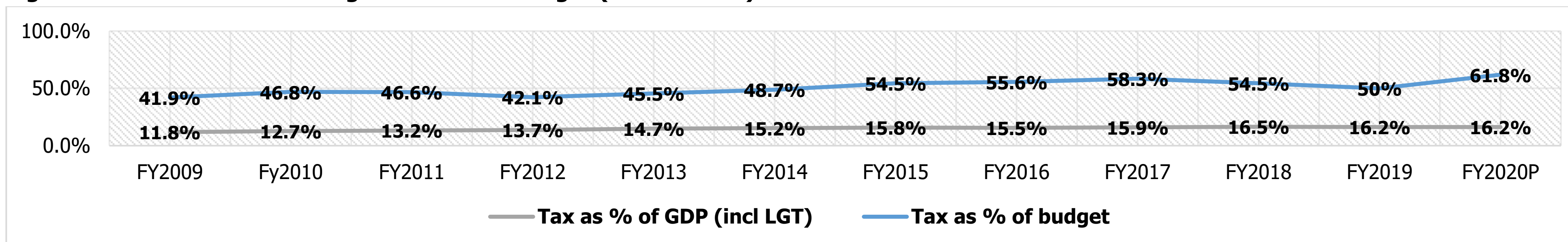
[85] World Development Indicators, World Bank Data

[86] Third Review Under the Policy Coordination Instrument—Press Release; IMF Staff Report; and Statements by the Executive Director and Staff Representative for Rwanda, January 2021, IMF Country Report No. 21/1;

[87] A wider definition of tax expenditure is given in the explanatory notes; Michael Keen, "Current Challenges in Revenue Mobilization: Improving Tax Compliance", Michael Keen, IMF, 2015;

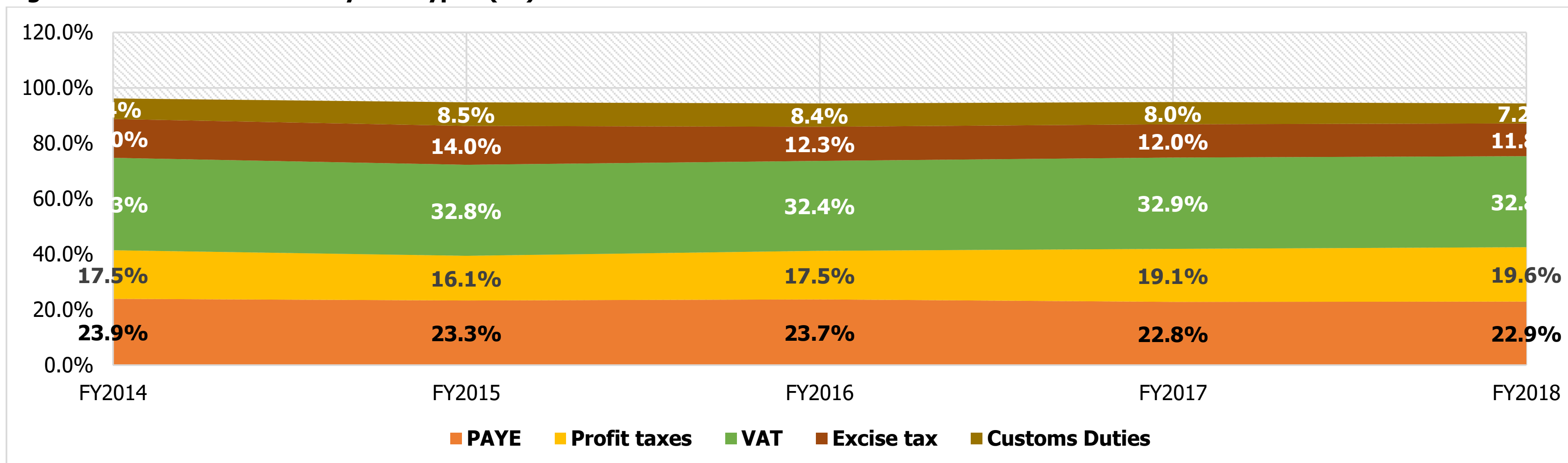
to 26% of its potential of RWF 516.6 billion, with 379.2 billion actually collected. [88]The entire policy gap was the equivalent of 16.5% of the estimated total tax potential of FWR 1,572.3 billion in FY2018 predicated on three tax types, VAT (excluding Government), income tax and import duties[89].

Figure 16: Tax as Percentage of GDP and Budget (2009 - 2020)



Source: INFF Consultants' Analysis, MINECOFIN data

Figure 17: Tax Revenue by Tax Types (%)

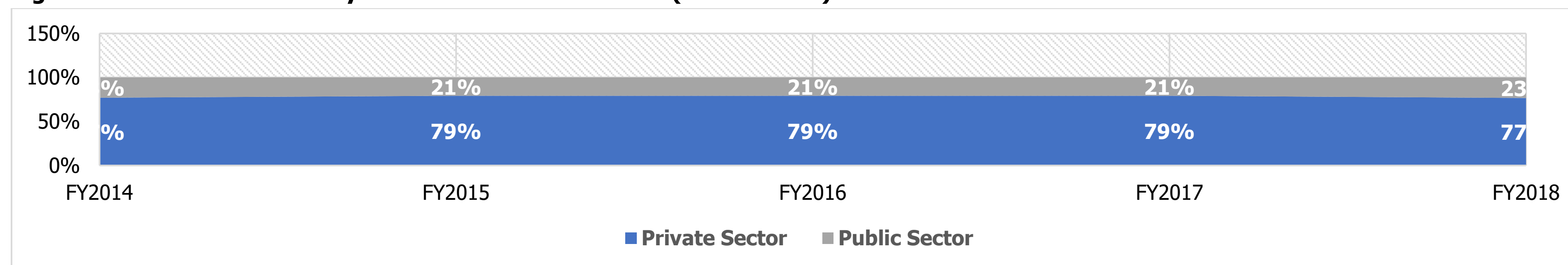


[88]Impact of Value Added Tax in Revenue Stability in Some African countries – Policy and Compliance Gaps using C-efficiency, ATAF Policy Brief 2019. The Evolution of Potential VAT Revenues and C-Efficiency in Advanced Economies, by Junji Ueda, IMF Working Paper;

[89] Tax Expenditure Report, MINECOFIN, June 2020;

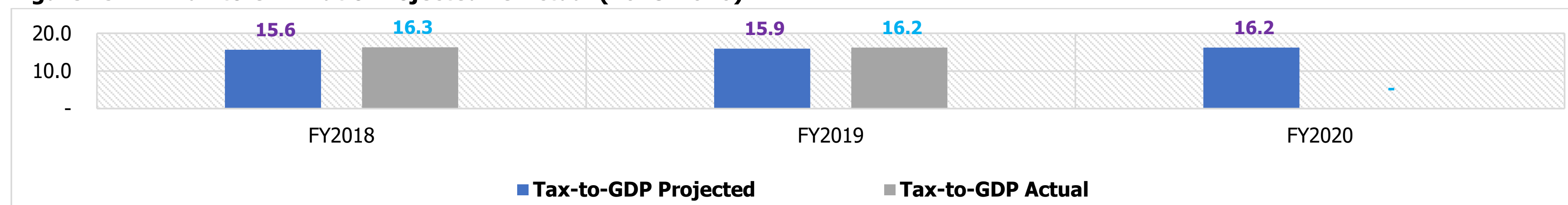
Source: INFF Consultants' Analysis, MINECOFIN data

Figure 18: Tax Revenue by Private and Public Sectors (2014 - 2020)



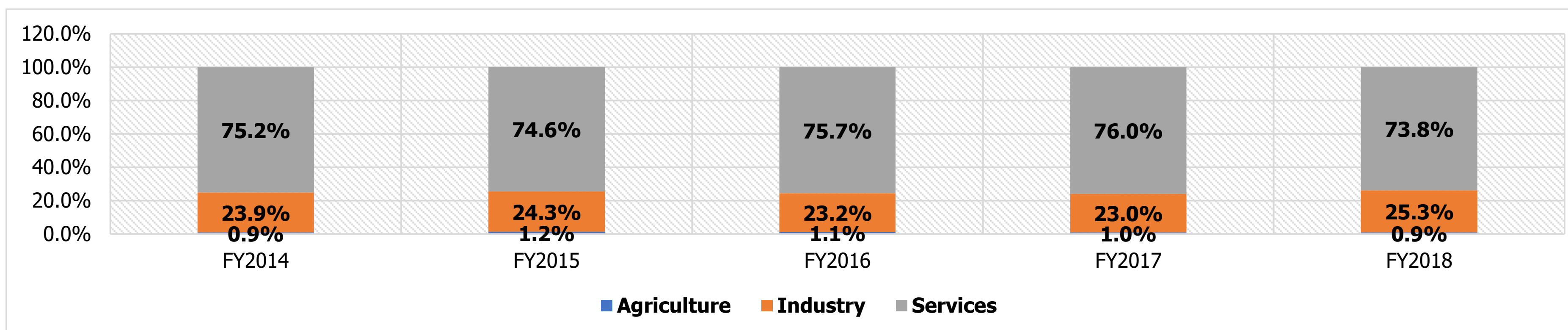
Source: INFF Consultants' Analysis, MINECOFIN data

Figure 19: Tax to GDP Ratio Projected Vs Actual (2018-2020)



Source: INFF Consultants' Analysis, MINECOFIN data

Figure 20: Percentage of Tax Revenue by Main Economic Sectors (2014 - 2020)



Source: INFF Consultants' Analysis, MINECOFIN data

Another approach to locate potential tax sources to fill the tax gap involves identifying tax premium and discount sectors. Discount sectors contribute a lower share to total taxes than their proportional contribution to GDP[90], and present opportunities for more revenue generation. Two implications are obtained from the sector tax burden approach: "First, care should be taken in imposing any further taxes on a *premium* sector as it already shoulders a disproportionately higher tax burden; and, Second, if closing budget deficits is a policy objective, as it is indeed for Rwanda, developing premium sectors should be part of overall fiscal management and economic development strategy. Each dollar of additional economic output from a *premium* sector would generate a relatively large contribution to government revenue[91]".

While the caveat refers to the revenue benefits of output growth in an existing premium sector, the preoccupation here is primarily to increase the number of premium sectors that would derive such tax outcomes. In FY2018, Agriculture, Forestry and Fishing stood at a tax discount of 96%; Mining and Quarrying at 64%; Transportation and Storage at 47%; Water supply, Gas and Remediation services at 10%; Construction at 47%; Financial and Insurance Activities at 23%; Professional, Scientific and Technical Activities at 21%; and, Administration and Support Services at 72% (Box …). Low levels of income and tax expenditures and high levels of subsidies generally characterize tax discount sectors by, as in the case of Agriculture; Construction, Financial and Insurance services; and Water supply services.

A tax discount is equivalent to both the policy and compliance gaps. The sectors that benefited most from tax expenditures in Rwanda are Information and Communication accounted for 23.9% of total tax expenditure in 2018/19, Financial and Insurance, 15.7%, and Tea and coffee, 11.8%[92]. Since Construction is such a high tax discount sector but with an estimated tax expenditure of only 3.3% of total tax expenditure would suggest that the sector has a bigger compliance than a policy gap. The response to non-compliance lies mostly under the remit of tax administration however, a broader viewpoint entails identifying and

[90] See Box 1;

[91] Tax Burden on US Tourism and Travel Sector, Oxford Economics, 2012;

[92] Tax Expenditure Report 2018/19, Table 4, MINECOFIN;

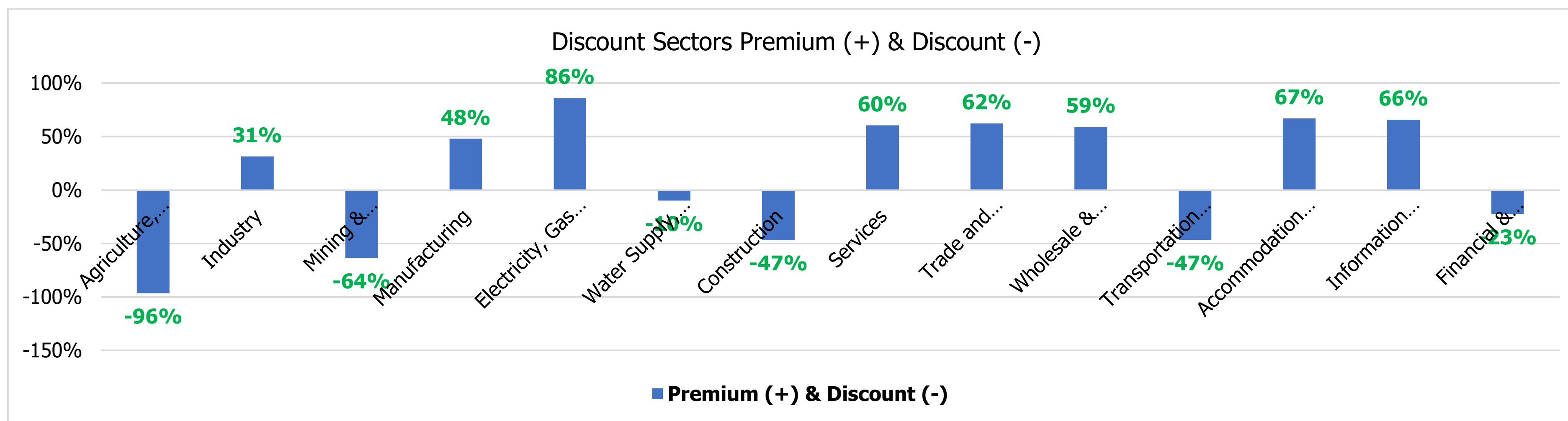
addressing structural factors that inhibit tax revenue in the discount sector.

Table 6: Sector Share of the Tax Base and GDP

#	Description	FY2018 (%)		
		Share of Tax Base	Share of GDP	Premium (+) & Discount (-)
A	Agriculture, Forest and Fishing	0.01	0.25	-0.96
B	Industry	0.25	0.19	0.31
C	Mining and Quarrying	0.00	0.01	-0.64
D	Manufacturing	0.13	0.09	0.48
E	Electricity, Gas and Air Conditioning Supply	0.07	0.01	0.86
F	Water Supply, Gas and Remediation Services	0.01	0.01	-0.10
G	Construction	0.04	0.08	-0.47
H	Services	0.74	0.46	0.60
I	Trade and Transport	0.23	0.14	0.62
J	Wholesale and Retail Trade, Repair of Motor Vehicles and xx	0.20	0.08	0.59
K	Transportation and Storage	0.03	0.06	-0.47
L	Accommodation and Food Service Activities	0.01	0.01	0.67
M	Financial and Insurance Activities	0.07	0.09	-0.23

Sources: MINECOFIN, NISR Databases and Consultants' Analysis

Figure 21: Tax Premium (+) and Discount (-) Sectors (2018)



Sources: MINECOFIN Database, NISR, Consultants' Analysis

Studies on taxation empirics across the world by the IMF showed that *value addition* and *withholding* are leading factors for efficiency and growth in tax revenue collection[93]. The key lies in increasing value addition in a large sector like Agriculture to realize its tax potential at premium status. Therefore, turning Agriculture from a discount into a premium sector is linked to the NST-1 policy of productivity improvements and efficiency gains in the sector through agro-processing and stronger value chain linkages with both domestic and export markets[94]. However, taxing Agriculture is presently complicated by other policy priorities of Government such as food security and dominance of subsistence agriculture which cannot be taxed in order to achieve the goal of eliminating hunger (SDG 2).

It is a surprise that Transportation and Storage and Financial and Insurance Activities which are usually tax premium sectors recorded discounts in Rwanda. Incentives in the investment code designed to promote Kigali as Regional Financial Centre are behind the tax expenditure in latter sector. Tourism is usually a more highly significant premium sector in most countries than in Rwanda which points to more opportunities for tax intake. The NST-1 aimed to double revenue intake from the sub-sector to USD 800 million by 2024 through private investment in eco-tourism, improved infrastructure and hospitality as well as growth in meetings, incentives, conferences and exhibitions (MICE) tourism[95].

This tax burden analysis accords a sector prioritization strategy that focuses on raising tax revenue to close the tax gap which would require further enquiries to see what specific short-term mechanisms as well as structural, institutional or underlying factors inhibit greater tax collection. Sector-based game-changers to socio-economic transformation with a focus on taxation can be identified and pursued. For example, Botswana's diamond mining sub-sector provides a success

[93] "Current Challenges in Revenue Mobilization: Improving Tax Compliance", Michael Keen, IMF, 2015;
[94] NST-1, 2018-2024;
[95] Ibid.

story for a sector game-changer that led to exponential growth in value addition and tax revenue that served as arrowhead of the country's overall socio-economic development (Box 2). Of course, diversified sources of growth and taxes would be more resilient however, the point is a case study of turning a tax discount into premium sector.

The overarching policy response to filling tax gaps by the Rwanda Revenue Authority rests on increasing revenue growth by implementing the MTRS which is focused on expanding the tax base and strengthening tax compliance over the medium term[96]. Albeit the Strategy takes, more or less, a rates hike approach which presents tradeoffs with the country's poverty eradication strategy. The MTRS policy reform agenda include increasing the progressivity of PIT by elaborating new PAYE schedule and periodically aligning the threshold with inflation; review downwards the CIT, discontinue tax expenditures, introduce a turnover-based minimum alternative tax (MAT) and include income from digital services in the tax regime; Incentivize VAT compliance via the EBM system, concessions to support affordable housing and introduction of a Digital Services VAT; Reform excise and environmental Taxes by periodically realigning the former with inflation while replacing ad valorem taxes on harmful goods with a specific tax; and, Increase Excise tax on older vehicles to discourage their importation in favor of newer ones. . The implementation of these policies has been consistent and supported by DPs such as the IMF over time, and recently through the Policy Coordination Facility and TADAT. The Cabinet and MINECOFIN have various policy formulation, implementation and coordination mechanisms with the RRA as a bona fide member to guide RRA's plans and engender results that fulfil the GoR's budget requirements.

Overall, Rwanda has designed a strategic plan for the RRA and a MTRS to raise the tax effort. However, there are headwinds prevailing in Rwanda leading to sub-optimal results in revenue performance including binding constraints and downside risks such as low value addition and productivity in agriculture, tax expenditure due to the investment code and large informal sector as well as capital flight through transfer pricing by multinationals. Therefore, to achieve optimal results from those strategies, policies and plans, these constraints and risks must be mitigated.

Box 2: Turning Tax Discount into Premium Sector – Case of Botswana's Mining Sub-Sector

Botswana provides an example of how a strategic enterprise, Debswana, a PPP venture owned by the Government and De Beers of South Africa, served as catalyst to turn diamond mining from a tax discount to premium sub-sector that spearheaded the country's economic transformation. Debswana is by far the largest diamond mining company in the country, producing some 90% of all diamonds, 70% of the country's exports, 50% of tax revenues, and the largest private-sector employer with 4,734 staff complement per 2014 estimates. Debswana introduced value addition through polishing diamonds and jewelry and developing value chains, marketing, as well as withholding taxes from buyers and sellers.

Former President, HE Festus G. Mogae noted: "… although Botswana's economic success can in large part be attributed to the discovery of and subsequent exploitation of minerals, more especially diamond deposits; it should be further recognized that it has been prudence in the management of the economy that has enabled our country to avoid the downturns that have been suffered by many other mineral-led economies around the world ...". The country's sustainable development registered exponential growth rates: (a) GDP grew from US$51.46 million in 1966 to US15.65 billion in 2016. GDP per capita grew from US$38.74 in 1966 to an estimated US$6,954 in 2016; (b) Education - enrolment rates for primary school grew from less than 25% in 1966 to more than 100% in 2016; (c) Secondary school enrolments improved from 10% to more than 80%, and tertiary education is supported by Government up to Bachelor's degree level;

[96] Medium Term Revenue Strategy, 2021-2024; Budget Framework Paper 2018/2019-2020/2021, April 2018, MINECOFIN;

Box 2: Turning Tax Discount into Premium Sector – Case of Botswana's Mining Sub-Sector

(d) Botswana achieved high adult literacy rate from a mere estimated 10% in 1966 to an estimated 87% in 2016; (e) A road network of 8 km in 1966 to achieving an extensive network of transport infrastructure (incl. road network) estimated at18,507 km in 2016; (f) Universal access to free public health care for all, more than 90% of the population is within a 15 km radius of a health facility; (g) Accessible and affordable telecommunications and broadband internet services (mobile cellular subscriptions stand at an estimated 146% subscriptions (per 100 people); and (h) Botswana's good economic performance led to graduation to an upper-middle income status in 2004 (according to the World Bank's classification).

The main ingredients of Botswana's sustained development and relative success include: Visionary leadership for national unity; good governance including mineral mining based on traditional values of consultation, transparency and accountability; and, PPP through Debswana established by the Government and De Beers. **Source:** Moving away from aid - The experience of Botswana, by Rachael Calleja and Annalisa Prizzon, December 2019

In furtherance of the BFP strategy, the Public Financial Management Sector Strategic Plan (PFM SSP 2018-2024) is a cross-cutting policy framework on national finances - and one of the 16 sector strategies supporting the implementation of NST-1. Under this SPP, 2019-2024 RRA Strategic Plan sets a goal of not only finding non-compliance but also preventing non-compliance. Towards this end, a comprehensive compliance risk management regime to increase the effectiveness and efficiency of tax administration by mitigating against events that may inhibit the RRA from reaching its objectives. It permits a focus on risk-based auditing which less costly and more productive. Addressing tax non-compliance through risk analyses and TADAT inspired capacity building are potent tools driving the strategic initiatives to raise revenue growth to fill the tax gap.

Rwanda has initiated responses to have an effective and efficient tax system with enhanced tax administration by tax type particularly VAT, as proposed by the MTRS as an answer to the tax gap as measured by the C-efficiency and tax discount status of sectors. Tax policy with particular reference to VAT focused on 'Electronic Billings Machines (EBMs) for all' which involves rolling out the EBMs to selected non-VAT registered taxpayers. Generally, digital technologies, including EBMs, are lowering costs and facilitating expansion of the tax base[97]. In tandem, there were budget initiatives on excise duties on alcoholic beverages and mobile data as well as capping management fees to 2% percent, excluding selected liberal professionals, and improving tax enforcement through capacity building based on enhanced transfer pricing guidelines for robust audits of mostly multinationals deemed to be involved in tax avoidance[98].

However, a significant downside risk in VAT administration are the false claims for offsets or refunds. "While refunding is straightforward in principle, serious problems arise in practice, including opportunities for fraud and corruption, and denial of refunds by governments with cash shortages. This makes the refund process the "Achilles heel" of the VAT"[99]. Against this common malpractice, sourcing factual data from claimants is a critical element for mitigating this risk. A typical risk treatment strategy is to have electronic connectivity between large taxpayers and the Revenue Authority with safeguards that preempt the client from

[97] Digital Revolutions in Public Finance, Gupta, Sanjeev & Keen, Michael & Shah, Alpa, (2017). Public Finance Goes Digital - *Technology is reshaping how governments raise and spend money,* Sanjeev Gupta, Michael Keen, Alpa Shah, and Geneviève Verdier;

[98] These tools for mitigating against tax avoidance tax are based on the initiatives on tax cooperation by international community initiated by the G7 and supported by the OECD under the Base Erosion Profit Shifting (BEPS) program: https://www.oecd.org/tax/beps/;

[99] VAT Refunds: A Review of Country Experience, Mr. Graham Harrison and Russell Krelov, IMF eLibrary: https://www.elibrary.imf.org/view/journals/001/2005/218/article-A001-en.xml;

tampering with transactions data. Such digitalization makes payments easier for taxpayers to comply and preserves the sanctity of the data while also minimizing direct contact between taxpayers and tax officers which serves as risk treatment to discourage collusion that denies lawful revenue.

A digitalization strategy covering the RRA's operations, taxpayer compliance and an interphase with clients is a recipe for making efficiency gains in VAT and overall tax administration to fill the compliance gap[100]. Deepening and strengthening the current e-Tax system and other digitalization initiatives including mobile platforms and the national digital literacy program are important elements to ensure successful implementation[101].

Secondly, filling the policy gap warrants deliberate initiatives to reduce revenue loss. A review of tax expenditures showed foregone taxes motivated by the Government's investment code to grant concessions and exemptions to investors[102] and in ICT sector promote inclusion while targeting women. Other components of the tax expenditure included duty-free imports for Government projects, discounted from the Ministry's estimates, international organizations and foreign embassies predicated on the Geneva Conventions, and non-government organizations (NGOs), religious fraternities, health and education institutions for social welfare considerations.

Governments cite various arguments for granting tax incentives, such as addressing different types of market failures, investment in priority sectors, e.g. Thailand[103]; attracting foreign firms, e.g. Mauritius[104] and United Arab Emirates[105]; or, meeting infrastructural deficiencies, e.g. Liberia[106]. Tax preferences are also used to increase or decrease the progressivity of the taxation system or to benefit some groups over others for political reasons. However, Rwanda's tax incentives are intended to promote private capital inflows through mostly investment and philanthropy (Box 3).

Box 3: Tax Incentives in Rwanda's Investment Code, 2021

These Include:

- A preferential corporate income tax rate of 3% applicable to pure holding companies, investment SPVs, collective investment schemes, on foreign sourced income of an investor operating as a global trading or paper trading, and on foreign sourced royalties of intellectual property companies meeting the conditions set out under the New Investment Code.
- Tax incentives for entities established by philanthropic investors which include non-recognition as revenue of grants and funds transferred to the philanthropic entity for the purposes of financing its social impact activities; 0% VAT rate on the goods and services procured locally by the entity and exemption from employment income tax of the expatriates employed by the entity provided they do not exceed 30% of the employees of the entity as well as refund of social security contributions paid to the Rwanda Social Security Board upon permanent departure of the expatriates from Rwanda.

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[100] Ibid;
[101] NST-1, 2018-2024;
[102] RRA-Laws, https://www.rra.gov.rw/index.php?id=191;
[103] Board of Investment Law, Thailand, https://juslaws.com/boi-thailand.php;
[104] Mauritius, Global Business License Companies, PWC, https://taxsummaries.pwc.com/mauritius/corporate/tax-credits-and-incentives;
[105] United Arab Emirates, Corporate tax credits and Incentives, PWC, https://taxsummaries.pwc.com/united-arab-emirates/corporate/tax-credits-and-incentives;
[106] Domestic Resource Mobilization Strategy for Liberia, Liberia Revenue Authority, Drafted by Momodou S. Foon, 2019;

Box 3: Tax Incentives in Rwanda's Investment Code, 2021

- A preferential withholding tax rate of 5% on dividends and interest paid on securities listed on the Rwanda Stock Exchange. A similar incentive already exists under the Income Tax Law, but it is only limited to dividends and interest whose beneficiaries are Rwandan and/or East African Community residents.
- A preferential withholding tax rate of 10% on interest paid on foreign loans, dividends, royalties, and service fees, including management and technical service fees by specialized innovation park developers or specialized industrial park developers.
- Exemption for angel investors investing a maximum USD500 000 in a start-up from capital gains tax upon the sale of shares, provided the shares were initially purchased as a primary equity issuance by the start-up, and from withholding tax applicable to dividends up to five distributions by the start-up.
- Tax incentives to investors in film industry meeting the requirements under the New Investment Code. Those incentives include a 0% VAT rate on the goods and services procured locally and a preferential withholding tax rate of 0% on payments made for specialized services procured by the investor. A list of the qualifying foreign specialized services is jointly approved by the Rwanda Film Office and the Rwanda Revenue Authority (RRA).
- Special incentives can be provided to strategic investment projects (i.e., investment projects of national importance, which have a strategic impact on the development of the country and meet other requirements set out under the code).

Source: Rwanda Investment Code, 2021

Tax expenditures have become a feature of globalization with developing countries racing to the bottom in tax losses by providing tax holidays, import duty exemptions, investment allowances and accelerated depreciation, in the calculation of gaining new technologies and jobs. However, the impact of such incentives on foreign direct investment has been ambiguous. The World Bank's Foreign Advisory Service (FIAS) studies and surveys of multinational investors indicated that the most important factors for investing in a country are "basic infrastructure, political stability, and the cost and availability of labor. Both analysis and surveys have confirmed that tax incentives are a poor instrument for compensating for negative factors in a country's investment climate"[107].

Furthermore, tax preferences are difficult to target and may not yield intended outcomes. Significant tax revenue losses may result instead, as indeed the cost to Rwanda is more than a quarter of annual VAT potential alone. Little empirical evidence in developing countries shows tax incentives to be effective, or that the benefits outweigh the costs[108]. Moreover, country case studies by the North-South Institute show that the lost potential revenue can be a significant drain on domestic revenue mobilization and this is backed up by other research[109]. To make a determination on future recourse to tax expenditures for policy purposes, Rwanda's Fiscal Authorities may conduct a cost-benefit analysis. Already, the MTRS seeks to streamline tax holidays and exemptions; however, this type of analysis is still required to inform stakeholders like beneficiaries and the citizens about the empirical basis for discontinuing the tax breaks. While the benefits may require in-depth analysis, the revenue losses and contribution to the tax gap are plain to see and immediately blunt the efficiency of the tax system. These

[107] "Using Tax incentives to attract Foreign Direct Investment", Public Policy for Private Sector, Jacques Morisset, Lead Economist, Foreign Investment Advisory Service—a joint facility of the International Finance Corporation and the World Bank;

[108] Aid and Taxation in Sub-Saharan Africa, A Bhushan and Y Samy, 2012;

[109] The Effectiveness of Tax Incentives in Attracting Investment: Evidence from Developing Countries, Stefan Van Parys, 2012;

are knowledge gaps requiring further insight to inform policy review which calls for capacity building unit in the MINECOFIN.

Thirdly, the informal sector in Rwanda accounted for an annual average employment rate of 90% during the three years to 2019. "Various indicators of good governance relate negatively to the size of the shadow economy, but also the willingness of citizens to pay taxes is related negatively with the size of the shadow economy"[110]. It poses significant challenges for revenue administration and harbors economic actors engaged in non-compliance particularly, registration, a focus of the RRA for expanding tax base. The abode of informal actors is predominantly in retail trade, transportation, food services, artisanal fishing and animal husbandry, where they do contribute to value addition, pay local government fees to operate their trades, but accord little tax revenue. Two constraints inhibit taxing the informal sector: the unit cost of administering taxes may not be compensated by the revenue collected; and secondly, "the informal sector is a last resort for the poor to make a living in a developing country like Rwanda; any discouragement of the production of these firms is likely to generate high unemployment, poverty and income inequality"[111]. Does taxing the informal sector amount to "discouragement" with such deleterious outcomes?

Michael Keen of the IMF advocated informal actors in micro and small enterprises, which he referenced with regard to retail "street traders", should be left out the tax net because of inefficiency of unit cost of tax administration. Contrary views in favor of taxing the informal sector point to the principle of tax fairness as a shared burden, inculcating citizenship values critical for state building, and probably more compelling, the informal sector accounting for a growing share of the economy that cannot be avoided, while others still insist that it is feasible to use a presumptive tax on turnover and simplified approaches to the tax filing and payments for small and micro taxpayers.

However, significant tradeoffs are involved in taxing informal subsistence farming. Famers account for 43.4% of the population in February 2021; and, of this total in Agriculture, 46.6% are engaged in market-oriented activities and 53.4% or 2.5 million in subsistence, where most women in the sector are employed[112]. Subsistence farming should remain untaxed for two related reasons: eradicating malnutrition (SDG …) by ensuring and sustaining food security (SDG …) is still a challenge and a priority under NST-1, as "it is estimated that the national production of kilo calories from crops currently stand at 1950 kcal/person/day, while the official food poverty line is defined as access to 2500 kcal/person/day35"[113]. Thus, notwithstanding substantial growth in agricultural production over the past 10 years, food security and adequate nutrition still leave room for improvements.

Going forward, it is not tenable for sustainable domestic resource mobilization purposes to have the largest sector in the by production and employment with 96% tax discount to go untaxed. The RRA Strategic Plan has targeted Energy, Manufacturing and e-commerce for elaborating new manuals to improve enforcement which may be enough to increase compliance while recognizing that e-commerce relates to the new Peer-to-Peer economy and may take much

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[110] "Informal activities are the ways of doing things, characterized by: a) ease of entry; b) reliance on indigenous resources; c) family ownership of enterprises; d) small scale of operation; e) labor-intensive and adapted technology; f) skills acquired outside the formal school system, and, g) unregulated and competitive markets". ILO Report for Kenya, 1972. Data sourced from Statistical Yearbook, 2020, NISR;

[111] Productivity and Informality in Rwanda: Evidence from the Food Processing Sector, Johnson Bosco Rukundo, 2016;

[112]Labour Force Survey Trends, February 2021, NISR;

[113] NST-1, 2018-2024;

more as discussed below[114]. However, reducing non-compliance in Agriculture compels a structural transformational approach over the medium to longer-term to reduce subsistence agriculture through raising productivity by tapping the value chains and shifting to high value products including horticulture and consolidating tea and coffee growing for export, in line with the National Agriculture Policy and Strategic Plan for Agriculture Transformation (PSTA 4) [115].

The impact would be an increase in commercial agriculture which is taxable, while shedding jobs to the Services sector in consonance with transformation trends that took place in developed countries and emerging economies in Asia[116]. However, the downside risk is the role accorded to tax exemptions and incentives that lead to tax policy gaps including tea and coffee growing for export that attracts tax expenditure equivalent to 11.8% of the total tax income subsidies which detracts from tax revenue gains[117]. The need for a cost-benefit assessment of tax expenditure is ever more a national tax policy imperative.

Yet still, another source of tax revenue loss and non-compliance beyond tax expenditure and the informal economy, lies in transfer pricing by multinationals and under-invoicing by importers[118]. The former shift profits to avoid taxation targeting locations with non-existent or weak tax jurisdictions such as tax havens and fragile states, thus further weakening the tax effort in the latter. Given the sizes of the companies, the quantum of taxes evaded can be a significant drain on the revenue and resources that developing countries have to fund their own development, and are both a cause and a symptom of weak tax enforcement. Weak tax laws and lack of technical expertise in multinational corporate balance sheet management in RAs, leave gaps to be exploited by these companies. The international community under the G20/OECD Inclusive Framework on Base Erosion and Profit Shifting (BEPS) project are addressing these global concerns with the 2017 OECD Guidelines on Transfer Pricing as one instrument[119].

Rwanda drew inspiration from the guidelines and in December 2020 issued a Ministerial Order under Article 33 of the Income Tax code granting powers to the RRA "to adjust profits earned between related parties if it considers that the trading arrangements between related parties do not adhere to the arm's length principle"[120]. In this regulation, the scope of transfer pricing rules covers two parties, a resident and a related person domiciled in a beneficial tax jurisdiction regime involved in controlled transactions. The law defines arms-length pricing, related person, transactions covered, allocation of risks and profits, and the form and sources of information required for tax pricing auditing. With regard to related technical expertise, the OECD is supporting the RRA capacity building efforts for transfer pricing auditing of multinationals.

It is noteworthy that the success of RRA's initiatives to combat tax avoidance in transfer pricing is up against multinational companies with formidable material and human resources, top notch lawyers and experts in accounting and auditing, and vast experience in operating in a global market, which makes it ever more daunting for developing countries with relatively limited resources and expertise to play cops and robbers. Continuous engagement at the global level under the OECD/G20 Inclusive Framework including the use of the UNDP and OECD supported services of Tax Inspectors Without Borders which Rwanda already benefits,

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[114] The RRA Strategic Plan, 2019/20-2023/24;

[115] National Agriculture Policy, July 2018; Strategic Plan for Agriculture Transformation, 2018-2024;

[116] Rwanda Strategic Plan for Agriculture Transformation, 2018-2024;

[117] Tax Expenditure 2018/19, 2020;

[118] The RRA Strategic Plan, 2019/20-2023/24 mentioned transfer of profits but not over-invoicing;

[119] OECD/G2O Inclusive Framework on BEPS, https://www.oecd.org/tax/beps/;

[120] Ministerial Order on Article 33 of Income Tax Law, December 2020;

would go a long way in supporting countries like Rwanda, with exchange of information and technical assistance to stay abreast with how to deal with multinationals involved in transfer pricing as they evolve new methods of tax avoidance.

Rwanda's overall objectives of the ICT sector under the NST-1 draw from the Smart Rwanda Master Plan intended to fast track transformation to a knowledge-based society. The drivers are to obtain for all Rwandans: Broadband as a "basic need" and "utility", which the Biden Administration considers as basic infrastructure; Government Digital Transformation - open for serving the citizens 24/7; and, Digital Literacy that confirms knowledge-based economy to transform all lives and each to contribute to the society. A key priority of GoR is to establish Rwanda as the Leading ICT Hub in Africa by 2024 through "leveraging leadership in such areas as Smart Cities, Smart Africa Alliance, Funding mechanism for Innovation and ICT businesses, and a strong ICT Innovation ecosystem".

Information and Communication is a premium sector in Rwanda, as it is all over Africa and the world contributing 6% of tax revenue and 2% of GDP. The NST-1 envisages that, of the average annual real growth of 9.1% over the plan period, total factor productivity is projected to contribute 2.9%; of which, 1.2% is attributed to public capital growth and 1.7% attributed to other productivity factors, primarily from ICT-led innovation". In line global trends, Rwanda's ICT growth at 13.8% between 2007/08 and 2019/20 outpaced the rest of the Services sector at 8.3%, while its contribution to value addition has not changed at 2% of GDP over the same period[121]. The bulk of IT Services are devoted to telecommunications led by mobile penetration with ownership by households in Rwanda increasing from 64% in FY2013, to 67% in FY2016, and then to 77% in March 2019.

In terms of taxation, fiscal authorities in some countries are giving it the same treatment as the mining sector of yesteryears with a proliferation of taxes and fees (Box ..). The case of DRC where multiplicity of taxes and rate hikes led to declining growth in the sub-sector, which demonstrated declining returns with numerous taxes. Instead, the strategy should be to increase the efficiency of tax collection from this sector through automation and e-Tax techniques that keep pace with innovations of business offshoots in the sub-sector. Furthermore, as innovations increase in the sector and the service providers roll out new digital products such as mobile money platforms, they would be taxed at the applicable CIT and VAT rates and allowed to mature.

Table 7: Tax Types Applied to Information and Communication Sector

Tax Type:	Across Africa	Nigeria	The Gambia	Rwanda	Kenya	Uganda
CIT	X	X	X	X	X	X
PIT	X	X	X	X	X	X
VAT	X	X	X	X	X	X
GST	X					
Excise	X		X	X	X	X
Withholding	X	X	X	X	X	X
PAYE	X	X	X	X	X	X

[121] NST-1, 2018-2024;

Non-Tax:						
Business License	X	X	X	X	X	X
Spectrum Fees/Frequency Fees	X	X				
Telecomm Development Fund/Technology and Research Fees/GSM Levy	X	X	X			
Regulatory Fees	X	X				
Numbering Fees		X				
Stamp Duty			X			

Source: Consultants' Desk Review

Another dimension of the IT revolution is the Peer-to-Peer (P2P) economy which involves businesses that exist "in any online market where transactions can be characterized by exchange (sale) or rental (sharing) between two parties—often individuals" (Gupta, Keen, et al, 2017). There is also e-Commerce industry comprised of enterprises that produce and sell software to businesses and corporations of all sizes to expand their information technology (IT) capabilities[122]. E-commerce' and 'online shopping' are often used interchangeably and involves doing business on online platforms across many sectors of the economy (Table 8)**.** These businesses are innovating and growing exponentially worldwide with "e-commerce sales projected to reach 599.2 billion USD by 2024. Lockdowns and growth in the work at home supported by ICT and internet such as 'zoom' meetings during the COVID-19 pandemic saw e-commerce sales spike 25% in March 2020 alone"[123].

The so-called Tech Companies that use data as their currency are hard to tax and there is a global effort by developed and developing countries to have appropriate tax laws to ensure that they comply with national tax laws. The data is not available to determine the extent of Rwanda's participation, but anecdotal evidence suggests that the businesses and the elite in the country are active participants in this market and its platforms (Table 7). Digital currencies such as cryptocurrencies have the potential to provide cheaper and faster payments, enhance financial inclusion, improve resilience and competition among payment providers, and facilitate cross-border transfers. For good or bad, some like to transact anonymously, which digital forms of money provide. However, the role of the public and private sectors in providing and regulating digital currencies is still unclear. The IMF posits that risks are higher than benefits of using them significantly, they are associated with wide volatilities in value. Bitcoin, for example, reached a peak of $65,000 in April and crashed to less than half that value two months later. Albeit Bitcoin survives and provides opportunities for a diversified with potential for remarkable gains and bursts. Moving forward, digital currencies are being assessed at the global level and GoR ought to stay abreast with developments to evolve national policies.

Table 8: Examples of Peer-to-Peer Platforms Across Sectors

Industry/Sector Description	Examples of Peer-to-Peer Platforms
Couriers and Delivery Services	Deliveroo, Instacart, Postmates

[122] Digitalization of Public Finances, Gupta et al, IMF, 2017;

[123] What Is E-Commerce? An Introduction to the Industry, James Morrish, April 4, 2020, https://feinternational.com/blog/what-is-e-commerce-an-introduction-to-the-industry/;

Industry/Sector Description	Examples of Peer-to-Peer Platforms
Digital Currencies (Financial Intermediation, transaction)	Bitcoin, Ethereum, Ripple
Financial Services (Crowdfunding, Collaborative lending)	Funding Circle, Lending Club, Kickstarter, Prosper,
Retail Business (Online sales, distribution, auctions)	Amazon, Craigslist, eBay, Etsy
Software-knowledge and Media-sharing	Apple iTunes, Coursera, Dropbox, Wikipedia
Professional Services	Fiverr, Freelancer, Taskrabbit, Thumbtack, Upwork
Traveler Accommodation	Airbnb, Flipkey, Homeaway
Transit and Ground Passenger Transportation	BlaBlaCar, Careem, Didi Chuxing, Lyft, Ola, Uber

Source: Digitalization of Public Finances, Gupta et al, IMF, 2017

The Peer-2-Peer provides opportunities for technological transformation, business and jobs growth. GoR is focused on being a business friendly destination while promoting a digital and cashless economy – and facilitation of exports is increasingly done over global ecommerce platforms such as Alibaba. The lockdowns and social distancing due to the pandemic provided opportunities for ICT activities with the number of subscribers to mobile banking grew by 11% to 2,080,549 (June 2020: 1,882,168); mobile transactions (MOMO) grew by 13% to 2,951,186 from 2,604,652 in June 2020; and the value of transactions increased by 98% to Rwf 209.8 billion from Rwf 105 billion in June 2020. In the same period, the number of subscribers to internet banking grew by 21% to 106,312 from 87,614 in June 2020; no of internet banking transactions increased by 15% to 712,430 from 819,336 in June 2020; and the value of transactions grew by 24% to Rwf 1.605 billion from Rwf 1.295 billion in June 2020.[124]

The GoR seeks to create an ecommerce enabling environment conducive for service providers and consumers. Thus far, an Ecommerce Strategy (2021 – 2026), Sandbox regulation, Consumer Protection policy and related law, and Ecommerce policy have been developed. The policy which is in the final stages development is intended to "accelerate, mobilize and strengthen the effectiveness available resources and efforts among stakeholders to harness the power of ecommerce or economic growth."

With regard to the P2P economy, international good practices are evolving to tax these transactions and income generated that take place in virtual space. The OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting (IF) has agreed a two-pillar solution to address the tax challenges arising from the digitalization of the economy. Broadly, Pillar One applies to "the multinational enterprises (MNEs) with global turnover above 20 billion euros and profitability above 10% (i.e. profit before tax/revenue) with the turnover threshold to be reduced to 10 billion euros, contingent on successful implementation including of tax certainty on Amount A, with the relevant review beginning 7 years after the agreement comes into force, and the review being completed in no more than one year. Extractives and Regulated Financial Services are excluded". Pillar Two establishes a nexus between domestic rules and the Global anti-Base Erosion Rules (GloBE rules): "(i) an Income Inclusion Rule (IIR), which imposes top-up tax on a parent entity in respect of the low taxed income of a constituent entity; and (ii) an Undertaxed

[124]BNR Monetary Policy and Financial Stability (MPFS)Statement, 9th Sept 2021;

Payment Rule (UTPR), which denies deductions or requires an equivalent adjustment to the extent the low tax income of a constituent entity is not subject to tax under an IIR; and (ii) a treaty-based rule (the Subject to Tax Rule (STTR)) that allows source jurisdictions to impose limited source taxation on certain related party payments subject to tax below a minimum rate. The STTR will be creditable as a covered tax under the GloBE rules" [125]. Building enforcement and audit capacity for administering this agreement ought to be priority for RRA against the desire to have Rwanda as the digital hub of Africa. Implementation is contingent upon the elaboration of the global and ratification by the 131 countries that joined this agreement.

Immediate next step for Rwanda is to conduct a baseline study to support annual surveys of the P2P economy and e-commerce to have a better appreciation of the scope of platforms and volume of activities, transactions and sales to design an appropriate service tax. The aim is to elaborate a national P2P and e-economy strategy and domesticate international agreements on regulations and taxation driven by strategies to make multinationals to pay their fair of taxes in all countries where they make sales[126].

In summary, the options open to the Fiscal Authorities from the foregoing assessment and diagnosis aimed at increasing sustainable domestic development financing for Rwanda suggest that optimal tax revenue may be derived from effectiveness and efficiency gains in enhanced enforcement of the revenue code to discourage non-compliance in the short-term, reducing tax expenditures and relaxing constraints such as informality and transfer pricing in the medium-term and increasing productivity and value addition to turn tax discount sectors such as Agriculture more towards premium status in the long-term. The drivers to combat non-compliance include enhanced compliance risk management; improved accountability through enterprise risk management; expanded use of digitalization technologies; and, strengthened presumptive enforcement. A study is proposed on a cost-benefit analysis of tax expenditure to support a paradigm review and a baseline study to support annual surveys of the Peer-to-Peer market in Rwanda for introducing a P2P service tax, which is not preempted by the Global Two Pillars Agreement.

B. Non-Tax Revenue:

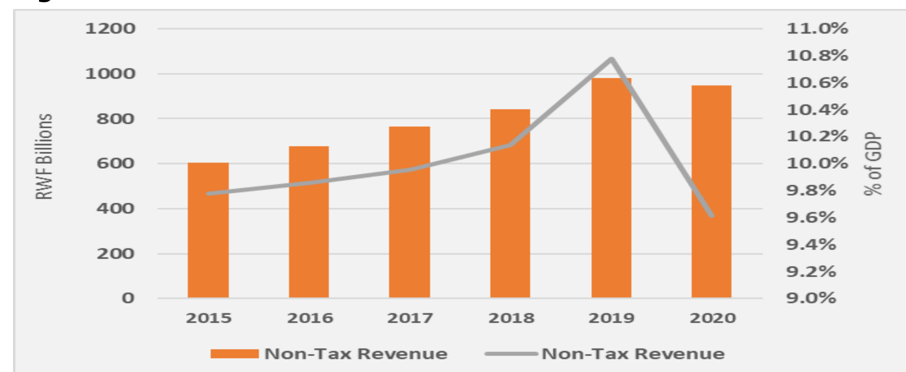
Non-tax revenue involves fees, royalties, penalties and licenses and social security contributions that from a policy standpoint, at least in terms of the rates they attract, the GoR has as much handle as tax revenue. Non-tax revenue grew gradually over five years by a cumulative 56% to a little less than 1,000 billion in 2020 which is more than the GDP growth of about 50% for the same period. This suggests that external factors, e.g. imports, have influence on the intake on the affected non-taxes. However, growth in non-tax reached a plateau in 2019/20 largely due the downside effects of COVID-19 as the share of non-tax to total revenue remained between 9% and 10% during those five years.

Non-taxes are initially collected by ministries, departments and agencies (MDAs) located around the country as well as Districts revenue offices. Ensuring the effectiveness of collection mechanisms and preserving the integrity of funds collected are critical issues to address in order to promote non-tax revenue. The RRA Strategic Plan envisaged strengthening collaboration with these stakeholders and creating data sharing platforms. Specifically, the ICT platforms behind the RRA's e-tax system should be integrated with these MDAs to make filling, reporting and payments while having appropriately designed connectivity with banks

[125] OECD/G20 Base Erosion and Profit Shifting Project: Statement on a Two-Pillar Solution to Address the Tax Challenges Arising From the Digitalization of the Economy, 1 July 2021;
[126] Ibid;

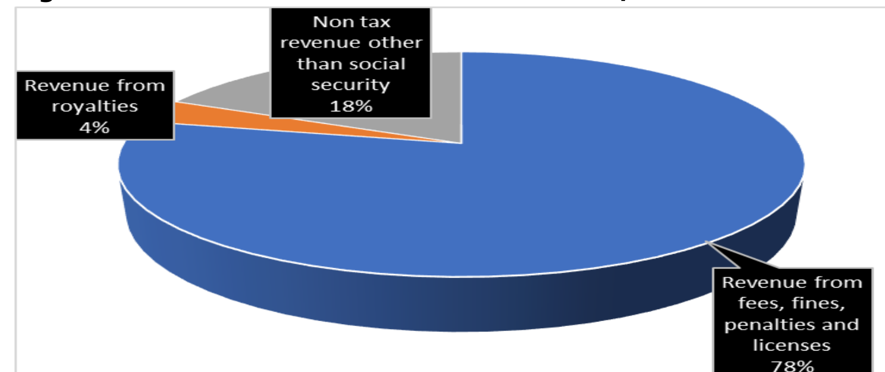
acting as depositories of GoR revenue.

Figure 22: Non-Tax Revenue Growth



Source: MINECOFIN Data and Consultants' Analysis

Figure 23: Non-Tax Revenue Shares 2018/20



Source: MINECOFIN Data and Consultants' Analysis

C. Revenue Administration:

A successful tax reform package requires a conducive external environment, taxpayer voluntary compliance and effective and efficient revenue administration (AfDB 2010; IMF 2010; OECD 2010; EU 2010). Thus, effective and efficient tax administration is a critical enabler for raising and managing domestic revenue financing. everybody) are central to the analysis. Overall, the evidence suggests that spending by tax administrations increases tax collection and that "higher spending on RAs has little short run impact, but is associated with significantly better compliance if sustained"[127]. The caveat is there are countries with poor compliance that use expenditure to compensate. In the literature, two concepts are used to fathom efficiency in the administration of RAs - cost of tax collection to revenues and cost of tax collection to GDP.

The cost of tax collection to income delineates LICs, LMICs, UMICs and HICs (Figure 21). Tax administrations of the EAC countries registered cost effectiveness as measured by income that stands with UMICs, a goal of the Vision 2050. Revenue collection by RRA declined as a share of total tax revenue to 2.8% in 2018/19, from a peak of 3.6% in 2009/10, and an annual average of 2.7% (Figure 20). During the same decade, the cost of RRA's operations as a proportion of GDP was 1.7% on average per year, higher than the Burundi Revenue Authority (1.2%), Kenya Revenue Authority (O.9%) and Tanzania Revenue Authority (1.1%) but lower than the Uganda Revenue Authority (2%).

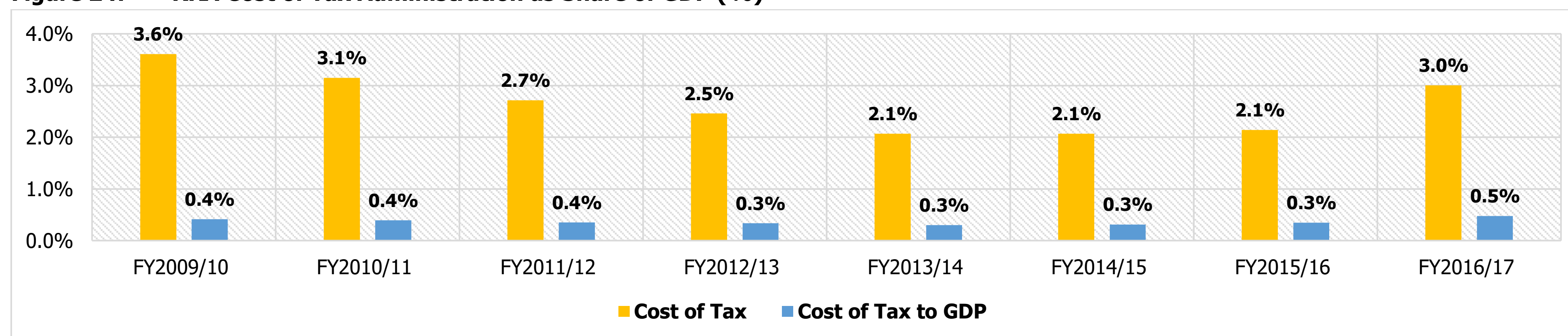
Another consideration in efficiency and effectiveness of tax administration pertain to how taxpayers are managed. For management of taxpayers, segmentation by turnover is the new normal delineated into Large, Medium, Small and Micro taxpayers. This has witnessed significant cost-effectiveness by focusing resources on large taxpayers where the returns are highest. However, the proven workhorse for greater efficiency in RAs is the use of ICT in tax administration because

[127] M. Keen, et al, IMF, 2015;

the impact on costs are significant and pervasive throughout the RA. It reduces the time taken internally to communicate and share data and lowers costs on enforcement, auditing, human resources, and facilitates voluntary taxpayer compliance.

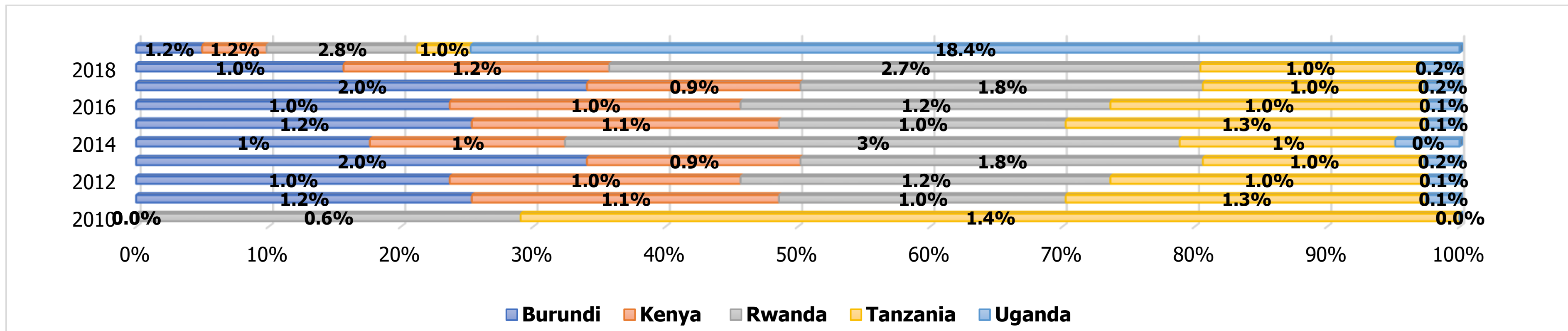
Voluntary tax compliance is the most cost-effective way to collect taxes and low transactions costs incentivized taxpayers to conform. The effectiveness and cost efficiency in paying taxes is measured by total tax rate, number of payments and hours spent to comply faced by the taxpayer. For example, in terms of time to comply, the Paying Taxes – Doing Business survey by the World Bank and PWC indicated African taxpayers spent more time (285 hours) than taxpayers in all other regions of the World except South America (519 hours: Figure 26). Among the EAC countries, Rwandan taxpayers took 91 hours (figure 26) to pay taxes outperforming all others by a significant margin (Figure 26). Again, this survey found that the dominant factor distinguishing the cost-efficiency of tax administration is the extent of ICT use in taxpayer compliance. Going forward, the e-tax and digitalization policy of the RRA must be sustained and consolidated through continuous and increased spending on operations focused on technological innovation and staff productivity.

Figure 24: RRA Cost of Tax Administration as Share of GDP (%)



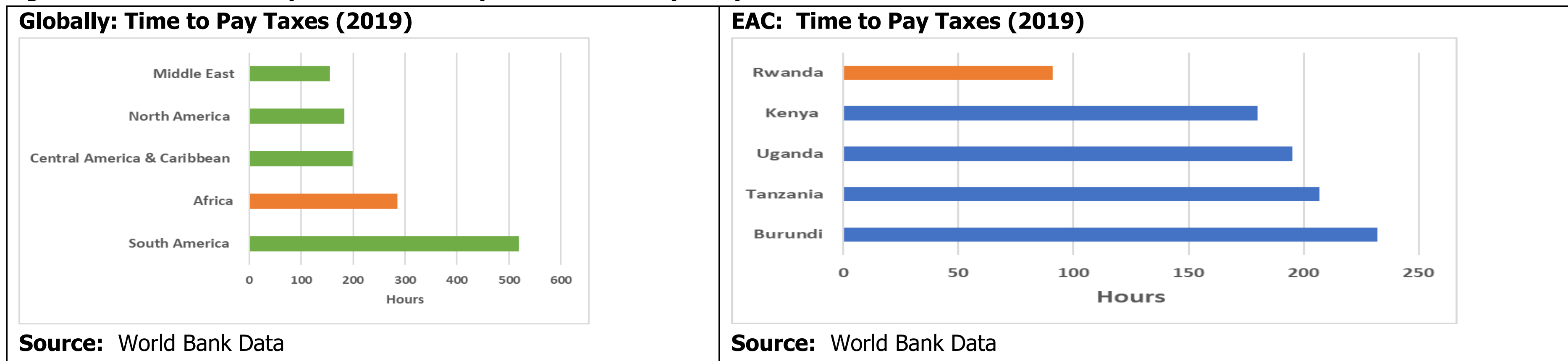
Source: Consultants' Analysis and RRA Data and

Figure 25: Cost of tax administration as Share GDP ((PPP)) in EAC (2010-2019)



Source: Consultants' Analysis and RRA Data and

Figure 26: Time to Pay Taxes – Globally and in the EAC (2019)



Globally: Time to Pay Taxes (2019) — **Source:** World Bank Data

EAC: Time to Pay Taxes (2019) — **Source:** World Bank Data

The MTRS tax administration reforms seek to promote taxpayer voluntary compliance with improved taxpayer services through strengthening digitalization and e-Tax, system, rely on data science tor effective service delivery, and leverage stakeholder dialogues for inclusive service design and delivery; strengthened *Compliance Improvement Strategies;* Upscale RRA's business operations, capacity, and productivity as well as governance. The RRA Strategic plan highlighted, among others, a committed staff and continuity in leadership, track record on taxpayer education, and existence of internal capacity for training. On the obverse, existing analytical competences don't include pivotal tax gap analysis and inadequate skills in some technical areas, existence of tax evasion, low tax registration against the potential tax population and inability to attract and retain staff. The existence of threats analogous to constraints and risks was also cited such as corruption, lackluster business plan mapping and inadequate funding for RRA priorities. The INFF will also facilitate the filling of the gaps already identified by

the RRA.

To minimize revenue loss including combating corruption, the ways forward are an Enterprise Risk Management regime and enhanced digitalization towards a cashless tax payment system built on internet and mobile platforms as well as a zero-tolerance and stiff penalties meted out to culprits for deterrence. Adequate funding for the RRA must be a priority of Government as the evidence suggests high value for money is realized by spending in tax administration[128]. Staff training may continue locally and abroad, reciprocal study visits and exchange programs with other RAs, workshops and seminars, and development of staff trainers for broad-based knowledge and skills required by the RRA. However, staff training must be evaluated based on cost/benefit analysis and sustainability of competences within the institution, inter alia.

Training may prioritize an internal e-Learning Center and training-for-trainers program for specialized competences that RRA needs to build a critical mass. However, given the variety of knowledge, skills and significant costs involved in sustaining the requisite training for staff, a sub-regional approach through the EAC may also be pursued to establish an East African Tax Administration Institute (EATAI)[129]. This proposed EAC venture will lower training costs and promote a community of practice among RAs in the EAC. The EATAI will be more sustainable while upscaling the in-house training and access provided the IMF, MEFMI, ATAF, OECD, etc, while significantly increasing the number of staff acquiring the critical competences needed to fill the technical capacity gaps of the RRA.

Furthermore, there are downside risks requiring urgent initiatives to mitigate: improve gender parity in RRA employees and to make further gains in expanding the tax base. Gender parity in the RRA has to be work-in-progress as between 2014/15 and 2018/19 it averaged 1:2, female to male. The ratio deteriorated at executive level to less than 1:4. Employing women and in executive level positions has to a priority going forward for the institution to contribute to reducing inequity in Rwanda.

Secondly, expanding the tax base remains a priority for Rwanda and a narrow tax effective tax base is a significant risk. In Rwanda and Uganda, it was 4 in 1000 and 2 in 1000 respectively. Across Africa, where in 12 out of 13 countries 10% of taxpayers contributed more than 50% of tax revenue, and in 4 countries less than 1% contributed over 60% while in Rwanda and Uganda, it was 4 in 1000 and 2 in 1000 respectively[130]. For the foreseeable future expanding the tax base will remain a priority for Rwanda and indeed, most African RAs.

D. Recommendations in the IT Space for Revenue Collection and Tax Administration:

(a) Digital communication and use of social media and apps (for registration, filing, declaration and payment of taxes, education, EOI, etc.) between RRA and Large, Medium and Small Taxpayers as well as major wholesalers, exporters and importers;

(b) Large Taxpayers including importers and exporters to use electronic invoicing to replace paper invoices using mandated or otherwise certified electronic devices that are generated by suppliers' and purchasers' accounting systems. This mitigates against over and under invoicing and significantly reduces costs for both firms and the RRA;

[128] "Current Challenges in Revenue Mobilization: Improving Tax Compliance", Michael Keen, IMF, 2015;
[129] See MSM Taxpayer Risk Compliance Management Program, FY2017 – FY2021, MS Foon;
[130]Ibid;

(c) Facilitate Large Taxpayers to electronically submit accounting data which can be interrogated with audit software to quickly and cheaply validate returns and identify compliance risks;

(d) Establish use of mobile telephony communication with Small and Micro taxpayers on presumptive tax for payment of taxes;

(e) Exchange of Information (EOI) – Establish interconnectivity of databases between customs and domestic within the RRA, and between RRA and Business Registry to facilitate pre-population of returns by RRA from registration and third-party data to be in ready mode for engaging taxpayers, as well as RRA with other Ministries, Departments and Agents involved in non-tax revenue collection.

(f) EOI with other RAs and information and data sources abroad also rests on IT systems and agreements;

(g) Establish interconnectivity of databases between RRA, Treasury and National Bank of Rwanda (NBR) for automated direct debiting of Government accounts on withholding taxes;

(h) Establish interconnectivity between NBR and commercial banks for payment of taxes to facilitate direct debiting of accounts with taxes received; and

(i) Technology-based compliance control to support customer segmentation by making taxpayer information readily available to where is needed in administration in real time.

The downside risks of an e-Tax system include frequently interrupted power supply, low IT quotient of tax officers and users, hackers and 'zappers' - software that falsifies recorded sales. Also, as tax administrators automate so do fraudsters go higher up the technology ladder to avoid detection. Building cyber security capacity has be an integral part of more technological use in tax administration.

E. Sovereign Bonds

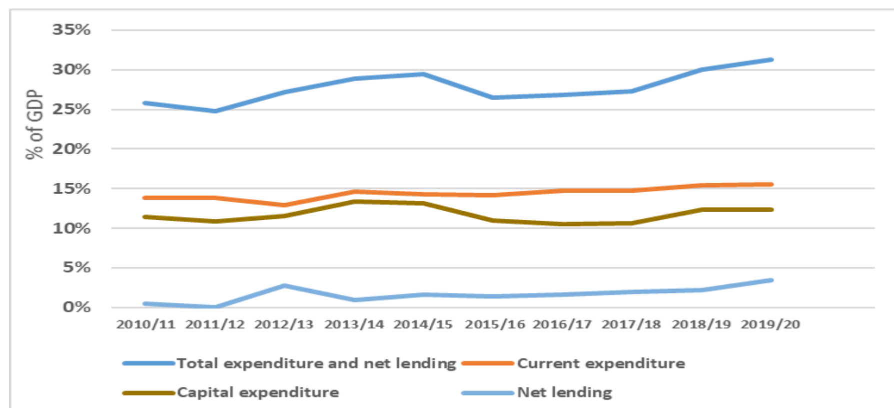
The Rwandan authorities have taken a proactive stance to develop the bond market through issuance of treasury bonds locally and Eurobond internationally, in support of the development of the domestic capital through more liquidity and more participants, particularly attracting foreign investors and market players. The Treasury bills and bonds offer high yield, and the yield curve is quite steep. The yield curve exhibits the time value of money with a positive slope and also suggesting that short term interest rates may rise. A stable inflation rate environment mitigates against such expectations which makes stability of prices a critical enabler. The Capital Markets Masterplan for Rwanda recognized that trade in investments denominated in foreign currencies which would supplement low local savings and the young capital markets. Against this backdrop, in April 2013, Rwanda floated a 10-year Eurobond with a coupon of 6.625% and an order book of $3.5 billion. It was dubbed the 'Deal of the Year' by Euro Money magazine and managed by BNP Paribas and Citi Bank. It was eight-and-a-half times oversubscribed with a tight yield. The GoR used the resources to fund socio-economic infrastructure: repayment of loan for, and completion of, Kigali Convention Centre absorbed USD 270 million; completion of the Nyabarongo hydropower project with capacity of over 28 MW took USD 50 million; and, USD 80 million for amortization of Rwandair's debts. During the period of the Eurobond, Rwanda was rated B+ by Fitch Ratings. Although the second Eurobond in August 2021 was oversubscribed, Rwanda received USD 620 million. Going forward, monitoring frameworks for the country's financing strategy must incorporate the criteria that go into such ratings. The success of the Eurobond issue provided an invaluable learning experience for the country to accessing the lucrative sovereign bond market niche of international finance capital which augurs well for future needs.

4.2.2 Public Expenditure Management (PEM):

In consonance with the INFF, UNICEF supported 'Guide to the Citizens' mapped the stakeholders and their role in the budget planning and management process for effective delivery of the fiscal budget and citizens' engagement. Citizens engagement as recognized by the MTRS is critical to have sustainable development financing in public finance, particularly accountable use of public resources. I is imperative to go beyond strategies, policies, plans to raise revenue, but also equally as important, to have more effective allocation, accountable and transparent management of those resources to deliver intended development results[131]. Improving and rationalization of budgets could free up and scale up resources for achieving development goals"[132]. The overall allocative efficiency and productivity of the public sector will reduce waste and crowding out of the private sector. Subsidies and defense spending are widely targeted by fiscal managers for budget rationalization to increase spending on health, education and socio-economic infrastructure[133]. Is there any room for rationalization and reprioritization to derive such development results benefits in Rwanda's public expenditure?

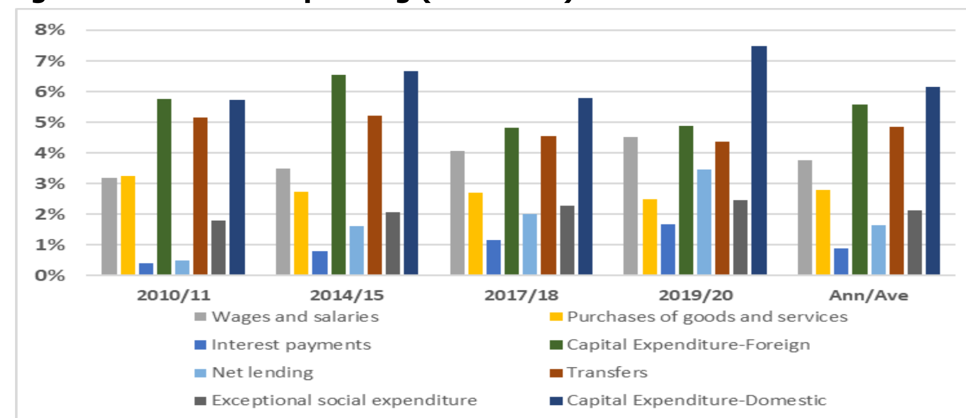
Fiscal consolidation is driven by the search for budget discipline. Fiscal Public expenditure and net lending in Rwanda's public finance averaged 28% of GDP per annum for the decade up to 2019/20, and rose by 5 percentage points to 31% of GDP in that year. Current expenditure showed low volatility around 14% with most of the fluctuations driven by capital expenditure (Figure 23) paid for by domestic financing (Figure 24). Outlays on wages and salaries, which is a usual target for fiscal consolidation, grew steadily during the period and accounted for an annual average of 4% of GDP and 13% of total spending (Figure 24).

Figure 27: Spending Trends (% of GDP)



Source: Minecofin Data and Consultant's Analysis

Figure 28: Details of Spending (% of GDP)



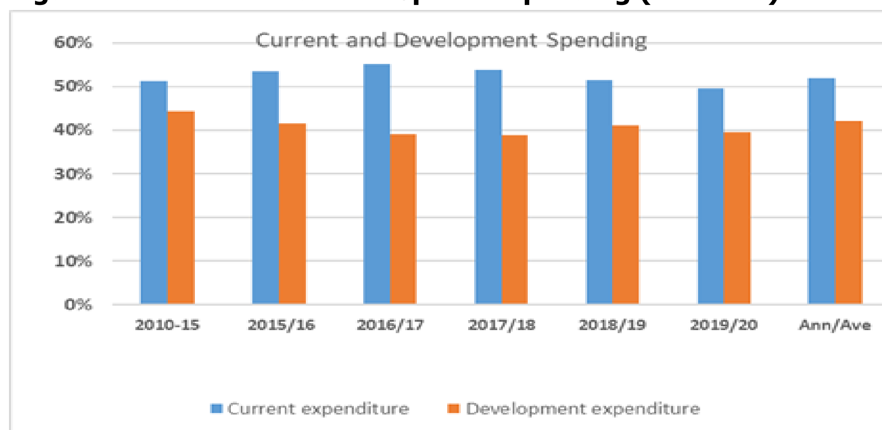
Source: Minecofin Data and Consultant's Analysis

[131] Public Expenditure and Inclusive Growth - A Survey, by Younes Zouhar, Jon Jellema, Nora Lustig, and Mohamed Trabelsi, IMF Working Paper, 2021; Financing for Transformation: From Agenda to Action on Sustainable Development in Asia and the Pacific, UN ESCAP, 2015;

[132] Financing for Transformation: From Agenda to Action on Sustainable Development in Asia and the Pacific, UN ESCAP, 2015;

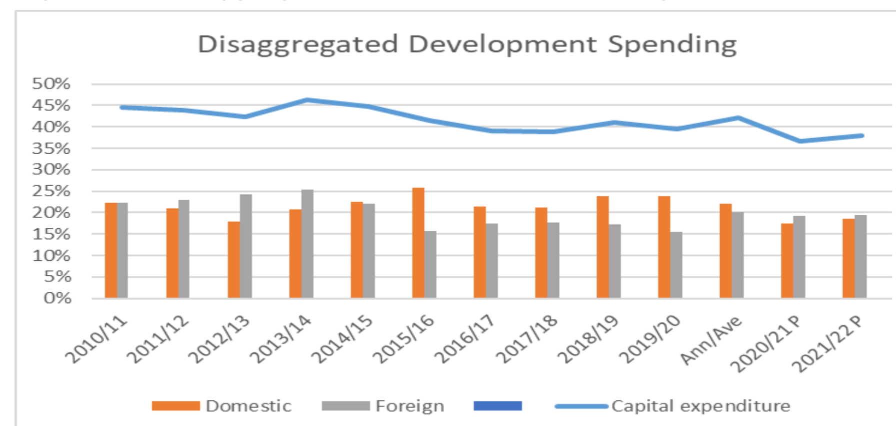
[133] Ibid;

Figure 29: Current and Development Spending (Rwf blns)



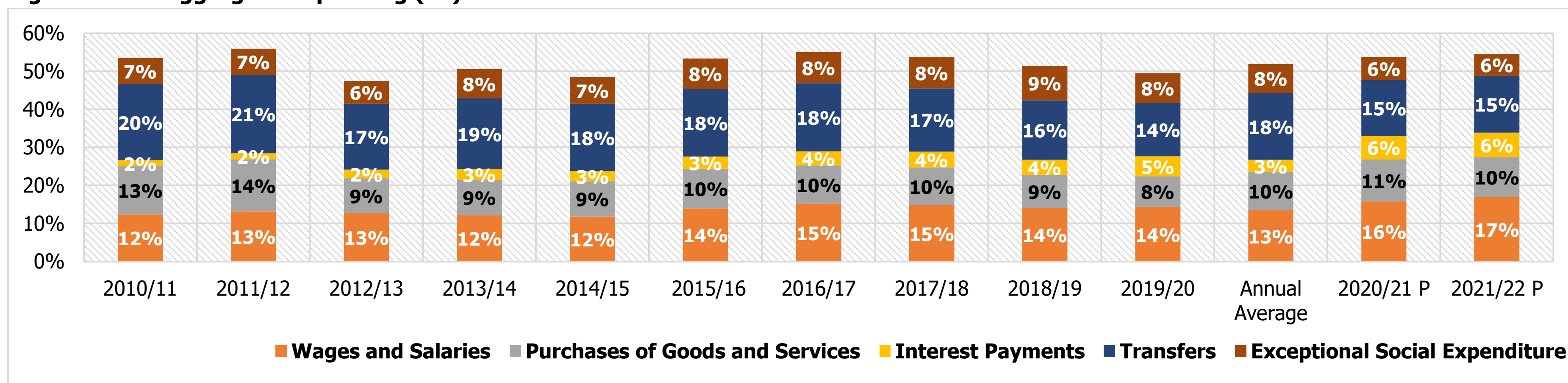
Source: MINECOFIN Data

Figure 30: Disaggregated Development Spending (Rwf blns)



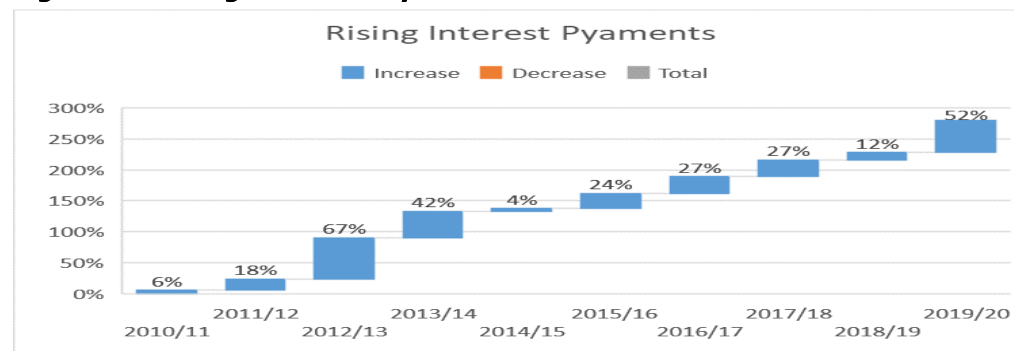
Source: MINECOFIN Data

Figure 31: Disaggregated Spending (%)



Source: MINECOFIN Data

Figure 32: Rising Interest Payments



Source: MINECOFIN Data

Expenditure on wages and salaries does not present a great concern however, the GoR intends to engage in fiscal consolidation as current expenditure constituted on average 52% per annum of the total budget with capital expenditure and net lending at 38% and 7% respectively (Figure 31). Rebalancing the budget from consumption to investment is key for the successful implementation of the NST-1, especially against projections that the share of current spending will continue to rise to 55% in 2021/22 (Figure 26). This increasing momentum is compelled by implicit increases in public services for more citizens but also to accommodate the recurrent cost implications of finished projects funded under the capital expenditure. The use of program budgeting helps fiscal managers to have a better grip on the latter with regard to when they come due and magnitudes. The increase in the budget deficit and rise in public debt that resulted in a change in the debt sustainability assessment from low to moderate debt distress forced fiscal consolidation as a priority for macroeconomic stability[134].

Capacity building initiatives will sharpen already existing instruments and tools used by Rwanda for fiscal discipline predicated on reinforcing results-based management, accountability and transparency in expenditure management. Since the last two fiscal years (FY2019/20 – FY2020/21), Rwanda has been piloting the Performance Based Budgeting (PBB) to improve resource allocation and expenditure control[135]; set priorities and targets better; and improve budget coordination. Equally, a study is underway to improve the quality of Medium-Term Expenditure Framework (MTEFs) that has lagged for some time. Rwanda undertakes regular MTEFs, program budgeting, regular budget expenditure monitoring and reviews - including value for money audits, public expenditure reviews and public expenditure and financial accountability (PEFA) assessments. The integrated financial management information system (IFMIS) is a veritable tool for accurate and accountable expenditure management that should be rolled out to every MDA that is connected to the fiscal budget. While Rwanda's PFM reform journey has borne significant results[136], they will need to be further deepened to support the ambitious IPSAS roadmap (2017-2024) the country has committed to – the move to an accrual accounting system is bound to place significant constraints on an already stretched PFM environment.

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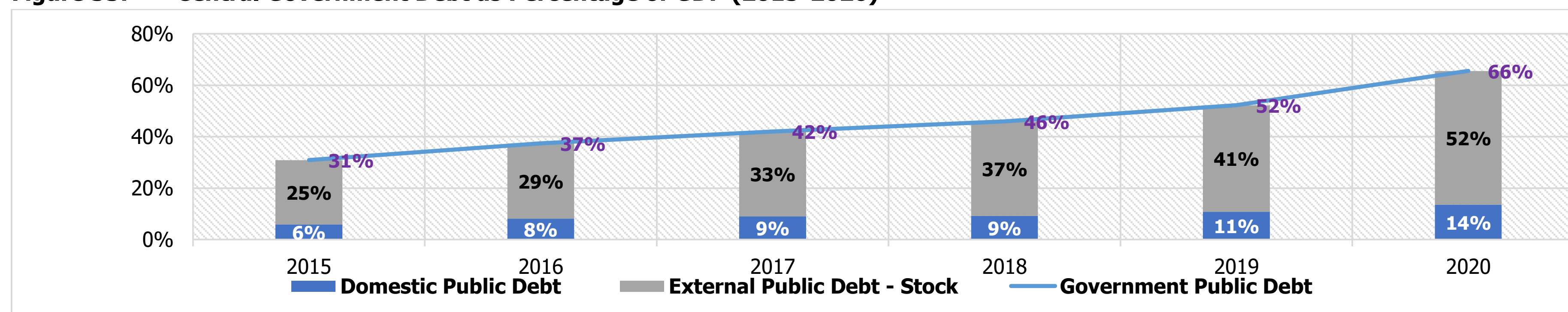
[134] Rwanda, IMF and World Bank Debt Sustainability Analysis, 2020;
[135] Result Based Performance Management (RBM) Policy for Rwanda Public Service;
[136] Rwanda PEFA 2016;

4.2.3 Public Debt:

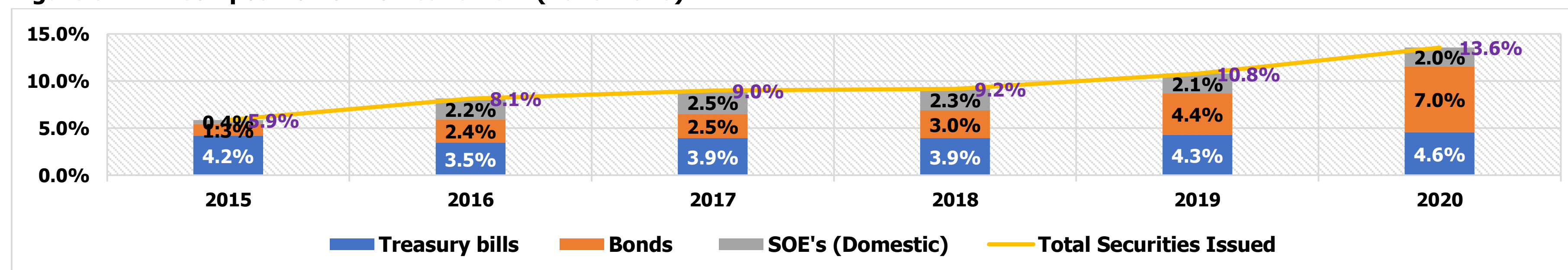
Public debt is driven by the public sector borrowing requirement predicated on the budget deficit and loans to implement capital projects. The public sector borrows from the domestic money and capital markets or from foreign markets, bilateral or multilateral sources. These types of borrowing are driven by fiscal policy whereas there can be public debt instruments, treasury bills, issued for liquidity management by the Central Bank as a tool of monetary policy but paid for, in terms of discounts, by the Government. Alternatively, instead of doing monetary policy operations in the primary market, it can be done through repurchase obligations and reverse repurchase obligations in the secondary markets. While the former increases the public debt stock, the latter would involve already issued debt instruments changing hands. The capacity for Government to borrow is not limitless and limits are imposed by the capacity to repay, technically referred to as debt sustainability. Every country conducts a debt sustainability analysis (DSA) ever so often and the rating scale popularised by the Bretton Woods Institutions uses a scale on level of debt distress.

Figure 33: Central Government Debt as Percentage of GDP (2015-2020)



Source: Consultants' Analysis, MINECOFIN Data

Figure 34: Composition of Domestic Debt (2015-2020)



Source: Consultants' Analysis, MINECOFIN Data

Rwanda's debt stock more than doubled between 2015 and 2020, from 31% to 66% of GDP, largely due to spending on NST-1 implementation. While both external and domestic public debt increased, the former which is accounts for 86% of the debt rose by 16 while the latter by 8 percentage points. The practice of the Government to borrow from non-bank sector and not through high powered money on the basis of ways and means constitutes a good practice. The exposure of the SOE's is increasing and there should be robust guidelines to keep it in check as unbridled growth of contingent liabilities present a serious downside risk to fiscal stability in a number of African countries. The decision making of the entire public sector on borrowing should be centralized by MINECOFIN

The rate of growth of the public debt accelerated in 2020 due to a wider budget deficit because of the COVID-19 response. The net effect is a change in the debt assessment under the DSA, from sustainable with low risk of debt distress to sustainable with moderate risk of debt distress. This movement is not near fatal to the country's ability to borrow however, it is like a movement from a green light to amber, requiring further borrowing to be done with caution.

Under the current Policy Coordination Facility with the IMF, the authorities agreed to engage in fiscal consolidation to remain resilient to shocks. However, it is anticipated that the rolling over of the 10-years Eurobond issued in 2013 will lead to a breach of the debt service-to-revenue ratio in 2023, as agreed under the facility. The authorities are exploring mitigating measures to ensure that this breach does not occur by engaging in pre-financing debt or debt buy backs, among others. Going forward, continued reliance on debt is not sustainable as getting out of moderate to anywhere higher would be too costly in terms of sovereign borrowing ratings, an ill-fated result that the country must avoid. Care must be taken to ensure that future debt remains not less concessional than IDA terms, that is, below the IDA discount rate of 5%[137].

The authorities have resolved to operate a "fiscal anchor of a 5.5 percent of GDP as an overall deficit on a 5-year rolling average basis[138]" will ensure that fiscal sustainability is preserved even against the pressing needs of development finance. The fiscal space obtainable through borrowing is narrowing, which makes it imperative that private investment must be the focus, over and above domestic revenue efforts, if the country is to have a fighting chance to meet the SGDs by 2030. A MTRS buoyed by a robust DRM to raise more revenue in tandem with enhancing the efficiency of fiscal spending are the bedrocks of manageable fiscal balances that lead to sustainable public debt. Continuous review of the debt stock should be maintained to keep it at minimum costs by exploiting market opportunities to restructure the composition of the debt.

4.3 Medium-Term Budget Projections (2020/21 – 2022/23 and the NST-1):

UNICEF intervenes to promote the development of human capital, protection of the vulnerable in society and supports the Government's desire to have accountable management of public resources. Towards this end, a flagship publication of the supported by the UNICEF is a citizen's guide to Understand the Budget previewed as follows. The GoR's medium-term budget policy priorities centers on the ERP focused on strategies to mitigate the economic and social consequences of the pandemic including: (i) Strengthening and increasing quality health services through construction and equipping health facilities, training of workers and upgrading management systems; (ii) Increasing agriculture and livestock productivity through improved agriculture inputs and expanded irrigation

[137] Grant element measures concessionality. The grant element is defined as the difference between the loan's nominal value (face value) and the sum of the discounted future debt-service payments to be made by the borrower (present value), expressed as a percentage of the loan's face value. If the interest rate due is lower than the discount rate, fixed for IDA lending at 5%, then there is a positive grant element of the loan.

[138] Rwanda: First Review Under the Policy Coordination Instrument and Monetary Policy Consultation—Press Release; And Staff Report, IMF 2020;

while emphasizing export crops and value chains as well as promotion of insurance – strengthen livestock vaccination and artificial insemination services; (iii) upscaling social protection programs through increased employment of poor households in public works program households in expanded VUP classic Public Works and addressing human security issues; (iii) Promoting employment through investment in the school construction programme to reduce the pupil-classroom ratio, and projects in water and sanitation, roads and energy; (iv) Fund Economic Recovery Fund in the NBR to prop up Micro, Small, Medium and Large Enterprises affected by the pandemic to recover; (v) Increase support to the Made in Rwanda Policy in consonance with the export promotion policy to reduce trade deficit and build economic diversification; (vi) Promote digital infrastructure and digital technologies to improve service delivery and to develop the Kigali International Financing Center and a smart society; (vii) Improving access to quality education through construction, rehabilitation of classrooms to reduce the pupil to teacher ratio and home to school distance made by pupils; improving English proficiency of teachers and students; promoting STEM across the education system; construction of TVET infrastructures and expanding school feeding program; (viii) Continuing the eradication of malnutrition and stunting among children; and, (ix) Strengthening disaster preparedness and management.

The total sum of the policies is intended to usher in economic recovery and return to the economic growth trend of the pre-COVID-19 period and aligned to NST-1. However, in financing terms, the share of the fiscal budget has increasingly been skewed in favor of recurrent spending and relatively less on NST-1 induced investments. The medium term budget is projected to increase by 25% to Rwf 4,048 billion in 2022/23 from Rwf 3,245 billion in 2020/21 while the relative share of recurrent spending increased by 9 percentage points with an equal reduction in development spending. Albeit higher recurrent spending on health, education and social protection will contribute to maintaining livelihoods and strengthening human capital development there has to be concerted efforts with private investment to realize the capital investment needed for the realization of the NST-1 results.

Table 9: Medium term Budget (2020/21 – 2022/23)

Funding Sources	FY2020/2021	FY2021/2022	FY2022/2023
Tax Revenue	1,421.4	1,619.8	1,878.7
Non-Tax Revenue	232.0	206.6	232.1
Domestic Financing	357.1	293.2	197.5
External Grants	492.5	514.9	571.4
External Loans	783.4	766.6	1,161.0
Disposal of Assets	7.0	7.3	7.3
Total	**3,293.4**	**3,408.4**	**4,048**

Source: MINECOFIN, Consultants' Analysis

Table 10: Medium-Term Budget Projections (2020/2021 – 2022/23)

Description	2020/21	2021/22	2022/23
Recurrent (% of Budget)	51	56	60
Development (% of Budget)	49	44	40
Deficit (% of GDP)	-8.8	-6.9	-5.7
PV of Public Debt (% of GDP)	35	37	36.4

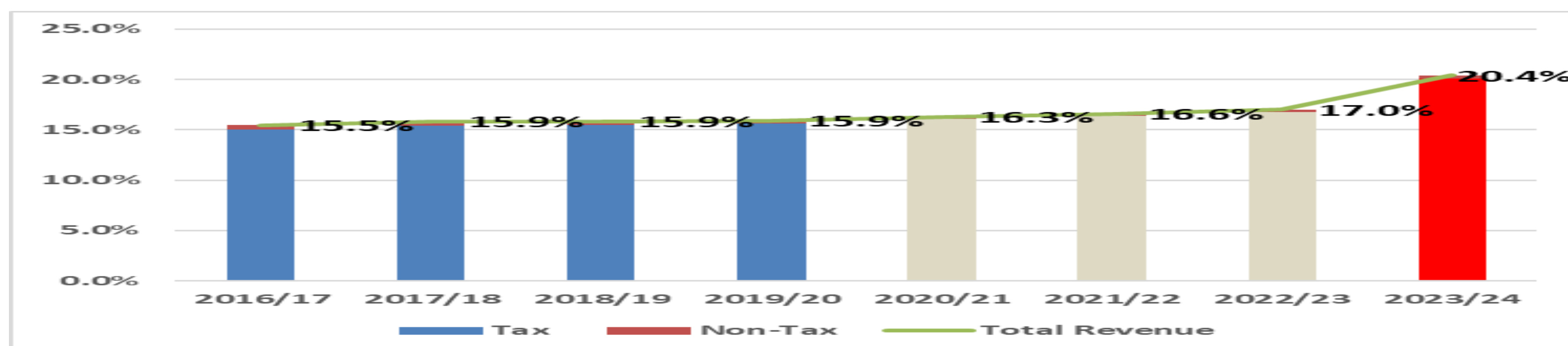
Description	2020/21	2021/22	2022/23
Total Expenditure (RWF billion)	3,245.70	3,408.40	4,048.00

Source: MINECOFIN, UNICEF, Consultants Analysis

In tandem, the budget deficit is projected to improve in the medium-term to -5.7% of GDP in 2022/23, from a peak of -12.2% in 2019/20. Reducing the deficit will lead to a deceleration in the growth of public debt and the preset value of public debt is projected to increase by a lower 1.4% of GDP to 36.4% in 2022/23, against a projected 35% of GDP target under the NST-1 in the following year. In order not to miss the debt to GDP, debt level in PV terms ought to be reduced by the same magnitude as the increase in 2022/23. The increase in tax revenues envisaged under the MTRS will not fully compensate and may thus depend on net debt retirement to reduce the debt stock to get back to the NST-1 target.

From a baseline of 16% of GDP in tax and non-tax revenue, the MTRS projects a 1% of GDP increase in tax revenue to 17.0% by 2022/23 with one year to reach the NST-1 timeline, 2023/24; while grants are projected at 4% of GDP. Then total revenue, tax non-tax and grants is projected to reach 21% of GDP by 2023/24, which is about 3% of GDP below the NST-1 target of 20.4% of GDP. Furthermore, the arithmetic suggests that the MTRS doing 1% of GDP in 3 years, must be reviewed upwards to have a better probability of returning on course to achieving the revenue target under the SDGs in 2030, upper MIC in 2035 and HIC in 2050. The policy of national reliance in budget financing experienced setbacks in 2019/20 due to the pandemic when revenue and domestic borrowing as share of the budget declined to 49%, from 66% in 2015/16, as external concessional loans surged to fund the ERP. Getting back to the pre-pandemic trajectory for this ratio is demonstrably a priority for achieving greater reliance on domestic resources.

Figure 35: Project Revenue to GDP Vs. NST-1 Target 2023/24



Source: MINECOFIN, UNICEF, Consultants' Analysis

Going forward, missing the debt and revenue targets cry out for fiscal consolidation to the structure of the budget whereby recurrent and capital expenditure ratio stands at 60:40 presents a headline risk which must be addressed to have successful implementation that would be required for a prospective NST-II. This compels that the last year of the NST-1, 2023/24, ought to be treated as transition period for public finance to embark a consistent consolidation that would be supportive of budget base attuned to more capital investment in preparation for NST-II.

5.0 DOMESTIC AND INTERNATIONAL PRIVATE FINANCING

5.1 Money and Capital Markets:

The prerequisite for promoting a private sector-led economy provide an enabling environment including lifting significantly the rate of domestic savings to boost investment. Through financial sector development, including the introduction of innovative savings mobilization schemes, the private domestic savings rate is projected to increase from 12.1% in 2017 to 23.9% in 2024. This will provide domestic resources to help finance the expansion of investment, while also encouraging a gradual increase in the share of private domestic savings in private investment financing. Furthermore, these domestic savings will reduce Rwanda's reliance on foreign financing and keep indebtedness sustainable. Despite these large increases in savings, consumers will still be projected to experience real private consumption growth averaging 7.6% per year from 2017 to 2024.

Rwanda's banking industry infrastructure in the fiscal year 2020/2021 consists of the Rwanda National Bank (BNR) at the apex and 11 commercial banks, one development bank, three Microfinance banks, one cooperative bank, 439 Savings and Credit and Co-operatives (SACCOs) and 20 limited liability microfinance institutions. The banking system is highly concentrated with three quarters of total assets held by five commercial banks namely, Bank of Kigali, BPR Atlas Mara, I&M Bank, COGEBANQUE, and Equity Bank.

The financial flows facilitating and derived from domestic financial deepening for private sector credit and investment are increased by developing the money and capital markets. Private financing is measured by credit to the private sector in money markets, while securitization, bonds and equities are used in the capital market. The other themes used to fathom financing flows from the private sector discussed here include leveraging private investment through PPPs, blended climate finance and SMEs. Financial inclusion is a global development paradigm embraced by Rwanda. These flows and how they a packaged in this report bring together the two main stakeholders under the INFF framework. Over time, these flows and frameworks have grown and expanded in line with GDP growth. Trend analysis and diagnostics of these flows drive the narrative of this chapter.

The new millennium to date witnessed significant liberalization programs in sub-Saharan Africa, privatizing banks to encourage market determined prices of financial services with a central role for interest rates, opening markets to international players and enhance market competition. Central bank autonomy was enhanced and effective supervision of the financial was firmly in accordance with Basel Principles. Rwanda made strides in this financial sector reform agenda. However, the banking sector remains largely oligopolistic in structure, the financial sector still faces challenges in mobilizing savings, effective intermediation, and financing the national develop plan[139]. The same report identified a shallow financial sector and underdeveloped capital market and insurance industry.

GoR responded with the Financial Sector Development Program (FSDP II) "… to develop a stable and sound financial sector that is sufficiently deep and broad, capable of efficiently mobilizing and allocating resources to address the development needs of the economy and reduce poverty". The FSDP embarked on four main initiatives: (a) Financial inclusion; (b) Developing financial institutions, markets and the supporting infrastructure; (c) Investment and savings to transform the economy; and, (d) Protecting consumers and maintaining financial stability.

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[139] FSAP, IMF/World Bank, 2005;

Ancillary financial sector development strategies by the GoR included a Strategy for Making Rwanda a Financial Service Centre in the Region (Maxwell Stamp Report); Financial Sector Strategy 2012-2018; Capital Markets Master Plan; National Financial Inclusion Strategy; Rural and Agricultural Financial Services Strategy; Saving Mobilization Strategy; and National Microfinance Policy Implementation Strategy. Other pertinent projects and market interventions by GoR included Building an Inclusive Financial Sector, the National Financial Education Strategy (NFES); and Medical professional liability insurance. The GoR established a capital market in 2011 and took proactive steps to increase its activity by issuing treasury instruments, a Eurobond, a World Bank bond and Leveraging Capital Markets for SME financing[140]. The cumulative impact of the GoR efforts are actualized in financial sector depth, access and efficiency intended to produce development results in terms of increased savings and higher investment particularly by the private sector, for a successful implementation of the NST-1.

5.1.1 Money Markets:

The private sector is pivotal for the economic transformation pillar of NST-1 to effect change from a mostly agrarian to a productive economy with greater value added and export-based. The private sector playing an increased role in investment is critical for this development result leading to an Upper Middle-Income status. However, the NST-1 recognized that "Capacity to generate financing for private sector investment has been constrained by low domestic savings". In response, the Financial Strategic Plan, 2018-2024, supporting the NST-1 sets six priorities namely: Mobilization of savings (short, medium & long-term) for private sector financing and investment; Private sector financing; Financial inclusion - improve access to financial services; Establish Rwanda as an international financial service centre; and, financial sector priorities for Districts.

Box 4 details the NST-1's objective of increasing domestic savings and position Rwanda as a hub for financial services to promote investments. This priority relates to financial deepening and financial development to increase private investment. The standard for measuring financial deepening is deposits or credit to the private sector as a proportion of GDP is under much review in the literature. The Rwandan financial system showed much efficiency defined by lower cost in financial transactions with regard to institutions and users. Although the country still lags behind peers in terms of depth and access, it recently gained momentum with increased financial inclusion - but not private corporate financing as the corporate bond market sector still lacks depth, access and efficiency. Depth refers to size and liquidity of markets, access to financial services, and efficiency relates to low cost and with sustainable revenues, and the level of activity of capital markets[141]. We discuss here depth and efficiency with regard to capital markets while efficiency pertaining to revenues was dealt with under tax revenues above and access is reviewed under financial inclusion.

The depth of the financial system is defined by revenues collected, domestic debt and investment. Domestic debt is measured by credit to the public sector and to the private sector. The latter consist of loans, purchases of non-equity securities, trade credits and other accounts receivable, which in Rwanda increased by 10% of GDP over twenty years, from 10% in 2000 to 20% of GDP in 2019, at Rwf 1,826 Billion equivalent to Rwf 147.5 per capita. When COVID-19 hit in March 2020, banks reacted by contracting loans to control credit risk. In Rwanda, the growth of credit to the private sector growth decelerated by 2 percentage points

[140] MINECOFIN Website, Financial Sector Development page; the list of strategies, polices and plans in this paragraph is not exhaustive and others are referenced in the relevant sections below;

[141] Rethinking Financial Deepening: Stability and Growth in Emerging Markets, IMF Discussion Note, May 2015, Prepared by Ratna Sahay, Martin Čihák, Papa N'Diaye, Adolfo Barajas, Ran Bi, Diana Ayala, Yuan Gao, Annette Kyobe, Lam Nguyen, Christian Saborowski, Katsiaryna Svirydzenka, and Seyed Reza Yousefi;

to 14.6% in 2020 from 16.6% the previous year. In Burundi, Kenya and Tanzania, growth of credit to private sector declined by 11.1%, 2.4% and 3.5% respectively, while it held steady in Uganda[142]. The banking systems in the EAC assessed the COVID-19 to be a risk which they had to hedge against[143]. However, the injection of liquidity targeting SMEs under the ERP is well designed and timed - otherwise, this banks holding back would have accentuated the recession.

Box 4: Increase domestic savings and position Rwanda as a hub for financial services to promote investments

Key strategic Interventions:

- Develop Rwanda into a Financial Services Center through the development of specialized skills and establishing incentive mechanisms to attract investors in the financial sector.
- Increase value of payment transactions done electronically as percentage of GDP from 26.9% (2017) to 80% by 2024. This will be supported by automation of Umurenge SACCOs and implementing a series of sensitizations to increase uptake of electronic and digital financial services.
- Bring financial services closer to people by increasing the percentage of adult Rwandans financially included at 100% by 2024 (from 89% in 2017). Develop the capital market and increase dynamism in line with the ten-year capital market master plan. This will entail identifying, attracting and exploiting new sources of financing such as: green bonds, municipal bonds, crowdfunding, venture capital funds among others.
- Operationalize long-term savings scheme and pension for all Rwandans including those in the informal sector as a basis to support long-term domestic investments. The scheme aims to have at least 700,000 subscribers by 2024. The scheme will eventually be leveraged by beneficiaries to save for housing, investment and child education. Long term investment funds will be expanded through mobilization and investment of Agaciro Development Fund (AgDF) as well as promotion of collective investment schemes through Rwanda National Investment Trust (RNIT).

Source: NST-1

The banking system is highly concentrated with three quarters of total assets held by five commercial banks namely, Bank of Kigali, BPR Atlas Mara, I&M Bank, COGEBANQUE, and Equity Bank. This is characteristically an oligopolistic banking system with the bulk of baking assets concentrated in a few banks. The State-owned Bank of Kigali (BoK) alone held more than 30% of total assets. The sector is expected to undergo some consolidation as KCB acquires BPR Atlas Mara; and a possible tie up between Equity Rwanda and Cogeabanque. Also, the banking sector is making steady progress with regard to efficiency underpinned by low inflation and stable exchange rates. The banking system is stable and well capitalized with banking industry and MFIs capital adequacy ratios in 2019/20 of 23.6% and 34% respectively, both significantly above the 15% Central Bank regulatory requirement. Profitability of banks increased by 24% to FRW 33 billion at End-June 2020 over the previous year[144].

The advent of the COVID-19 compelled an accommodating monetary policy as part of the ERP that included a reduction in the Central Bank Rate (CBR) from 5%

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[142] BNR Annual Report, 2019;

[143] Ibid;

[144] National Bank of Rwanda, Various Annual Reports, 2010-2020;

to 4.5%; an Extended Lending Facility of FRW 50 billion to banks for on-lending to clients; a percentage point reduction in the reserve ratio to 4% and releasing FRW 23.4 billion to banks; and, reducing the holding period of bonds in the rediscount window from 30 to 15 days[145]. The impact of COVID-19 is primarily through heightened credit risk on mainly corporate and retail clients. How banks' profitability is impacted will depend on the extent to which these risks are longer lasting requiring reclassification to default risks requiring provisioning.

5.1.2 Capital Markets:

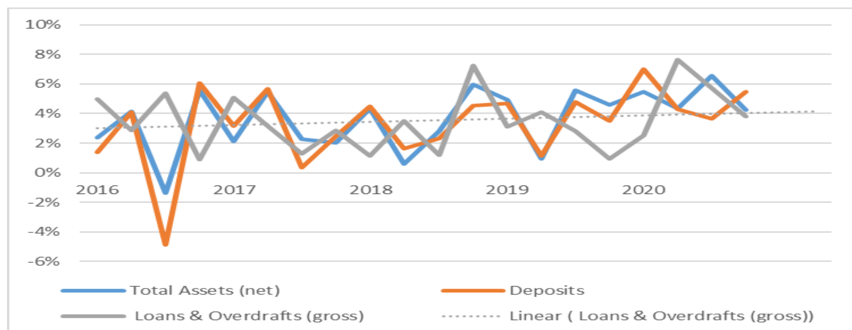
The Rwanda capital markets are source of financing for the public and private sector. The securities market consists of GoR treasury bills and bonds while the equity market is dominated by the private sector with the public sector participating through privatization of public enterprises. The value of non-equity securities consisting of treasury bills and bonds more than doubled in six years by 2020 to 13.6% of GDP from 5.9% of GDP in 2015. Total outstanding securities reached a value of FRW 1,334 billion, representing FRW 105.9 per capita. Bonds are the fastest growing securities and accounting for halve the total value of securities, followed by Treasury bills and then SOE debt. The GoR has been proactive in the development of the capital markets. Apart from privatizations, Treasury Bills and bonds were also issued such as a group of five (5) Treasury Bonds with face value of RWF 80 billion and other group of seven (7) reopened with maturity value RWF 104 billion – and the market has been gaining sophistication through greater use of IT. The lessons learned from Eurobond issue are already paying dividend as the confidence gained contributed to the GoR, the World Bank and Citibank to enter into another venture. In January, 2020, the World Bank launched a bond denominated in Rwandan franc managed by Citibank in the London Stock Exchange (LSE). The IBRD Bond is intended to contribute to the depth of Rwanda's capital market by providing liquidity from international investors. This is one of the seven bonds issued through a partnership between the World Bank and Citibank to support development of the local capital markets in Africa South Sahara. The issue amounted to RWF 37 billion (about USD 40 million) with a coupon rate of 9.25% and maturity on January 20, 2023. Featuring Rwanda in a bond market with players including institutional investors with reach in all major global markets that measure daily transactions in trillions of dollars is a significant foothold into international finance capital.

Figure 36: Private Sector, Deposits, Total Assets[146]

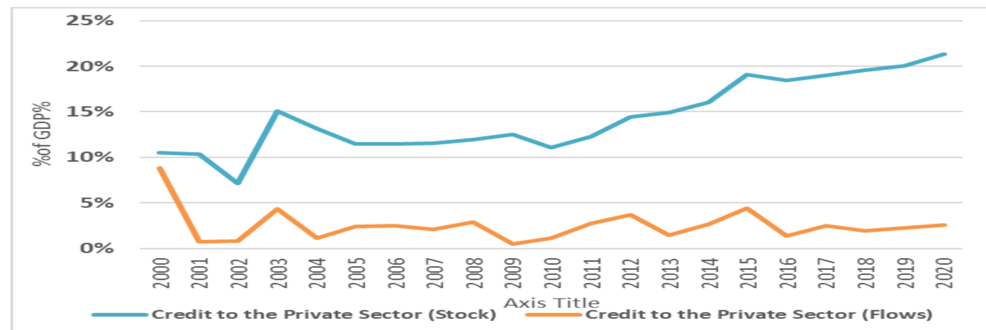
Figure 37: Credit to Private Sector (Stock and Flows)

[145] Ibid;

[146] BNR's M3-Broad money (IFS line 35L..ZK) is the sum of currency outside banks; demand deposits other than those of the central government; the time, savings, and foreign currency deposits of resident sectors other than the central government; bank and traveller's checks; and other securities such as certificates of deposit and commercial paper;

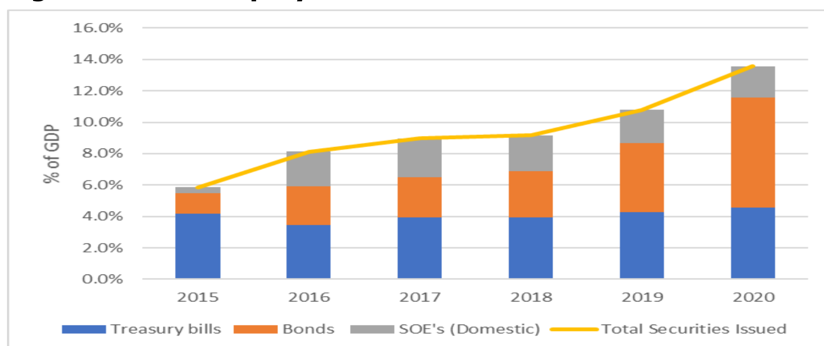


Source: INFF Consultants, MINECOFIN Data



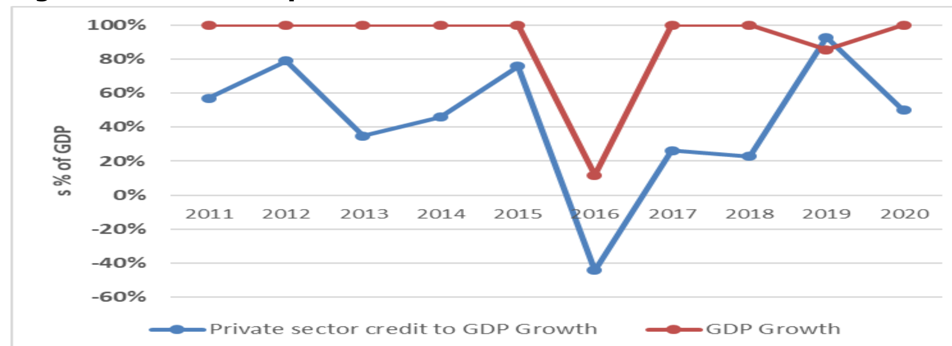
Source: INFF Consultants, MINECOFIN Data

Figure 38: Non-Equity Securities



Source: Minecofin Data and Consultant's Analysis

Figure 39: Credit Gap



Source: Minecofin Data and Consultant's Analysis

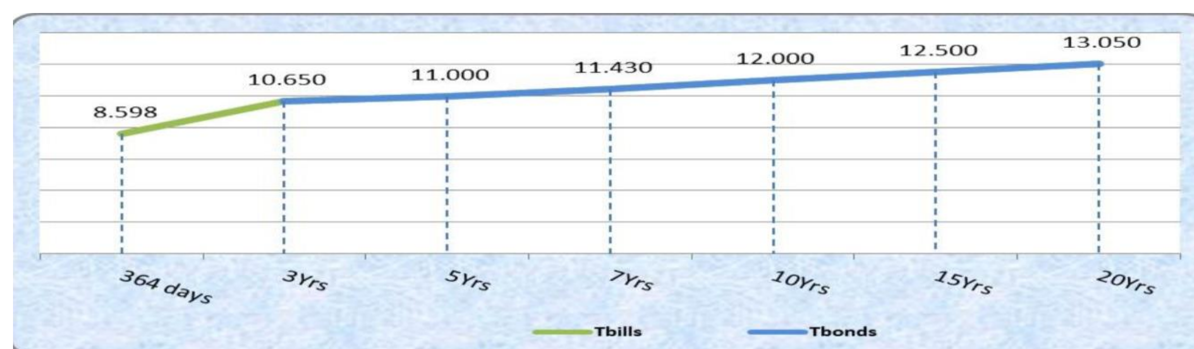
Rwanda's capital market features the requisite institutional framework that conforms with international standards under the Bank of International Settlement's Committee on Payments and Market Infrastructure (CPMI) and IOSCO principles namely, Central Securities Depository (CSD), Equity Market and Foreign Exchange Market. The infrastructure is intended to secure records of the ownership of securities, preserve and ensure benefits of ownership, eliminate risk in the settlement of trades, and promote efficiency of transactions.

The NBR is responsible for the strategic direction of the capital markets while the Rwanda Stock Exchange (RSE) handles operations. The capital markets are currently quite narrow when compared with neighboring markets such as Kenya however, it has registered steady progress in terms market players, participation and activity largely led by IT. Initial Public Offerings (IPOs) are less common initially driven by privatization of public enterprises whereas the secondary market in securities and equities exhibited more activity. By 2019, the RSE market capitalization was USD 3.6 billion with ten (10) listed companies; of which, four (4)

were domestic firms while the rest were cross-listings from the region. Transactions in the equity market in particular, rose substantially to Rwf 4,729 million from 26.20 million shares traded in 469 deals in 2019 from total turnover of Rwf 53.9 billion from 108.1 million shares in 1,750 deals in 2013[147].

Greater EAC financial market integration could mitigate the adverse effects of Rwanda's narrow capital market and take advantage of new IT infrastructure to create a new electronic platform, which is yet to be linked to the Central Depository System (CDS).[148] The Eurobond and World Bank Bond and cross-listing from other countries in EAC makes the capital market a home for international and regional investors. Unification will accord the EAC markets the size and scope to create market depth that would be attractive to international institutional investors to accord the local corporate sector access that would enable the GoR's private sector-led growth strategy.

Figure 40: Rwanda Capital Market Yield Curve on End May 2021



Source: BNR

Apart from privatizations, Treasury Bills and bonds were also issued such as a group of five (5) Treasury Bonds with face value of RWF 80 billion and other group of seven (7) reopened with maturity value RWF 104 billion – and the market has been gaining sophistication through greater use of IT. The Treasury bills and bonds offer high yield, and the yield curve is quite steep. The yield curve exhibits the time value of money with a positive slope which suggests that short-term interest rates may rise. Investors would then prefer stocks and corporate securities over longer term treasuries. A stable inflation rate in a non-inflationary environment mitigates against such expectations which makes price stability a critical factor in capital market growth and stability (Figure 33). In an effort to have a corporate bond market, the GoR may encourage solvent state-owned enterprises to source investment funds from the capital market.

5.1.3 Pensions and Insurance:

The depth of the capital markets may be expanded by attracting domestic and foreign savings and participants. The targets of the local opportunities are funds

[147] RSE Annual Reports, Various Issues: 2013-2019;

[148] This could be similar to the National Association of Securities Dealers Automated Quotients Exchange (NASDAQ);

with long term maturities including social security, pension, insurance and trusts. The NST-1 aligned National Social Protection Sector Strategy (2018) is administered by MINALOC – while the Rwanda Social Security Board (RSSB) oversees CBHI and Ejo Heza schemes. This is intended to grow services and transfers under mandatory contributory transfers and healthcare insurance for those formally employed; and, a voluntary, contributory savings and pension scheme, EjoHeza, for the informal sector. RRA has the responsibility for collecting social security subscriptions. In 2019/20, the RSSB projected collections at RWF 178.2 billion (FY2020/21 Projections: Rwf 218.6 billion) and actual collection was RWF 183.5 Billion by May – Pension (51%), Medical Insurance (25%), Community-based Health Insurance (20%); and, Maternity (4%). Of the total collection, 80% was paid in benefits. The total investment portfolio increased by 12% to RWF 1.13 trillion in 2019/20 over the previous year[149]. The private sector pension policies include seventeen companies under complementary and personal pension schemes.

Rwanda's insurance sector is comprised of 14 insurance companies including 2 public insurers (Rwanda RSSB and Military Medical Insurance - MMI). Both RSSB and MMI sell medical insurance and together harbor 50% of the premiums in the sector. Insurance density as measured by premiums per capita has been increasing from USD 4 in 2010 to USD 10 in 2017. Insurance policy holders increased substantially from about half a million adults in 2016 to over a million in 2020. The bulk of Rwandans are uninsured with only 17% of adults insured in 2020, up from 9% in 2016. Between the same periods, the insurance industry participation presented strong volatility with drawbacks in most insurance schemes except Life Insurance and Rwanda Social Security Board Insurance, which rose by 25% and 5% respectively[150]. The main barriers to insurance uptake are affordability (59 percent) and lack of awareness (37 percent).

Deepening the capital markets and the insurance market particular, received a boost from the introduction of the real estate development trusts[151]. Although Real Estate market present challenges in terms of taxation, the real estate development trusts makes it easier for insurers to invest – providing the capital market pool of savings with significant growth potential. Other funds including AGACIRO (a Sovereign Wealth Fund), Rwanda Investment Trust and Rwanda Finance are part of the domestic investment landscape which contribute to financing deepening particularly, the capital markets. These funds should as far as possible, be encouraged and facilitated to operate in the longer side of the market and accessible by corporations. It should be part of a strategy to open up the capital market to corporations seeking funding.

In December 2018, Rwanda embarked on a Long-Term Savings Scheme (LTSS), a pension scheme targeting the informal sector managed by the Rwanda Social Security Board (RSSB) and covers both formal and informal sector workers. It is aimed at those who do not belong to existing employee schemes and accessible after age of 55. In the interim, up to 40% of the total amount may be used for housing mortgage or education, and 25% meet liquidity needs.

Table 11: Government Incentive Structure for the Long-Term Savings Scheme

Ubudehe [152] Categories	Subscriber Eligibility (Minimum Annual Amount	GoR Co-contribution Ceiling	GoR Co-contribution (%)	Life Insurance	Funeral Insurance

[149] Rwanda Social Security Board Strategic Plan, 2020-2025;
[150] Ibid;
[151] Real Estate Development Trusts - Official Gazette no34bis of 22/08/201;
[152]Ubudehe refers to the long-standing Rwandan practice and culture of collective action and mutual support to solve problems within a community. The Rwandese government has since adopted aspects of this culture to facilitate and promote a participatory development approach to poverty reduction in Rwanda;

Categories 1 & 2	RwF 15,000	RwF 18,000	100%	RwF 1,000,000	RwF 250,000
Category 3	RwF 18,000	RwF 18,000	50%	RwF 1,000,000	RwF 250,000
Category 4	RwF 72,000	-	-	RwF 1,000,000	RwF 250,000

Source: Pension Systems in East Africa - A Deep Dive, World Bank Group, 2019 (Ministry of Finance and Economic Planning 2018)

There are four categories based on the cultural community support structure, "Ubudehe". The LTSS has leveraged the local administration structure up to the village level to mobilize people to enroll in the scheme. According to the World bank, the partnership with the government and the local administration structures answers to challenges facing the pension schemes in East African countries. The outcome of this scheme as a paradigm shift in insurance with potential for expanding into informal sector and inclusive management at the local level is of interest to all in the insurance business and development finance.

5.1.4 Financial Inclusion:

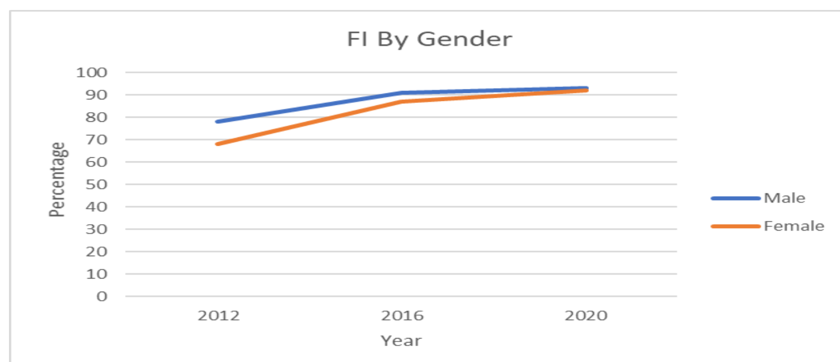
Financial inclusion addresses access to financial services by the broader population, and it is the overarching objective GoR policy of leaving no one behind. National Bank of Rwanda (BNR) conducted its maiden FinScope Survey in 2008 prompted by a lack of credible information to guide policy interventions and financial service providers in their efforts to expand the reach and depth of the Rwanda financial system. The second and third surveys, allowing an assessment of changes to the landscape of financial access and usage of financial services were the focus in 2012 and 2016 respectively, by Access to Finance Rwanda (AFR) on behalf of the government. Like its predecessors, the FinScope Rwanda 2020 survey had the objectives to illustrate the levels of financial inclusion for Rwandan adults aged 16 and over; define the landscape of access; identify the drivers of, and barriers to financial access; assess trends or changes since the last FinScope survey in 2016 and provide information on new opportunities for increased financial inclusion.

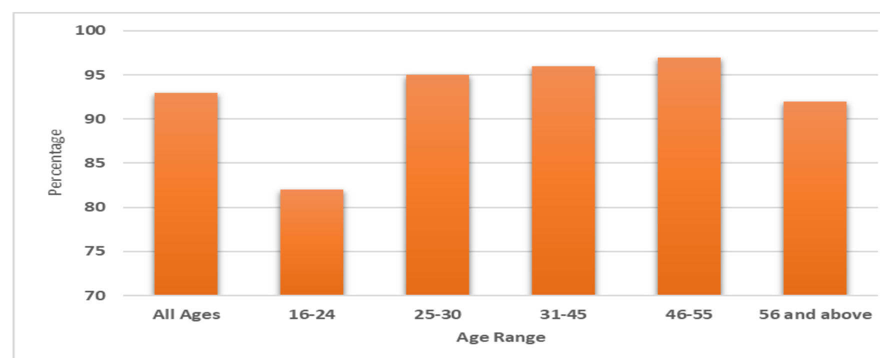
The NST-1 relies on financial inclusion (FI) as a critical factor for increasing savings and making Rwanda a financial hub while leaving no one behind. More broadly, FI is an enabler for achieving Rwanda's development and poverty reduction objectives. The country targets achieving 80% financial inclusion by 2017 and 90% by 2020, as stated in Vision 2020. This target was achieved in 2020[153]. It showed that 1.5 million more Rwandans were finically included in 2020, a significant increase from 89% or 5.2 million adults in 2016. Longer term trends showed a steep positive growth, from 48% and 72% in 2008 and 2012 respectively, making Rwanda one the frontrunners in financial inclusion in SSA (Figure 38). The record is holistic covering age group (figure 38), gender (Figure 41) and by type (figure 41).

Figure 41: Inclusion by Gender

Figure 42: Inclusion by Age Group

[153] 2020 FinScope. about 93% of Rwandans or 6.5 millions of adults over 16 years are financially included in terms of access to both formal and informal financial products/services;





Source: FinScope 2019/20

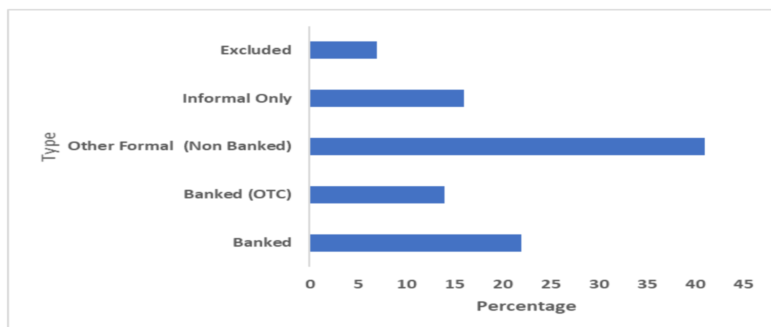
Source: FinScope 2019/20

In further segmenting the 2020 results, levels of financial inclusion vary from 100% in Gasabo district to about 83% in Rusizi district. The survey indicates a narrowing gender gap in financial inclusion with only 8% of females excluded compared to 7% for males. In 2016, 13% of females and 9% of males were financially excluded. According to the 2020 data, youth within the age range of 16 – 24 years are the most financially excluded at 18%, significantly higher compared to the national average of 7% exclusion. The study further underscores that 77% (5.5 million) of the Rwandan population access and use formal financial products/services, including those that are provided by the banking sector and other formal but non-bank financial institutions such as insurance firms, Mobile Network Operators, MicroFinance Institutions/ Savings and Credit Co-Operative Societies (SACCOs), etc. This has increased significantly by 9 percentage points from 68% in 2016.

Further analysis of formal and informal use since 2016, indicates that the drop in exclusion among Rwandan adults is driven by the uptake of both formal and informal services. The increase in formal inclusion is as a result of the increased number Rwandans who are formally served (i.e. who have or use a product or service from a formal financial institution). About 36% (2.6 million) of adults in Rwanda are banked increasing from 26% (1.5million) in 2016. The rates of formal financial inclusion were 23% and 14% in 2012 and 2008 respectively. The increase is mainly due to new banking channels entering the market resulting in increased outreach of existing banks. About 77% of adults in Rwanda (5.5 million) have/use other formal (non-bank) financial products/services. Growth in the non-bank sector was most significantly driven by the uptake of mobile money services and the growing penetration of SACCOs.

Notwithstanding the role of formal inclusion in the extension of financial inclusion in Rwandan adults, the informal sector continues to play an important part in financial inclusion with a total of 78% (5.6 million) using informal mechanisms. This figure has increased by 6 percentage points from 72% in 2016 with the uptake being driven by informal savings groups. The informal inclusion contributes significantly to the extension of the overall level of financial inclusion, particularly in rural areas and among women. Additionally, the level of adults relying only on informal mechanisms has been reduced from 21% in 2016 to 16% in 2020.

Figure 43: Inclusion by Type



Source: FinScope 2019/20

The landscape of access provides insight by looking at the types of products taken up by consumers who are financially included and describes the percentage of adults that have/use formal and informal products/mechanisms. The 2020 survey highlighted that about 86% of adults in Rwanda save, considering all forms of savings (around 6.1 million individuals). Saving through formal institutions grew from 49% in 2016 to 54% in 2020. The increase in Savings through formal institutions is driven by savings through banks (21%), mobile money (25%), and savings at SACCOs (26%). Informal savings grew to 64% or 4.5 million adults, up from 56% in 2016. About 76% (5.4 million), adults in Rwanda borrow, allowing for all forms of borrowing. Credit consumption increased from 4.1 million or 15% in 2016 to 22% in 2020. Encouragingly, when compared with other credit behaviour, people in Rwanda borrow mainly for developmental reasons. In general, the uptake of insurance is low in Rwanda. Only about 17% of adults have insurance products, (around 1.2 million) with insurance uptake being slightly more skewed towards males (19%) when compared to females (15%). Nevertheless, this represents a significant (nearly double) increase from 0.5 million or 9% in 2016. More adults, 45% (3.2 million), in Rwanda indicated that they have remitted money (sent and/or received money) in the 12 months prior to FinScope Rwanda 2020, including all forms of remittances. This is up from 2.3 million in 2016 with the increase being driven largely by the uptake in mobile money.

The 2020 survey suggests that there are no significant infrastructural barriers to access financial service providers. However, it has highlighted that affordability remains the major hindrance to opening a bank account (90%) and the uptake of insurance products (75%). Additionally, the key barrier to operating a mobile money account relates to lack of product knowledge (48%). FinScope findings show that Rwanda has made great progress in achieving high levels of financial inclusion, nearing the government target of 100% by 2024. Both banking and other formal non-bank sectors recorded significant growth in the number of financially included adults. The informal sector continues to play a substantial role in financial inclusion and increasing product portfolio choices. Likewise, mobile money continues to be a critical enabler for financial inclusion, and it is used by both the banked and the unbanked population. That being said, there is still room to further reduce the levels of those who are financially excluded with the greatest opportunity to do so come from ensuring financial inclusion that goes beyond access and uptake to measure the impact of financial inclusion and financial health in Rwanda.

To this end, the areas of priority in the financial inclusion agenda could include adopting Financial Inclusion 2.0 (FI2.0) and embrace a focus towards addressing real economic needs through better financial solutions, especially through identifying and facilitating the implementation of financial interventions that will improve the resilience and sustainable livelihoods of the target groups, as well as enhance the contribution to the macro-economic indicators for the country.

Similarly, the elaboration of roadmaps to support and improve uptake and use of financial services should be prioritized. This includes expanding the gender and youth financial inclusion pillars within the NFIS, through establishing specific interventions for implementation. The inclusion of vulnerable groups, such as, youth, refugees, and people living with disabilities should also be enhanced. Financial health indicators on the quality and impact of financial services need to be the foundation and baseline of this priority area. Improved financial health indicators. This approach will not only support high-quality and consumer-centric product initiatives but will also gauge the financial health of Rwanda's population, as well as helping to track progress in these areas.

5.2 Infrastructure Investment by Leveraging Public-Private Partnerships:

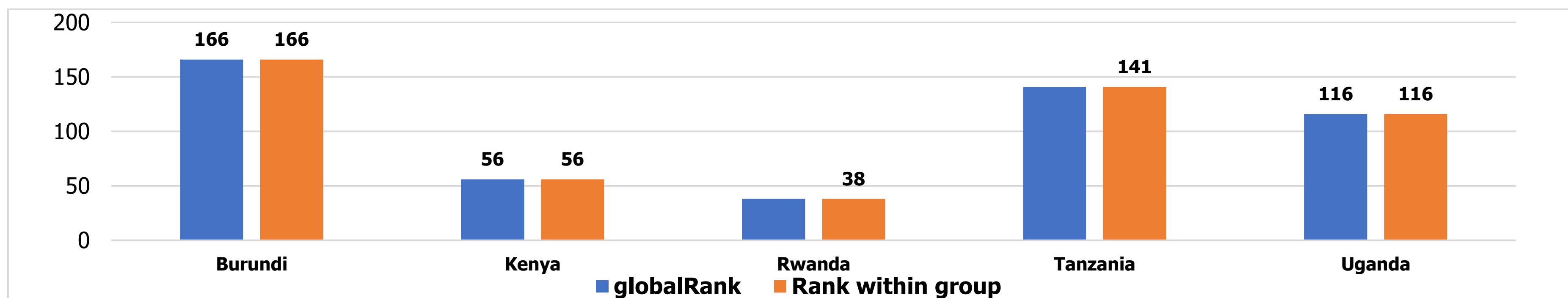
The NST-1 stakes out a leading role for the private sector in the economy and facilitated by available credit and investment opportunities within an enabling operational environment. The National Investment Policy and Law No.14. 2016 and PPP Guidelines provide the legal, strategic and institutional framework for PPPs in Rwanda. In Rwanda, the NST-1 envisages a widened space for private sector investment, provision of public goods and services through PPPs mainly for infrastructure. The 9.4% economic growth in 2019 was strongly supported by investments including private investment, as credit to the private sector surged, especially in the manufacturing which registered double-digit growth for consecutive years.

The medium-term plan puts the private investment share at 41% of the total. Indeed, out of the 21% required in additional spending, 15% is for infrastructure. Thus, leveraging PPPs for infrastructure is a development imperative as the private sector can facilitate the transformation of Rwanda – onboarding the necessary technology and machinery to boost agriculture productivity and exports as an example. The IMF estimated that with the right policies to attract private investors, their contributions would fill the financing gap by 1.9% of GDP annually. Therefore, the task is to engender a private sector investment-friendly environment by accentuating the pull factors and blunting the push factors.

Rwanda needs to make further improvements with the indicators of 'global doing business index' and 'global competitiveness index' to continue to attract the foreign investments it needs. The Global Competitiveness Index (GCI) published by the World Economic Forum yearly assesses and ranks the ability of countries to provide high levels of prosperity to their citizens which depends on how productively a country uses available resources. Therefore, the Global Competitiveness Index measures the set of institutions, policies, and factors that set the sustainable current and medium-term levels of economic prosperity. Rwanda has formidable track record since coming out of the genocide against the Tutsi - and leads many of its peers on the continent. Rwanda is 38 out of 184 countries according to the Global Competitiveness report 2020, with its closest peer in the EAC, Kenya at 56.

The indicators that Rwanda is performing at or above its global rank include a tie at (4) with Kenya on 'Protecting Minorities', a reaction to righting past mistakes of targeting minorities, 'Starting a Business' (38), 'Dealing with Construction Permits' (35), 'Getting Credit' (3) and 'Protecting Minorities'. It is noteworthy that Rwanda lags all but one of its EAC peers with Kenya leading in 'Paying Taxes'. This is consistent with the level compliance to VAT, which we discussed already where Rwanda's intake is half of its peers. The RRA's paradigm shift from post delinquency enforcement to presumptive enforcement is in the right direction. Furthermore, a robust education outreach on who, how, when, where and why pay taxes would be instrumental to engender a culture of paying taxes. Secondly, the transaction cost to comply must be reduced including consolidation of digitalization and mobile phone platforms for registration, reporting and payment of taxes as well as system agnostic SMEs' access to tax payment platforms.

Figure 44: EAC Comparative Position on Payment of Taxes



Source: Global Competitive Index (PCI), 2020

The country is about the middle of the group of 184 countries with regard 'Getting Electricity' (81) and 'Enforcing a Contract' (88). The score on electricity is consistent with the infrastructure deficit that the country is seeking to address with the bulk of on-going PPPs targeting the critical energy sector (Table 12). Only 68% of the population has access to electricity while it is twice that in Kenya. Mobile cellular subscriptions are 77.9 per 100 (Kenya 103.77), a factor behind the latter country's achievement of transformation predicated on technology rather than labor and capital inputs. Both countries have similar levels of internet penetration. Thus, the infrastructure deficit exits in energy generation and IT. The country has potentials for investments in renewable energy and IT backbone with PPP can satisfy, given rates of return which are attractive, over and above the initial conditions for market entry. Rwanda had had 25 PPP projects over a decade with 17 currently active at about One Billion US dollars in value.

Table 12: PPP in Rwanda and Kenya (2019)154

Parameter	Rwanda	Kenya
Access to Electricity (%)	63%	69.7
Electric Power Consumption	89.2%	164.33
Improved Water Source		58.9
Improved Sanitation Facilities (%)	66.6	29.1
Mobile Cellular Subscriptions (per 100)	76.49	103.77
Internet Users (per 100)	21.77	22.57
Logistics Performance Index	2.76	2.55
Total PPP Projects (Number)	25	
Total PPP Projects (Cost)	1074	
Total Active Projects (Number)	17	
Total Active Projects (Cost USD Million)	1000	

[154]Rwanda PPP Website;

Source: Rwanda PPP Knowledge Lab Website;

Critical policy pull factors for private investment include favorable business climate - including stable macroeconomic and sociopolitical conditions that impact determinants of credit risk and foreign investment. Strong institutions and low risks of asset loss including corruption; public sector to have favorable risk-return profile; and, there ought to be a pipeline of infrastructure projects available for private sector financing, with transparent and accessible information.

Box 5: Sectors and Partnership Options in Rwanda
One the challenges of PPP projects is to have expertly articulated project documents – and Rwanda can seek assistance from both the World Bank and IFC. Another is that the pricing of PPP product is generally considered too high to have the rates of return necessary to attract private investors. This factor compels the use of PPPs in sectors such as IT, where such returns are routinely possible. The GoR PPP Guidelines recognized these constraints and proposed the following sectors: (1) Transportation - including roads, railways, airports, bridges, tunnels, waterways and inland ports; (2) Energy including - water energy, gas energy, solar energy, wind energy, geothermal energy, biogas energy and peat; (3) Social affairs - including those related to education, culture, health, sports and leisure; (4) Tourism - including tourism related to history, hotels, parks and tourism attractions; (5) Natural resources and environment - including those related to forestry, oil and oil products, minerals, water sanitation and waste disposal; and (6) Telecommunication and information technology. The partnership options states: (a) *Management Contract* - whereby a Contracting Authority awards a partner the right to manage and perform a specific service with respect to an infrastructure facility or other asset for an agreed time period; (b) *Build-Operate-Own or "BOO"* - whereby a private partner finances, designs, constructs, owns and operates an infrastructure facility or other asset to provide services; (c) *Build-Operate-Transfer or "BOT"* - whereby a partner finances, designs, constructs an infrastructure facility or other asset to provide services and maintains it for an agreed time period after which a transfer of the infrastructure facility or other asset is made to the Government; (d) *Lease-Operate-Develop or "LOD"* - whereby the Contracting Authority grants a Partner a lease to operate and develop an existing infrastructure facility or other asset for an agreed time. **Source:** Rwanda Public Private Partnership Guidelines, 2018

5.3 Foreign Direct Investment (FDI):

Foreign private capital and foreign direct investment (FDI) is pivotal to achieving the NST-1. In pursuance of the of the country's investment policy (Box 6), enthroning the private sector-led growth strategy is driven by financial deepening in the money and capital markets to increase savings and investment, leveraging private sector through PPP investment in infrastructure, grow SME investment for jobs creation and exports, encourage access to finance through financial inclusion leaving no-one behind and attract foreign private capital (FPC) in enterprises for jobs and technology transfer for socio-economic transformation of Rwanda. Of all the sources of financing, FPC harbors the largest pool of resources measured in daily transactions of trillions of US dollars, to be targeted for getting Rwanda on a path to achieving the SDGs by 2030 and high middle income country status by 2035. The contribution of FPC would be over and above national efforts and ODA disbursed at 0.7% of GNI by OECD countries. However, FPC inflows remain a challenge for African countries, for a myriad of reasons touched upon below in discussing the push and pull factors referenced in the Global Doing Business and Global Competitiveness Indices.

Box 6: The National Investment Policy (NIP: 2017)
The National Investment Policy (NIP, 2017) is intended to guide the country in its investment programs by ensuring: ▪ Prioritisation of investments based on strategic goals, which also guides long-term budgeting and debt-management; ▪ Improving implementation through feeding back execution data to ensure strategic and efficient management of the project portfolio and Transparency and accountability over the investment cycle to enable budget agencies on central and local level to plan and prioritize effectively; and ▪ Engaging the private sector and leveraging alternative sources of financing by increasing confidence in a credible pipeline of projects and systematically targeting a wider range of strategic investment forms. **Source:** National Investment Policy, 2017

A key element in economic transformation is innovation, and for Rwanda will particularly be driven by mobile telephony. Therefore, it is a welcome development that the bulk of Foreign Private Capital stock in Rwanda went to IT in 2018. Indeed, the desired outcome from foreign investment is technological transfer. The IT sector, which is ideal for this purpose, received 29% of total stock of FPC. Other sectors which are also thriving on technological innovation and benefitting from FPC inflows are the financial as sector (19.3 percent), manufacturing (13.4 percent), electricity, gas and steam (11.0 percent), and the rest of the sectors 27%. Such a dispersed nature of the FPC portfolio is risk averse as opposed to bunching in one or two sectors that increases vulnerabilities. A sector breakdown of FPC flows and stocks revealed that two sectors – electricity; and gas and steam and IT combined; received more than half of the total flows in 2018, and mainly from Mauritius, the Netherlands and South Korea. Mauritius and Kenya increased their exposures to the financial sector with new flows during the year. Other recipient sectors were the manufacturing sector (7.4 percent), wholesale (4.2 percent), agriculture (4.0 percent), tourism (0.7 percent), and other sectors (5.6 percent).

Foreign private capital (FPC) flows into Rwanda increased consistently over the past two decades and supplemented domestic resources to achieve sustained economic growth. FPC flows grew by 48% between 2013 and 2018, and year-on-year by 2.4% to USD 463.0 Million. Foreign direct investment (FDI) – equity holdings of more than 10%, is dominant among the three flows at 28% of GDP, while portfolio investment (PI) – equity holdings of less than 10%, and Other Investments (OI) or (OL) - largely consisting bank loans, trade credit and advances, currency and deposits, and other accounts receivable/payable are less significant at 1.6% and 8.8% of GDP respectively[155].

However, significant risks are associated with reverberations of crises originating from anywhere in an integrated international financial markets for equity, debt and currencies. Asian countries were not the epicenter of the 2008 global economic and financial but they were among the hardest hit[156]. As a rule of thumb, PI are OL are usually associated with short term funds and more volatile, developing these flows must be accompanied by capacity building in the NBR to develop robust private capital monitoring and risks assessment. Additionally, inter-company accounts pose risks as vehicles for shifting profits and avoiding taxes.

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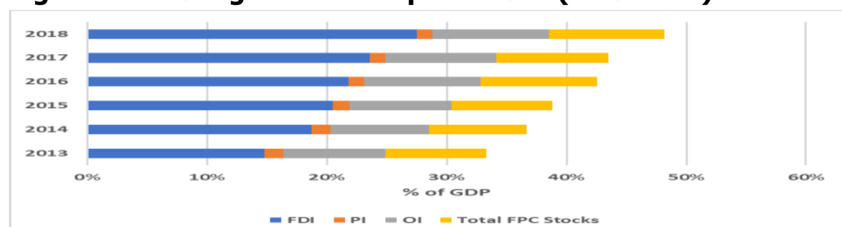
[155] NBR Foreign Private Capital in Rwanda, 2019;

[156] Why Has Asia Been Hit So Hard by the Global Economic and Financial Crisis? Presentation by Mr. Takatoshi Kato, Deputy Managing Director, IMF, at the Eighteenth General Meeting of the Pacific Economic Cooperation Council, May 12, 2009;

Figure 45: Foreign Private Capital Stock (% of GDP)



Source: Consultants' Analysis, NISR Data

Table 13: Foreign Private Capital (FPC) Flows Growth

FPC Growth	2014	2015	2016	2017	2018
Foreign Direct Investments (FDI)	78%	-17%	-10%	4%	7%
Portfolio Investments (PI)	229%	-55%	20%	-90%	1867%
Other Investments (OI or OL)	-43%	-2%	109%	-51%	-21%
Total FPC Inflows	**31%**	**-15%**	**14%**	**-16%**	**2%**

Source: Consultants' Analysis, NISR Data

Table 14: FDI Inflows & Stocks by Category

FDI Inflows	Equity	R. Earnings	Loans	Total Inflows	FDI Stocks	Equity	R. Earnings	Loans	Total FPC Inflows
2018	35.90%	24.80%	39.30%			39.00%	16.60%	44.40%	**31%**
2013-2018	85%	143%	4%	48%		138%	199%	201%	**-15%**

Source: NBR Foreign Private Capital in Rwanda, 2019

Table 15: FDI Inflows & Stocks by Countries

Origin	Mauritius	Netherlands	Kenya	US	Belgium	UAE	UK	EXIM Bank	China	EADB	Others
2017-18 (Flows % of Share)	43.30%	15.20%	7.20%	4.90%	3.80%	3.80%	3.10%	2.40%	1.80%	1.30%	13.10%
2018 (Stock % Share)	24.40%	7.50%	6.60%	5.70%	5.70%	3.70%	3.10%	2.30%	2.10%	2.10%	36.30%

Source: NBR Foreign Private Capital in Rwanda, 2019

Table 16: FDI Flows 2018 Stock by Region

Region	EAC	COMESA	SADC	OECD	EU	Asia	International Organizations % Banks
% Share (2017-2018)	5.0%	31.0%	27.0%	19.0%	13.0%	3.0%	2.0%
% Share (2018)	6.7%	26.5%	22.8%	18.0%	13.1%	6.5%	6.6%

Source: NBR Foreign Private Capital in Rwanda, 2019

In 2018, the FDI inflows increased by 7.1%, to USD 381.9 million from USD 356.4 Million in the previous year, mainly driven by an increase in equity investment (76%) and debt from affiliated investors (20.2%). PI recorded inflows of USD 5.9 million in 2018 and an increase in total stock by 5.2% to USD 109.3 Million. OI increased in stocks by 4.1% to USD 804 million and a share of 16.2% of the total FPC inflows in 2018, equivalent to $ 75.2 Million.

another source of vulnerability that needs to be closely monitored is Private Sector External Debt (PSED) especially, in the face of the goal to establish Rwanda as a financial hub and attract significantly more private flows. A country is rated along a number of criteria that includes sustainable public and private debt and therefore, the latter must receive the same level of scrutiny and assessment as the former. In 2018, the PSED inflows increased by 2.2% to USD 225.1 million

from USD 220.2 million in the previous year, while the private sector debt stock stood at USD 1,819.0 million in the same year.

A major motivation for investing is to make a return and investing in Rwanda has proven to be a worthwhile business proposition. The FPC enterprises increased total turnover to USD 2,446.5 million in 2018, while both net profit and return of equity (ROE) showed positive gains in 2018, the former by 1.1% to $ 142.5 Million over 2017, and the latter averaged 13.2%, which is double the world's average profitability of 6%.

A national imperative for promoting investment is jobs creation and earing foreign exchange. FPC employment grew by 6.4% to 73,695 employees in 2018 from 69,241 employees in 2017, of which, 96.7% are nationals. Earnings by the employed also rose by 6.3% over last year. A gender classification of the employed showed that 65.8% and 34.2% are males and females respectively. Males are mostly employed in agriculture, construction, electricity and manufacturing sectors, while females are in finance, health, and education sectors.

However, the net exports of these companies registered a deficit signifying that their imports for wholesale and retail as well as intermediate goods for manufacturing was higher than the exports they generated. A closer monitoring of the net exports of FPC firms is warranted to ensure they become net contributors to the country's foreign exchange reserves and not a drain.

5.4 Access to International Finance Capital:

These bond issues allowed the GoR to finance investment and the budget deficit without recourse to bank borrowing which crowds out the private sector or foreign borrowing that present exchange rate risks. Also, it allowed BNR to conduct monetary policy through secondary market operations such repos and buy-backs that have minimal impact on hiking interest rates compared with IPOs. The dominance of the public sector in the bond market augurs well for public financial management and deepening the market - however, efforts should be redoubled for the private sector to gain greater access of capital markets including the issuance of corporate bonds, in consonance with the private sector-led strategy of the NST-1.

The Capital Markets Masterplan for Rwanda recognized that trade in investments denominated in foreign currencies which would supplement low local savings and the young capital markets. Against this backdrop, in April 2013, Rwanda floated a 10-year Eurobond with a coupon of 6.625% and an order book of $3.5 billion. It was dubbed the 'Deal of the Year' by Euro Money magazine and managed by BNP Paribas and Citi Bank. It was eight-and-a-half times oversubscribed with a tight yield. The GoR used the resources to fund socio-economic infrastructure: repayment of loan for, and completion of, Kigali Convention Centre absorbed USD 270 million; completion of the Nyabarongo hydropower project with capacity of over 28 MW took USD 50; and, USD 80 million for amortization of Rwandair's debts. During the period of the Eurobond, Rwanda was rated B+ by Fitch Ratings. Going forward, monitoring frameworks for the country's financing strategy must incorporate the criteria that go into such ratings. The success of the Eurobond issue provided an invaluable learning experience for the country to accessing the lucrative sovereign bond market niche of international finance capital which augurs well for future needs.

5.5 Remittances:

Around the world, remittances are gaining importance a source foreign financing. In some countries, remittance flows have overtaken export receipts Foreign Direct Investment (FDI) and aid. Aggregate flows show that remittances are currently the second largest source of foreign exchange, both in absolute terms and

as a percentage of GDP[157]. The share of remittances to GDP is much higher for countries that labor-exporting rising to more than 10% of GDP. Remittance is therefore a focus of policy makers to strengthen its manifested role in poverty reduction and how to further harness it for national financial deepening, economic growth and development. Remittances shed light on the role of the Diaspora to national development. They are nationals abroad that earn income in countries with a higher disposable income levels and in foreign exchange that act as pool of private foreign savings tied to the home country. Their transfers support local incomes and consumption of family members and friends while contributing to the depth of the financial system.

The challenges before policy makers include efforts to lower costs of making transfers to senders and recipients, facilitating access of the Diaspora to domestic money and capital markets and engender continuous dialogue with the Government – in line with SDG 10c.[158] Cutting down transfer prices is an international initiative by the international community led by the World Bank. Remittance services at the international domain are dominated by multinationals such as Western Union and Money Gram – although more affordable options are beginning to reflect on the market – and they will need to be supported to obtain traction. Also, it is noteworthy that mobile money platforms such Kenya's MPESA are increasing market share in limited markets. The World Bank estimates that sending remittances costs an average of 6.38 percent of the amount sent. Proponents posit that reducing it to by 5 percentage points would save USD 16 billion for senders[159] - Rwanda could advocate this at appropriate international forums. After the successful experience of suspending charges on transactions (banks to mobile money and vice versa) during the pandemic lockdown, BNR has this month (September 2021) directed stakeholders not to levy similar charges – a move to support efforts to reach a 'cashless' economy.

The COVID-19 occasioned the steepest decline ever in remittances flows to low and low middle income countries (LMICs) are projected to fall by 7 percent, to $508 billion in 2020, followed by a further decline of 7.5%, to $470 billion in 2021[160]. This aggregate 14.5% decline over two years will occur in regions differently: Sub-Saharan Africa (9 percent and 6 percent), East Asia and the Pacific (11% and 4%), the Middle East and North Africa (8% and 8%), South Asia (4% and 11%), and Latin America and the Caribbean (0.2% and 8%)[161]. The factors behind the COVID-19 effect include weak economic growth and higher unemployment levels in migrant-hosting countries, weak oil prices; and depreciation of the currencies of remittance-source countries against the US dollar.

The Government of Rwanda took determinate steps to engage the Rwandan Diaspora in national socio-economic development by enunciating the Rwanda Diaspora Policy in 2009. The NST-1 has updated the policy under Priority 3, specifically to "Expand services delivered to the diaspora community and sensitize the Rwandan diaspora to promote unity and reconciliation, increase participation in national development programs, and mobilize friends of Rwanda". Rwanda's diaspora population is scattered around the globe and World Bank data suggested that the country receives remittances from over 100 countries. The Diaspora is large, diverse, active and politically engaged. The emigration rate reached 19% of all tertiary-educated individuals in 2008, making this Diaspora highly

[157] Impact of Remittances on Poverty and Financial Development in Sub-Saharan Africa, Sanjeev Gupta, Catherine IMF;
[158] Targets to bring remittance cost to 2.5% by 2030;
[159] Although start-ups like TransferLink are able to immediately achieve the SDG 10c target of 2.5%, they are not well understood and supported by governments and traditional central banks;
[160] Migration and Development Brief, World Bank, 2020;
[161] Ibid;

educated[162]. Rwandans continue to make contribute substantially to their home-country economy through remittances – which as a percentage of GDP stood at 1.739 in 2010, 1.864 (2015), 2.702 (2018), 2.517 (2019) and 2.332 in 2020[163]. By comparison, Ethiopia has inflows in the same year equivalent to 5% of GDP and has launched a Diaspora bond. It is noteworthy that the Diaspora are never homogenous. Conflict driven migrants include those who may feel persecuted and would want to have little engagement with the Government, if it is the current regime that drove them out. Other Diaspora may continue to reflect national animosities such ethnic divides in their new countries[164]. These are challenges to an implicit sense of unfiltered nationalism that would detract from having a monolithic Diaspora for seamless interactions with the Government. Any Diaspora engagement policy must devise mitigation strategies to have optimal results.

The African Development Bank estimated that 140 million Africans in the Diaspora with saving amounting to USD 53 billion in those destination countries[165]. Remittance inflows into Rwanda increased by 58% to USD 245 million in 2019 from USD 155 million in 2015. In 2020, the member countries of the EAC registered remittance inflows that ranged between 0.6% of GDP (Tanzania) and 3% of GDP (Kenya), while Rwanda recorded 2.3% of GDP. For most of the period after the genocide, grants administered through Non-Government Organization (NGOs) associated with humanitarian assistance dominated the transfers landscape into the country. Generally, NGOs and remittances share the same constituency of recipients that include rural population with a focus on women. As with regard to the latter, the migrant population largely target mothers back home for support. Going forward, remittances will continue to lead the flows of unrequited transfers into Rwanda. The task before the policy makers is to facilitate these flows and a in proactive way, harness it for funding the national development plan.

Remittances keep the poor away from formal or informal borrowing however, their financial inclusion come from access and use financial services to collect and maybe save. It is also observed that remittances are used construction of homes and investments in road transport and retail trade. All of these activities in addition to family funding family festivities contribute to increasing the domestic product. As far back as the World War II, Governments have designed policies and strategies to harness Diaspora savings for national development.

Diaspora bonds is an option the authorities may pursue for tapping into savings of the Diaspora. "A Diaspora bond is a debt instrument issued by a country – or potentially, a sub-sovereign entity or a private corporation – to raise financing from its overseas Diaspora"[166]. These are debt instruments that target savings of country men and women in the Diaspora and have been in existence for a long time issued by China and Japan in the 1930's, Israel and India in 1950's that raised $32 billion and $11.3 billion respectively, while Ethiopia has recently launched.

Figure 46: Remittances and Civil Society Inflows (USD millions)

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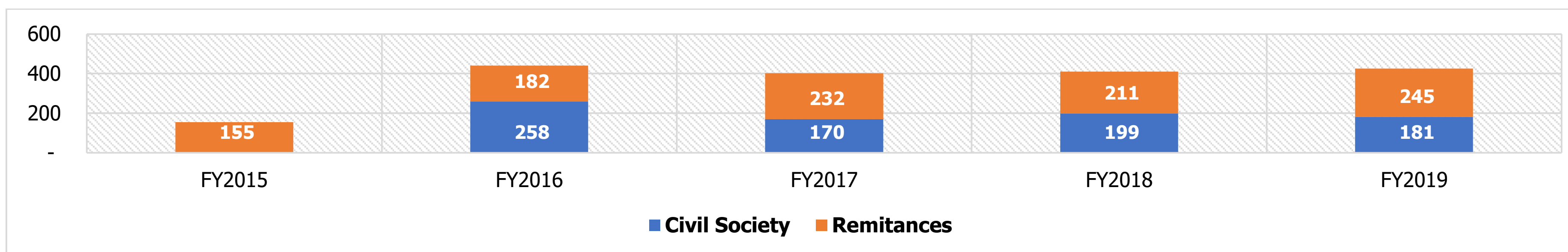
[162] The Development of Diaspora Engagement Policies in Burundi and Rwanda, by Sonja Fransen & Melissa Siegel, 2011;

[163] World Bank Website – Rwanda diaspora Personal Remittances received as a percentage of GDP;

[164] Ibid;

[165] Diaspora Bonds in the African Context, African Development Bank: https://www.afdb.org/en/news-and-events/diaspora-bonds-in-an-african-context-10289;

[166] "Development Finance via Diaspora Bonds: Track Record and Potential", Suhas L. Ketkar and Dilip Ratha, 2007;



Source: World Bank Database

Countries have varying rationale for floating Diaspora bonds, from seeking to keep the Diaspora engaged in national affairs by Israel, to balance of payments support by India[167] and to financing infrastructure by Ethiopia. Rwanda to fund physical infrastructure, roads, power generation plants, building of schools and hospitals in the rural areas. The strategy involves selecting physical infrastructural projects that stand out and can be easily showcased to the Diaspora as their contribution to national development. A Diaspora bond has the following advantages: (a) provides access to capital other than ODA, foreign direct investment and loans; (b) complements the Eurobond and World Bank bonds as it contributes to mitigating development finance risks through a more diversified portfolio; (c) a successful issue, along with the access to steady new funding, may help improve ratings on a country's sovereign debt; (d) buyers may continue to purchase bonds, even when markets are skeptical about a nation's economic outlook. Israel has borne this out, as sales of Israeli Diaspora bonds rose during the Six-Day War; (e) sold at a premium to the Diaspora members, thus fetching a "patriotic" discount in borrowing costs. Country folks are willing to buy it at lower rates than what is available in the open market; and besides love of country and patriotism or to do good for the motherland, investors may have local currency liabilities which these bonds, though in hard currency, can be so designed to have the flexibility to be useful domestically in this regard.

Initially, the focus should be well targeted bond issues that are committed to a market niche that may have other considerations other than profit motive alone. In the case of the Diaspora bonds, it is nationalism or love of country. There are others such bonds for matching Diaspora investments in local community projects, but for starters Diaspora bonds which have been tried and tested in a number of countries in Africa is a veritable option.

[167]"Ibid

6.0 INTERNATIONAL PUBLIC FINANCING

6.1 Official Development Assistance:

The motivation of Rwanda's Development Cooperation Policy (DCP), 2019, is to achieve future development targets that "require significant investment in infrastructure, human capital development, health, and private sector development, as well as considerable efforts to boost economically sound public investments"[168]. This Policy outlines GoR's vision for development cooperation with the overall aim "to enable Rwanda's eventual self-reliance by accelerating the delivery of sustainable results and impacts aligned to the country's national development goals and sector strategies"[169]. The main guiding principles pronounce: ownership by taking lead of development processes; leveraging the private sector as the engine of economic growth; a focus on results and cost-effectiveness enthroning results planning with DPs; inclusive development partnerships predicated on multi-stakeholder partnerships on national platforms for dialogue and collaboration; and, partnerships based on transparency, respect and mutual accountability.

The INFF platform stands in consonance with "inclusive partnerships based on multi-stakeholder partnerships on national platforms". We assess the entire external financing landscape, ODA - multilateral, bilateral, UN vertical funds, private sector and civil society organizations, through the lens of the policy's main objective and guiding principles. For this report, the focus is on the roles external financing, public and private, can play to contribute to filling the financing gap of about 21% of GDP to meet the NST-1, SDGs in 2030 and Upper Middle Income.

A number of changes occurred in the initial conditions of development cooperation while Rwanda is a signatory to much of the international instruments of international cooperation (see Box 7). The GoR has established a Division of Labour (DoL) to replace the current institutional structure for development cooperation started in 2013. The policy ascribes roles of various actors and institutions, prescribes governance arrangements and modus operandi. It also recognizes changes in external financing landscape whereby DPs are providing diversified and innovative financing against the backdrop that private flows have overtaken ODA. This is a welcomed and logical change and if the primary interest of Rwanda is tap to foreign savings, then simply put, the money is in private hands.

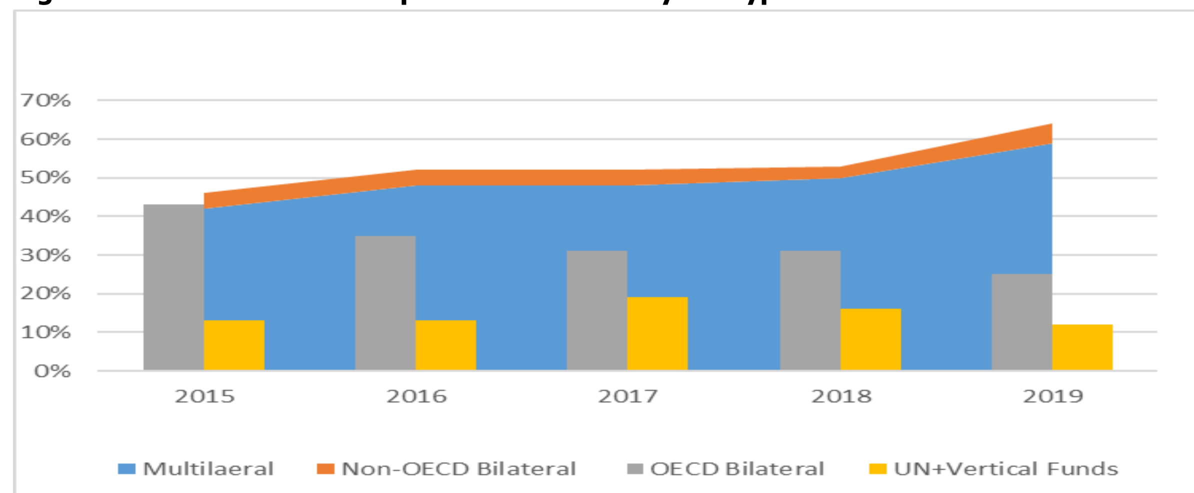
Box 7: International Cooperation Agreements Subscribed by Rwanda.
Among the most significant and relevant of these agreements include: G20 Compact for Africa (2017); 2030 Agenda for Sustainable Development & Global Sustainable Development Goals (SDGs) (2015); Addis Ababa Action Agenda on Financing for Development (2015); Agenda 2063 – the Africa We Want (2015); Paris Agreement on Climate Change (2015); Busan Partnership for Effective Development Cooperation (2011); Accra Agenda for Action (2008); Paris Declaration on Aid Effectiveness (2005); and the Rome Declaration on Harmonization (2003).
Source: Consultant's Desk Review

[168] Rwanda Development Cooperation, MINECOFIN, 2019;

Rwanda's development is financed by many different flows with total domestic and external financial flows recorded at $5,531 million in the fiscal year 2019/20, which is a marginal increase over the $5,126 million recorded in 2018/19. Of these total flows, 46% are External and 54% are Domestic. Despite this decline, it still remains that the source of most financing for Rwanda's development is domestic. The External Development Finance (EDF) flows recorded for the fiscal year under review mostly came from Development Cooperation (33% of total development finance resources). The remainder came from Foreign Private Capital and Remittances at 9% and 4% respectively. Disaggregated ODA flows in the past six years, 2015 to 2020, showed that the contributions were Multilateral (50%), OEDC Bilateral (33%), Non-OECD (4%) and UN Vertical Funds (14%).

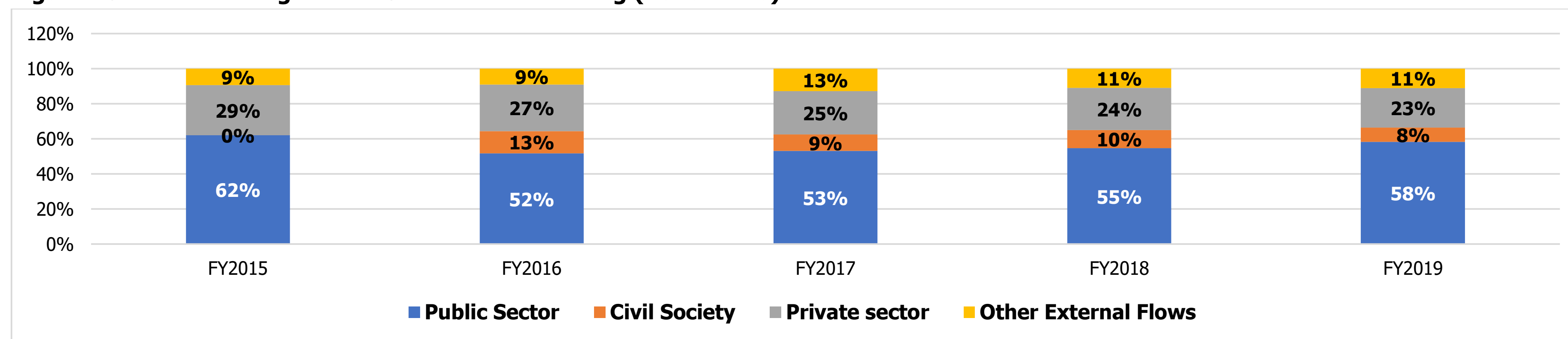
Development Cooperation with the Public Sector is the leading form of DP support to Rwanda, either in the form of projects or budget flexible funding, managed by the GoR. In 2019/20, this type of flow increased by 42% to a record $1.523 billion, from $1.056 billion in the previous year, and substantially over the $970 million registered in 2017/18. The rapid response funding under the ERP provided in the second half of the year by the multilaterals was responsible for the spike in financing. It came from the IMF (16.9%), the World Bank (16.6%), and AfDB Group (16.1%) and AfDB Group (16.1%). Other DP contributors were USA 12.4%, Global Fund 5.1%, and European Union 7.6%. Development Cooperation from this these 6 DPs accounted for 74.7% of total support to the Public Sector.

Figure 47: Official Development Assistance by DP Type



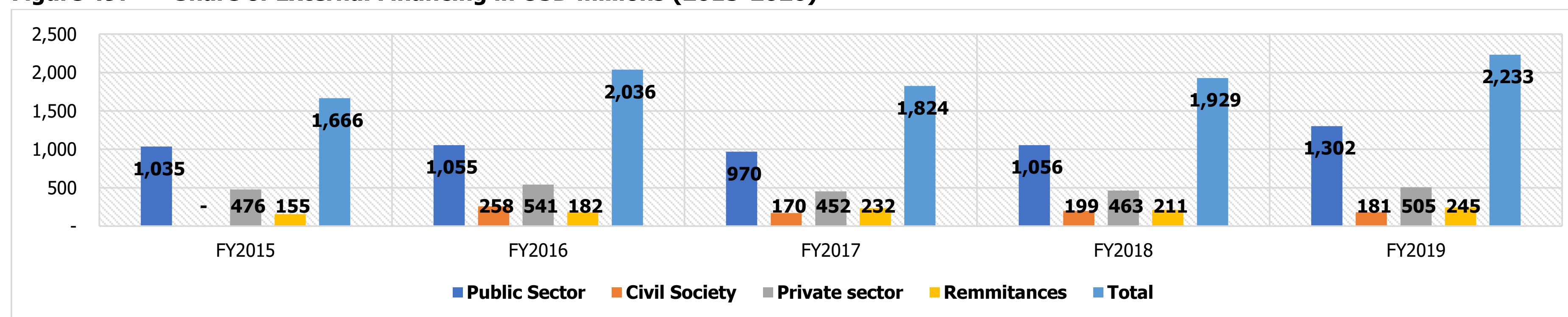
Source: Minecofin Data and Consultant's Analysis

Figure 48: Percentage Share of External Financing (2015-2020)



Source: Minecofin Data and Consultant's Analysis

Figure 49: Share of External Financing in USD millions (2015-2020)



Source: Minecofin Data and Consultant's Analysis

A sector-wise breakdown of ODA in 2019/20 indicated that the largest share of support to the Public Sector went to Health, Energy, Agriculture, Transportation, and Education. Over the past five years, outlays to same sectors have increased driven by NST-1 financing, while outlays to Health and WASH accelerated in the pandemic year. Sector Budget Support (SBS) + Flexible Funding as a proportion of total assistance increased to 43% from 37% in 2019/20 over 2018/19, while project financing decreased from 63% in 2018/19 to 57% in 2019/20. This represents an almost equal but opposite flows between Project and SBS+Flexible Funding modalities in a COVID-19 year as capital spending slowed down while recurrent expenditure to combat the heath emergency. The flows. Much of the COVID-19 funding is soft loans which almost doubled as a proportion of total assistance to the Public Sector from 24 percentage points to 58% in 19/20 from 34% in 2015/16, with grants having decreased by 24% over the same period, registering 42% in 2019/20 from 66% in 2015/16. This could be driven by the

shift towards multilateral DPs that traditionally have higher shares of loan support). Rwanda's strong debt sustainability management made it eligible to access more loan facilities to finance large investment projects and the pandemic response.

ODA is increasingly being delivered with and through the private sector with more DPs forging partnerships with the private sector which has taken an increased role in financing development activities. Most of the financing that the private sector in Rwanda receives comes from Development Finance Institutions (DFIs), which are specialist finance-focused agencies of a bilateral or multilateral donor. This form of support was increasingly relevant in the wake of the COVID-19 pandemic, to ensure continued access to working capital for businesses severely impacted by trade and demand shocks. The first survey or tracking of DFI support was undertaken as part of the 2017/18 EDF Report. [170]It revealed that 16 DFIs had 80 active investments in 8 banks and 30 non-banks in Rwanda as of the end of 2018, with commitments totaling $645 million. However, this report for 2019/20 did not record disbursements made by the reporting DFIs. Out of the 6 DFIs that responded to requests for data, only 4 provided data for this report in the form of cumulative numbers and not disaggregated by fiscal years. The report was able to establish through BNR that Foreign Private Capital was $505 million in 2019, a 9.1 % increase from $463 million in 2018.

The Developing Partners Assessment Framework (DPAF) assesses the performance of DPs against mutually agreed indicators that measure their progress in the provision of quality and volume of development assistance to Rwanda. These indicators are drawn from international agreements that aim to strengthen development cooperation between recipient countries and their DPs. For 2019/20, DP performance in general declined from 2018/19, and targets for only 1 out of 14 indicators were met. There was an increase in the number of DPs achieving their individual targets in 4 of the 14 indicators: namely indicators C3, E1, G1, and G4. However, this did not result in progress on average, as these improvements were counterbalanced by worse performances from other DPs. Across the board, performance against indicators on financing national strategies and the use of country systems all declined while performance against the short-term predictability indicator (C2) remained unchanged. DPs' performance against the Budget Support indicators (G1 and G4) saw marked improvement albeit missing their targets. However, there was a worsening in performance for G3 – also missing its target. These results indicate that GoR and DPs would need to substantially increase their efforts, if the quality of development cooperation is to improve. A dialogue is warranted to have a mutual understanding of what did not work and how to make amends going forward. The usefulness of DPAF lies in its ability to generate a reset for better results.

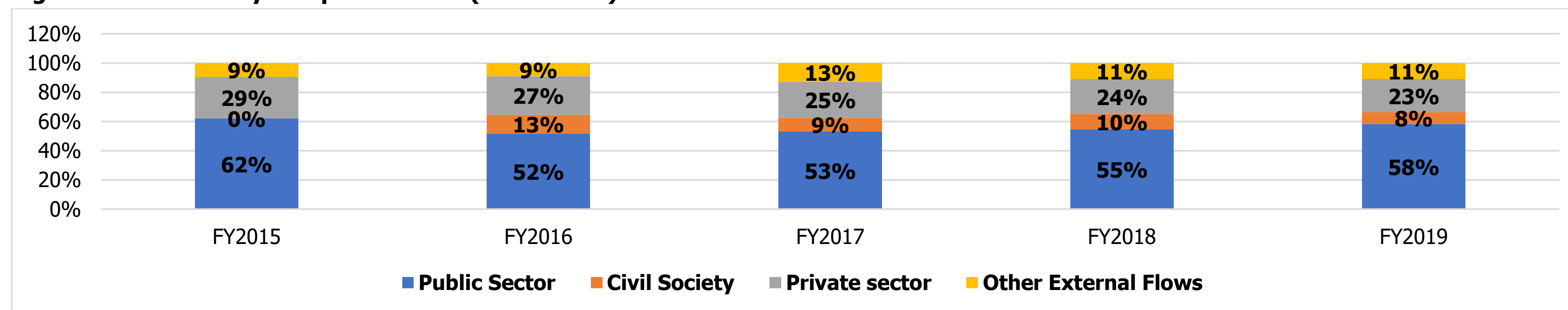
Overall, external resource mobilization continues to play a substantial role towards the realization of Rwanda development goals. The 2019/20 EDF report illustrated a steady growth in overall EDF through increased support to the Public Sector, via CSOs and the Private Sector. Additionally, the public sector trend highlights that the modalities for deploying development financing continue to evolve. The COVID-19 pandemic occasioned a global recession in 2020, yet, twenty-two DPs reacted swiftly to support Rwanda through coordinated mechanisms that yielded an estimated at $616.78 million by the end of 2020. The DPs are closely engaged with Rwanda's development efforts.

The Rwanda authorities must approach ODA with renewed vigor as estimates show (Subsection 3.1) that without it, the country achieving the SDGs by 2030 will be elusive. As the SDGs are aligned to NST-1, missing the latter's revenue target in 2024 would be an ominous sign for the SDGs, unless the shortfall can be recovered in the next ten years to 2030. In the short-term ODA grant and concessional loans will be indispensable to s still raging in August 2021. The current COVID-19 wave and recent lockdown present downside risks yet to be fathomed. This quarter's data would be informative about the kind of socio-economic

[170] External Development Finance (EDF) Report (2017/2018),MINECOFIN;

setbacks it has caused. It The national strategy must be to engage DPs at all levels including Cabinet to advocate for OECD countries to meet the ODA target of providing 0.7% of GNI in development financing to LIDCs. This advocacy may be coordinated at the level of the EAC, AU and UN. In this last decade to the SDGs timeline in 2030, a wider fiscal space from ODA to supplement national efforts would be indispensable for countries to like Rwanda to succeed.

Figure 50: ODA by Recipient Sector (2015-2020)



Source: Minecofin Data and Consultant's Analysis

6.3 South-South and Triangular Cooperation:

Rwanda strongly believe in south-south cooperation, especially the opportunity to find African solutions for African problems. It builds on its significant success in developing *'home-grown solutions'* for national challenges. As the country emerged from the 1994 abyss, it was beset with multiple intractable challenges – many of which would have taken decades to resolve in a classical way! As the country made significant choices around 'unity, accountability and thinking big' – Rwanda looked to its cultural heritage and the benchmarking of good practices to find answers within itself. Overtime, a mindset and practice of 'home-grown' solutions has emerged with significant success to resolve intractable challenges around justice, national dialogue, public finance systems, community health management, social protection practices, gender equity, land management, reforms and ease of doing business, social cohesion, security, performance management (Imihigo) and much more. As south-south interest and demand developed around Rwanda's home-grown solutions, GoR set up the Rwanda Cooperation Initiative (RCI) as a public company to manage this national potential through a 'south-south' approach – with a mandate to collaborate internationally through knowledge-exchange and mutual growth.[171]

More 'South-South' cooperation is also expected to emerge around Rwanda's 'Home-Grown Initiatives (HGI)' – Rwanda's trademark solutions based on local opportunities, cultural values and history to fast track development' – and embedded in Rwanda's 2003 constitution amended in 2015.[172] Rwanda's HGI has been the bedrock of Rwanda's reconstruction and will continue to play a major role in its transformation journey. Although Rwanda is careful to emphasize that

[171] Rwanda Cooperation Website (www.cooperation.rw);
[172] Rwanda Governance Board (RGB) website;

its HGIs are not a 'one-size-fit -all' and must be adapted into prevailing contexts, HGIs will remain part of the country's arsenal for its soft commercial diplomacy – and has potential to attract resources through 'South-South' cooperation. Equally, as Rwanda consolidates its reputation as an effective peace keeping force, economic benefits should be harnessed – including an increment of Peace Keeping Operations (PKOs) contribution as a share of GDP.

A highly visible manifestation of South-South Cooperation (SSC) in many southern countries including Rwanda, is the presence of China. This relationship bore hallmarks such as the funding and construction of a new building for Rwanda's Prime Minister's Office and four ministries, and a visit by President Xi Jinping in 2018[173]. The President of India also visited in the same year, earning the country a reputation as a 'small big country'. While SSC is important to Rwanda, the government insists on its own terms guided by transparency and national priorities predicated on the concepts of Home-Grown Solutions (HGS) such Imihigo (performance contracts at all levels of the country) and Umuganda (community work by the whole population), with strong links to the country's cultural heritage. In 2018 alone, around 300 delegations from other countries came to Rwanda to have a closer look at HGS at work[174].

Rwanda's approaches of SSC are highlighted by the types of engagement it has with other African countries. With HGS and a lean and capable civil service, Rwanda is supporting bureaucracies in other African including providing technical assistance to support the President's Office in Benin Republic. Through public private partnerships, the Rwanda Cooperation Initiative (RCI) was established as a private company in charge of visiting delegations and providing advisory services to other countries. The paid for services include knowledge transfer from Rwanda, or a study tour initiated and paid for by a donor, or by the Rwandan government itself with the potential to act as an agency in a future triangular cooperation constellation. Rwanda's reputation and statue on the continent and internationally is being helped by its proactive role in SSC and growing soft power associated with it. The RCI may even prove to a deft commercial venture and positioning Rwanda as a service hub. This approach to SSC is a paradigm shift that other countries can emulate[175].

6.4 Climate Finance:

Climate finance is a multilateral initiative and operationally not too different from ODA. Rwanda has ratified virtually all the international climate agreements that allow the country to access available financing. The country has ratified the Multilateral Environmental Agreements (MEAs) including the United Nations Framework Convention on Climate Change (UNFCCC), the Kyoto Protocol, the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES), the Basel Convention, the Montreal Protocol on Substances that Deplete the Ozone Layer, and the Rotterdam Convention, among others. Climate finance is administered by development finance institutions (DFIs) and introduced blended financing - including public and private sources with a mix of instruments that include: grants, loans, equity and guarantees.

Sub-Saharan Africa (SSA) presents a paradox with regard to climate change as it has the least causation effect and yet the most vulnerable to its impacts. A multitude of actors intervene to provide climate finance to support low-carbon development and adaptation strategies. The Green Climate Fund (GCF) stands as the leading fund in 2020, followed by the Least Developed Countries Fund (LDCF), the Global Environment Facility (GEF) Trust Fund and the World Bank-administered Clean Technology Fund (CTF). Climate Funds Update (CFU) data indicates that USD 5.9 billion has been approved for 827 projects and programmes

[174] South-South Cooperation: Rwanda makes its own rules; By Stephan Klingebiel, German Development Institute / Deutsches Institut für Entwicklungspolitik (DIE);
[174] Ibid;
[175] Ibid;

throughout SSA since 2003, with 37% going to adaptation measures. These are grant financing with multiple purposes including support to the vulnerable in society and gender-responsive benefits.

Rwanda submitted its updated Nationally Determined Contributions (NDC) to the UNFCCC in May 2020 – the first African country to update its Paris Agreement commitment. The NDC Implementation Framework, (2020/21 - 2024/25, revised greenhouse emissions by 38% (16% & 22% for domestic & external support respectively) by 2030, representing the equivalent to an estimated mitigation of 4.6 million. The aim is to enhance resilience to impacts of climate change through adaptation measures in priority sectors: water, agriculture, land, forestry, human settlement, transport, health, and mining. The NDC estimates the financing need to be USD 11 billion, with 40% unconditional and 60% conditional contributions from domestic and external sources respectively. Blended financing is a primary vehicle through which the NDC plan projects are to be implemented.

Table 17: Components of the NDC Plan in USD (2020/2021 – 2024/2025)

Description	Ongoing (USD)	Planned (USD)	Total (USD)
Agriculture	86,516,599	-	8686,516,599
Education	1,779,491	-	1,779,491
Energy	19,815,516	1,779,341,073	1,799,156,589
Environmental Management	1,445,924	-	1,445,924
Forests	22,188,322	32,737,688	54,926,010
Integrated Water Resources Management	8,557,689	-	8,557,689
Lands	-	200,000	200,000
Meteorology	10,679,767	-	10,679,767
Multi-Sector	26,152,534	19,350,000	45,502,534
Private Sector Development	25,831	713,893	739,724
Sanitation	-	41,141,229	41,141,229
Transport	1,500,000,000	-	1,500,000,000
Urbanization and Rural Development	201,337,479	-	201,337,479
Water Supply	30,601,698	145,820,413	176,422,111
Total	**1,909,100,851**	**2,019,304,295**	**3,928,405,146**

Source: NDC Implementation Framework Plan

The NDC plan has a financing gap USD 1,172 million to fund the entire projects portfolio by 2020-2025. To achieve the SDGs on the environment by 2030, the NDC Implementation Framework Plan presents a financing gap of USD 7,111 million to achieve the total NDC of USD 11,040 million.

Under the IEA the concept of 'Net Zero' is gaining momentum since the 2015 Paris Agreement as the next step in the climate change agenda. That is, to have a goal 'Net Zero' emissions by 2050, "meaning that any additional carbon emissions will be offset completely by carbon emissions withdrawn from the atmosphere". A growing recognition across the globe that the carbon budget, or maximum amount of emissions allowable, to limit global warming to well below 2°C is running out quickly. Already, climate related disasters, decline in agricultural productivity, and rising sea levels are projected to become more common.

Carbon pricing, that is, a carbon tax or carbon trading schemes, and green investments to enable the transition to a low-carbon economy are the pillars of the global strategy to get to 'Net Zero' emissions by 2050. The additional investments needed over the next decade to achieve it is an estimated additional $6 to 10 trillion or the equivalent to 6-10 percent of annual global GDP, by both public (30%) and private (70%) sectors. To meet the country's NDC plan's financing gap, Rwanda has a pressing national imperative to push forward on the international stage the 'Net Zero'.

7.0 MONITORING, REVIEW, GOVERNANCE AND COORDINATION:

7.1 Monitoring and Review:

Adherence to processes that allow the participation of all stakeholders is critical to have accountability, transparency and probity in the management of public finance – a condition expected by the citizens and DPs. The major stakeholders in public finance and the budget are the Executive that proposes the budget based on the Government's spending priorities and revenue proposals. Parliament assents to the budget bill and has oversight for accountability. Non-state players act as the eyes and ears for organized interest groups in the private sector including business associations and NGOs focused on issues like the vulnerable groups. The Citizen responsibility. They make submissions to the Finance Minister on various fiscal issues, i.e. on expenditure and taxation, mainly on matters that concern them. Citizen Responsibility - Citizens pay taxes and are the ultimate beneficiaries of budget. They are represented by parliamentarians but they also act directly to ensure theirs interests through lobbies (in NGOs) or other associations or devolved funds such as HIV Aids Funds. Development Partners and Aid Agencies or donors do have a significant influence on the Budget Process. This is particularly true of the IMF and World Bank who are consulted in the preparation of the budget where they exert influence on the structure, content, the timing of the Budget activities and reform agenda. The INFF will accommodate all major stakeholders in pushing forward for the realization of the GoR's fiscal objectives.

For integrating the SDGs, Africa 2063 and NST-1, the report proposes the use of the Economic Commission for Africa's Integrated Planning and Reporting Toolkit (IPRT) which does alignment at the level of goals, targets and indicators. It allows for assessment across development agendas and assess degree of alignment by sector. It tracks progress and identifies gaps between actual performance in the implementation of SDGs and AU 2063. This framework establishes a stronger linkage between the national plans and SDGs and adept at obtaining readily accessible data reports. It is less cumbersome and ease of usage more so than other platform.

The IPRT should be considered alongside UNDP's support to 'establish an integrated financing dashboard to consolidate and monitor data from existing data tracking systems on all key financial flows (public, private, international and domestic), from mobilization, allocation, to disbursement and spending, in order to improve transparency, synergy and coordination for decision making on financing policies and measures'.

7.1.1 Data Sources and Availability:

The robustness of the monitoring system rests with availability of reliable and timely data derived from, and feeding into, management structures within government and engagement with non-state stakeholders. There are three key elements in INFF monitoring: tracking financing flows, policy implementation, and sustainable development progress – all of which depends on robust data critical for effective management of the national INFF process. Data sources include:

(a) **Financing Flows Data:** Analysis of financing flows has been undertaken from the country perspective – with national data sources preferred over international data sets, where adequate coverage and metadata are provided. All financing data and analysis are in constant 2015 Rwanda Francs (Rwf), unless otherwise specified. As a normal practice, all data internationally sourced data is reported in US$ was converted into constant Rwf using annual average exchange rates.

(b) **Domestic Public Finance:** Domestic public finance refers to government resources that originate domestically. It covers government revenue (excluding any grants received, to avoid double-counting with international resources) and government borrowing from domestic sources (i.e., domestic financing) - and this data was sourced from MINECOFIN, BNR and NISR.

(c) **Domestic Private Finance:** Domestic private finance refers to investment by the domestic private sector in the country. Data are based on private gross fixed capital formation (GFCF), with FDI deducted in order to obtain estimates for domestic private investment alone.

(d) **International Public Finance:** International public finance includes official development assistance (ODA), other official flows (OOFs) and government borrowing from international sources – sourced from OECD DAC data. Government borrowing refers to lending received or guaranteed by GoR from bilateral and multilateral institutions and private entities – also sourced from international sources.

(e) **International Private Finance:** International private finance includes FDI (Minecofin, BNR through BoP); portfolio equity, private borrowing from international sources and remittances (sourced from BNR). Portfolio equity data is sourced from the World Bank. Private borrowing from international sources refers to commercial debt (both long- and short-term) and is based on international data from the World Bank's International Debt Statistics for all countries.

Table 18: Domestic and External Flows Dataset, Data Source, Institution Providing Data and Year Type:

Dataset	Data Source	Institution Providing Data	Year Type
Domestic Development Finance to the Public Sector			
Tax and non-tax revenue	Rwanda Revenue Authority (RRA)	MINECOFIN	GoR fiscal year
Profits of State-Owned Enterprises (SOE)	Office of the Accountant General	MINECOFIN	GoR fiscal year
Bank Financing	National Bank of Rwanda (NBR)	MINECOFIN	GoR fiscal year
Non-Bank Financing	NBR	MINECOFIN	
Domestic Development Finance to the Private Sector			
Bank Financing	National Bank of Rwanda (NBR)	MINECOFIN	GoR fiscal year
Non-Bank Financing And Micro-Finance	NBR	MINECOFIN	GoR fiscal year
Domestic Private Direct Investment	Rwanda Capital Market Authority (RCMA)	MINECOFIN	GoR fiscal year
Domestic private portfolio investment	RCMA	MINECOFIN	GoR fiscal year
External Development Finance to the Public Sector			
ODA from Bilateral DPs, Multilateral DPs, UN Agencies	Development Assistance Database (DAD)	MINECOFIN	GoR fiscal year
Emerging partner flows* from China, India, BADEA, KFAED, SFD, and OFID	Debt Management and Financial Analysis System (DMFAS)	MINECOFIN	GoR fiscal year
Finance from other international organizations (Bloomberg Philanthropies; GAVI, the Vaccine Alliance; Green Climate Fund (GCF); Howard G. Buffett Foundation)	Records of multiple GoR institutions Rwanda Biomedical Center (RBC), Rwanda's Green Fund (FONERWA),	Ministry of Agriculture (MINAGRI),Rwanda Transport Development Agency (RTDA)	GoR fiscal year

Dataset	Data Source	Institution Providing Data	Year Type
External Development Finance to Civil Society			
Finance from international organizations to INGOs in Rwanda	INGO Database	Rwanda Governance Board (RGB)	GoR fiscal year
External Development Finance to the Private Sector			
Foreign private investment (FPI) inflows (only a portion is financing development	Foreign Private Capital (FPC) in Rwanda Annual Census (2017)	National Bank of Rwanda (BNR)	Calendar year
Finance from DFIs and other IFIs	Institution records or institution website	DFIs & IFIs (see p.28)	GoR fiscal year
Finance from Bilateral DPs	DP records	DPs	GoR fiscal year
Other Financial Flows (Remittances)	BNR records	BNR	GoR fiscal year

Source: Consultants' Analysis

7.1.2 Review Mechanisms and Systems:

Independent reviews are essential for the national INFF process the necessary assurance that the process remains on course as well as highlighting critical issues that need to be addressed. They help build the necessary consensus around results as well processes for optimal resource mobilization and allocation of resources around priorities. Some of the critical mechanisms and systems include:

(a) ***The Rwanda IFMIS.*** Rwanda has significantly benefited from its home-grown integrated financial management information system (IFMIS). With recent expansion of the IFMIS scope to cover districts, sectors, hospitals and health centres as well as the process, at early stages, to include schools – significant visibility into the fiscal budget utilization has been built – and it is not inconceivable that in the next five years, Rwanda would be able to fully execute the national budget through an enhanced IFMIS.

(b) ***The Rwanda DMFAS.*** Debt Management and Financial Analysis System (DMFAS) sustains Rwanda's debt sustainability efforts with accurate management information – allowing both a backward looking and forward looking lens for national debt management.

(c) ***DPAF and DAD.*** The Developing Partners Assessment Framework (DPAF) assesses the performance of DPs against mutually agreed indicators that measure their progress in the provision of quality and volume of development assistance to Rwanda – the indicators are drawn from international agreements that aim to strengthen development cooperation between recipient countries and their DPs. The usefulness of DPAF lies in its ability to generate a reset for better results. The Development Assistance Database (DAD) helps to track Official Development Assistance (ODA) in a transparent and accountable manner – and as a good basis for ODA dialogue between the government and DPs.

(d) ***The Rwanda PIMS.*** The Rwanda Public Investment Management System (PIMS) helps track public investment and as a critical resource for the Rwanda's Public Investment Committee (PIC). PIC is central to Rwanda's quest to expand Public Private Partnerships (PPPs) – critical for mobilizing significant

investment resources for financing the SDGs through NST-1 and its successor development plans for vision 2050.

(e) ***SPIU.*** Rwanda has several Single Project Implementation Units (SPIUs) across the economy that support national project implementation. This helps mobilize resources (money, people and systems), supports effective project implementation and accountability.

(f) **Joint Sector Reviews (JSRs).** Rwanda has institutionalized the annual Joint Sector Reviews (JSRs) than bring together the Government of Rwanda and its agencies; Development Partners (DPs), the Private Sector through the Rwanda Private Sector Federation (PSF) and the Civil Society through its umbrella organizations to discuss national priorities during the Forward Looking (FLJSR) and review performance in the Backward Looking (BLJSRs). JSRs are sectoral driven and have significant influence on both the resourcing and allocation of the national budget.

(g) ***PEFA and other Tools.*** The Public Expenditure and Accountability Assessment (PEFA) is useful tool to track Public Financial Management Reforms (PFMRs) every five years. Rwanda has conducted a PEFA every five years since 2010, including the 2016 PEFA on the revised methodology as a basis for enacting its PFM reforms – and another PEFA is planned this year. Rwanda has at its disposal a number of other mechanisms to review and track resources and results.

(h) ***National Audit.*** Rwanda is among few countries able to provide the Auditor General of State Financials with annual Consolidated Financial Statements for a constitutional mandated external audit. The Auditor General reports to Parliament through its Public Accounts Committee (PAC) – and his report has been instrumental in improving accountability across government focusing on compliance, financial and value for money audits. The Government Chief internal Auditor's (GCIA) office has been instrumental in improving internal controls at the central and local government levels.

7.2 Governance and Coordination:

7.2.1 The Global Governance Framework:

The goal of the Integrated National Financing Frameworks (INFFs) is to help countries raise the necessary resources for their national sustainable development objectives by increasing the coherence of financing policies - both across sectors and financing policy areas (horizontal synergies) and between financing and sustainable development priorities (vertical synergies). This very much depends on effective INFF Governance through responsible institutions and policies. Coherence comes from: a strong political commitment and ownership; timely access to knowledge and stakeholder collaborations; and effective coordination to maximize synergies around the design, execution and monitoring of the entire INFF process – including consensus on trade-offs.

Emphasis is on national context – seeking to bridge gaps and strengthen mechanisms that already work - including those institutions and processes used to undertake Voluntary National Reviews (VNRs) for SDG implementation or to develop Nationally Determined Contributions (NDCs) to the United Nations Framework Convention on Climate Change (UNFCCC). Because the INFF embraces all sources of finance, its governance mechanisms should embrace all institutions and processes that govern the national budget, the broader public financial management (PFM), alignment of private finance and investments, development cooperation and the broader economic governance frameworks. INFFs are about financing at national level – and governance arrangements are focused on national institutions and processes contextualized within regional and global processes. This ensures that policy decisions in international negotiations do not undermine national efforts, and domestic financing decisions reflect the international context.

Relevant institutions have different roles in the INFF processes and need to be coherently coordinated including: national and sectoral planning, including with regard to COVID-19 response and recovery; medium-term planning, including the development and implementation of medium-term revenue and expenditure strategies; the annual government budget; fiscal decentralisation, public financial management (PMF) reforms and other financing-related reforms; designing or approving major public investment projects, such as infrastructure; designing or amending development cooperation policies or strategies; and designing or amending private sector development strategies and investment promotion strategies.

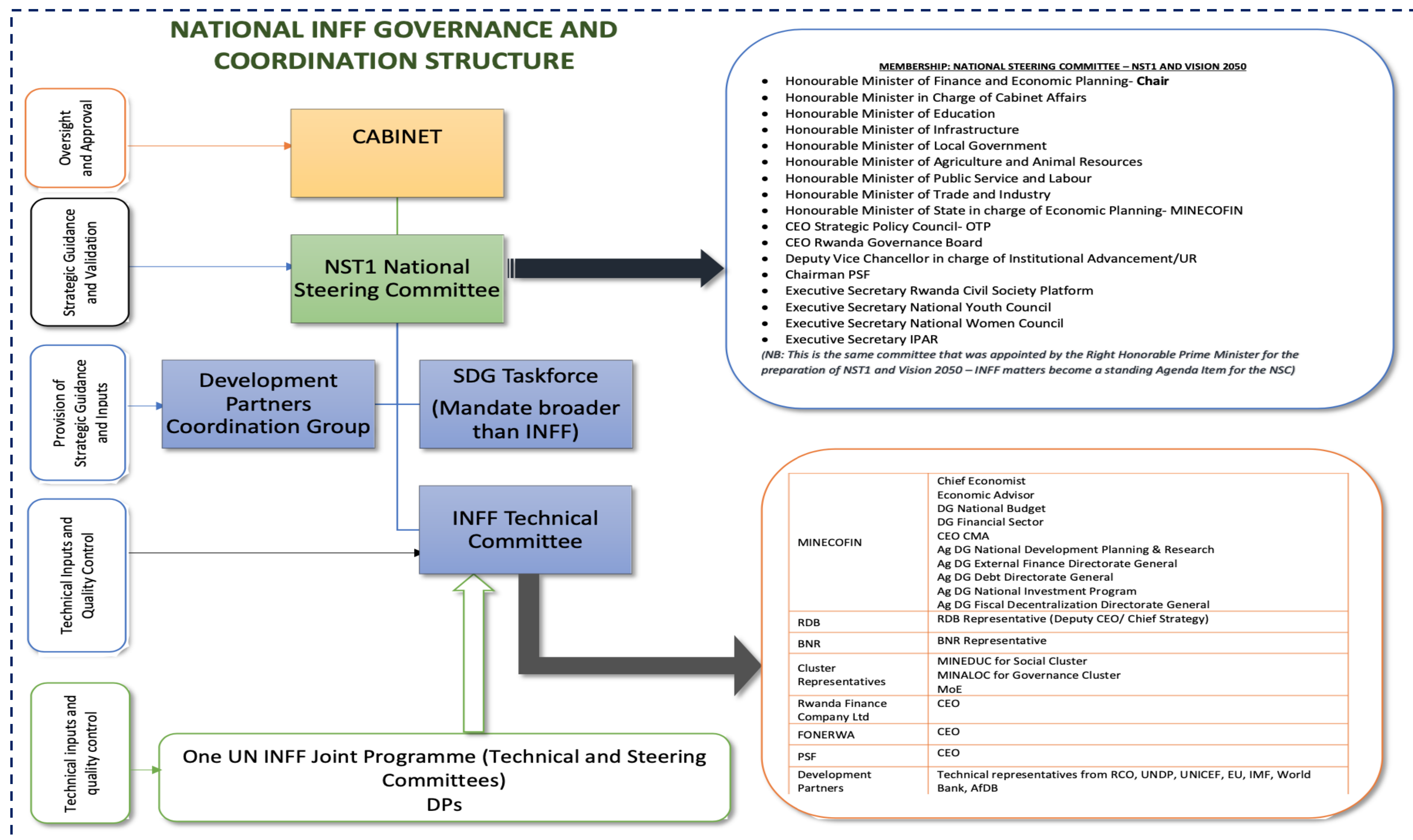
7.2.2 The National Governance Framework:

Governance and coordination would utilize existing national institutional mechanisms while ensuring the full participation of private sector, civil society, development partners and citizens. A prominent role is reserved for the apex body (MINECOFIN) responsible for the national development to coordinate and oversee the INFF. The INFF would have a body consistent with the integration goals matched by stakeholder (institutional) representation. In line with these criteria, the National Steering Committee (NST1 and Vision 2050) will have the overall guidance of the INFF process - supported by the INFF Technical Committee. The SDG Taskforce and the Development Partners Coordination Group (DPCG) will also make contributions to management of the INFF.

Some of the national coordination and oversight frameworks include the annual National Retreat; the annual National Dialogue (Umushyikirano); the DPCG framework; the Forward Looking Joint Sector Reviews (FLJSRs) and Backward Looking Joint Sector Reviews (BLJSRs); and the JADF Framework at the subnational level. An IT system is being developed to help coordinate and monitor DPs contribution in districts. For the subnational, it will be important to revive the National Decentralization Secretariat to drive a deeper fiscal and financial decentralization process. While the PPPs framework is working through the Public Investment Committee (PIC), It will need to be strengthened to track and encourage private sector investments into PPPs at the central and subnational level – for the subnational, the planned PPP secretariat at the Local Administrative Entities Development Agency (LODA) will need to be operationalized. Selection and tracking of PPPs projects should utilize the 'Value Chain Approach (VCA)" championed but not implemented under the Private Sector Development and Youth Employment Strategy (PSDYES: 2018-2024) to ensure milestones agreed in order to access incentives are met and reflected in the economy. A cost benefit analysis should be periodically carried out to reaffirm the quality and value for money for incentives provided to attract investments.

The structure and coordination mechanisms for the Rwanda INFF is shown in the figure 50 below:

Figure 51: National INFF Governance and Coordination Structure



Source: MINECOFIN and UNDP Rwanda

7.2.3 The National Context:

The existing national monitoring systems with regard financing of the fiscal budget, MTEF and NST-1 will be reviewed and consolidated, in line with IATF guidance, to allow stakeholders of the INFF to regularly review how financing needs, trends, risks and constraints are evolving and manage better changing circumstances. The system will include methodologies to monitor performance of public and private financing policies[176]. The monitoring systems will serve as a veritable tool to engender stronger accountability around financing policies and closer and effective scrutiny by the Authorities in charge of INFF governance and coordination.

A. The NST-1 Transformational Governance Pillar:

Rwanda has built considerable social capital since the 1994 Genocide against the Tutsi as a result of its relenltless focus on citizen particaption, home-grown initiatives, an inclusive society and accountabilty. The National Strategy for Transformation (NST-1) seeks to build on this through its third pillar, the 'Transformational Governance'. This pillar builds on the strong governance architecture established in recent times to consolidate and provide building blocks for equitable transformational and sustainable national development with the following priorities: (a) the reinformement of rwandan culture and values as a foundation for peace and unity; (b) ensuring safety and security of citizens and property; (c) the strengthening of diplomatic and international cooperation to accelerate rwanda and africa's development; (d) a strengthened justice, law and order; (e) strengthened capacity, service delivery and accountability of public institutions; and (f) increased citizens' participation and engagement in development. Also, the NST-1 prioritizes the following cross-cutting areas: Capacity Development, HIV/AIDS and Non-Communicable Diseases, Disability and Social Inclusion, Environment and Climate Change, Regional Integration and International Positioning, Gender and Family Promotion, Disaster Management.

B. The National Economic Coordination and Governance:

Rwanda's economic development is anchored in its development blueprints – vision 2050, NST-1 (which domesticates the SGDs); the periodic Medium Term Economic Framework (MTEFs) and the national budget – the process of mobilization and allocation of national resources on nationally agreed priorities. The national budget is a legal requirement embedded in article 162 of the constitution of the Republic of Rwanda of 2003 revised in 2015 and in accordance with the conditions provided for by Organic Law N°12/2013/OL of 12/09/2013 on State Finances and Property – and presents the government's revenues and spending plans to accelerate socio-economic transformation. The Ministerial Order relating to financial regulations N°001/16/10/TC of 26/01/2016 especially in close 1 of article 10 which provides that, "planning and budgeting within public entities shall be participatory, consultative, transparent and inclusive of all stakeholders".

The budgetary process is uniform for both central and the local government with the following five steps: (a) Identification of national priorities between the months of October to December – in the Umushyikirano (national dialogue), Njyanama (District Council Meetings) and other forums; (b) preparation of the National Budget in the months of January to February; (c) preparation of Agency MTEF and Budget in the months of February to March; (d) preparation and submission of the Finance Law to Parliament in the months of March to June – this is a period where citizens are allowed to participate in the sector budget discussion; and (e) Execution, Reporting, Audit and Oversight in the months of July to June each year. At the central government level, the budget is approved by the National Parliament while the District Councils (Njyanama) approves the local government budget (Districts).

[176] Development Finance Assessment Guidebook, Version 3.0

C. Stakeholder Roles in the Budgetary Process:

The role and participation of each stakeholder is very important for the effectiveness of the process. Table xx below shows key stakeholders and their roles in this process: (1) *Citizens:* Submit priorities to the lowest administrative units/Villages; monitor implementation of projects, programs and policies; and hold the government accountable for the use of public funds through their representatives in parliament; (2) *Budget Agencies:* Prepare, implement and report on Agency Annual Action Plans, Budget and MTEF in the context of agreed priorities; (3) *Minecofin:* Coordination of the entire PFM process through provision of policy guidance, training and technical support; preparation of the Macro-Fiscal Framework (MFF), Budget Framework Paper (BFP) and Draft Finance Law (DFL) for presentation to Cabinet and Parliament; mobilization of required resources; stakeholder during budget execution and treasury management; producing consolidated financial reports (quarterly, mid-year and annual) on budget utilization for accounting and auditing purposes; and ensure the internal control systems and internal auditing are in place for effective and efficient use of public funds; (4) *Civil Society and the Private Sector:* Provides inputs into the budget formulation process; participates in the Sector Working Groups (SWGs), Joint Sector Reviews (JSRs) and Joint Action Development Forums (JADFs); Participates in parliamentary budget hearings through position papers; and advocacy for issues of concern to citizens and the private sector; (5) *Development Partners (DPs):* Participation and dialogue in Development Partners Coordination Group (DPCG); and financing support for the implementation of government programs/projects and policies; (6) *Cabinet:* Provides strategic guidance on resource allocation to the government's broad strategic objectives and priorities; approves and submits the BFP and draft Finance Law to Parliament for further scrutiny; and approves regulations related to enhancing sound management of public finance; (7) *Councils of Decentralized Entities:* Participates in identification of priorities and ensures effective resource allocation; analyses, provides strategic guidance and approves the budget for decentralized entities; and monitors implementation of programs/projects and policies to ensure efficiency in service delivery; and (8) *Parliament:* Provides strategic guidance to resource allocation, adopts the national budget; and holds the government accountable for the use of public resources.

Table 19: Key events in the budget calendar

Month	Key Planning and Budget Activities
October	Issuing of planning and budgeting guidelines; training of MDAs (Ministry Departments and Agencies), Districts and other Subsidiary Entities (SEs) on planning and budget requirements, including training on IFMIS planning module and data entry in IFMIS.
November - December	Conduct Backward looking joint Sector Reviews (BLJSRs) for previous Fiscal year Inter-sectoral consultations, including districts and the private sector; joint planning session between central and local governments; and submissions of planning documentations to Ministry of Finance and Economic Planning (MINECOFIN).
January	Planning consultations (ministers present sector plans); Public investment committees; dissemination of the second Planning and Budget Call Circular (BCC); and Budget revision of the previous fiscal year.
February	Preparation of budget proposals, including earmarked transfers to districts; and budget submissions in Smart IFMIS and organization of budget consultations.
April - May	Conduct Forward-Looking Joint Sector Reviews (FLJSR); submission of Budget Framework Paper (BFP) to the Parliament and parliamentary budget hearings; and Preparation of Imihigo (Performance Contracts).
June	Approval of finance law by Parliament; and Finalization of Performance contracts.

Source: GoR and UNICEF Budget Citizen's Guide (2019/2020);

D. Domestic Revenue Collection:

Domestic revenue collection is the mandate of the Rwanda Revenue Authority (RRA) while MINECOFIN enacts policy and sets the targets. Over time, RRA has built effective partnerships with stakeholders starting with MINECOFIN in enacting tax laws and setting revenue priorities, the rest of GoR for non-tax revenues, the private sector for compliance, local government authorities for collecting districts revenue, security organs and mass media critical in taxpayer engagement. The RRA has in recent times switched compliance approaches from coercive enforcement under the full force of the tax code to preventative enforcement; that is, engaging taxpayers with education and compliance support mechanisms before they become delinquent. Use of ICT and digitalization across tax administration to record data, integrate with stakeholders and reach out to taxpayers are growing features of RRA's service. Overall organization management was switched from tax head to a functional approach. RRA's mandate was also expanded to include the collection of social security contributions and local government taxes and fees. For the local government taxes and fees, RRA is a collection agent for districts and earns a commission of 5% local taxes and 10% on fees. Collections are held in a joint account with the district in commercial banks – and remittances made twice a month to the district BNR account on the 5th and 20th of each month.

8.0 MAIN FINDINGS AND RECOMMENDATIONS

1. The amount of resources to achieve development goals is significantly more than past and current trends. Achieving the NST-1 targets in 2024 received significant setbacks as the growth of 9.1% projected for the NST-1 will be elusive well past the NST-1 timeline as a result of the COVID-19 pandemic. The tax-to-GDP target for the NST-1 previously achievable is now threatened by the long-term impact of the pandemic. The immediate impact of the pandemic was to delay the increased reliance on domestic sources that Rwanda had gained in the recent past. Furthermore, trade-offs in short-term macroeconomic stability and NST-1 spending with particular regard to debt management will be necessary to deal with the long-term impact of the COVID-19 pandemic – including an iteration of the Economic Recovery Plans (ERP). As a global pandemic, there is a semblance of a global response beginning to shape around vaccine access as well as other resources aimed at supporting countries most affected – Rwanda will need a coherent plan to tap into these resources for a V-Shaped Recovery. *(BB2, Short term)*
2. Medium-term financing needs to achieve the targets have been significantly underestimated and now require the equivalent of 21.3% of GDP for the last decade of the SDGs. This level of additional financing is needed after domestic resource mobilization has reached a plateau, the implication is that ODA, which also reached a plateau, would be continued and needed at levels Rwanda did not project under the current national plans. It will therefore be important to continue to advocate internationally for the increase in ODA for countries to meet the 0.7% target recommended by the UN while positioning to access more of the recent IMF SDR allocation increase beyond the national share – through a combination of bilateral and multilateral mobilization. *(BB2, Short term)*
3. Based on the IMF top-down approach to estimating the financing need for meeting the SDG, HMIC and HIC goals must be estimated in a bottom-up approach via the Standard Industrial Classification (SIC) sectors. Furthermore, quarterly public and private investment targets must estimate and set for monitoring and achieving the targets. This INFF should support a joint initiative headed by MINECOFIN to make shared projections on financing needs and targets for filling financing gaps. *(BB2, Short term)*
4. Further, the GoR ought to continue to seek reliance on domestic sources by seeking to get on a higher trajectory of domestic resource mobilization (DRM). Articulating a DRM strategy that supplements Rwanda's MTRS with structural reforms may be considered. Also, in pursuance of an accelerated DRM, conduct tax gap analysis. *(BB2, Short, Medium term)*
5. Reduce revenue loss by reducing or eliminating subsidies and tax exemptions, and accordingly, conduct a cost-benefit analysis as condition precedent to revise the Investment policy and code – and review some of the clauses in the tax law to align with the country's drive to attract investments – especially those that support SMEs. *(BB2, Short, Medium term)*
6. Consolidate the digitalization of taxation with regard to VAT taxpayers, management of non-tax revenue through ministries, departments and agencies, and interactions with taxpayers for registration, reporting and payment of taxes – targeting a lower tax administration to GDP ratio. It will also be important to engage with stakeholders to mainstream increasing taxation in sector medium term development plans as a deliberate strategy to get sectors from tax discount to premium sector. *(BB2, Short, Medium term)*

7. South-South cooperation will continue to have a significant potential for the socio-economic development of Rwanda – especially as the country positions as a 'proof of concept' nation, builds-up of the reputation of the Kigali International Finance Centre (KIFC) and further strengthens its 'Peace Keeping Operations (PKO)' as well as its 'Home-Grown Initiatives (HGI)'. As Rwanda begins to reap gains from this South-South cooperation through the African Continental Free Trade Area (AfCFTA), the EAC, COMESA, the Organisation Internationale de la Francophonie (OIF) and other regional groupings - a separate development cooperation strategy should be developed to deepen these financing gains. *(BB2, Short, Medium term)*
8. A holistic approach to development financing is the central plank of elaborating a Financing Strategy, which is the next stage of INFF process. This will include the consolidation of the capital market gains by introducing a corporate debt instrument along with the current treasuring. And to increase economies of scale and deepen the equities market, advocate to integrate the stock exchanges of the member countries of EAC on a unified electronic platform similar to a NASDAG Model – and introduce / float a Diaspora Bond. *(BB2, Short term)*
9. Rwanda has rightly put information technology at the heart of its socio-economic development – a journey started much earlier than most of its peers. In the ongoing pandemic, a combination of earlier investments into ICT and significant social capital enabled Rwanda to manage better the pandemic onslaught. As top global universities (Carnegie Mellon, University of Global Health Equity, African Leadership University, and more expected) begin to position in the Kigali Innovation City alongside start-up funds focused on ICT innovations, the potential for a vibrant digital economy will begin to emerge. There are opportunities to develop a tax framework for peer-to-peer, digital economy - starting with a Digital Service Tax that is fully aligned with the KIFC aspirations. *(BB2, Short, Medium, Long Term)*
10. With aspirations of a knowledge economy, Rwanda will need to strengthen its 'research and development (R&D)' capability through a cohesive and coordinated framework to encourage private sector investments into R&D. This would also tap into the research capabilities of the top global universities that continue to set up shop in Rwanda – and link them with private sector to support the innovation and competitiveness of the economy. *(BB2, Medium, Long term)*
11. Consolidate the integration of SDGs in the budgeting process and strengthen linkages between the long-term vision, the medium-term national plan and the national budget, including SDG budgeting – and incorporate a "DFA Dashboard" in the mid-term review of NST-1 while increasing the role of non-state actors in the budgeting process. Increase the reporting on budget performance including current PEFA. *(BB2, Short term)*
12. For integrating the SDGs, Africa 2063 and NST-1, the report proposes the use of the Economic Commission for Africa's Integrated Planning and Reporting Toolkit (IPRT) which does alignment at the level of goals, targets and indicators. It allows for assessment across development agendas and assess degree of alignment by sector. It tracks progress and identifies gaps between actual performance in the implementation of SDGs and A2063. *(BB3, Short. Medium term)*
13. Build on Rwanda's Law on Disaster Management Law N°41/2015 of 29/08/2015 of August 2015 that provides a framework for disaster risk management as well as internal efforts at MINECOFIN to establish a "National Disaster Response Fund (NDRF), akin to a 'Financial Trust' - with a fast-disbursement mechanisms as a vehicle for the rapid financing of public post-disaster reconstruction operations and mitigate the bureaucratic constraints that often delays resource availability for timely responses for post-recovery efforts. *(BB2, Short term)*

14. A robust and holistic monitoring framework will be critical for the Rwanda INFF. For a comprehensive monitoring framework that integrates across the SDGs, Africa 2063 and NST-1, the report proposes the use of the Economic Commission for Africa's (ECA) Integrated Planning and Reporting Toolkit (IPRT) - which allows assessment across development agendas and by sector – aligning at the level of goals, targets and indicators. The IPRT tracks progress and identifies performance gaps in the implementation of SDGs and AU 2063 – establishing a stronger linkage between the national plans and SDGs and adept at obtaining readily accessible data reports. Furthermore, it is less cumbersome and easier to use than other platforms. *(BB3, Medium term)*
15. It will be important to map out and optimize the INFF M&E. To this end, the IPRT above should be considered alongside the UNDP's support *to 'establish an integrated financing dashboard to consolidate and monitor data from existing data tracking systems on all key financial flows* (public, private, international and domestic), *from mobilization, allocation, to disbursement and spending – for improved transparency, synergy and optimal decision-making coordination around financing policies and measures. (BB4, Medium term)*
16. Effective INFF governance through responsible institutions and policies will be critical for a coherent and successful INFF process. Drawing from Rwanda's track record on a 'strong political commitment and ownership', governance should utilize existing mechanisms that work well to ensure there is timely access to knowledge and stakeholder collaborations; effective coordination to maximize synergies around the design, execution and monitoring of the entire INFF process – including the consensus on trade-offs. *(BB4, Short term)*

Key

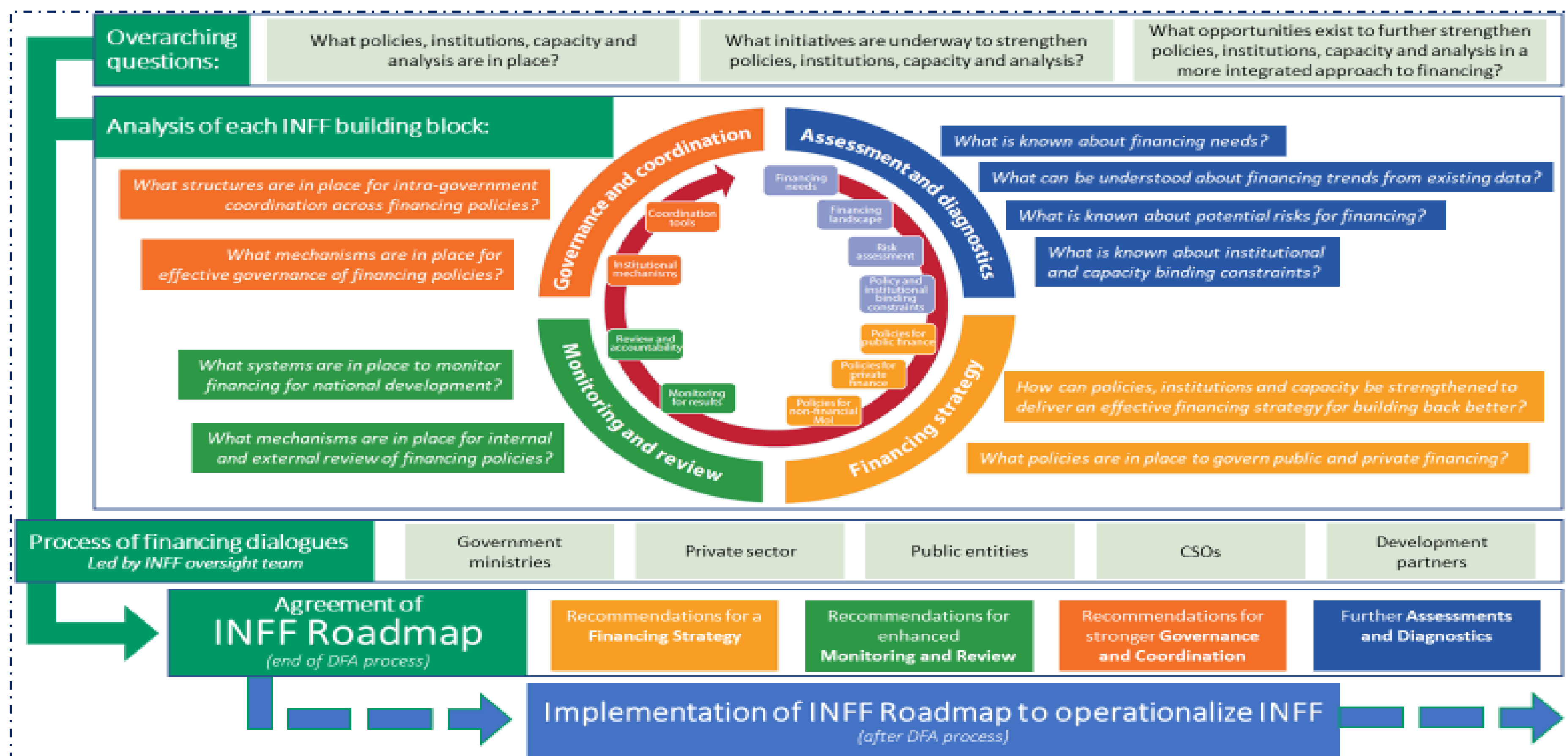
The following key has been applied to the recommendations above in terms of building blocks and timelines for the design and implementation of the Integrated Financing Framework (INFF):

(a) *Building Blocks:* (i) assessments and diagnostics - *BB1*; (ii) a financing strategy – *BB2;* (iii) monitoring and review systems – *BB3;* and (iv) governance and coordination mechanisms – *BB4*.

(b) *Timelines:* (i) Short term - *Less than One Year*; (ii) Medium Term - *One to Three Years*; and (iii) Long Term - *More than Three Years*.

9.0 ANNEXURE

Annex 1: The Integrated National Financing Framework:



Source: Development Financing-IATF

Annex 2: List of Documents Consulted:

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2. Burnet, J and Kanakuze, J 2018, 'Political settlements, women's representation and gender equality: The 2008 gender-based violence law and gender parity in primary and secondary education in Rwanda ', *ESID: Effective States and Inclusive Development Research Centre*, Working Paper No. 94.
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5. Chemoun, B 2018, ' The political path to universal health coverage: Elite commitment to community-based health insurance in Rwanda ', *ESID: Effective States and Inclusive Development Research Centre*, Working Paper No. 72.
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