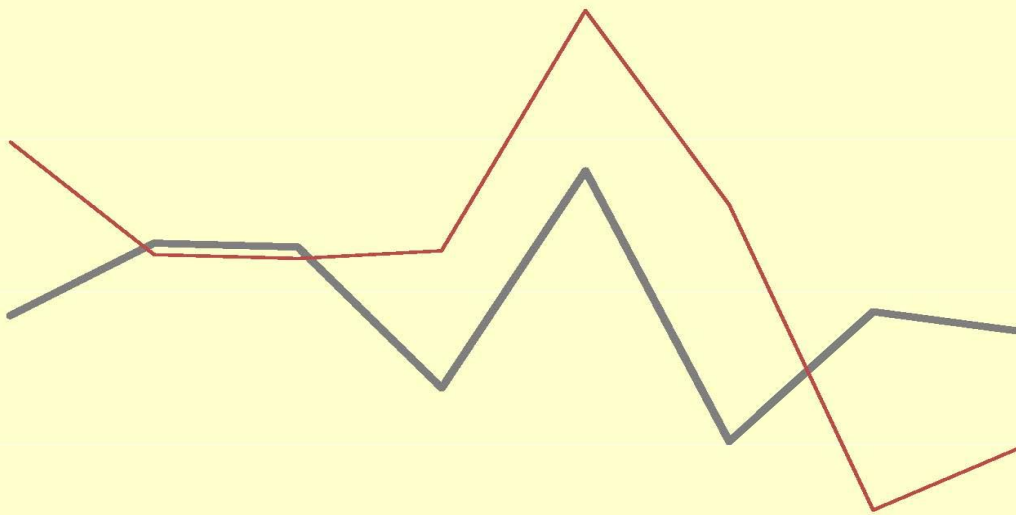


Rwanda Economic Update

Spring Edition
April 2011



SEEDS FOR HIGHER GROWTH



The World Bank

PREFACE

The Rwanda Economic Update reports and synthesizes key economic developments in the past six months in Rwanda's economy. It places them in a medium-term and regional context, and will increasingly assess the implications of these developments and policies for the outlook of Rwanda's economy. The Update will cover in each edition a special feature on a selected topic. It is intended for a wide audience, including policy makers, business leaders and other market participants, and the community of analysts engaged in Rwanda's economy.

The Rwanda Economic Update was prepared and compiled by the Poverty Reduction and Economic Management team at the World Bank Country Office in Rwanda, under the leadership of Birgit Hansl, Senior Economist: Peace Aimee Niyibizi (economic update section), Loraine Ronchi and Valens Mwumvaneza (agriculture section). The report also benefited from guidance and advice provided from Wolfgang Fengler, Lead Economist, Kathie L. Krumm, Sector Manager and Omowunmi Ladipo, Country Manager. In addition, the report benefited from peer reviewer inputs by Stephen Mink, Lead Economist and Anton Dobronogov, Senior Economist.

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ACRONYMS

BNR	Banque Nationale du Rwanda (Central Bank of Rwanda)
CAADP	Comprehensive Africa Agriculture Development Programme
CIP	Crop Intensification Program
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
DRC	Democratic Republic of Congo
EAC	East African Community
EDPRS	Economic Development and Poverty Reduction Strategy
FWC	Fully Washed Coffee
GDP	Gross Domestic Product
ha	hectare
kcal	kilocalorie
kg	kilogram
LWH	Land Husbandry, Water Harvesting and Hillside Irrigation
NAP	National Agricultural Policy
NISR	National Institute of Statistics of Rwanda
PSTA	Strategic Plan for Transformation of Agriculture
Rwf	Rwandan Franc
RDA	Recommended Dietary Allowance
SSA	Sub-Saharan Africa
USAID	United States Agency for International Development
WDI	World Development Indicator

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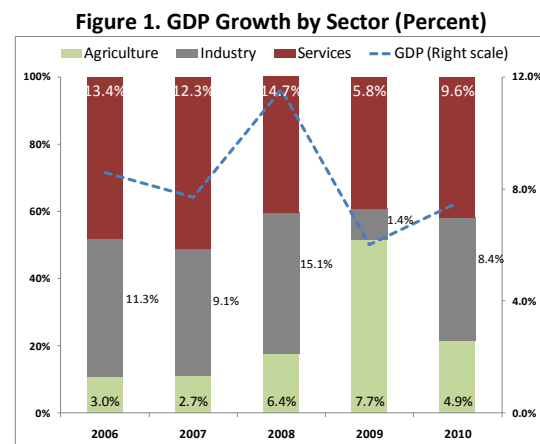
EXECUTIVE SUMMARY

The current edition of the Rwanda Economic Update is titled *Seeds for Higher Growth* and specially features the agriculture sector. The importance of agriculture's contribution to growth in Rwanda remains considerable, despite the emergence of other significant growth drivers, such as services. Rwanda's agriculture sector will play an essential role in attaining the country's development vision of sustainable growth and increased poverty reduction, due to its employment weight. The agriculture feature of this Update edition outlines key channels through which agriculture contributes to the economy. The second part of the Update provides the regular overview of recent macroeconomic developments. While the special feature on agriculture will analyze the evolving role of the sector over the past five years, the second part on recent economic developments will focus on events during 2010.

The vision of Rwanda is to transform itself from a subsistence agricultural to a knowledge-based economy by 2020. The achievement of this vision will require an intensification and market-orientation of agriculture on the one hand and a diversification of the economy through a proliferation of non-agricultural sectors on the other hand. This brief assesses progress by Rwanda on both fronts.

Agriculture is one of two key growth engines for Rwanda. The agricultural sector grew at an average of 4.9 percent over the

last five years (Figure 1), contributing about 36.0 percent to the overall Gross Domestic Product (GDP). The sector occupies 79.5 percent of the labor force and generates more than 45.0 percent of the country's export revenues. The services sector established itself as a second growth engine, registering double digit growth between 2004 and 2008--albeit from a very low base--before being affected by the global slowdown. In recent years, services marginally surpassed agriculture as the main contributor to GDP.



Source: National Institute of Statistics of Rwanda (NISR)

Agriculture expenditure forms one of the priority expenditures of the Government of Rwanda's annual budget with focus on increasing productivity in the sector. Over the past three years, allocations to the agricultural sector have increased from 4.2 percent of the budget in 2008 to 6.6 percent in the 2010/11 budget. Together with agricultural related spending allocated to other institutions, Rwanda now complies with the 10 percent commitment made

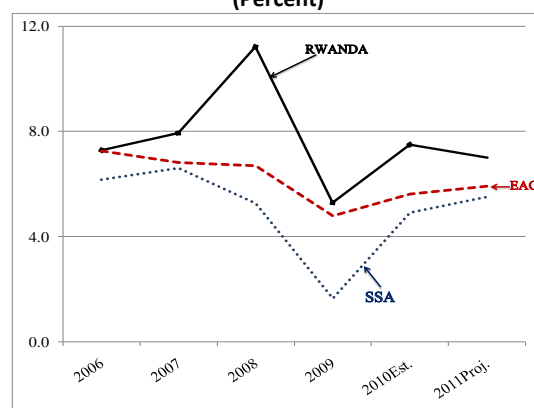
under the Africa Union’s Comprehensive African Agriculture Development Program (CAADP) compact, of which Rwanda was the first signatory. The main recipient of the agriculture budget shares were the Government’s flagship programs, such as the Crop Intensification Program (CIP) and the Land Husbandry, Water Harvesting and Hillside Irrigation (LWH) Project, the latter being also supported with donor funds.

The strategic focus on agriculture, through continued public investments, has contributed to marked productivity increases and solid agriculture growth rates over recent years. However, in order to sustain these productivity increases in the future, and in order to fully realize the growth potential for the agriculture sector, a number of challenges would need to be addressed. These challenges include the need to stronger focus on: (i) Reducing dependency on rain-fed agriculture through greater use of different models of irrigation; (ii) Better erosion control and integrated soil fertility management; (iii) Diversifying agriculture production, in particular agricultural export goods, for example in areas of horticulture and flowers, (iv) Changing the skills profile of people employed in agriculture, to foster the creation of increased agricultural off-farm employment such as agro-processing and other value chain activities, and (v) Developing a market-based food crop distribution system to contribute to country-wide food security. Continued agriculture growth through the channels outlined above will benefit agriculture growth and increase

food security, but most of all will sow the seeds for higher overall economic activity.

Overall, Rwanda’s economy is growing at a healthy rate, 7.5 percent in 2010, two percent higher than the East African Community (EAC) and even more than Sub Saharan Africa (SSA) (Figure 2). During 2010 the services and industrial sectors progressed in their growth recovery, while growth in the agricultural sector slowed down marginally.

Figure 2. Rwanda’s Real Growth Compared to EAC and SSA (Percent)



Source: World Development Indicator (WDI) and International Monetary Fund

The country’s macroeconomic framework was remarkably stable, given the difficult external post-crisis environment and Rwanda’s position as a highly import-dependent land-locked country. This was mainly achieved through a prudent fiscal stance with strong focus on priority expenditures, assisted by continued high grant financing from donors. Government followed a large public investment program on a number of key strategic projects, all in the infrastructure sector. But to date this is largely financed with domestic revenues and debt remains at manageable levels. Inflation

declined. The external sector benefited from the recovery in international prices for Rwanda's key export goods, tea and coffee. Tourism receipts recovered fully in 2010 and reported record levels of non African tourist arrivals. As a result the trade deficit narrowed and reserves remained at comfortable levels.

Rwanda made great progress in deepening reforms, especially those designed to improve the business environment to support a private sector led development model. The *Doing Business* 2011 report included Rwanda in the list of the ten most-improved economies. Despite Rwanda's success in having established a sound investment climate foreign direct investments remain at low levels. The private sector is still nascent and would profit much from access to technological know-how and established distribution channels abroad. Rwanda's urbanization is slowing down, despite high population density. The major binding constraints to accelerated growth, investments and exports are the lack of economic infrastructure and the limited skills base.

Rwanda is attributing high importance to increased regional integration and is already benefitting from the positive growth momentum in East Africa. In comparison to its East African peers, Rwanda fairs well and confidently leads in growth terms. But large growth potentials remain to be exploited, such as benefitting from regional power trade. Rwanda completed its alignment with the budget calendar of the EAC, resulting in

a switch to the July-June fiscal year from calendar year.¹ On July 1, 2010 the EAC Common Market became effective, and Rwanda implemented the EAC Common External Tariff Framework. This reduced revenues from trade taxes, but reimbursement for these losses was received from the Common Market of Eastern and Southern Africa (COMESA).

The outlook for a full recovery of Rwanda's economy during 2011 is cautiously optimistic. Rwanda's projected growth rate for 2011 is 7.0 percent, significantly higher than the 5.5 percent predicted for SSA or the 5.9 percent predicted for the EAC. It is expected that all sectors are likely to grow at comparable pre-crisis levels again, but there is reason for a cautious positive outlook. The first 2011 harvest season was disappointing, and agriculture growth might turn out to be moderate. Services growth might be less rapidly, as previously driving Government spending for health, education and other services is returning to pre-crisis levels. Manufacturing remains in the mist of recovery. Lead indicators for growth, like credit to the private sector, performed in 2010 less well than expected, as was growth in the construction sub-sector. Interest rates remain high. The outlook also remains dependant on effects of yet again increasing international fuel and food prices. The balance of payment continues to be vulnerable to export shocks, due to the dependence on a few export products.

¹ Following a six-month mini budget in 2009, fiscal year 2009/10 was the first full fiscal year under the new budget calendar.

PART 1: SEEDS FOR HIGHER GROWTH

This feature outlines key channels through which agriculture contributes to the current economy. Agriculture is at the heart of Rwanda's economy. The sector occupies 79.5 percent of the labor force, contributes one-third of GDP and generates more than 45.0 percent of the country's export revenues. Agriculture is also important for national food self-sufficiency, accounting for well over 90.0 percent of all food consumed in the country. This part also identifies challenges and a number of policies that address those challenges. The latter represent important seeds for future agriculture and overall growth. In order to adequately reflect trends this part will present, wherever possible, data for the past five years, 2006-2011.



Source: World Bank Archives Rwanda

1.1 AGRICULTURE'S STRATEGIC ROLE

The agriculture sector² will play a key role in realizing Rwanda's vision of transforming the country's economy by 2020. Given its predominant role in the economy, agriculture is considered as a main catalyst for sustainable growth and poverty reduction. This is fundamentally linked to

the fact that agriculture is the primary source of employment in Rwanda. In 2006, more than two-thirds of the entire working population, and 86.5 percent of rural population, was employed in the agriculture sector (Table 1). The achievement of Rwanda's growth and poverty reduction targets will require to a large extent a rapid intensification and increased market-orientation of the agriculture sector.

² When reference to agriculture is made in this document, it includes production and its upstream (e.g. input provision) and downstream (e.g. agro processing, trading, and exporting) linkages.

Table 1. Employment Trends (Percent)

	2000	2006
Employment by sector	% of working population	
Agriculture	89.5	79.5
Manufacturing	1.7	3.3
Services	8.7	17.2
Characteristics of agricultural employment	% of working population	
Waged farmers	3.7	8.2
Non-waged farmers	84.9	71.3
<i>Subsistence farmers</i>	35.8	31.6
<i>Unpaid farm workers</i>	49.1	39.7

Source: NISR

Increasing agricultural productivity will enable the sector to move from subsistence to a commercial mode of production, while ensuring food security and progressively contributing to the creation of linkages to other sectors.

In the short to medium term, off-farm employment within the sector will need to become an alternative source of rural income. This includes areas such as agro-processing packaging, storage, transport, crops and input trade. Between 2001 and 2006 But the share of waged workers increased –doubling to 8.2 percent of all agricultural jobs.³ This might be an early indicator for a trend away from subsistence farming to other off-farm agricultural employment. But major obstacles remain, largely related to the low levels of skills which limit productive opportunities outside of agriculture.

Export crops are key contributors to agriculture growth, but need to diversify in the future. With the goal of stimulating growth and increasing foreign exchange

earnings, there is a need of diversifying commercial agriculture away from its current heavy reliance on coffee and tea. For this, increased efforts are needed to actively invest in non-traditional export crops, for example, horticultural crops such as fruits, vegetables, and cut flowers; essential oils such as petunia and geranium; macadamia nuts; vanilla; and silk, and the production infrastructure required for this.

In recent years a framework was set up for the modernization of agriculture in Rwanda. In 2004, a National Agricultural Policy (NAP) was formulated and a Strategic Plan for Agricultural Transformation (PSTA) was developed and updated in 2009. The updated PSTA II became the basis of the first CAADP-approved Agricultural Sector Investment Plan in Africa. In the implementation of these frameworks, programs were put in place, such as the Crop Intensification Program, the One Cow per Poor Family (GIRINKA program) and later, the LWH Program. To date, results are noticeable in terms of sustained agricultural growth and increased productivity, as well as improved land management.

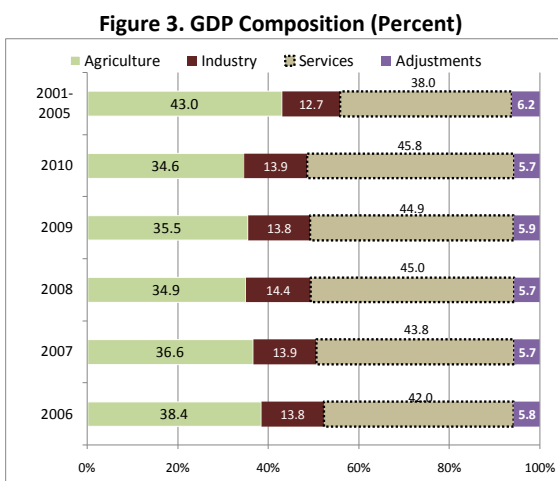
Ensuring food security of the population is a key aim of the Government’s Economic and Development and Poverty Reduction Strategy (EDPRS), alongside with raising agricultural productivity. In this context, basic food crop production is projected to rise by 15 percent over the EDPRS period and the average energy intake is projected to increase from 1,734 kilocalories (kcal) to 2,100 kcal per person/day. It is expected

³ Non waged farmers are subsistence and unpaid farmers.

that an increased and diversified household income will significantly reduce rural poverty and enhance the level of food security in Rwanda.

1.2 AGRICULTURE GROWTH AND PRODUCTIVITY

Agriculture constitutes the second biggest component of GDP with 36.0 percent. But only as recent as 2005 agriculture was the main GDP contributor. The retreating agriculture share was absorbed by the services sector, while the industry sector stagnated at around 13.9 percent of GDP (Figure 3). However, agriculture remains the main employer, especially of the poorer and less educated segments of the population.



Source: NISR

Real agriculture growth averaged 4.9 percent between 2006 and 2010. During this period the sector started to benefit from large investments in fertilizers, improved seeds and extension services through the CIP. Being by nature highly dependent on weather conditions, favorable climate during 2008 and 2009 also contributed to strong growth. In 2009, agriculture growth reached

a record of 7.7 percent, surpassing all other sectors. This reflects the continued importance and dynamism of the sector. For 2010, agriculture growth stood at 4.6 percent.

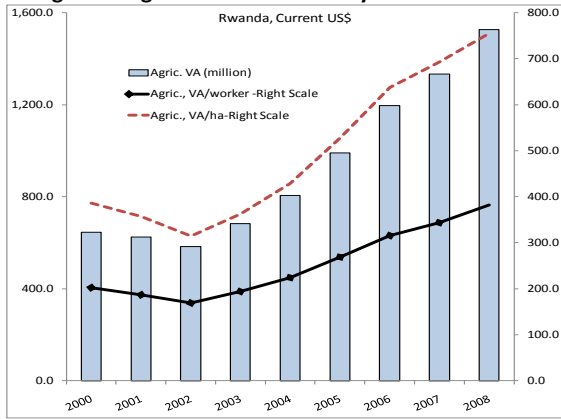
Agricultural productivity increased steadily in the past decade (Figure 4). Land productivity (agricultural valued added/cultivated land in ha, henceforth ha) increased dramatically in Rwanda. Indeed, the country is leading compared to other African countries with similar GDP shares of agriculture (Figure 5).⁴ The relatively high level of land productivity reflects the favorable agro-climatic potential resulting in two harvest seasons, as well as the intensive nature of the predominant agricultural production systems.⁵ In contrast, labor productivity remains low compared to these countries, albeit it increased over the last decade. This is related to the fact that Rwanda has the highest proportion of rural population, most of them engaged in labor intensive agriculture.⁶ It appears that most opportunities for future productivity gains lay in the area of making agricultural production less labor intensive, or in other words less subsistence based.

⁴ For selected countries, Ivory Coast, Ghana, Kenya, Mali, Mozambique, Rwanda, Uganda, Tanzania and Zambia, agricultural GDP share was varying between 20 percent and 40 percent in 2007 (World Development Indicator - WDI database).

⁵ World Bank. (2007). *Promoting Pro Poor Agricultural Growth in Rwanda: Challenges and Opportunities*.

⁶ World Bank. (2008). *World Development Report: Agriculture for Development*. Washington DC.

Figure 4. Agricultural Productivity Trends in Rwanda



Source: WDI Database

1.3 FOOD CROPS AND FOOD SECURITY

1.3.1 FOOD CROPS

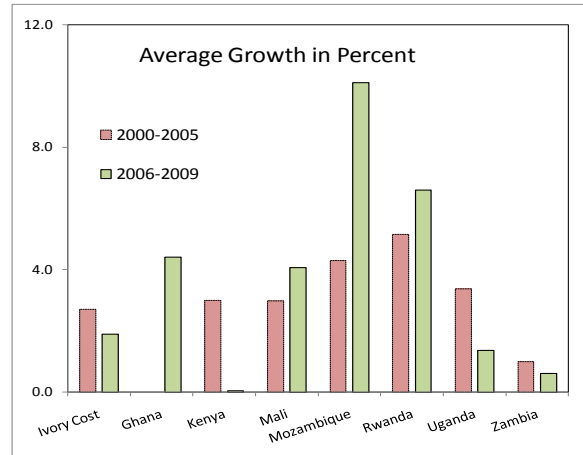
Food crops constitute **84.0 percent of agriculture GDP, or 30.3 percent of overall GDP**. Over the past five years, they registered an average growth of 5.2 percent. Food crops also dominate the cultivable land with almost 67.1 percent (NISR 2010), reflecting the subsistence nature of Rwandan agriculture.⁷ Since the formulation of the NAP, the cultivated area increased by only 2.0 percent from 2004 to 2010, while food crop output registered an average growth of 7.0 percent per year (see Annex 1).⁸ This reflects good productivity growth through intensification (rather than environmentally unsustainable extensification), which is desirable to continue.

⁷ Roots and tubers constitute the largest share of food crops' harvest (51.2 percent) followed by bananas (27.1 percent), fruits and vegetables (10.1 percent), cereals (7.3 percent), and pulses including beans and peas (4.3 percent).

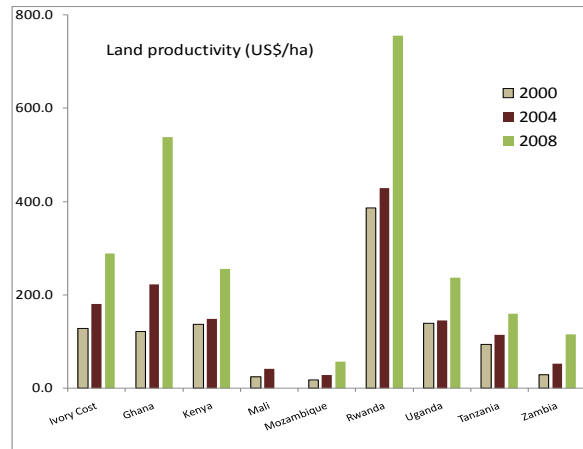
⁸ Even more dramatically, since 2007 output reported a 12.7 percent increase, on average, while the cultivated area increased by 2.7 percent.

Figure 5. Growth and Productivity Comparison

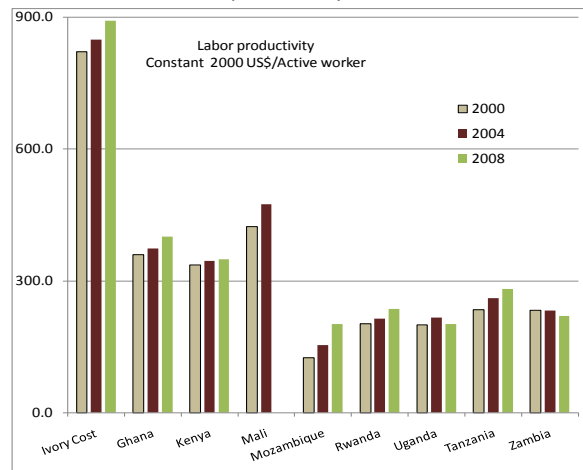
In comparison to other African countries Rwanda's agricultural growth is high...



... as is land productivity...

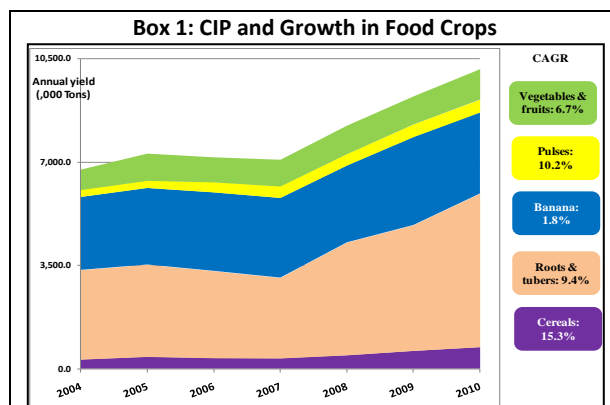


... but labor productivity remains low.



Source: WDI Database

Strong growth in food crop production can be partly attributed to the CIP (Box 1). Complementary investments in marshland irrigation, integrated soil fertility management, farmer field schools have also played a role, as well as favorable weather conditions. The followings are some of key accomplishments under the CIP: (i) the increased *use of improved seeds* for maize (by 61.8 percent), wheat (by 46.3 percent) and Irish potato (by 16.3 percent); (ii) the national average in *use of fertilizer* doubled from 8.5kilogram (kg) per ha in 2006 to around 16.0kg per ha in 2010,⁹ and (iii) the area under *land use consolidation* increased nine folds from 28,000 ha in the first season of 2008 to 254,448 ha in the first season of 2010.



Source: Ministry of Agriculture

In 2007, Government embarked on the CIP with the main objective to develop sustainable crop productivity through the increased use of modern inputs, particularly seeds and fertilizer, agricultural technologies and the consolidation of land. The use of improved inputs by farmers could only be translated into profit by mitigating land fragmentation, addressed through the land use consolidation component. With substantial production gains recorded for maize, rice, Irish potato and wheat, other food crops: beans, banana, soya, peas and cassava, were added in the first season of 2010.

⁹ These figures were computed based on figures from the Common Performance Assessment Framework (mineral fertilizer used in tons) and the cultivated area (Ministry of Agriculture, crop production files).

1.3.2 FOOD SECURITY

Increased food crop production led to improved food availability. Rwanda's food balance sheet has been improving as the country became self sufficient in 2009 (Figure 6a). There is also a continued increase in terms of dietary allowances as recommended by the Food and Agriculture Organization. Overall, Rwanda experienced an upward trend in availability of energy (kcal/capita/day) since 2008, but with disparities across provinces and over seasons. Considering the stark regional differences in food availability and food security (Figure 6b), connected to seasonality, it appears that a better market-based food crop distribution system could contribute significantly to country-wide food security. Also, while substantial progress had been made, World Health Organization recommendations for proteins and lipid availability are not yet being met (Figure 6c and 6d). For example, the recommendation for protein was met in 2009, but this could not be sustained in 2010, when the country faced a slightly lower harvest.

Better food availability was accompanied with improved food and nutrition intake across the country, despite regional disparities. The results of the 2009 Comprehensive Food Security and Vulnerability Analysis and Nutrition Survey may reflect a trend towards better food security. It found that 4.2 percent of households had a low food consumption score (compared to 6.7 percent in 2006), 17.4 percent had a borderline score (27.9

percent in 2006) and for 78.4 percent (65.4 percent in 2006), the score was acceptable. The score is a composite score based on dietary diversity, food frequency, and relative nutritional importance of different food groups and it is considered a good

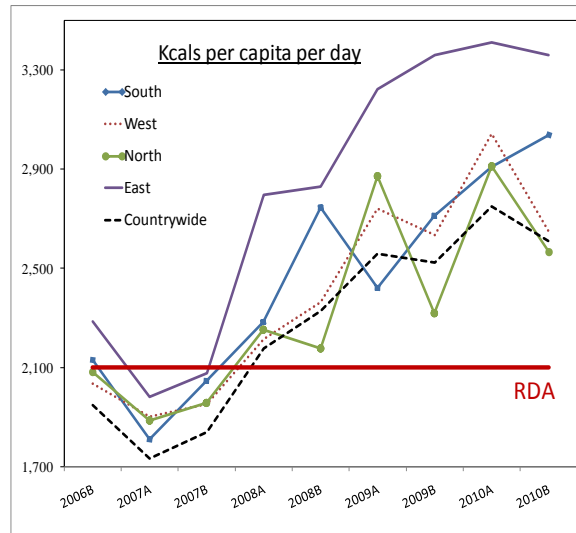
proxy indicator for the access dimension of food security and nutrition intake. The Western Province was the most food insecure province in 2009, followed by the Southern Province.

Figure 6. Food Availability Indicators in Rwanda¹

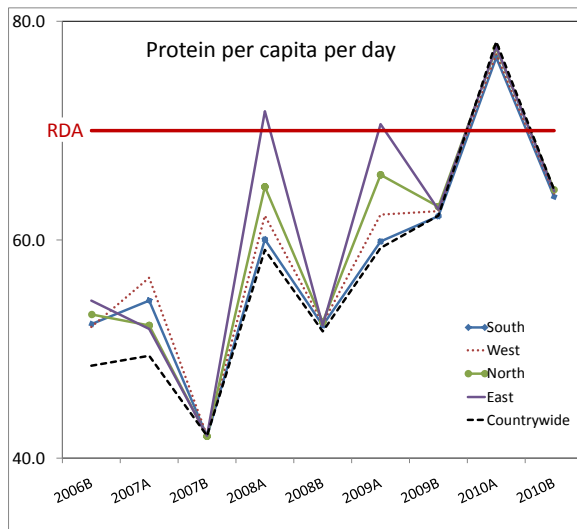
6a The Food Balance Sheet recorded improvements.

	2007B	2008A	2008B	2009A	2009B	2010A	2010B
I. AVAILABILITY = 1+2+3+4	1,022.4	940.7	1,104.3	1,141.1	1,227.5	1,379.2	1,403.8
1. Stock	0.0	0.0	4.4	0.0	0.0	0.0	7.0
2. Crop production	1,022.4	1,161.6	1,208.3	1,406.2	1,345.1	1,529.1	1,467.5
2. Expected Crop production C	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	81.0
3. Animal production	n.a.	n.a.	72.9	na	84.2	79.5	80.6
4. Losses	n.a.	-220.8	-181.2	-265.0	-201.8	-229.4	-232.3
II. NEEDS = 5	1,123.5	1,121.2	1,156.0	1,153.7	1,189.6	1,228.1	1,245.6
5. Consumption	1,123.5	1,121.2	1,156.0	1,153.7	1,189.6	1,228.1	1,245.6
III. Balance/Deficit = I-II	-101.1	-180.4	-51.7	-12.5	37.9	151.1	158.2
6. Imports	112.8	103.2	103.2	103.2	n.a.	n.a.	n.a.
7. Food aid	28.2	26.0	36.2	n.a.	n.a.	n.a.	n.a.
IV. TOTAL = III + 6 + 7	39.9	-51.3	87.7	90.6	37.9	151.1	158.2

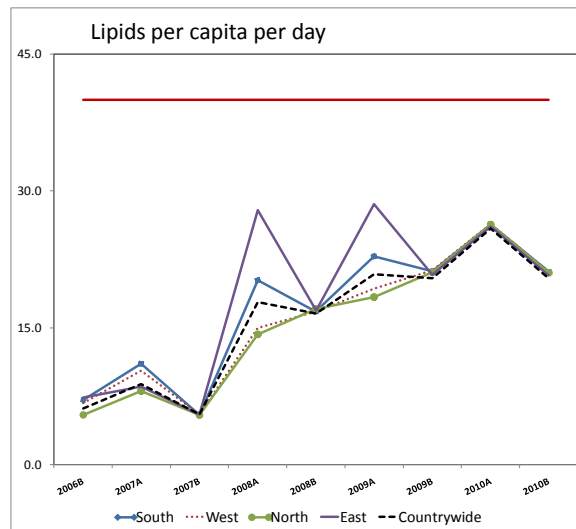
6b Recommended Dietary Allowances (RDA) in terms of energy were met since 2008. But disparities across provinces and over seasons remain.



6c Nevertheless, RDA in terms of protein and ...



6d ... lipid are not being met countrywide yet.



Source: Ministry of Agriculture

At the same time, food imports, specifically of rice and sugar, formed an increasing part of overall imports (Table 2). In 2010 alone, the value of food imports increased by 27.1 percent, accounting for 11.6 percent of total import values and 36.1 percent of values of consumer goods imports. This increase in food imports is, however, not coinciding with decreasing food security, as it happened during successive good harvest years. It appears to be rather related to a shift in food consumption patterns, where richer urban households increasingly consume imported food products, such as rice and sugar, while rural subsistence households continue to consume traditional staples, such as cassava and bananas.

Table 2. Imports of Food Products (Percent)

Imported products	2010 Growth		Share of 2010 Consumer Goods		Share of 2010 Imports	
	Volume	Value FOB	Volume	Value FOB	Volume	Value FOB
CONSUMER GOODS	30.4	18.2			39.4	32.0
Food product	40.2	27.1	79.5	36.1	31.3	11.6
Meats and fish	41.9	56.1	1.5	1.0	0.6	0.3
Fats and oil of animal or plant or	-4.0	-5.4	7.3	7.9	2.9	2.5
Vegetables, fruits and spices	10.0	43.7	6.1	1.3	2.4	0.4
Cereals, flours and seeds	78.4	33.7	42.9	11.2	16.9	3.6
Various food preparations	-9.8	3.2	2.8	2.9	1.1	0.9
Salt	0.6	-12.9	7.8	0.8	3.1	0.3
Sugars and sweets	48.2	79.8	10.6	10.2	4.2	3.3

Source: Banque Nationale du Rwanda (BNR)

It is also noteworthy that food prices are the most important driver of inflation in Rwanda. Food consumption accounts for 35 percent of the total Consumer Price Index (CPI) basket. Food prices declined during 2009 and 2010, following the height of the global food crisis which impacted Rwanda indirectly towards the end of 2008. From the peak in food inflation of 30.9 percent in December 2008, it declined persistently to an average of 16.9 percent in 2009 and 1.8

percent in 2010. These trends reflect in equal part local food market conditions and price trends handed-through from world food prices.

1.4 EXPORT CROPS

In the past five years export crops contributed on average 48.1 percent to Rwanda's total export earnings. They accounted during the same time for 1.1 percent of GDP. Coffee and tea are the major export products, concentrating more than 90.0 percent of the value of export crops. While the Government started the promotion of non-traditional export crops, in order to stimulate growth and increase foreign exchange earnings, the heavy reliance on coffee and tea remained unchanged to date.

1.4.1 HORTICULTURE

In an attempt to create a more-diversified export sector, efforts are being made to promote horticultural crops, including fruits, vegetables, and cut flowers; essential oils such as petunia and geranium; macadamia nuts; vanilla; and silk. Given favorable climate and soil conditions, Rwanda has the potential to develop a vibrant horticulture industry. High-value export crops, such as passion fruit, desert bananas, Japanese plums and Bird's Eyes Chilies could be produced by Rwanda and are in high demand at the international market. Other exotic fruits and vegetables also have the potential to be grown in Rwanda's fertile and diverse terrain.

Overall, the production volume of horticulture crops remains low as it is done by groups of small-scale producers. Their cooperative structures are yet unable to establish the right incentives for addressing the market expectations of producing at high volumes with necessary quality standards. As the production is capital intensive, they also face challenges in accessing the needed resources to sustain the supply chain (input, production, post harvest, processing and export). Furthermore, Rwanda already experienced a temporary ban on exports to the European Union because of failure to comply with phytosanitary standards.

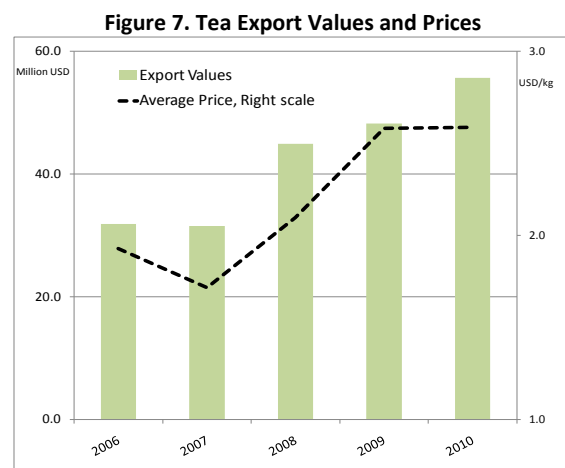
Investments in horticulture did not materialize yet as potential investors still face a number of unresolved issues, such as land shortage and inadequate infrastructure. It appears that without more concerted efforts to address investment challenges in this promising export sector Rwanda is likely to continue to depend on traditional export crops of coffee and tea.

1.4.2 TEA

Rwanda produces one of the highest quality teas in the world. In 2009 tea became Rwanda’s main export by value, generating US\$48.2 million (and US\$55.7 million in 2010). Total tea production increased on average 14.0 percent per annum during 2006-2010. At the same time, tea exports by volume nearly doubled, thanks to Rwanda tea’s high quality. High quality is also the reason for Rwanda tea regularly fetching

premium prices at the Mombasa auctions, its main market destination. A significant share of medium to high quality teas is sold directly to retail stores in Europe.

Rwanda’s tea production and marketing systems continue to be dominated by state-owned companies. Tea is cultivated mainly on large plantations, which are owned and managed by about a dozen tea factories that process green tea into black tea. Approximately two-thirds of the tea produced in Rwanda is grown on industrial estates belonging to a state agency, OCIR THE¹⁰ and a few private investors. The remaining one-third is grown by small-scale private growers. Current tea plantations total an area of 17,000 ha.



Source: BNR

Like the horticulture sector, the tea sector faces difficulties in attracting investors that could bring in new technologies and provide access to established distribution chains. At

¹⁰ OCIR (*Office des Cultures Industriels du Rwanda*)-THE was established by the Government to spearhead policy development, regulation, promotion and smallholder support in the sector.

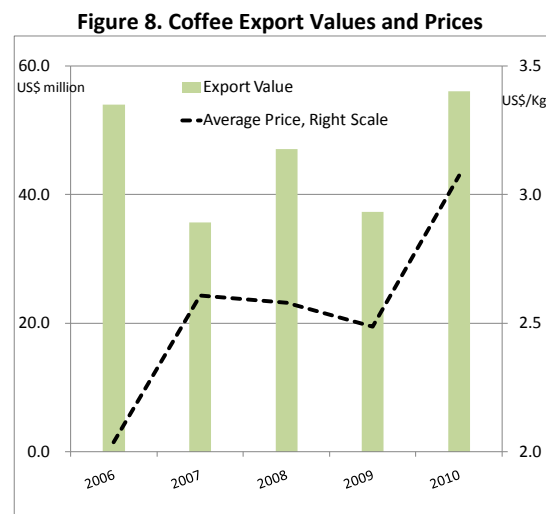
the same time, there is a rapid increase in demand for high quality and niche tea and the global consumption of black tea is quickly growing. It is in Rwanda's interest to further increase black tea production and to diversify into higher value niches, such as orthodox and green tea, aided by foreign investments

1.4.3 COFFEE

Nowadays, Rwanda coffee is answering growing demand for high quality bourbon Arabica. In the 1990s, Rwandan coffee was classed below Grade C, making it unsalable on the global market and buyers paid US\$0.33 per kilogram. Rwanda coffee was unknown in the specialty/high-value coffee sector until in 2001 MARABA™ coffee achieved high scores at international coffee tasting competitions, placing it well above the threshold level for a specialty coffee.¹¹ Since then, Rwanda coffee won praise by the American and European specialty coffee industry. Rwanda coffees have been distributed in Europe (through Sainsbury's in the UK) and Starbuck's in the US.

Rwanda coffee achieved record prices in 2010. Between 2006 and 2010 annual average unit prices increased by 51.2 percent from US\$2.03 to US\$3.07 per kilogram (Figure 8). This trend was mainly driven by a growing share of fully washed

coffee (FWC), owing to an increased number of processing factories and washing stations, (one in 2002, 74 in 2006 and 188 in 2010). Whereas the FWC accounted for less than one percent in 2002, it reached 12 percent in 2006 and exceeded 20.0 percent of total coffee production in 2010. However, that share remains still far below the EDPRS target of transforming 85.0 percent of coffee production into FWC by 2012.



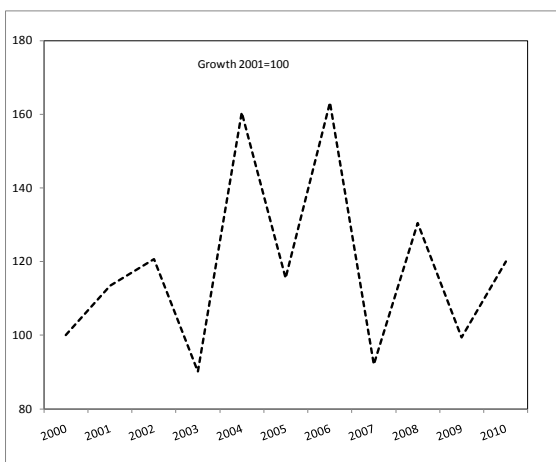
Source: BNR

Production volatility threatens Rwanda's potential of becoming a key supplier of high-quality coffee. First, volatility in coffee production leads to the underutilization of washing station capacity. Second, it also contributes to insufficient levels of production to attract global demand. This makes Rwanda coffee invisible to the bulk market. In 2009, washing stations utilized only 43.0 percent of their capacity. At the same time, Rwanda contributed less than one percent to the worldwide exported coffee. Rwanda's coffee production needs to be optimized by minimizing the oscillation of the production cycle (Box 2).

¹¹ MARABA™ coffee is a bourbon variety of the Coffee Arabica species which was processed by the first washing station built at Maraba, in Southern Province in 2002. This washing station was built with assistance from the Partnership for Enhancing Agriculture in Rwanda through Linkages, a project executed by Michigan State and Texas A&M Universities.

Box 2: Coffee Production Cycle

Over the past decade, coffee exhibited large volatility in production and foreign exchange earnings. Production also remained below the levels of the early 1990s. Peaking at 26,291 tons in 2006, coffee production has been oscillating from year to year, following a downward trend. Overall, coffee recorded a 27 percent drop in production from 2006 to 2010. This sharp volatility is attributed to the natural coffee cycle: (i), the yield of the coffee tree peaks after 5 to 7 years, and (ii) there is a 18 to 24 months lag between plantation and harvest. While the investment response to price change is very quick, the output response to investment is slow. As a result, the extra supply might arrive on the market when prices are on the decline, magnifying the downturn in the coffee cycle.



Source: OCIR-CAFÉ and BNR

Another challenge is linked to coffee quality consistency and the need to better target the high-value coffee market. Washing stations must be more selective about the coffee cherries they wash in order to maintain and improve the overall quality of Rwanda coffee. Fully washed low grade cherries do not add any more value than semi-washing the same cherries. Greater coffee quality consistency would enable companies to enter the specialty coffee segment. This segment enjoy higher and more stable prices, as compared to the commercial coffee segment, which is to a larger extend subject to global commodity price swings.

1.5 SEEDS FOR GROWTH

In order to fully realize its strategic role, the agriculture sector will need to address a number of urgent challenges, including: (i) preserving soil fertility and preventing soil erosion, (ii) large irrigation needs, (iii) poor post-harvest management, and (iv) limited access to financial services. These could impinge negatively on agricultural productivity, despite the progress achieved in recent years. Government, in partnership with donors, started to put in place a series of measures to deal with these challenges. Most of these measures are being undertaken under the second PSTA and they truly represent seeds for higher future agricultural and overall growth.

1.5.1 SOIL FERTILITY AND EROSION ISSUES

Heavy demographic pressure resulted in many, very small and scattered farms. More than 80.0 percent of households hold less than 1.0 ha of land. This land is over-cultivated, leading to the disappearance of traditional techniques of soil fertility regeneration such as fallowing practices. In addition, the cultivation on slopes up to and above 55 percent steep is unavoidable given that 80 percent of arable land is on a slope in Rwanda. Encroachment on marginal lands on steeper slopes results in heavy erosion.¹²

¹² About 40.0 percent (800,000 ha.) of Rwanda's land is classified by the Food and Agriculture Organization as having a very high erosion risk, 37.0 percent requires soil retention measures before cultivation, and only 23.0 percent of the cultivated land is more or less free from risk of erosion. Rwanda loses 1.4 million tons of soil per year,

Government has started initiatives to reduce soil erosion and restore soil fertility and these are implemented through PSTA II.

➤ **Soil fertility**

Under the CIP program, a land use consolidation component encourages farmers with adjacent land to grow the same crop. This will enable farmers to make use of economies of scale and increase access quality inputs, such as improved seeds and fertilizers. Government installed a fertilizer voucher system for maize and wheat farmers. After dealers deliver inputs to the farmer at a predetermined subsidized price, they are paid the subsidy on the agro-input by microfinance institutions engaged by CIP. In addition, the GIRINKA program will increase the use of farm yard manure for soil fertility improvement. Projects supported both by the Dutch Government and United States Agency for International Development (USAID) support the Ministry of Agriculture in these aspects, but many Non-Governmental Organizations are also active in this area such the One Acre Fund, World Vision and Care International.

➤ **Soil erosion**

Erosion control programs are being aggressively applied, such as progressive or radical terraces. For instance, the Government's LWH program, financed by International Development Association and other donors, uses a comprehensive

watershed approach to prevent soil erosion and improve productivity on hillsides (thereby reducing the need to encroach on marginal lands). Other programs aim at the rehabilitation of hillsides; and Government's extensive radical terracing (agricultural and social protection) program is covering now large tracts of the country.



Source: Rural Sector Support Project Rwanda

1.5.2 IRRIGATION NEEDS

Rwandan agriculture is predominantly rain fed. As a result, droughts, irregular rainfalls and landslides, and climate change-related phenomena are major concerns for its productivity. Through PSTA II, Government is focusing on providing irrigation to hillside farms and on increasing the water retention capacity of watersheds. There are a number of projects funded jointly by the Government and Developments Partners to this effect: (i) the Rural Sector Support Project (marshland irrigation); (ii) the LWH Project; (iii) the *Project d'Appui au Développement Agricole de Bugesera*; (iv) the Kirehe Watershed and Agricultural Management Project, (v) the Project to Support PSTA II implementation, and (vi) the Hillside Irrigation Project in Bugesera.

equivalent to a decline in the country's capacity to feed 40,000 people per year (Republic of Rwanda, 2009)

The Government has also initiated a number of ambitious irrigation projects like the Immediate Action Government Funded Irrigation Project and the Gishwati Land and Water Management Project. Recently, a Task Force was established for Irrigation and Mechanization resulting in a pledge to increase the irrigated area both in the marshland and on the hillside from 20,000 ha to 100,000 ha by the year 2017.

1.5.3 POST HARVEST MANAGEMENT

Poor post harvest management results in the loss of up to 15 percent of total production and poses a big challenge to further productivity increases, if not addressed. Government is supporting post-harvest infrastructure through farmer and cooperative investments in storage facilities, drying grounds, as well as the procurement of silos and grain stocks. These activities are handled by the newly created Storage and Post Harvest Task Force in the Ministry of Agriculture. USAID is also supporting post harvest development in the sector through the Post Harvest Handling and Storage Project.

1.5.4 ACCESS TO FINANCIAL SERVICES

The agriculture sector suffers from insufficient access to finance and insufficient investment capital for farming, agro-processing and export development. Low productivity and high vulnerability of the agricultural sector make banks reluctant to offer financial services to rural farmers, largely due to lack of information on profitability of value chain activities. The

banking system also imposes heavy collateral requirements and poses inappropriate lending conditions, such as periodicity of repayment not linked to the agricultural cycle. In 2010, the agricultural sector received only 2.1 percent of total new authorized loans.

Mechanisms to increase access to financial services in the agriculture sector mostly benefit the export and livestock subsectors.

Some of these mechanisms comprise the Government Agricultural Guarantee Fund, the World Bank's Rural Investment Facility I & II, and the Belgian Horticultural Investment Fund and similar schemes are embedded in various other projects. However, they remain largely uncoordinated and did not allow agricultural finance to take root yet. In 2010, Department for International Development's Access to Finance Rwanda Program established a Company Limited by Guarantee to coordinate efforts to deepen financial literacy and financial access. The purpose is to increase access to financial services for poor rural and urban people, especially women, and for Micro, Small and Medium Enterprises. In March 2011, the Agricultural Finance Support Facility launched a project to support the *Banque Populaire du Rwanda* in order to build its capacity for agricultural finance, thus increasing access of smallholder farmers to financial services.

PART 2: RECENT ECONOMIC DEVELOPMENTS

This part focuses on recent macroeconomic developments during 2010, the year after the global economic crisis impacted the country most. Rwanda's economy grew in 2010 at a healthy 7.5 percent, two percent higher than the EAC. A prudent fiscal stance with strong focus on priority expenditures, and assisted by continued high grant financing from donors, contributed to the country's remarkably stable macroeconomic framework in a difficult external post-crisis environment. The outlook for a full recovery of Rwanda's economy during 2011 is cautiously optimistic as some lead growth indicators, like credit to the private sector, performed in 2010 less well than expected. The outlook also remains dependant on effects of yet again increasing international fuel and food prices and the second harvest outcome.



Source: World Bank Archives Rwanda

2.1. REAL SECTOR TRENDS

Rwanda's economic recovery continued during 2010 at a high pace. As of December 2010, year to year GDP growth rates were steadily increasing, but did not return to pre-crisis 2008 levels yet. Nevertheless, the overall growth outturn at 7.5 percent for 2010 is impressive. This growth was to a large extent a result of a sizable fiscal stimulus, increasing expenditures by around 3.0 percent of GDP between 2008 and

2009/10¹³ to around 26.0 percent. This stimulus was partly financed by an increase in donor aid.

Economic growth was driven by services and industry growth (Figure 1). Agriculture sector growth slowed down to 4.6 percent, despite price and volume increases for key export crops and increased food crops

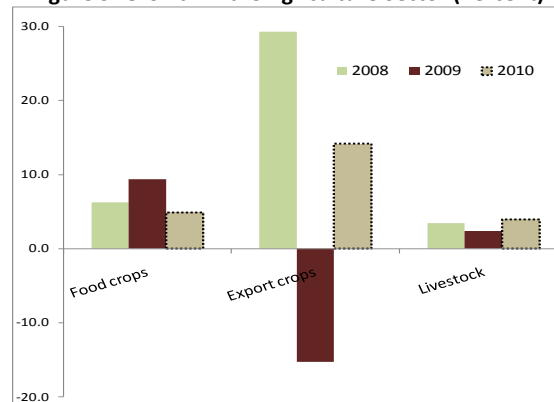
¹³ This included the revised 2008 budget at mid-term review, 2009 and 2009/10 budgets.

production. By end 2010, the services sector exhibited growth of 9.6 percent benefiting from large public expenditures (education, health and public administration services). After being the most impacted sector by the global downturn, the industrial sector grew at 8.4 percent. But industry's growth remained below 2008 levels, in particular, for the main subsector construction, cautioning the economic outlook.

Overall sector trends in 2010 can be summarized as follows:

- Agriculture sector growth slowed down to 4.6 percent** (Figure 9) while food crops production increased and export values for crops increased, owing to high international prices for Rwanda's two main export goods, coffee and tea. **Coffee** production increased by 21.6 percent, benefitting from favorable weather condition and increased use of fertilizers. International coffee prices remained stable, averaging US\$3.08 per kilogram. **Tea** production increased by 15.2 percent, partly attributed to the privatization of some tea factories which led to productivity gains, but also the eradication of a tea plant disease which had plagued some tea plantations in 2009. **Food crops** production increased, benefitting from favorable weather conditions and ongoing intensification programs. The modest increase was a result of the decline in domestic food prices. **Livestock reported a modest increase** despite the ongoing Girinka Program.

Figure 9. Growth in the Agriculture Sector (Percent)



Source: NISR

The services sector led the way with 9.6 percent growth, contributing the largest share to GDP (45.8 percent) (Figure 10). Finance and insurance benefitted largely from increased insurance activities in the industry sector, and awareness campaigns encouraging life insurance (Table 3). Education, health and public administration services grew by 14.6 percent, thanks to the high momentum of public spending in these areas, partly aided by increased donor inflows. Hotel and restaurants' activities exceeded pre-crisis levels, benefitting from a record tourist arrival number in 2010.¹⁴ Communication services grew at a healthy 8.7 percent due to an increase in mobile phone penetration. The number of mobile phone subscribers increased by 46.1 percent between December 2009 and 2010.

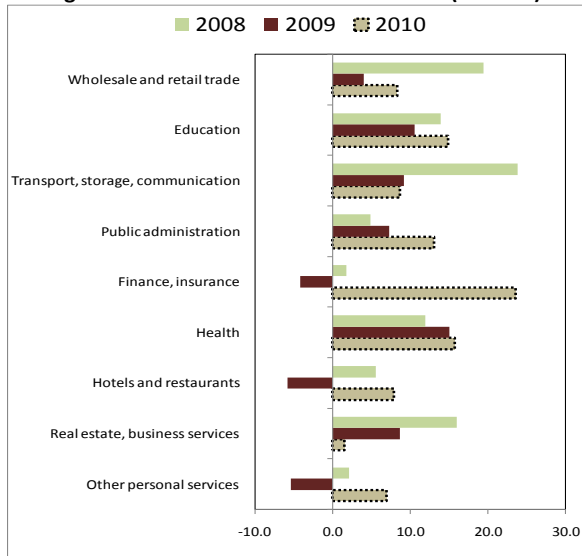
Table 3. Insurance Activities in Rwanda (Billion of Rwf)

	2008	2009	2010
Gross premium	35.9	47.9	53.8
Gross premium/GDP	1.4%	1.6%	1.6%
Assets	80.1	102.9	119.0
Assets/GDP	3.0%	3.5%	3.6%

Source: BNR

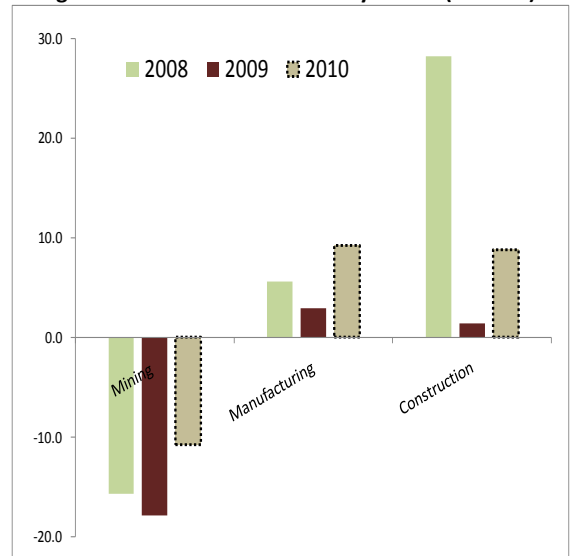
¹⁴ Rwanda Development Board, 2011

Figure 10. Growth in the Services Sector (Percent)



Source: NISR

Figure 11. Growth in the Industry Sector (Percent)



Source: NISR

The industry sector grew at a healthy 8.4 percent, aided by a strong recovery in manufacturing (Figure 11). **Manufacturing** activities revived with growth exceeding pre-crisis 2008 levels, dominated by the foods and beverages industry, imports of industrial materials and new credits to manufacturing activities. **Mining** disappointed, contracting by 10.8 percent. The modest quantity exported benefited from the increase in international prices. **Construction** growth remained reserved. While overall growth represented through this sector is encouraging, consideration of construction as a lead growth indicator is cautioning the overall outlook.

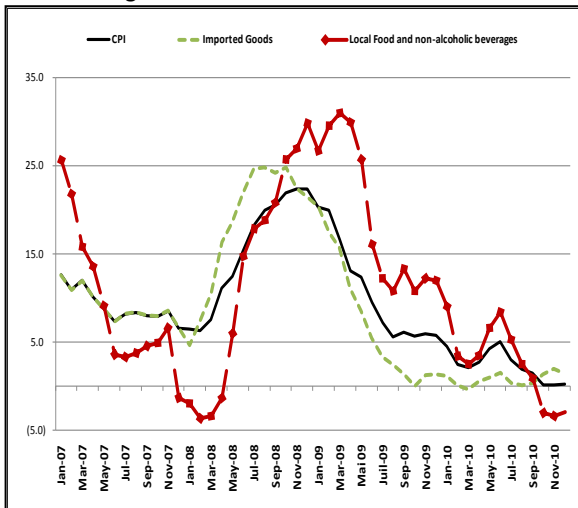
2.2. PRICE TRENDS

In 2010 inflation declined and converged to below pre-crisis levels. As of December 2010, the CPI stood at 0.2 percent, retreating from its peak level of 22.3 percent at end-2008 (Figure 12. Inflation Trends 2007-2010).

Year-on-year inflation reached 2.3 percent for headline inflation and 1.5 percent for underlying inflation, respectively. This trend was owed to the good performance in domestic food production and a decline in import prices.

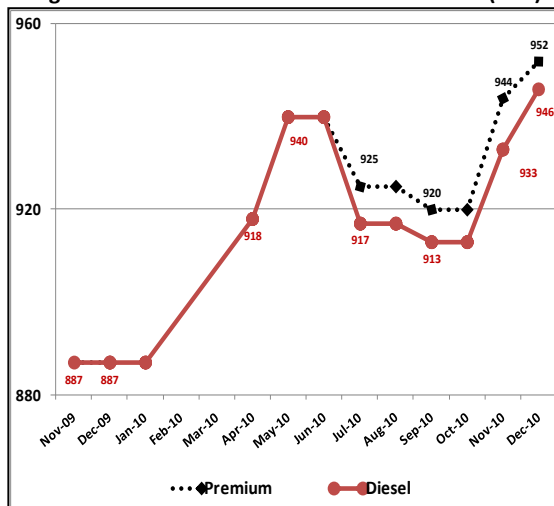
Domestic petroleum prices have been adjusted periodically in response to world oil market developments. A committee consisting of Government and private sector representatives meets monthly to discuss and determine fuel prices per liter at the pump. In 2010, fuel pump prices were reviewed six times. During the first half of 2010, prices were raised twice, in January and in May. Between July and September, prices were reduced twice, and this time fixed separately for premium super and for diesel. Since October 2010, fuel prices climbed steadily and reached Rwf952 for premium super and Rwf946 for diesel in December 2010 (Figure 13). Overall, pump prices increased by 7.3 percent for premium super and 6.7 percent for diesel.

Figure 12. Inflation Trends 2007-2010



Source: BNR and NISR

Figure 13. Domestic Fuel Price Trends in 2010 (Rwf)



Source: Ministry of Commerce

2.3. FISCAL TRENDS¹⁵

Fiscal policy continues to inject a stimulus in 2010/11. This is reflected in continued high levels of spending in order to support the nascent recovery. Total expenditures are projected to increase by a 9.5 percent to Rwf984.0 billion (Table 4). A major increase in domestic capital investment is planned, pushing capital expenditure to 41.1 percent of the budget. Total expenditure and net lending are projected at 27.8 percent of GDP. Expenditure coverage by total revenues (including grants) is expected to decline to 84.0 percent from 86.7 percent of 2009/10.

The overall fiscal deficit (excluding grants) is expected to increase to 13.8 percent of GDP, from 13.2 percent in 2009/10. Donor inflows are planned to remain a significant source of budget financing, but at decreasing level. Both budgetary and capital grants are projected to decrease in the 2010/11. The external financed budget share is planned to decline by one fifth to 35.2 percent down from 43.9 percent in 2009/10. Allocation to debt repayment is expected to increase by 25.7 percent in terms of budget share, as Government stock of domestic securities issued in 2010 and a 3-year bond will reach maturity in 2011.

¹⁵ The 2010/11 budget was Rwanda's second budget following the EAC fiscal year from July to June. This budget was presented to Cabinet on April 15, 2010 and approved by Parliament in its session of June 24, 2010. The State Finance Law was gazetted on June 30, 2010.

Table 4. Government Budget 2009/10 and 2010/11 (Billion of Rwf)

	FY 2009/10		FY 2010/11	
	Original Budget	Revised Budget	Actual	Budget
Revenue and grants	743.7	779.6	800.8	826.1
Domestic revenue	401.50	385.1	391.5	479.8
Tax revenue	368.00	369.4	376.5	457.6
Direct taxes	147.1	144.5	148.9	179.0
Taxes on goods and services	183.1	191.2	195.1	234.8
Taxes on international trade	37.8	33.6	32.6	43.8
Non-tax revenue	33.5	15.8	15.0	22.1
Total Grants	342.2	394.5	409.3	346.4
Budgetary grants	215.8	268.1	283.0	229.6
Capital grants	126.4	126.4	126.4	116.8
Total expenditure and net lending	838.0	899.0	819.0	984.0
Current expenditure	459.3	478.8	457.1	517.1
Wages and salaries	107.7	108.2	106.9	120.6
Purchases of goods and services	107.5	112.3	103.9	120.5
Transfers	178.9	190.2	179.6	195.5
Exceptional social expenditure	51.7	54.7	51.8	67.0
Interest payments	13.4	13.4	14.8	13.5
Domestic Int (paid)	8.6	8.6	10.3	9.0
External Int (paid)	4.8	4.8	4.5	4.5
Capital expenditure	348.1	356.4	311.5	404.0
Domestic	153.1	161.4	154.0	224.6
Foreign	195.0	195.0	157.5	179.4
Net lending	7.0	38.4	28.2	31.2
Debt repayment	15.2	17.0	11.1	23.4
Domestic	9.9	11.7	7.0	15.1
Foreign	5.3	5.3	4.1	8.3
Arrears	8.4	8.4	11.1	8.3
Overall Deficit¹	-79.1	-102.4	-7.1	-134.5
Deficit Financing²	79.1	102.4	7.1	134.4
Foreign financing (net)	63.3	63.3	27.0	54.5
Drawing on GoR account	0.0	0.0	0.0	59.1
Domestic financing (net)	15.8	39.0	-19.9	20.8

Source: MINECOFIN

¹ Revenues and grants minus total expenditure and net lending (excluding debt repayment).

² Net of debt repayment.

The mid-term review of the budget was approved by Parliament on February 28, 2011. The overall budget envelope remained the same, with some reallocations within that envelope. It mainly accommodated a change in financing from donors, i.e. the disbursement delay by some donors was compensated by extra budget support resources provided by the World Bank and COMESA reimbursement for trade tax losses incurred after the implementation of the EAC Common External Tariff Framework in July 2010.

2010/11 budget projections are based on four broad priority areas of spending as defined by the EDPRS (Annex 3).

- The **human development and social sectors cluster** including health, education, social protection and youth, culture & sports, and, is continuing to receive the lion's share of Government spending (31.1 percent). The EDPRS target stands at 34.2 percent. Although its absolute spending increases by 6.7 percent, this represents a 0.8 percent decline in terms of share of total expenditure compared to 2009/10.
- The **Governance and sovereignty cluster** is seeing its allocation decrease from 36.5 percent to 30.1 percent in budget share (9.8 percent in absolute terms, and 17.5 percent in terms of total expenditure compared to 2009/10), converging to the EDPRS target of 29.4 percent This cluster comprises general public services, defenses and public order and safety functions.
- The allocation to the **infrastructure cluster** increases in terms of budget share. But instead of converging to the EDPRS target of 19.7 percent, spending is planned at 24.6 percent of the budget up from 21.5 percent in 2009/10. This corroborates with the Government's goal for alleviating infrastructure bottlenecks (e.g. broadening electricity access and completing the fiber optic program, etc.).
- For the **productive capacities cluster** a more than 50.0 percent increase in allocation is planned, from 10.0 percent to 14.2 percent as a share of the budget,

thus getting close to the EDPRS target of 16.7 percent. This cluster comprises the key sectors of agriculture and trade & industry, through which issues of growing balance of payment deficits need to be addressed.

Budget execution for 2009/10 totaled Rwf815.0 billion against Rwf898.0 billion of the revised budget, leading to an overall execution rate of 90.8 percent versus the revised budget and 97.3 percent the original budget (Table 4).

- For **current and capital expenditures**, execution rates were 95.5 percent and 87.4 percent, respectively. The lowest execution rate was recorded for foreign funded capital expenditures with 80.7 percent, followed by purchases of goods & services with 92.5 percent. In the former case this was attributed to a delay in financing agreements for Government's strategic investment projects and in the latter to procurement delays. Interest payments reported an overspending of ten percent, particularly for domestic payments.
- The Government incurred higher **interest costs** due to the fact it had to maintain high overdraft levels at Central Bank and also sell a large amount of domestic security instruments to finance priority expenditures as donor disbursements were delayed. Furthermore, the Government had to incur additional interest burden from bank loans and advances acquired by its contractors and suppliers due to payment delays.

- **Revenue collection** exceeded Government's targets for 2009/10, recording a surplus of Rwf6.4 billion compared to the revised budget. This was largely a result of the implementation of tax administration reform measures. However, the collection of international trade taxes and non-tax revenues reported shortfalls. The proportion of direct taxes and taxes on goods & services has been continuously rising over the last three years, whereas there was a reduction in the share of taxes on international trade as a result of the reduction in tariffs following the EAC Common External Tariff Framework.
- **Donor inflows** recorded a surplus of Rwf14.9 billion in budgetary grants due to unforeseen reimbursement from the UN for the Peace-Keeping Operation in Sudan as well as exchange rate fluctuation of some donor currencies (the SDR, the Euro and the British Pound against the US\$).
- **Financing.** Due to the lower execution rate of the upward revised budget, the fiscal year ended with an overall lower than projected deficit. Net external borrowing totaled Rwf27.0 billion, compared to the planned Rwf63.3 billion. Also, domestic financing was negative, as Government re-paid domestic non bank debt in the amount of Rwf19.9 billion (Table 4).

2.4. EXTERNAL SECTOR TRENDS

The trade balance narrowed marginally, thanks to strong demand and high international prices for key export crops. In 2010, export values reported a 33.2 percent increase benefiting from high prices at international market, but remained below the pre-crisis 2008 levels (Table 5). Export volumes increased by 9.1 percent. Agriculture crops constituted the major source of exports earning, generating 49.4 percent, followed by minerals with 28.0 percent. Re-exports significantly increased, dominated by cassiterite (69.1 percent) which is re-exported to Switzerland. Other re-exported products include petroleum products and vehicles exported to the Democratic Republic of Congo (DRC) and Burundi and machines & engines exported to EAC countries.

Table 5. Main Export Products (US\$ Million)

	2007	2008	2009	2010				
				Q1	Q2	Q3	Q4	Total
Coffee	35.7	48.1	37.3	1.4	7.8	28.9	18.0	56.1
Tea	31.5	45.0	48.2	17.4	15.6	11.1	11.6	55.7
Minerals	70.6	91.7	55.7	11.3	15.7	18.5	25.7	71.3
Cassiterite	32.0	41.3	28.6	5.5	9.8	11.0	16.0	42.2
Coltan	19.2	36.0	20.2	4.1	3.9	5.6	4.8	18.5
Wolfram	19.4	13.4	5.8	0.8	1.5	2.0	2.8	7.1
Reexports	18.0	52.8	20.6	8.4	10.6	12.8	4.1	35.9
TOTAL EXPORTS	176.8	267.7	191.0	48.0	58.0	79.9	68.6	254.5

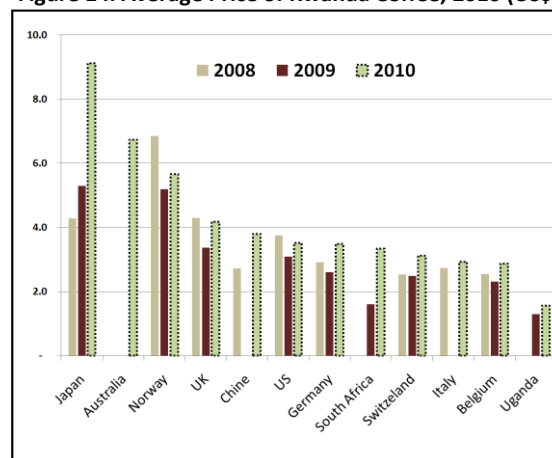
Source: BNR

- **Coffee exports benefited from an increase in global coffee prices combined with increased production** (see Part 1). Europe remained the main destination for Rwandan coffee with about 85.8 percent of the volume exported, followed by North America

with 8.8 percent. More than 50.0 percent of European coffee exports were sold in Switzerland. However, the volume of the European market declined albeit export values continuously increased. In terms of prices, Rwanda coffee was well valued in Japan where the price averaged US\$9.1 per kg followed by Australian market with US\$6.7 per kg. 2010 was the first year when Rwanda coffee export was extended to the Australian market (Figure 14).

- **Tea exports benefited from a 15.2 percent increase in export volume and a slight price increase.** In terms of destination, almost 90.0 percent of Rwanda Tea is sold at the Mombasa auction.
- **Mining exports performed well in 2010, benefiting from high international market prices,** while output in the mining sector did not pick up. Export earnings from minerals recorded a 27.8 percent increase, while export volumes fell by 6.7 percent.

Figure 14. Average Price of Rwanda Coffee, 2010 (US\$)



Source: BNR

In 2010, import volumes increased by 17.7 percent while values rose by 8.8 percent (Table 7). This trend was mainly due to the increase in volume recorded by consumer and intermediary goods. Food products occupy the largest share with 36.1 percent of the value of imported consumer goods, or 11.6 percent of total import values. Imported food products mainly comprise sugar & sweets and cereals, flours & seeds. Large imports in cereals, flour and seeds are primary due to the fact that local production remains low, especially for rice, compared to consumption needs. Intermediary goods saw a 10.5 percent increases in values, contributing 31.2 percent to the increase of total import values. This reflected significant demand of the industry sector, especially for manufacturing and construction activities. Energy products reported a 21.4 percent increase in value in consequence of high international fuel prices.

Informal cross-border trade is becoming significant for Rwanda. Since 2009, The Ministry of Commerce, Central Bank and NISR conduct a survey on informal cross border trading. Rwanda has been recording a positive cross border trade balance and in 2010 the trade balance increased by 16.9 percent to US\$27.0 million (up from US\$23.1 million in 2009) (Table 6). This trade is dominated by food crop products and live animals with the main trading partners are being DRC and Uganda.

Table 6. Informal Cross Border Trade (Million US\$)

	2009	2010				
	Exports	46.6	12.6	10.9	12.2	13.3
Imports	23.5	4.7	4.9	6.6	5.9	22.0
Trade Balance	23.1	7.9	6.1	5.6	7.4	27.0

Source: BNR

Table 7. Evolution of Imports by Economic Classification, Value in Million of US\$ and Volume in Tons

	2009		Q1-2010		Q2-2010		Q3-2010		Q4-2010		Total 2010	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
CONSUMER GOODS	359,314.1	318.1	122,470.5	93.0	108,878.3	79.9	116,669.5	92.5	120,453.9	110.6	468,472.2	376.0
Food product	265,598.9	106.7	101,152.9	37.6	88,540.3	30.7	93,253.3	32.8	89,541.1	34.5	372,487.7	135.7
Health and care	26,239.5	97.5	6,032.1	16.8	6,641.0	18.4	7,651.1	27.8	10,443.9	22.0	30,768.1	85.0
CAPITAL GOODS	53,136.1	337.4	10,140.4	77.1	9,038.5	69.8	11,341.0	83.8	12,556.4	84.8	43,076.4	315.5
Transport Materials	8,837.0	49.7	1,584.6	10.7	1,618.3	11.7	1,672.1	11.7	1,897.6	13.1	6,772.6	47.2
Machines, devices and tools	18,128.1	223.8	4,753.4	50.6	4,257.3	45.3	5,245.0	52.4	5,368.9	49.2	19,624.6	197.5
INTERMEDIARY GOODS	408,677.0	284.8	98,279.3	67.0	101,360.0	77.9	128,879.4	85.4	153,125.2	84.3	481,643.9	314.6
Construction materials	243,263.8	117.1	52,161.3	25.2	56,578.9	32.9	78,263.7	36.1	100,847.5	34.8	287,851.4	129.0
Industrial products	108,511.6	111.1	39,081.6	31.6	40,576.6	32.3	30,985.2	30.9	35,807.0	34.5	146,450.4	129.4
ENERGY PRODUCTS	189,347.3	138.2	46,418.1	38.3	49,564.2	43.3	48,148.0	40.6	51,654.7	45.4	195,784.9	167.7
Fuel	182,971.7	129.1	45,014.7	36.7	48,037.1	41.4	47,012.9	38.6	50,102.6	43.1	190,167.4	159.8
TOTAL IMPORTS	1,010,474.4	1,078.4	277,308.4	275.4	268,840.9	271.0	305,037.9	302.3	337,790.2	325.1	1,188,977.4	1,173.8

Source: BNR

In 2010, the tourism sector recorded record visitor numbers to National Parks, resulting in a remarkable recovery from the receding numbers following the global downturn in 2008-2009. The number of national park visitors recorded a 17.8 percent increase exceeding the pre-crisis level of 2008 (Table 8). Overall, Rwanda hosted 666,001 visitors in 2010. Especially, the number of non African increased by 19.1 percent. Total visitors are estimated to have generated US\$200 million, recording a 14.3 percent increase compared to US\$175 million of the year before.

Table 8. National Park Activities

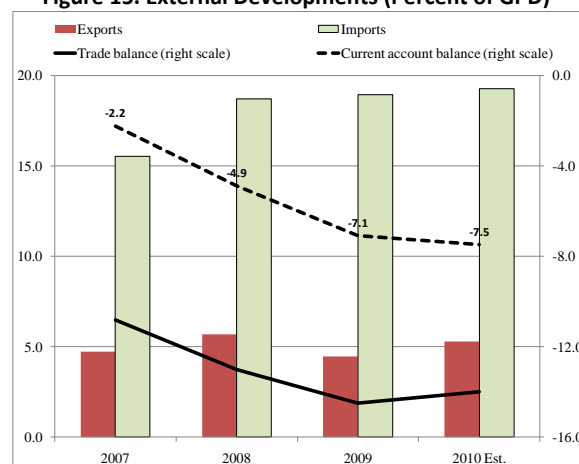
	Akagera	Volcanoes	Nyungwe	Total
2007	18,001	16,323	3,981	38,305
2008	19,783	18,490	4,810	43,083
2009	18,865	14,890	4,695	38,450
2010	23,372	16,180	5,755	45,307

Source: RDB

The current account deficit, including current transfers, slightly widened to 7.5 percent of GDP in 2010, from 7.2 percent in 2009. The trade deficit narrowed from 14.5 percent of GDP in 2009 to 14.0 percent in 2010 (Figure 15). Net remittances increased to US\$65.1 million from US\$53.1 million in 2009 comparing to the record level recorded in 2007. Net official transfers increased in 2010 by 8.9 percent, reflecting a 15.3 percent increase in budgetary support transfers and a 10.1 percent decrease in humanitarian aid. Total current transfers increased by 9.6 percent, but this increase was not enough to outbalance the trade deficit. Preliminary data estimated a 64.3 percent decrease in foreign direct investments, mainly because a few large

expected investment deals are still awaiting finalization. International reserves remained at comfortable levels (5.1 months of imports of goods and services).

Figure 15. External Developments (Percent of GDP)



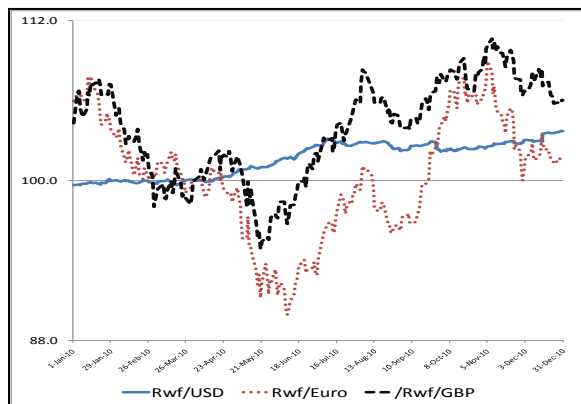
Source: BNR

2.5. EXCHANGE RATE TRENDS

The Rwandan Frank depreciated against all major currencies. In March 2010, Central Bank introduced an exchange rate corridor framework as a transitional measure toward a market based exchange rate framework. The framework is characterized by more flexibility in the movement of foreign exchange. Previously, the exchange rate system was classified as a conventional fixed peg relative to the US\$. Since April 2010, the Rwf depreciated by 3.7 percent against the US\$, a larger movement than observed over the entire year 2009 (2.2 percent). Throughout 2010 the Rwf showed a mix of movements against other major international currencies (the Euro and the British Pound) which originated in the strengthening of the US\$ during that period (Figure 16). By end 2010, the Rwf had depreciated by 1.6 percent against the Euro

and by 6.0 percent against the British pound. The Rwf depreciated against all EAC currencies, other than the Burundian Franc (see Table 9).

Figure 16. Nominal Exchange Rate of Major Currencies, end March=100



Source: BNR

Table 9. Variations of EAC Currencies/Rwandan Franc (+Appreciation/-Depreciation) in 2010

	UGS/Rwf	TZS/Rwf	BIF/Rwf	KES/RWF
Quarter 1	-6.7	-2.3	2.2	-1.7
Quarter 2	-7.1	0.0	2.1	-3.0
Quarter 3	0.9	-7.5	0.7	1.3
Quarter 4	-2.1	3.3	-0.3	1.1
Year 2010	-14.4	-6.6	4.8	-2.3

Note: UGS: Ugandan Shilling, TZS: Tanzanian Shilling, BIF: Burundian Franc and KES: Kenyan Shilling.

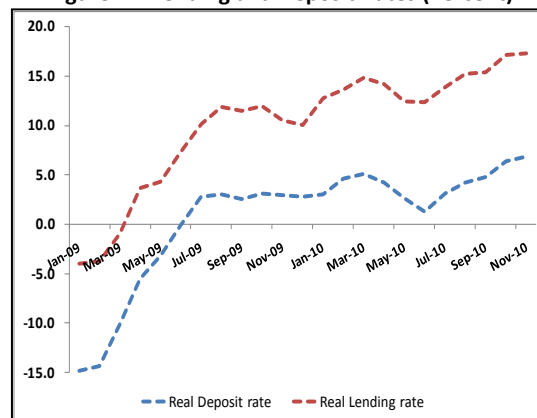
Source: BNR

2.6. MONETARY POLICY AND CREDIT TRENDS

In 2010, monetary policy has been accommodative, but credit growth remained lower than expected. The policy rate (key repo rate) of the Central Bank was cut three times by a cumulative 300 basis points from 9.0 percent in November 2009 to 6.0 percent in November 2010. The policy rate was maintained at low level with the aim of releasing more liquidity into the banking system by keeping costs of funds at low level, thus making credit to the

economy cheaper. Commercial banks were provided with a negative incentive to invest in the money market and instead provide credit to private sector. However, banks have maintained their lending interest rates persistently high (Figure 17), following a cautious credit stance.

Figure 17. Lending and Deposit Rates (Percent)



Source: BNR

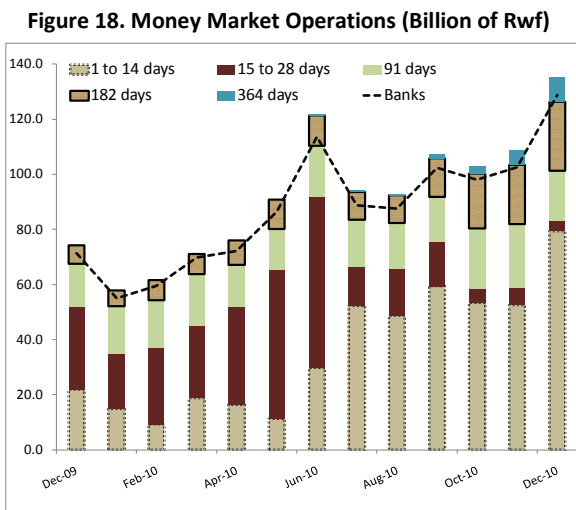
Financial sector soundness indicators improved in 2010. The capital adequacy ratio on a consolidated basis stood at 22.3 percent in December 2010 against 21.0 percent in December 2009, the minimum required is 15.0 percent. The ratio of non-performing loans in total loans declined from 13.1 percent in December 2009 to 11.3 percent in December 2010. The overall banking sector liquidity position has also improved. As of December 2010, there was a 17.0 percent increase in money supply, 17.4 percent increase in bank deposits and the loan-to-deposit ratio decreased to 75.6 down from 79.9 percent of December 2009.

Despite the cut of the key repo rate, banks also continued to increase their activities in the money market As of December 2010,

commercial banks held 88.3 percent of treasury bills stock. Additionally, stock of domestic securities have been rapidly growing from Rwf74.2 billion in December 2009 to Rwf135.3 billion by end December 2010, reflecting a 182.3 percent increase in only one year. The stock has been recording peaks at the end of quarters, especially from the second quarter of 2010. This was mainly due to the fact that the Government had to issue treasury bills to meet quarterly priority spending targets. Government interventions pushed the reserve money, the anchor of monetary policy, beyond its target. Central Bank had to carry out mopping up operations, using repo operations and issuance of treasury bills, thus stock of domestic debt securities also peaked on a quarterly basis (Figure 18).¹⁶

In 2010, newly authorized loans reported a 64.2 percent increase to Rwf262.6 billion up from Rwf198.4 billion in 2009. In terms of distribution by sectors of economic activity, the main share of newly authorized loans was absorbed by: trade, restaurants & hotels (42.6 percent), construction (17.2 percent), manufacturing and transport (10.2 percent), warehousing & communication (8.6 percent). Newly authorized loans to the agriculture sector remained low accounting for only 2.1 percent of the total new loans.

Credit to the private sector picked up less than expected. As of end-December 2010, annual growth in credit to the private sector stood at 11.4 percent, against the projected growth of 20.0 percent. High levels of banks' lending rates, the extensive issuance of treasury bills to finance the Government's budget, combined with the fact that most of the banks were strengthening the recovery process and writing off bad loans, slowed down the credit growth.



Source: BNR

¹⁶ Treasury bills are also used to sterilize the liquidity.

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ANNEX 1: GROWTH TRENDS IN FOODS CROPS (2004-2010)

In 2010, cereals occupied 25.0 percent of all area planted with food crops. Production of cereals has increased at a rate of 15.3 percent per year from 2004 to 2010. Growth was more pronounced from 2007 to 2010, when production grew at 27.6 percent per year, stimulated by the extension in cultivated area as well as an increase in yields. The overall growth rate and the relative contribution of these two sources varied between crops. Production of maize increased very rapidly, fueled mainly by the use of improved seeds. Production of wheat increased, mainly due to the extension in the area planted and the use of improved seeds. Production of rice showed modest growth, following a decrease in cultivated area. Production of sorghum decreased subsequent to a decline in productivity.

Table 10: Compound Growth in Food crops (Percent)

	2004-2007			2007-2010			2004-2010		
	Area	Yield	Production	Area	Yield	Production	Area	Yield	Production
Cereals	2.6		4.1	9.9		27.6	6.2		15.3
Sorghum	-3.3	3.1	0.6	9.4	-15.5	-1.1	2.9	-6.7	-0.3
Maize	9.7	-1.7	5.1	9.4	44.9	61.6	9.5	19.4	30.3
Wheat	7.4	5.5	13.7	21.5	24.1	46.3	14.3	14.5	29.0
Rice	7.2	3.2	10.1	-4.7	7.2	2.9	1.1	5.2	6.5
Roots and tubers	-1.0		-3.5	3.3		24.0	1.1		9.4
Irish Potato	-2.2	-0.6	-3.4	6.6	9.0	22.8	2.1	4.1	8.9
Sweet Potato	-3.3	0.2	-2.4	-8.7	9.9	-0.2	-6.0	4.9	-1.3
Yam & Taro	1.7	-1.4	0.2	0.4	10.3	10.7	1.1	4.3	5.3
Cassava	2.2	-7.4	-5.2	11.4	30.2	45.2	6.7	9.8	17.3
Banana	-0.9	3.9	3.0	-1.9	2.6	0.6	-1.4	3.2	1.8
Pulses	4.5		18.0	-0.4		2.9	2.0		10.2
Beans	3.9	15.2	18.7	-3.8	3.6	-0.4	0.0	9.3	8.7
Peas	4.6	2.1	5.5	9.0	14.7	24.6	6.8	8.2	14.6
Groundnuts	1.0	-3.7	-2.8	1.8	11.2	13.2	1.4	3.4	4.9
Soya	11.0	16.0	29.7	12.9	1.1	12.8	12.0	8.3	20.9
Vegetables & fruits	1.5		9.2	2.9		4.2	2.2		6.7
Vegetables	1.0	-2.0	-0.8	1.3	0.7	2.1	1.1	-0.7	0.6
Fruits	2.3	-1.7	36.4	5.2	1.9	7.1	3.8	0.1	20.9
Total	1.3		1.6	2.7		12.7	2.0		7.0

Source: Ministry of Agriculture

Pulses occupy just over 19 percent of all area planted to food crops in Rwanda. Production of pulses has increased by 10.2 percent since 2004 to 2010. However, production of pulses grew only modestly between 2007 and 2010 due to overall contraction in the area planted with pulses. This weaker performance of pulses raises concerns because it comprises a food staple for the majority of rural households and hence is a key food security crop.

In 2010, roots and tubers occupied 26.7 percent of all area planted with food crops. Significant growth was recorded in production of roots and tubers with an average annual growth of 9.4 percent over the period 2004-2010. Within the category and over the period, growth rates varied:

- Production of cassava declined between 2004 and 2007, mainly due to the Cassava Mosaic Disease (CMD). After the introduction of new cassava trees that are resistant to the CMD in 2008, and, benefiting from the expansion of area, production of cassava averaged an annual increase of 45.2 percent between 2007 and 2010.

- Production of Irish potato fell between 2004 and 2007 due to unfavorable weather, combined with a decrease in cultivated area. From 2007 to 2010, production of Irish potato registered a 22.8 percent increase per year fueled by a 16.3 percent in use of improved seeds and use of fertilizer.
- Production of sweet potato fell, following a decline in planted land. Producers shifted more profitable land out of sweet potato cultivation. Sweet potatoes were traditionally planted in many of the marshlands that have recently been developed for irrigation and are now being planted to rice and other high-value crops.

Between 2004 and 2010, the area planted with fruits and vegetables has expanded at a rate of 2.7 percent per year and occupied more than 5.0 percent of Rwanda's area planted with food crops. Production of vegetables and fruits saw a 6.7 percent increase between 2004 and 2010, fueled by an expansion in area as yields were not performing well.

The area planted with banana remains significant as it represents about 19.0 percent of Rwanda's area planted with food crops. From 2004 to 2010, production of banana reported a modest increase of 1.8 percent per year, mainly driven by a growth in yields as the area planted was contracting.

ANNEX 2. GROSS DOMESTIC PRODUCT BY ACTIVITY AT CONSTANT 2006 PRICES (RWF BILLION)

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Gross Domestic Product	997.1	1,080.7	1,175.4	1,333.9	1,353.9	1,449.8	1,580.8	1,716.4	1,848.8	2,062.3	2,187.1	2,351.1
Agriculture	443.7	477.0	519.1	606.5	589.1	601.6	640.5	659.7	677.3	720.7	776.2	814.5
Food crops	373.4	401.8	437.5	519.4	500.3	498.5	537.9	545.5	567.5	602.9	659.5	691.9
Export crops	13.1	15.2	17.2	18.2	15.2	24.6	19.1	25.3	18.0	23.2	19.7	22.5
Livestock	22.3	23.4	24.9	26.0	27.2	28.3	29.6	30.9	32.3	33.4	34.2	35.6
Forestry	30.2	31.7	34.2	37.5	40.9	44.4	48.1	52.0	53.4	54.9	56.4	57.9
Fisheries	4.8	4.9	5.3	5.4	5.6	5.7	5.9	6.0	6.2	6.3	6.5	6.7
									0.0	0.0	0.0	0.0
Industry	128.5	130.9	149.9	158.8	166.2	193.6	212.1	236.2	257.8	296.7	300.8	326.0
Mining	2.8	4.0	10.8	8.2	6.5	9.7	12.7	11.0	15.6	13.2	10.8	9.7
Manufacturing	60.6	60.9	67.9	77.9	82.2	94.2	102.6	116.7	117.6	124.2	127.9	139.7
Of which: Food	17.1	18.0	22.5	24.8	27.6	37.5	42.1	48.9	46.7	50.3	53.4	58.4
Beverages and tobacco	22.9	21.1	21.3	25.5	23.1	23.6	26.3	28.2	27.8	28.6	29.9	30.5
Textiles and clothing	3.5	4.1	4.3	5.0	5.5	6.5	7.1	8.2	8.9	8.8	8.6	8.8
Wood, paper and printing	1.6	1.7	1.8	2.4	3.2	3.6	4.9	6.0	7.1	7.6	8.2	8.7
Chemicals, rubber, plastics	3.6	3.6	3.8	4.5	5.3	5.8	6.3	7.5	7.5	7.8	7.8	8.2
Non metallic minerals	5.7	6.0	7.5	8.9	9.6	9.9	9.9	10.6	10.7	11.3	10.7	11.8
Furniture and other	6.1	6.3	6.7	6.9	7.8	7.3	6.0	7.3	8.8	9.8	9.3	13.4
Electricity and water	9.0	8.0	7.2	7.1	6.5	4.4	3.9	3.4	3.5	4.2	4.8	5.5
Construction	56.0	58.1	64.0	65.6	71.0	85.2	92.9	105.1	120.9	155.1	157.3	171.1
										0.0	0.0	0.0
Services	361.0	403.6	431.0	482.0	514.2	567.8	635.3	720.2	808.9	927.5	981.7	1,075.6
Real estate, business services	83.0	85.7	88.5	92.7	97.7	100.4	108.5	113.2	126.0	146.2	158.9	161.2
Other personal services	1.4	7.3	7.7	9.7	12.4	14.4	19.3	23.0	26.3	26.8	25.4	27.2
Hotels and restaurants	8.1	8.3	8.7	12.6	19.0	24.0	32.8	40.3	41.6	43.9	41.4	44.7
Wholesale and retail trade	91.7	103.6	110.3	125.5	127.7	143.7	162.8	192.5	220.9	263.7	274.3	297.2
Transport, storage, communication	41.6	48.2	55.1	64.8	68.8	81.4	95.1	116.6	134.1	166.0	181.3	197.0
Public administration	65.8	69.5	72.2	72.5	76.8	77.3	79.3	86.6	91.8	96.3	103.3	116.9
Education	28.9	34.2	38.3	53.4	50.7	60.4	71.4	76.1	87.3	99.5	110.0	126.3
Health	13.3	13.6	15.4	16.8	20.2	21.9	21.1	22.8	26.1	29.2	33.6	38.9
Finance, insurance	27.2	33.3	34.8	34.0	40.9	44.3	44.9	49.1	54.9	55.8	53.5	66.1
Adjustments	63.9	69.2	75.3	86.6	84.4	86.8	92.9	100.3	104.9	117.4	128.4	135.0
Less: Imputed bank service charge	-15.9	-17.2	-18.4	-16.6	-18.2	-20.4	-21.0	-23.6	-28.6	-31.5	-29.5	-34.8
Plus: VAT and other taxes on products	79.7	86.4	93.7	103.2	102.6	107.2	114.0	123.9	133.5	148.9	157.9	169.7

Source: NISR

ANNEX 3. GOVERNMENT PRIORITY AREAS OF SPENDING

1. **The development of physical infrastructure:** Priorities will be those investments that improve the business environment and reduce the cost of doing business in Rwanda, such as energy generation and distribution, road construction and rehabilitation, and ICT development.
2. **Productive sector:** Spending will focus on agriculture supply, agri-business, land reform and promotion of value addition for exports. Special emphasis will be put on accelerated implementation of the pro-poor Vision 2020 *Umurenge* Program (VUP), introducing integrated development projects in all provinces and promoting non-traditional export crops.
3. **Human development and social protection:** The focus is on interventions to improve the quality of life of the population with special emphasis on providing 9-year basic education, skills development through vocational training colleges and strategic support to higher education. Efforts will be also directed towards improving the health of the people by intensifying the fight against infectious diseases, preventing and treating non-communicable diseases, reducing maternal, infant and child mortality and provide family planning services. Social protection interventions will be mainly geared towards increasing the productive capacities of the vulnerable members of society by providing employment income generating projects, while giving direct support to the physically handicapped and aged people.
4. **Good governance and protection of state sovereignty:** The priority will be to strengthen community policing and to promote the community program of human rights and judiciary support, with particular attention to supporting institutions that promote integrity and the fight against corruption, especially the Ombudsman and the Office of the Auditor General. Fiscal decentralization will be enhanced through increased fiscal transfers to local government and fiscal reforms undertaken to mitigate any fiduciary risks in local governments' financial management. Support will also be given to Peace Keeping Forces (in Sudan and the East African Community standby force) to ensure security of the state.



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