MEMORANDUM AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED CREDIT OF SDR36.7 MILLION
TO
THE RWANDESE REPUBLIC
FOR AN
EMERGENCY REINTEGRATION AND RECOVERY CREDIT

June 11, 1997
CURRENCY EQUIVALENTS

Currency Unit: Rwanda Franc (Rwf)
US$ 1.00: Rwf306.0 (average for 1996)
SDR 1: US$ 1.36

SYSTEM OF WEIGHT AND MEASURES

Metric: US Equivalent
1 meter (m): 3.28 feet (ft)
1 hectare (ha): 2.47 acres (a)

FISCAL YEAR

January 1 - December 31

ABBREVIATIONS

AfDB: African Development Bank
BNR: Banque Nationale du Rwanda (central bank)
ERC: Emergency Recovery Credit
ERRC: Emergency Reintegration and Recovery Credit
ERRP: Emergency Reintegration and Reconstruction Program
ESAF: Enhanced Structural Adjustment Facility
ESW: Economic and Sector Work
EU: European Union
FEP: Framework for Economic Policies
GDP: Gross Domestic Product
GOR: Government of Rwanda
IDA: International Development Association
IDF: Institutional Development Fund (World Bank)
IEC: Information, Education and Communications
IFAD: International Fund for Agricultural Development
IMF: International Monetary Fund
JAM: Joint Assessment Mission
NGO: Non Governmental Organization
ODA (UK): Overseas Development Administration (UK)
PFP: Policy Framework Paper
SAC: Structural Adjustment Credit
SSA: Sub-Saharan Africa
UN: United Nations
UNDP: United Nations Development Program
USAID: United States Agency for International Development

Vice President: C. Madavo
Director: N. Tcheyan
Division Chief, Manager: L. Barbone
Staff Member: C. Obidegwu, Sr. Economist
RWANDA

EMERGENCY REINTEGRATION AND RECOVERY PROJECT

CREDIT AND PROGRAM SUMMARY

Borrower: Rwandese Republic
Implementing Agency: Ministry of Finance and Economic Planning
Credit Amount: SDR 36.7 million (US$ 50 million equivalent)
Terms: Standard IDA terms with 40 years maturity
Economic Rate of Return: Not applicable
Poverty Rating: Not applicable
Environmental Rating: C

There is no Staff Appraisal Report. A Technical Annex and the Government of Rwanda's Framework for Economic Policies are being distributed together with this report.

<p>| Summary of the Financing of the Recurrent Budget Gap and the Development Budget, 1997 |
|----------------------------------------|----------------------------------------|</p>
<table>
<thead>
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<th>Recurrent Budget Gap (US$ million)</th>
<th>Development Budget (US$ million)</th>
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</table>

¹ Other donors include the Netherlands, UK, Germany, UNDP, France, Canada, Japan, IFAD, Switzerland, Belgium, etc. More details on the financing are presented in Tables 4a and 4b of the Technical Annex.
MEMORANDUM AND RECOMMENDATION
OF THE PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE EXECUTIVE DIRECTORS ON A
PROPOSED EMERGENCY REINTEGRATION AND RECOVERY CREDIT
TO RWANDA

1. I submit for your approval the following memorandum and recommendation for a proposed Emergency Reintegration and Recovery Credit (ERRC) to Rwanda for SDR 36.7 million (US$50 million equivalent), on standard IDA terms and maturity of 40 years, to help finance Rwanda’s Emergency Reintegration and Reconstruction Program (ERRP). The Credit would finance eligible imports on a positive list and the counterpart funds would finance activities in the national budget.

Country Background

2. Rwanda’s history of ethnic conflict culminated in genocide, civil war and massive displacement of the population in 1994. The genocide that started in April 1994 took over half a million lives, mainly Tutsis and moderate Hutus, and the civil war that followed led to the flight of about 2 million Hutus to Democratic Republic of Congo, Burundi and Tanzania. A government of national unity, formed in July 1994, after the civil war, affirmed its determination to work for peace and national reconciliation, bring to justice the perpetrators of the genocide, facilitate the resettlement of internally displaced persons and the return and re-integration of all refugees, and reform and liberalize the economy. The Government encouraged all refugees to return, with assurances of their security and right to the properties they left behind. Following this, an estimated 800,000 exiles of past conflicts (old case load refugees), mainly Tutsis, returned to Rwanda in 1994 and 1995. However, for over two years, the vast majority of the 1994 refugees (new case load) remained in the camps outside Rwanda until civil wars in both Burundi and Democratic Republic of Congo forced them to return to Rwanda. About sixty thousand refugees returned from Burundi in August 1996, and a massive influx of an estimated 700,000 refugees from Democratic Republic of Congo took place within two weeks in November 1996. This was followed in December 1996 by the return of 500,000 refugees from Tanzania. International efforts are underway to bring back an estimated 100,000 Rwandan refugees still stranded in Democratic Republic of Congo.

3. The Economic and Social Context. The events of 1994 destroyed Rwanda’s social fabric, damaged the social and economic infrastructure further, impoverished the population and harmed the fragile physical environment and its eco-balance. The population of vulnerable groups such as widows, unaccompanied children, female headed households, increased substantially. The events decimated institutional capacity and the

1 The new name of the country, which until May 1997, was known as Zaire.
active labor force. The Government lost most of its experienced and qualified civil servants, who were killed or fled the country. The private sector also lost considerable human and physical capital.

4. Before the events of 1994, the Rwandan economy was on the decline. The per capita income had declined from US$380 in 1988 to US$250 in 1993 and US$150 in 1994. The social indicators, which used to be above Sub-Saharan Africa averages, deteriorated in the late 80s. The share of social sectors in recurrent expenditures reached 38 percent in 1985 but subsequently declined to 20 percent in 1993, and 24 percent of a much smaller recurrent expenditure in 1995. Social services were restored fairly rapidly after the war, with the financial and technical assistance of donors and NGOs. However, the social sectors suffer from an acute lack of capacity such as doctors, medical technicians and nurses in the health sector, and teachers at all levels of the education system. More than 50 percent of the primary school teachers are untrained and the secondary and university levels lack qualified instructors. The poor capacity in the social sector, due in part to the poor wages in government service, is a severe impediment to the provision of social services.

5. Since the end of the war, progress has been made in resettling internally displaced persons and in enhancing peace and security. After a long delay, the trials of persons detained for alleged involvement in the genocide started in late 1996 but the task of trying the over 100,000 in jail awaiting trial is formidable for the still fragile justice system. Progress has been made in the rehabilitation of institutional and economic infrastructure, with assistance from donors, NGOs and multilateral financial institutions. The civil service has been reconstituted, and capacity building efforts are underway. The key economic institutions, notably the Ministries of Finance and Economic Planning and the central bank, the Banque Nationale du Rwanda (BNR), have been rehabilitated and the budget system and public investment program have been reinstated. In 1995, the GOR took the initial steps at economic reform by liberalizing the trade and exchange regime and in 1996, the National Assembly passed a law that paves the way for the privatization of all state enterprises, but progress in implementation has been slow.

6. As a result of the progress outlined above, the economy has partially recovered from the steep decline by 49 percent of real GDP in 1994, and the increase in the inflation rate to 64 percent per annum compared to 12 percent in 1993. Real GDP grew by 25 percent in 1995 and 13 percent in 1996. However, the real GDP in 1996 was only 72 percent of its 1990 level. Inflation has been brought under control due to good fiscal and monetary management and to external balance of payments and budget support, principally from IDA, the IMF and African Development Bank (AfDB). The rate of inflation fell to 22 percent per annum in 1995, 5 percent on an annual basis in October 1996, and an average of 9 percent for 1996.

7. Government revenues, only about 4 percent of GDP in 1994, rose to 7.1 percent and 9.6 percent in 1995 and 1996 respectively and thus remains much below the 12-14 percent of GDP achieved before the war. Thus, the fiscal situation continues to be
very precarious, with the fiscal deficit, excluding grants, equivalent to 14 percent of GDP. The insecurity in the country and region has made military spending onerous, at an equivalent of 5.5 percent of GDP in 1996, and an expected 4.2 percent of GDP in 1997. The burden of external and internal public debt is very high, with total external debt at US$1.1 billion or 84 percent of GDP and scheduled external debt service ratio of 41 percent in 1996. Eighty three percent of the debt is owed to multilateral creditors. Total domestic debt is estimated at US$310 million. The Government is not current in debt service and continues to accumulate external and domestic debt service arrears, estimated at US$79 million and US$62 million respectively in end 1996.

8. With the return of the majority of the refugees, Rwanda is now in a position to squarely face the challenges of national reintegration and reconciliation while consolidating the progress made in economic recovery and stability and in building institutional capacity. These are enormous challenges in the fragile social and economic situation in Rwanda. The immediate priority is the resettlement and reintegration of the returned 1.3 million new case load refugees, the old case load refugees, and the large number of victims of the genocide. Priority needs are for permanent shelter, support for building sustainable livelihoods, provision of education and health services, improved justice and security, capacity building and food aid. The programs and budgets to resettle and reintegrate refugees, in place before November 1996, were based on a much slower rate of inflow of refugees and could not cope with their sudden and massive return. The Government needed a coherent emergency program and immediate budget assistance to cope with these urgent needs.

**The Emergency**

9. **Impact and Needs.** Consistent with the policy of the government that returning new case load refugees have the right to reclaim their properties from those who occupied them in their absence, many new case load returnees have been able to return to their old communities and exercised the right. However, this has led to the displacement of those old case load refugees who occupied these properties and made it imperative to resettle them permanently. In anticipation of the eventual return of the new case load refugees, a number of rural and urban sites were earmarked for the resettlement of old case load refugees. The GOR planned to support the construction of rural and urban housing, to supplement those being built/rehabilitated under self-help schemes supported by relief agencies and NGOs, and the rehabilitation of houses for victims of genocide and returned new case load refugees. However the GOR lacked funding to start the housing program and it has now intensified its search for financial assistance.

10. Reintegration of the returned refugees and other vulnerable groups involves a rapid transition from dependence on relief to economic self-reliance. Most returned refugees have their roots in agriculture. For them, agriculture is the quickest way for employment and income. An estimated 200,000 households was expected to return to agriculture. These households need farm implements, seeds and other inputs to re-enter into agricultural production. Besides, the availability of non-farm employment and income generating
activities will also facilitate the transition to normal productive lives. Creation of private sector jobs and opportunities for self-employment is therefore an essential element of the reintegration. Improved rural roads and transport are needed for the farmers in new and existing settlements to have access to markets.

11. Progress has been made in repairing the damage of the social infrastructure by the events of 1994. This fragile infrastructure is faced with the task of providing services to an increased population. An estimated 200,000 school-age children, about 20 percent of current primary school enrollment, returned from the refugee camps and need to be enrolled in school. Additional teachers, rehabilitation and construction of schools, in-service teacher training, printing and distribution of books, and supplies for teachers and pupils are needed. Immediate actions for the health sector include the rehabilitation and re-equipment of facilities, training of health personnel, provision of medicines, vaccines and other supplies, and funds for operations and maintenance. Many qualified people have returned from exile; these could be employed in the social sector to ease its capacity constraints. This will only be possible if funds are made available from the national budget.

12. The transition from war to peace requires a stable social environment. The well-being of both new and old case load returnees and peaceful coexistence in the communes are essential for smooth reintegration. Resources are required to reinforce the judicial system to carry out the genocide trials and other criminal and civil judicial functions, to enhance the policing capacity at the communal level, and to support local administrations to promote reconciliation between the resident population and the returnees. An awareness-raising campaign, emphasizing respect for the rule of law, will be launched.

13. Capacity building to enable national, prefecture and commune level institutions and organizations to use resources effectively, ensure sustainability, and empower the beneficiaries, is of paramount importance for reintegration. Capacity-building is needed to develop sustainable development strategies at commune and prefecture levels; to accelerate the shift from emergency assistance (saving lives) to development assistance (sustaining livelihoods); to empower the civil society and civic associations at the local level; and to ensure that all elements of society play a vital role in the rehabilitation and reconstruction of the country.

14. Rwanda has experienced food deficits since 1990 due to civil strife and declining agricultural productivity. The drought in parts of the country in 1996, combined with the massive return of refugees has increased the food deficit and the need for food-aid. While necessary in an emergency such as this, food aid tends to distort markets and prices and undermine the adjustment in domestic production needed to move out of food aid dependency. The Bank, with the collaboration of donors and relief agencies, has worked out a framework for monetization of food aid, to help limit its adverse consequences on the economy. The counterpart funds from the monetization will be used to fund relief, and recurrent and development budget expenditures.
15. **The Response of the Government.** A GOR-Donor meeting was held in Geneva on November 23, 1996, during which the Government requested assistance for an “Emergency Program for the Resettlement and Reintegration in the Context of the Present Massive Return of Refugees”. The Government’s strategy for the emergency is to link short-term humanitarian relief with the medium-term reintegration and reconstruction and longer-term reconciliation and sustainable development, requiring that emergency interventions be undertaken within the existing development framework, and thus be well coordinated. The Government sought the assistance of the Bank and the UN in designing a coherent emergency program and for mobilizing external resources to support it. A joint Bank/UN/GOR Assessment (JAM) mission in December 1996 assisted the GOR to design the Emergency Reintegration and Reconstruction Program (ERRP). This program, to be cofinanced by the international community, consists of sectoral and community level interventions to assist with resettlement and reintegration, and to lay the basis for national reconciliation and sustainable development.

16. The ERRP, a multi-year program, envisages two phases. The first phase would concentrate on providing immediate assistance to the returnees with food, shelter and economic and social services. The second phase focuses on enhancing social services, housing development, rural and urban infrastructure, national and local capacity building, income generating activities, and justice and security based on coordinated community and national interventions. Community interventions would complement sectoral projects by the central government and help to strengthen communities, rebuild social capital by galvanizing communities around mutually beneficial activities, directly address rural poverty, and lay the foundations for national reconciliation and sustainable development.

17. A joint Bank/Fund/AfDB mission visited Rwanda in January/February 1997 and assisted the GOR to integrate the interventions identified by the JAM mission into the budget framework and assess the financing requirements for the budget for 1997. Taking into account the impact of the massive return of refugees, the final recurrent budget has a financing gap, exclusive of external and internal debt arrears, of US$109 million (7 percent of GDP). New projects from the ERRP for housing, agricultural development, education and health services, capacity building, and community/rural development were added to the development budget to complement the existing reintegration-related projects. The joint mission also negotiated with the Government a policy document: Post-Conflict Reconstruction: Framework for Economic Policies (FEP) which set out the macroeconomic framework, and the policy and institutional reform measures to be undertaken in 1997-98.

**Bank Strategy and Donor Support**

18. **Bank Strategy.** Following independence in 1962 Rwanda became an inward looking, aid dependent, and state dominated economy. The Hutu dominated Government ruled to the exclusion of the Tutsi minority. Within this socio-economic system, there was

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2 The framework paper, at the request of the Government, is annexed to this report.
inherent conflict in dividing up the benefits of access to privilege for a minority even within the Hutu majority. The efforts of the state in agriculture, environmental protection and in developing state enterprises were generally unsuccessful. Education and health experienced some expansion of services but this could not be sustained as a result of the conflicts within the country.

19. Prior to the crisis of 1994, the Bank supported a change in economic orientation focusing on liberalizing the economy, the promotion of the private sector, export-oriented economic growth and poverty reduction, a reduced role of the state and protection of the environment. However, efforts to change the economic structure and orientation could not succeed given the lack of commitment by the Government and the widening conflict in the country. In the current fragile political, economic and security conditions, the priorities are to rebuild the economic and social fabric, facilitate integration and national reconciliation, justice and democracy, and regional peace, stability and cooperation, which are essential for long-term sustainable development. However, interventions by the Bank and the international community have to take place in a context that provides for change in the economic orientation to a more open, liberal economy. The current Government has expressed the intention to move in this direction, although implementation of structural changes has been hindered by the need to address emergency concerns.

20. Since the end of the war, the Bank has supported economic and social recovery. The Emergency Grant of August 1994 and the IDA Emergency Recovery Credit (ERC), approved by the Board in January 1995, provided humanitarian and economic rehabilitation assistance and greatly facilitated the rapid recovery and stabilization of the economy. The ERC helped to revive private sector production and to restore the GOR’s operational capacity to provide social and economic services. In addition to the emergency assistance, the Bank has supported rehabilitation and socio-economic recovery by restructuring and implementing the pre-war portfolio of investment projects to meet high priority needs such as health immunization, rehabilitation of rural schools and health centers, provision of water and sanitation services, capacity and institution building, and economic reform. As a result, the undisbursed portion of the investment portfolio has declined from US$188.6 million at the end of 1994 to US$116 million in March 1997.

21. A country assistance strategy (CAS) is under preparation in Rwanda. The CAS will outline the main elements of the Bank’s strategy and the proposed level of support. The Bank expects to support, in the context of coordinated international assistance, the Government’s efforts at (i) resettlement and reintegration; (ii) economic reconstruction and recovery and (iii) laying the foundation for sustained and accelerated economic growth development and poverty reduction, with assistance in agriculture and the rural economy; capacity building and human resource development; high priority socio-economic infrastructure such as rural water supply, feeder roads and road maintenance; and policy and institutional reform. To enhance integration and results on the ground, Bank interventions will emphasize beneficiary participation in design and implementation of projects. The instruments for providing support would include the existing portfolio of projects; new IDA lending; non-lending activity such as ESW and targeted policy studies,
and IEC workshops and seminars; and IDF and trust fund resources to support capacity building and reform. In addition, it is expected that with successful management of the economic reform program outlined in the Framework for Economic Policies, and in subsequent policy framework papers, IDA would support the economic adjustment through quick disbursing lending operations.

22. **Donor Coordination.** Many bilateral donors--Belgium, USAID, ODA (UK), Netherlands, Germany, France, the European Union and Japan, and practically all the multilateral development and humanitarian agencies have resumed activity in Rwanda after the genocide. In the risky post conflict environment, external assistance needs to be well coordinated to be an effective force for rapid change. The Bretton Woods Institutions are working closely with the UNDP on donor coordination for economic reform, post-conflict reconstruction, and external debt management. Since the end of the civil war, the UNDP has organized Round Table Conferences, held in January 1995 and June 1996, which provided the GOR the opportunity to discuss its needs with the international community and raised about US$1.8 billion for the reconstruction and development of Rwanda.

23. **Donor Support for the Emergency.** The GOR has approached bilateral donors, the European Union and the multilateral financial institutions for assistance in financing the emergency needs. The Government has planned a thematic consultation on reintegration for June/July 1997 with its donor partners to discuss and seek financing for the ERRP. A number of donors--the USAID, the EU, Canada, and Denmark--have sent missions to Kigali to discuss with the Government areas of assistance. The IMF Board approved on April 22, 1997, an emergency US$20 million post-conflict assistance for Rwanda and intends to provide additional resources through an ESAF in late 1997. To this end, the Bank, the Fund and the GOR will prepare a PFP to set out the medium-term reform framework. Once the ESAF is in place, the GOR will request a rescheduling from the Paris Club of its external debt arrears and current maturities on Naples terms. The AfDB plans to provide a new budget support credit in early 1998.

24. The priority however, is to finance the recurrent budget gap of 1997. Financing identified so far to cover the $109 million budget gap is $30.4 million comprising $16.5 million from the EU, $3.6 million from ongoing Dutch funding for IDA debt service, and $10.2 million from the ongoing AfDB balance of payments support operation. With the US$50 million from the ERRC and an additional US$10 million from the commodity monetization program, US$18.5 million remain to be identified. The Government is working with the Bretton Woods institutions and the UNDP to secure funding for this gap as well as the development budget gap.

25. **The Role of NGOs.** Since the genocide, NGOs have been active in providing social services to the rural population and humanitarian aid to vulnerable groups, building local capacity, and providing support for economic activities. The work of NGOs has made up for the lack of capacity in Government to provide these services. Over 150 international NGOs work in Rwanda on humanitarian, rehabilitation and development activities. In 1995, the GOR was very dissatisfied with the services and activities of some foreign NGOs
and, in late 1995, it directed about 50 foreign NGOs to cease activities and eventually expelled 18 of them from the country. Subsequently, the international NGOs and the Government have worked out a framework for cooperation and NGOs are continuing to contribute to the socio-economic recovery.

**Project Objectives, Benefits and Implementation**

26. **Objectives and Benefits.** The proposed ERRC is part of the effort by the Bank to play a constructive role in international effort at reconstruction and rapid economic recovery, peace and stability in Rwanda and the Great Lakes region generally. The World Bank’s participation in this emergency program is crucial to encourage bilateral donors and other multilateral agencies to provide the assistance Rwanda needs. The proposed operation will ensure that the Government is able to provide basic services to returning refugees and the existing population, and consolidate the economic recovery and stability already underway. By providing foreign exchange for imports, it will enhance private sector production and employment which would reinforce the reintegration effort.

27. **Project Implementation.** The Ministry of Finance and Economic Planning will have the overall responsibility for the implementation of the credit. The Ministry will appoint an officer, at the level of Director or above to coordinate the implementation. The appointment of a coordinator will be a condition of effectiveness of the credit. The Government has already designated units in the BNR to be responsible for routine implementation of the program. Their responsibilities will be to manage the procurement process, collect eligible import documents and prepare statements of expenditures and requests for reimbursement.

28. The proceeds of the credit will finance a positive list of imports important for reintegration, reconstruction and economic recovery. Pre-shipment inspection for all imports under the credit will be undertaken by a reputable private firm selected and contracted by the GOR. The central bank will keep accurate records of the commodities paid for by the IDA credit and review these commodities regularly with IDA staff. Based on the experience of the Emergency Recovery Credit, the funds are expected to be fully disbursed within 12 months.

29. The counterparts funds from the private sector imports will support the general government budget. Since the return of the refugees in November 1996, the budget constraint of the Government has been severe and critical expenditures had to be postponed. ERRC will be effective only in the second half of 1997, corresponding to the second half of the GOR’s fiscal 1997. To assist the Government in meeting its financial commitments for FY97, a retroactive withdrawal of up to 25 percent of the credit amount is recommended. This will cover a 4-month-period prior to the estimated date of the signing of the credit agreement.
Lessons from Other Emergency Operations

30. The lessons learned from the Emergency Recovery Credit (ERC) [Cr 2678 RW] as well as from similar operations in post-conflict situations have been incorporated into the design of the program and credit. The ERC was to (i) provide the GOR with the resources to begin the restoration of key economic and social services and rebuild institutional capacity, and (ii) provide the private sector with the foreign exchange to resume operations and create jobs. Project effectiveness was delayed because the GOR failed to meet the required condition: to recruit a procurement agent to assist in public sector procurement of goods to be financed by the credit. The implementation was able to proceed only after a modification of the DCA which allowed the disbursement for private sector imports to proceed. Eventually, the government requested and the Bank agreed to reallocate the public sector component to finance private sector imports only. Thereafter, the project disbursed rapidly and was successful in achieving its objectives. The most important lesson from this experience is to keep the design of the project simple, building on the procedures that worked well for ERC. The second lesson is to ensure Government commitment to any agreements and understandings at the outset. The Bank’s Resident mission staff were deeply involved in the design of the ERRP and this operation and therefore will be well suited to coordinate the implementation.

31. The design of the ERRC has benefited from accumulated experience in post conflict reconstruction. In designing the overall emergency program, the Bretton Woods institutions and the UNDP sent joint missions with strong post-conflict background to work with the Government.

Environmental Aspects

32. The implementation of the ERRC is not expected to have any negative environmental impact.

Agreed Actions

33. The strategy of the Government in this transition is to give priority to expenditures which facilitate the resettlement and reintegration and build the base for the long-term development of the economy. Furthermore, to lay the basis for sustainable growth, the Government will continue to implement the needed economic and institutional reforms.

34. The Government’s budgets for 1997 give emphasis to social sectors and other resettlement and reintegration activities. The GOR has agreed with the Bank that expenditures on the following sectors/activities: education, health, water supply and sanitation, and reintegration of refugees, will receive priority in FY97. The Government will therefore protect the budgeted allocations for these sectors/activities from cuts during the course of the fiscal year. Thus the budget amounts for 1997 in the ordinary and development budgets will be made available to the respective ministries/agencies for spending during the course of the implementation of the 1997 budget.
35. The Government agreed to monitor the budget releases and expenditures in the above areas in the normal course of monitoring budget performance and make the relevant information available to Bank staff on request.

36. The Government also agreed to accelerate the pace of economic and institutional reform as set out in the Post-Conflict Rehabilitation: Framework for Economic Policies, developed jointly by the Government of Rwanda, and the staff of the World Bank and the IMF in February 1997 and approved by the Government in March 1997. It also agreed to set up a technical commission on economic reform to monitor the implementation of the reform program.

**Risks of the Proposed Approach**

37. The two main risks to the consolidation of social and economic recovery, which this operation is to support, are operational and security related. On the operational side, the main risks are the lack of government commitment to the 1997 budget, the main instrument for financing resettlement and reintegration and economic recovery, and the lack of capacity and budget discipline which could jeopardize budget implementation. However, the experience of the last two years of budget management indicates that the risks are small. The GOR takes the budget estimates seriously and the ministries make the effort to contain spending within the budget estimates. The Ministry of Finance has developed the capacity to monitor budget expenditures and the relevant information is available on time to make necessary mid-course corrections. Another operational risk relates to underfunding of the program by external partners, in which case, the expected benefits will not be realized.

38. Escalation of insecurity is a big risk to any economic program in Rwanda. Even with full international support for the reintegration and reconciliation program of the Government, a deterioration of the national security situation would seriously undermine the implementation and outcomes from the program. With serious insecurity, Government would likely move budget resources from developmental programs to the military and reestablishing government control would have priority over reintegration and economic recovery. Thus the old and new case load refugees would not be successfully integrated into the society, national reconciliation would be made even more difficult, and the economic assistance would not be effective. The current assessment by donors assisting Rwanda is that it is appropriate to undertake economic assistance in the current environment while being aware of the risks of possible escalation of insecurity or the onset of outright conflict. The absence of assistance at this point could well lead to an aggravation of the crisis and damage the basis for eventual sustainable growth.
Recommendations

39. I am satisfied that the proposed Credit of SDR 36.7 million would comply with the Articles of the Association and recommend that the Executive Directors approve it.

James D. Wolfensohn
President
by Gautam Kaji

Washington, D.C.
June 11, 1997

Attachments
RWANDA
EMERGENCY REINTEGRATION AND RECOVERY CREDIT

DISBURSEMENT SCHEDULE
(US$ Million)
(IDA Fiscal Year)

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<th>TOTAL</th>
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<td>IDA ERRC</td>
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RWANDA
EMERGENCY REINTEGRATION AND RECOVERY CREDIT

Timetable of Key Processing Events

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<th>Time</th>
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<td>May 12 - 21, 1997</td>
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<td>Board presentation</td>
<td>June 26, 1997</td>
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<td>Planned date of effectiveness</td>
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Rwanda at a glance

### POVERTY and SOCIAL

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<td>Rwanda</td>
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- **Population mid-1995 (millions)**: 7.9
- **GNP per capita 1995 (US$)**: 110
- **GNP 1995 (billions US$)**: 0.9

### Average annual growth, 1990-95

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<th>1994</th>
<th>1995</th>
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<tr>
<td>Population (%)</td>
<td>2.6</td>
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<tr>
<td>Labor force (%)</td>
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<td>2.8</td>
<td>1.9</td>
</tr>
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### Most recent estimate (latest year available since 1989)

- **Poverty: headcount index (% of population)**: 53
- **Urban population (% of total population)**: 6
- **Life expectancy at birth (years)**: 46
- **Infant mortality (per 1,000 live births)**: 108
- **Child malnutrition (% of children under 5)**: 26
- **Access to safe water (% of population)**: 47
- **Illiteracy (% of population age 15+)**: 40
- **Gross primary enrollment (% of school-age population)**: 50

### KEY ECONOMIC RATIOS and LONG-TERM TRENDS

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>GDP (billions US$)</strong></td>
<td>0.6</td>
<td>1.7</td>
<td>0.8</td>
</tr>
<tr>
<td><strong>Gross domestic investment/GDP</strong></td>
<td>13.7</td>
<td>17.3</td>
<td>9.1</td>
</tr>
<tr>
<td><strong>Exports of goods and non-factor services/GDP</strong></td>
<td>9.2</td>
<td>10.8</td>
<td>5.8</td>
</tr>
<tr>
<td><strong>Gross domestic savings/GDP</strong></td>
<td>5.2</td>
<td>6.2</td>
<td>-49.4</td>
</tr>
<tr>
<td><strong>Gross national savings/GDP</strong></td>
<td>4.7</td>
<td>8.1</td>
<td>-44.3</td>
</tr>
<tr>
<td><strong>Current account balance/GDP</strong></td>
<td>-11.8</td>
<td>-10.2</td>
<td>-53.3</td>
</tr>
<tr>
<td><strong>Interest payments/GDP</strong></td>
<td>0.0</td>
<td>0.2</td>
<td>0.3</td>
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<tr>
<td><strong>Total debt/GDP</strong></td>
<td>4.2</td>
<td>21.4</td>
<td>127.1</td>
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<tr>
<td><strong>Total debt service/exports</strong></td>
<td>0.6</td>
<td>10.8</td>
<td>13.7</td>
</tr>
<tr>
<td><strong>Present value of debt/GDP</strong></td>
<td></td>
<td></td>
<td>60.1</td>
</tr>
<tr>
<td><strong>Present value of debt/exports</strong></td>
<td></td>
<td></td>
<td>884.3</td>
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</table>

### STRUCTURE of the ECONOMY

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Agriculture</strong></td>
<td>52.4</td>
<td>45.7</td>
<td>42.3</td>
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<tr>
<td><strong>Industry</strong></td>
<td>20.2</td>
<td>25.4</td>
<td>18.2</td>
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<tr>
<td><strong>Manufacturing</strong></td>
<td>13.1</td>
<td>15.0</td>
<td>2.3</td>
</tr>
<tr>
<td><strong>Services</strong></td>
<td>27.3</td>
<td>28.9</td>
<td>39.5</td>
</tr>
<tr>
<td><strong>Private consumption</strong></td>
<td>78.2</td>
<td>80.5</td>
<td>120.8</td>
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<tr>
<td><strong>General government consumption</strong></td>
<td>16.8</td>
<td>11.3</td>
<td>28.6</td>
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<tr>
<td><strong>Imports of goods and non-factor services</strong></td>
<td>17.7</td>
<td>19.9</td>
<td>64.3</td>
</tr>
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### Growth rates of output and investment (%)

<table>
<thead>
<tr>
<th>1975-84</th>
<th>1985-95</th>
<th>1994</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>-5.3</td>
<td>-48.9</td>
<td>24.6</td>
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<tr>
<td>GNP per capita</td>
<td>-7.8</td>
<td>-50.2</td>
<td>20.2</td>
</tr>
<tr>
<td><strong>Exports of goods and rfs</strong></td>
<td>7.0</td>
<td>4.4</td>
<td>44.6</td>
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</tbody>
</table>

### Economic ratios

- **Openness of economy**
- **Savings**
- **Investment**
- **Indebtedness**

### Note:
- 1995 data are preliminary estimates. Figures in italics are for years other than those specified.
- *The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.*
### PRICES and GOVERNMENT FINANCE

#### Domestic prices (% change)
- Consumer prices: 30.2, 2.7, ..., 3.7
- Implicit GDP deflator: 88.0, 13.7, 60.8

#### Government finance (% of GDP)
- Current revenue: ..., 12.2, 3.7, 7.1
- Current budget balance: ..., 2.2, -9.8, -5.8
- Overall surplus/deficit: ..., -4.3, -12.5, -14.2

### TRADE

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>Total exports (fob)</td>
<td>119</td>
<td>32</td>
<td>61</td>
<td>500</td>
</tr>
<tr>
<td>Coffee</td>
<td>86</td>
<td>17</td>
<td>48</td>
<td></td>
</tr>
<tr>
<td>Tea</td>
<td>17</td>
<td>7</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Manufactures</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total imports (cif)</td>
<td>274</td>
<td>458</td>
<td>235</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>41</td>
<td>216</td>
<td>66</td>
<td></td>
</tr>
<tr>
<td>Fuel and energy</td>
<td>51</td>
<td>23</td>
<td>21</td>
<td></td>
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<tr>
<td>Capital goods</td>
<td>56</td>
<td>36</td>
<td>51</td>
<td></td>
</tr>
<tr>
<td>Export price index (1987=100)</td>
<td>80</td>
<td>32</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>Import price index (1987=100)</td>
<td>103</td>
<td>130</td>
<td>61</td>
<td></td>
</tr>
<tr>
<td>Terms of trade (1987=100)</td>
<td>78</td>
<td>25</td>
<td>64</td>
<td></td>
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</table>

### BALANCE of PAYMENTS

<table>
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<tr>
<th></th>
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<tbody>
<tr>
<td>Current account balance to GDP ratio (%)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Exports of goods and non-factor services</td>
<td>64</td>
<td>154</td>
<td>44</td>
<td>79</td>
</tr>
<tr>
<td>Imports of goods and non-factor services</td>
<td>125</td>
<td>328</td>
<td>482</td>
<td>329</td>
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<tr>
<td>Resource balance</td>
<td>-61</td>
<td>-174</td>
<td>-438</td>
<td>-250</td>
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<tr>
<td>Net factor income</td>
<td>-3</td>
<td>-6</td>
<td>-6</td>
<td>6</td>
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<tr>
<td>Net current transfers</td>
<td>-3</td>
<td>4</td>
<td>45</td>
<td>16</td>
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<tr>
<td>Current account balance, before official transfers</td>
<td>-67</td>
<td>-175</td>
<td>-400</td>
<td>-229</td>
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<tr>
<td>Financing items (net)</td>
<td>80</td>
<td>190</td>
<td>340</td>
<td>290</td>
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<tr>
<td>Changes in net reserves</td>
<td>-13</td>
<td>-14</td>
<td>61</td>
<td>-61</td>
</tr>
</tbody>
</table>

**Memo:**
- Reserves including gold (mill. US$): 113, 17, 100
- Conversion rate (local/US$): 92.8, 101.3, 220.0, 290.0

### EXTERNAL DEBT and RESOURCE FLOWS

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>Total debt outstanding and disbursed</td>
<td>24</td>
<td>367</td>
<td>954</td>
<td>1,041</td>
</tr>
<tr>
<td>IBRD</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>IDA</td>
<td>13</td>
<td>152</td>
<td>474</td>
<td>512</td>
</tr>
<tr>
<td>Total debt service</td>
<td>0</td>
<td>18</td>
<td>7</td>
<td>9</td>
</tr>
<tr>
<td>IBRD</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>IDA</td>
<td>0</td>
<td>2</td>
<td>1</td>
<td>12</td>
</tr>
</tbody>
</table>

**Composition of net resource flows**
- Official grants: 48, 71, 597, 610
- Official creditors: 12, 71, 16, 75
- Private creditors: 0, -3, 0, 0
- Foreign direct investment: 3, 15, 1, 1
- Portfolio equity: 0, 0, 0, 0
- World Bank program
  - Commitments: 18, 17, 0, 50
  - Disbursements: 5, 30, 12, 35
  - Principal repayments: 0, 0, 1, 6
  - Net flows: 5, 29, 11, 29
  - Interest payments: 5, 1, 1, 7
  - Net transfers: 5, 23, 10, 22

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International Economics Department

10/30/96
The Government of Rwanda has requested that the attached document outlining its framework for economic policies be circulated to the Executive Directors. The framework paper presents the Government’s strategy for tackling the social and economic challenges facing the country during the transition from post-crisis to sustainable development. This provides the basis for the request for assistance under the Emergency Reintegration and Recovery Credit. The Government is circulating the framework paper to other members of the international community as a basis for concerted international support to Rwanda in the period ahead.
RWANDA

Post-Conflict Rehabilitation - A Framework of Economic Policies, 1997-98

Prepared by the Rwandese authorities in collaboration with the staffs of the International Monetary Fund and the World Bank

April 1997

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I. SOCIAL AND ECONOMIC BACKGROUND

1. The new Government of National Unity, which came into office in July 1994 after the massacres and war, inherited a shattered economy and infrastructure, and debilitated economic and social institutions. The Government of Rwanda (GOR) has been working, with the support of the international community, to address the social and economic problems, rehabilitate infrastructure and administrative, judicial and social institutions. Progress was made in resettling internally displaced persons, reintegrating refugees (old as well as recent returnees), providing assistance to vulnerable groups, and enhancing peace and security. Moreover, the trials of persons detained for alleged involvement in the genocide started in late 1996. Recently, the focus of government policy has been shifting from relief and humanitarian assistance to development.

2. Progress has been made in coping with the adverse impact of the war on the economy. The key economic institutions, notably the National Bank of Rwanda (NBR), and the Ministries of Finance and Planning have been partially rehabilitated, enabling the government to embark on economic policy reform, improve revenue administration, reinstate the budget and the public investment program (PIP) as tools for managing public resources, and resume the compilation of basic economic statistics. These capacity-building efforts have benefited from the financial and technical support of the international community, including the Bretton Woods institutions. The government’s macroeconomic policies, together with the various structural reforms adopted since 1994, were developed and implemented in close consultation with the Bretton Woods institutions, including in the context of a shadow program for 1996 that was monitored by the staffs of the IMF and the World Bank.

3. As a result of these efforts, the economy has staged a partial recovery, in the context of declining domestic financial imbalances and improving external position. Following a collapse of about one half in 1994, real gross domestic product (GDP) is estimated to have rebounded by about 25 percent in 1995 and by over 13 percent in 1996, with most of the sectors sharing in the recovery. Thus from 1994 to 1996, real GDP rose from 48.5 percent of its 1990 level to 72 percent. Concurrently, the annual rate of inflation fell from about 64 percent in 1994 to 22 percent in 1995 and 9 percent in 1996. The fiscal situation—as reflected by the primary current budgetary deficit—has shown some improvement, owing to some measures taken to limit expenditures, notably on foreign travel, fuel and food for the military, and to raise budgetary revenues from less than 4 percent of GDP in 1994 to nearly 10 percent in 1996. Nevertheless, a number of planned revenue-enhancing measures were not implemented and there were difficulties in limiting the size of the civil service (excluding teachers) to the government’s initial target of 57 percent of the pre-war level. Generous financial support from donors, and special balance of payments support from multilateral institutions allowed gross official international reserves to be rebuilt to the equivalent of 5 months of imports by end-1996.
4. Notwithstanding the efforts of the government, the strong support of the international community, and the improvement in macroeconomic performance, Rwanda continues to face deep-seated financial and economic problems. The institutional and administrative capacity remains weak, with grossly inadequate remuneration for the civil servants. The fiscal situation is precarious, military spending is onerous, the burden of external and internal public debt is very high, and the government has been accumulating external and domestic arrears.

5. It is in this context of steady improvement in social and economic conditions, deep-seated financial and capacity constraints, and steady transition from the emergency relief operations to longer-term development concerns that the refugees returned in massive numbers from Zaire and Tanzania. An estimated 1.3 million refugees returned within six weeks in November and December 1996. This sudden and massive return of refugees has put enormous pressure on the programs designed to resettle and reintegrate returning refugees. The government and international relief agencies responded quickly to the immediate needs of the returnees, pending the design of a more comprehensive emergency program.

6. To respond effectively to the rapidly moving events, a government-donor meeting was held in Geneva on November 23, 1996, during which the government requested assistance for an “Emergency Program for the Resettlement and Reintegration in the Context of the Present Massive Return of Refugees.” This Emergency Program updates the government’s “Accelerated Plan of Action for the Repatriation, Reinstallation, and Reintegration of Refugees and Formerly Displaced Persons” prepared in November 1995. The program was proposed within a strategic framework that links short-term humanitarian and relief efforts, the medium-term issues of reintegration and reconstruction, and longer-term sustainable development.

7. In December 1996, a joint GOR/UN/World Bank team collaborated in assessing the impact of the massive return of refugees and appropriate responses. The team proposed a program of action that addresses the short to medium-term resettlement and reintegration of the affected populations and lays the foundation for national reconciliation and longer-term sustainable development. The proposed activities will be integrated into the recurrent and development budgets and linked to the macroeconomic framework to ensure that adverse effects on macroeconomic stability are avoided. To finance the program, the government would seek support from donors and multilateral institutions.

8. Because of the problems arising from the genocide and the war, there has been limited progress in tackling the structural problems behind Rwanda’s relatively low rate of economic growth and widespread poverty. These problems include: (a) rural poverty and under-development in the context of extreme land fragmentation, low yields, and rapid population growth; (b) low productivity of investment, poor savings performance (especially in the public sector), and heavy dependence on foreign aid; (c) weak public sector institutional capacity and a lethargic private sector; (d) underdeveloped and underfunded
social infrastructure and services; (e) weak and inefficient economic infrastructure; (f) narrow export base; and (g) environmental degradation. Over the period ahead, there is a pressing need to initiate the necessary reforms as the government continues to deal with the problems of reintegration and national reconciliation.

II. OBJECTIVES, STRATEGIES, AND POLICIES FOR 1997/1998

A. Objectives and Strategies

9. The priorities in 1997–98 are to resettle and reintegrate all the returned refugees and in the process lay the foundation for national reconciliation, consolidate and build on the progress made in the last two years on macroeconomic management, and initiate reforms necessary for sustainable economic growth and poverty reduction. The main quantitative economic objectives will be to (a) ensure a continued yearly real GDP growth of 12.5 percent in 1997/98; (b) reduce the rate of inflation from about 9 percent in 1996 to 7 percent in 1997, and 6 percent in 1998; (c) reduce the external current account deficit (excluding grants) to about 16.0 percent of GDP in 1998; and (d) maintain the level of gross official international reserves around US$114 million, equivalent to more than four months of imports, c.i.f.

10. To achieve the macroeconomic objectives indicated above, the government will adopt a strategy calling for special emphasis in six areas. First, a special effort will be made to facilitate the social and economic re-integration of the returnees and the rehabilitation of the productive capacity. Second, the government will continue to promote national reconciliation by facilitating the voluntary return of the remaining Rwandese in exile, and through a vigilant enforcement of individual rights and security, expeditious and fair trials of persons accused of genocide and war crimes, and the provision of essential assistance to groups and individuals severely affected by the genocide and its aftermath. Third, decisive actions will be undertaken to consolidate fiscal performance by bolstering revenue collection, as well as restoring and rationalizing budgetary outlays. Fourth, the reform of the public sector to build its capacity and improve its effectiveness and the privatization of state enterprises will be accelerated. Fifth, special initiatives—including reforms in the regulatory environment, the tax code, the labor code, the financial sector, and the enhancement of women’s rights—will be undertaken to strengthen private savings and investment. Finally, the government will aim at normalizing Rwanda’s relations with creditors in the context of Fund-supported programs.

B. Macroeconomic Policies

Fiscal policies

11. During 1997/98, fiscal policies will support the goal of reducing financial imbalances in the economy, while ensuring adequate budgetary support for the reintegration of the returnees and the longer-term restructuring of the economy. The underlying objective will be to strive toward a swing in the primary current budgetary balance from a deficit equivalent to about 3 percent of GDP in 1996 to a surplus of nearly 2 percent in 1998. This will require efforts to address the various factors that have historically contributed to a low tax effort and
weaknesses in expenditure and treasury management. In the meantime, support for essential areas and incentives in the civil service will be strengthened.

12. **Revenue.** To increase revenue, the government will adopt, by end-March 1997, a number of revenue-enhancing measures. These will include an increase in the turnover tax from 10 percent to 15 percent, and an upward adjustment in the taxes on petroleum, beverages, and cigarettes. Additionally, the following steps have or will be taken to curb tax exemptions and evasion. First, starting January 1997, the government has stopped granting or renewing investment incentives under the investment code and special conventions with individual companies. Instead, such incentives, if deemed necessary, will be provided under a revised tax code to be prepared in the course of 1997 and introduced at the beginning of 1998. Second, during the first half of 1997, the government will undertake a comprehensive review of tax exemptions to minimize the abuse of tax-related privileges. Third, beginning January 1, 1997, the government abolished all tax exemptions for commercially oriented public enterprises. Fourth, the government will review the tax status for imported personal effects of returning refugees, and introduce new guidelines (starting July 1, 1997) aimed at curtailing related exemptions.

13. Reflecting the limited manpower and financial resources of the Customs and Tax departments, the government's medium term efforts to bolster revenue will concentrate on improving tax administration in selected areas. The government has already embarked on efforts to improve the management of the taxation of the largest taxpayers. This is expected to pave the way for the establishment of an autonomous revenue authority. In the area of direct taxes, steps will be taken to rationalize and simplify corporate income taxation. Starting in 1997, enterprises with an annual turnover of less than RF 60 million will be subject to a presumptive income tax equivalent to 4 percent of turnover, and larger enterprises will be subject to an income tax rate of 40 percent, with a minimum nonrefundable levy. These revenue-enhancing measures will be pursued in a context of efforts to enlarge the tax base and align Rwanda's tax regime with those of the other countries in the region.

14. **Expenditure.** A significant improvement in fiscal performance will also require efforts to tighten the control of budgetary expenditure. The procedures for authorizing and committing expenditure as well as issuing payment orders and effecting payments will be improved. In particular, all government expenditures, including emoluments and procurements will require clearance by the Budget Directorate. The classification of budgetary transactions will also be improved to enhance transparency. The ongoing process of computerization of government accounts will be accelerated. As a result of these efforts, it is expected that starting in early 1998, the flash reporting unit of the Ministry of Finance will be able to obtain comprehensive information on government expenditure (authorizations, commitments, payments orders, and settlements) and statistics on external and domestic arrears. Additionally, the government will establish limits, in the context of the 1997 budget, on the maximum number of employees per ministry consistent with the objective of maintaining the total number of civil servants (excluding teachers) at 10,100. To ensure
compliance with these limits, the payroll unit in the Budget Directorate will be strengthened. Ceilings will also be established for the total number of government vehicles, as well as their allocation among individual ministries, and the capacity to enforce this measure will be established. Moreover, the government has embarked on a major capacity-building effort, and a training program for the staff in the Budget and Treasury Directorates has been launched at the Institut Supérieur des Finances Publiques (ISFP).

15. To ensure adequate support for essential areas of expenditure, the government, assisted by the World Bank staff, will carry out a public expenditure review (PER) in 1997 and a reform of the civil service during 1998. The review will be aimed principally at reducing waste and duplication and increasing the effectiveness of government intervention. Moreover, budgetary support for primary education, preventive health care, and other essential social services, which is expected to increase from 2.1 percent of GDP in 1996 to about 2.9 percent in 1997, will be strengthened further over the medium term. The PER will also provide an avenue for rationalizing civil service pay scales by monetizing the fringe benefits; improving salary incentives for the civil service; and consolidating basic safety nets for vulnerable groups (notably children separated from their families, orphans, children and handicapped soldiers, elderly persons without families, widows, and severely affected survivors of genocide).

16. With the massive return of refugees and, therefore, the likely abatement of external security concerns, the government, assisted by the World Bank, intends to embark on the demobilization of soldiers with a view to reducing substantially the size of military outlays. The government is also determined to continue with the ongoing efforts to economize on the consumption of fuel, and computerize financial operations, in order to enhance accountability.

17. During 1997, the government will take steps to address the financial problems of the Caisse Sociale du Rwanda (CSR). Specifically, the government’s debt to the CSR will be restructured, contributions of public employees will be remitted regularly, and the management of the CSR will be significantly improved through technical assistance to be secured in the course of 1997.

**Monetary and financial sector policies**

18. Monetary and credit policies will be aimed principally at achieving a further reduction in the rate of inflation. As the recovery in economic activity is expected to result in a reduction of holdings of the excess reserves by commercial banks, the NBR will be relying on the use of reserve requirements and the rediscount window in conducting monetary policy. Following the restructuring of the government’s debt to the commercial banks, expected to be completed around mid-1997, the use of open market operations through the trading of government paper in the money market will offer the NBR enhanced flexibility in the conduct of monetary policy, including the linking of the rediscount rate to interest rates in this market. Moreover, the NBR’s monetary policy management committee will continue to
monitor closely developments in the banks' reserves and foreign exchange positions and adopt prompt policy adjustments and interventions in the money and foreign exchange markets to achieve the objectives of the economic program.

19. Over the medium term, various financial reform measures will be implemented with a view to strengthening the conduct of monetary policy and the process of financial intermediation. Specifically, a revised central bank law extending the NBR's authority over the conduct of monetary policy has been presented to the National Assembly for approval before end-June 1997. Also, a revised legislation providing for more effective prudential regulation of commercial banks is expected to be adopted around mid-1997. Based on audits of the financial position of the largest commercial banks as of end-September 1996, the NBR has developed specific plans for addressing the problems of each bank. These plans, which will include measures to recover overdue loans, accelerate the provisioning for impaired assets, and provide for recapitalization of the banks, are expected to be implemented fully by end-1999. The government will support these measures by granting to the commercial banks tax exemptions that are in line with the agreed rehabilitation plans for the banks and the government's fiscal objectives. Moreover, to improve financial intermediation in the rural sector and the availability of credit for investment projects, the government will seek to re-open most of the outlets of the Peoples Bank (PB) and strengthen the overall financial position of the bank. The government will soon appoint a managing director to the Development Bank of Rwanda, with necessary powers and authority.

C. External Sector

20. External policies will be aimed at strengthening the balance of payments position through the accelerated recovery of traditional exports, the development of new sources of export earnings, the encouragement of foreign investment, and the regularization of the external debt obligations as discussed below in Section IV. In support of these goals, the government will maintain the market-determined exchange rate system and continue to improve the functioning of the exchange market by eventually eliminating the only remaining foreign exchange surrender requirement for coffee and tea export receipts. The NBR's intervention in the exchange market will be confined to smoothing out excessive fluctuations in the exchange rate, subject to the goal of maintaining gross official international reserves around US$114 million. Furthermore, the government will seek to improve the competitiveness of the tradable goods sector through steps aimed at reducing the anti-export bias. These will include continued efforts to reduce effective protection by rationalizing and lowering import tariffs and eliminating non-tariff barriers, in keeping with the provisions of the Cross-Border Initiative (CBI) for eastern and southern African countries. In particular, Rwanda will aim at complying with the CBI goals of having just three tariff rates, a lower average trade-weighted tariff of about 15 percent, a maximum rate of 20–25 percent, and zero "internal" tariff by 1999. This target date differs from that of the CBI, namely October 1998, because of war-related interruption in the process of economic reform.
III. TRANSITION PROGRAMS SECTORAL AND STRUCTURAL POLICIES

A. Economic and Social Reintegration of Refugees

21. The Government moved quickly to reintegrate the over one million refugees who returned in November/December 1996. The refugees, once back in Rwanda, were moved quickly to their home communities, where the Government and the international relief agencies have been meeting their immediate needs. The emergency response to the massive return of refugees is based on the principles that the emergency efforts should be consistent with the existing development framework and not disrupt ongoing efforts towards rehabilitation and development; the reintegration of refugees should strengthen longer-term reconciliation and development interventions; and the emergency efforts should contribute to building the capacity of local and national institutions.

22. The Government has developed the **Emergency Reintegration and Reconstruction Program (ERRP)** to promote the social and economic reintegration of the returned refugees and facilitate national reconciliation. The ERRP has been designed as the framework for national and international assistance for the reintegration of returned refugees and survivors of genocide, and for laying the foundation for national reconciliation and sustainable development. The program envisages two phases. The first phase concentrates on providing immediate assistance to the returnees with food, shelter and social services. Some of these immediate needs include support for returnees to start income generating activities, the re-absorption of school age children into the school system, and the provision of health services to returnees. The second phase would focus on social services, housing development, rural and urban infrastructure, national and local capacity building, income generating activities, and justice and security based on coordinated national and community interventions.

B. Transitional and Medium-Term Sectoral Programs and Policies

   *Justice and Security*

23. The transition from war-to-peace requires a stable social environment. The existence of the rule of law and the protection of human rights facilitate peaceful coexistence in the communes and the smooth reintegration of new and old case load refugees. The Government will strengthen of the policing and judicial capacity at the communal level to promote reconciliation between the resident population and the returnees, and reinforce the capacity of the judicial system to carry out the genocide trials expeditiously. An awareness-raising campaign, emphasizing the respect for due process of law, will be launched.

   *Housing*

24. **Rural housing** The Government has earmarked 34 areas for the settlement of returnees, many of which can be found in Kibungo and Mutara prefectures. The Government has planned the construction of more than 250 small settlements to accommodate old case load families who choose to settle in the rural areas. The Government will support the
construction of rural housing, to supplement those to be built under self-help schemes facilitated by agencies and international and national NGOs. The Government will also support the rehabilitation of housing for survivors of genocide and returned new case load refugees.

25. **Urban housing.** The immediate goal of the urban housing program is to support the construction of houses for those families who currently do not have permanent accommodation. A second goal is to strengthen the capacity of urban communities to meet the demand for shelter and urban services in an efficient and sustainable manner. The support for urban housing requires a three-pronged approach. Firstly, to accelerate the initial tranche of site preparation already identified by Government and to ensure a rapid construction of houses. Secondly, to pilot and replicate various approaches for meeting the demand for housing, relying on community initiative and market response. Thirdly, to develop urban policies and related capacity.

**Agriculture and Food Security**

26. About 92 percent of the economically active population of Rwanda is in the agricultural sector. This concentration, together with the rapid growth of the labor force in agriculture, has led to declining land per farmer, with the majority of farmers cultivating less than one hectare. Almost all land suitable for agriculture is being cultivated, with 94 percent of the land for the production of food crops. Soil fertility has been falling, leading to declining productivity. The massive displacement of the population during the 1990s adversely affected agricultural production. The effects of the combination of these factors have been rising rural poverty and food insecurity.

27. The priorities of the Government since the end of the war have been the resumption of agricultural production, the rehabilitation of production infrastructure, and reinforcement of the capacity of the Ministry of Agriculture. In 1994/95, the Government, with support of donors, provided farm implements, seeds and other inputs that enabled farmers to resume agricultural activities. This kind of support is urgently needed to assist the recently returned refugees. Emergency interventions in agriculture will be closely coordinated with those in other sectors, such as housing, water and roads, to ensure that returnees, particularly those in new settlements, have shelter, access to cultivable land and social and market infrastructure. This will facilitate resumption of production and rapid reintegration.

28. Government is finalizing its long-term agricultural strategy. The strategy recognizes that sustainable growth in Rwanda and improvements in rural incomes can only come by raising productivity in small holder agriculture. Modern input use, to enhance agricultural productivity, will be promoted through improved extension activities. A demand-driven, integrated agricultural extension and research services, involving public-private partnerships, will be established by 1999. To improve the efficiency of input/output marketing and distribution, government will disengage from these activities and encourage the involvement of the private sector. Studies and workshops will be carried out in 1998 to develop policies
on marketing of inputs and the delivery of rural credit. The public investment program will be oriented towards rural transport and marketing infrastructure, arresting soil degradation, expanding irrigated farming on swamps and low-lands, and restoring and managing the natural resource base. In the export crop sub-sector, Government will continue to disengage from direct production, processing and marketing activities, eliminate state monopolies and create a conducive environment for private sector participation.

29. Studies and workshops on land use and the land tenure system will be undertaken to provide a basis for enacting land tenure laws and promote efficient and environmentally-friendly land use. Following the war, the proportion of women in the population and labor force has risen considerably. The productivity of the women labor force has become critical to overall productivity growth. However, women do not have the rights to inherit and own land, which affects their productivity adversely. The Government intends to adopt new laws to give women the same land inheritance and ownership rights as men.

Education

30. The education sector deteriorated owing to the financial constraints in the late 80s and the 90s, and from the destruction of the 1994 war. Gross enrollment is about 70 percent in primary schools and 8 percent at the secondary level. The war led to the loss of personnel and damage to educational facilities. Most educational institutions (primary, secondary and tertiary levels) have re-opened after the war, but they lack qualified teachers, instructional materials and equipment, and operate in damaged facilities. About 50 percent of the primary school teachers are untrained. In the short run, the objectives of the sector are to rehabilitate and re-equip schools, train teachers, and re-absorb the returnees from the refugee camps in the education system.

31. With the return of over one million refugees in late 1996, additional 200,000 students will have to be accommodated in the education system, representing an increase of in enrollment of 20 percent. This requires immediate support for: (a) school rehabilitation and construction, (b) hiring of additional teachers, (c) in-service teacher training, (d) curriculum development for secondary schools, (e) the printing and distribution of textbooks and (f) the provision of supplies. Higher education needs classrooms and boarding facilities; more professors; and supplies and equipment. For non-formal education, the rehabilitation of commune literacy and skills development centers and the development of appropriate training programs are underway.

32. The Government is preparing a comprehensive strategy for the education sector. For the long-term, the objectives are to increase gross enrollment rate in primary schools to 100 percent, and in secondary schools to 20 percent; improve the quality and relevance of education through better teaching, programs, facilities and pedagogical supervision; build an educational system that contributes to the enhancement of peace and democracy in Rwanda, promote environmental awareness, and improve language training, which is considered a priority in a country that has now three official languages.
Health and Population

33. **Health.** Health standards were deteriorating in the decade preceding the 1994 crisis because of a combination of a deteriorating health conditions and underfunding of public health programs. The major problems included the dramatic increase in the cases of drug resistant malaria; the high incidence of AIDS, with an estimated seropositivity of 25-30 percent among adults in urban areas; and increasing food insecurity and malnutrition. The public health system was not equipped to respond to these challenges. Following the 1994 events, the combined efforts of the Ministry of Health (MINISANTE), the donor community and NGOs helped to rehabilitate and upgrade the system. Most health facilities are now functional. However, the main challenges remain and the system is plagued by a shortage of human resources and equipment, and an ineffective pharmaceutical distribution system.

34. **MINISANTE** has developed a health sector strategy to deal with these problems. The major elements of the strategy are: (i) operationalization of a decentralized district-based health system; (ii) priority on training of health personnel; (iii) health financing that involves the contribution from beneficiaries, the private sector and the Government; (iv) the conversion of the National Pharmacy Office (OPHAR) into an autonomous pharmaceutical procurement agency; (v) establishment of a national information, education and communications (IEC) capacity; (vi) strengthening of the National AIDS Control Program; (v) coordination of the support of donors, the activities of NGOs and the private sector to improve and expand health services. To support the implementation of the strategy, the Government intends to progressively increase budget allocations to the health sector.

35. The massive return of refugees does not change the challenge to the health sector but it has increased its scope. Immediate actions fall into: (a) rehabilitation of facilities, (b) provision of equipment (including communication and ambulances), (c) recruitment and training of health personnel, (d) provision of medicines, vaccines and other supplies as well as (e) coverage of operations and maintenance costs.

36. **Population.** Rwanda’s present population is estimated at 7.6 million, compared with 7.9 million before the civil war. The country’s population density of 289 per square kilometer, is among the highest in the world. Moreover, at an estimated growth rate of 3.6 percent, Rwanda’s population will double in 20 years. In 1990, the Government adopted a population policy setting out an ambitious target of reducing the population growth rate to 2 percent by year 2000. After 1994, the family planning program has weakened considerably. Contraceptives are available but health personnel do not have the training and experience in family planning and counseling. The Government intends to revise the 1990 population policy, train health workers in clinical family planning skills, and educate opinion leaders on demographic issues.

Infrastructure

37. **Water and Sanitation.** In the short-run, the provision of water supply to the new settlement areas is very high priority. For the medium-to-long term, the water sector needs a
sound legal, regulatory and institutional framework; human capacity; and funding to meet the demand for its services. The Government intends to define the legal and institutional framework of the sector, which will set out the roles and responsibilities of the various actors in the sector to ensure that the growing demand is met in an efficient and financially sustainable way. The new framework will involve strong community participation, especially in peri-urban and rural areas. Priority will also be given to capacity building, particularly technical capacity of local operators, planning and management capacity of regional (prefectures) and central administration, and improving the management of ELECTROGAZ, the national water/energy utility. Government also intends to improve the awareness of population of the value of water and sanitation, with programs of communication, information and sanitary education.

38. **Transport and Telecommunications.** The Government plans an emergency road rehabilitation program based on the current sector policy of road maintenance by private entrepreneurs and the use of labor-intensive methods. The program will include primary and feeder roads to improve access to agricultural and commercial areas, and provide badly needed rural employment.

39. For the medium to long term, the objectives are to improve rural transport infrastructure, reduce internal and external transport and communication costs, protect existing investments, and improve road safety. The Government intends to strengthen the management of the Road Fund and to increasingly contract out road maintenance. The monopoly of the state enterprise Rwandatel in telecommunications sector will abolished. A study is underway to develop a new telecommunications sector policy, regulatory structure and legislation to liberalize the sector, permit private sector investment and the privatization of Rwandatel.

40. **Energy.** The Government’s objective is to rehabilitate the existing infrastructure, improve and extend services, manage energy resources efficiently, and protect the natural resource base. The immediate priority for the electricity sub-sector is to have a competent management for ELECTROGAZ. The Government is seeking an experienced private firm to manage the company. With a new management in place, the rehabilitation of the distribution network covering five cities, will be launched. The Government will continue to explore options for private sector participation in electricity generation and distribution.

41. **Wood and wood products** account for more than 90 percent of the energy consumed; imported oil and electricity for less than 10 percent. The Government therefore places emphasis on the efficient and sustainable use of indigenous energy sources, discouraging charcoal consumption in urban areas, the expansion and regeneration of forest resources, and the development of alternative sustainable energy resources. Government has liberalized the importation and distribution of petroleum products.
C. Other Structural Policies

Public Sector Management

42. At the end of the 1994 war, the civil service was in disarray. To restore operational capacity, the Government authorized the ministries to recruit new staff to fill the gaps left by those who were killed or had left the country. Progress was made in filling the high level management positions, but not for the professional/technical functions. The salaries paid in the civil service are very low, which makes it difficult to attract and keep qualified staff, thus the new civil service is populated largely by unqualified staff. A census of the civil service conducted in December 1995 indicated that about 71 percent of the civil servants did not attend or complete secondary school, only 3.6 percent had a university diploma or the equivalent and 82 percent were recruited for low-level support positions.

43. After the war, the Government decided to keep the new civil service small. The target size for each ministry was based on an overall limit for the non-teaching civil service of 57 percent of the pre-war level. However, in the absence of effective controls on recruitment, almost all ministries exceeded the agreed staffing limits. The rebuilding of the service concentrated on filling vacant positions and left the existing sub-structures within the ministries basically unchanged. Ministries do not have clearly defined functions and considerable overlaps in functions exist between ministries.

44. The government recognizes the urgent need to restructure and rebuild public institutions and capacity to effectively carry out its economic, political and social agenda. A number of diagnostic studies and consultations on the existing civil service has been undertaken and proposals put forward for reform. The government has decided to appoint a civil service reform commission to review these studies, carry out additional studies as necessary, undertake consultations with the wider society, and make recommendations on the role of the state, the institutional structure and the required staffing to carry out its mission, the strategy for capacity building and the process for comprehensive reforms.

45. Until the comprehensive reforms are underway, the Government will take measures to strengthen capacity in key areas; act to control employment into the civil service; completely freeze employment of lower level staff; eliminate unqualified staff; and continue to improve staff compensation. The Government has commissioned a study to develop a strategy for improving the compensation of the civil service over time. The findings of this study will be discussed with the staff of the Bretton Woods institutions, to ensure that subsequent steps to improve compensation are consistent with the macroeconomic framework and the longer run reform prospects.

Privatization

46. The policy of the Government is to disengage the state from commercial activities which are best left to the private sector. It has therefore decided to privatize the public enterprises within two years. The National Assembly passed a law in March 1996, providing
the legal and institutional framework for the privatization program. In accordance with the law, the Government appointed a National Commission on Privatization, to direct the program. An ad-hoc technical committee, drawn from ministries and other government agencies has been appointed to assist the Commission and has already started to work. The Committee has prepared a catalogue of firms for privatization and identified 58 enterprises for the first phase of the program. The sale of these firms is by national and international tender and three enterprises have been tendered. To move the program forward and meet the ambitious time table, the National Commission will become fully functional and the appropriate technical unit will be created, with qualified full time staff and provided with resources for selective technical assistance for the privatization of key enterprises.

**Private Sector Development**

47. The private sector is to play the key role in the development of Rwanda. The strategy of the Government is to eliminate the constraints to private sector development and provide incentives for private investors. The reform process, which was initiated in 1995, with the liberalization of the trade and exchange regime, will be vigorously pursued. Work on the reform of the labor code, aimed at facilitating labor mobility, eliminating discriminatory gender provisions and reducing labor costs, is underway. It is expected the legislation will be presented to and adopted by the National Assembly during 1997. The Tribunal of Commerce, to facilitate the settlement of business disputes, will be in place in 1997. The Investment Code of 1987 remains suspended and will not be replaced. The appropriate investment incentives have been incorporated into a revised tax code and an investment guide is under preparation to inform investors of the relevant laws and available incentives. The Government is reviewing the options for facilitating private investments including the establishment of an investment facilitation unit (guichet unique). A study is underway to identify the constraints to private sector development. The Government intends to take further actions based on the recommendations of this study.

**Gender Issues**

48. Many obstacles stand in the way of women’s full participation in the development process in Rwanda. Laws, regulations and accepted business practices deny women rights to inheritance and ownership of land, access to credit and gainful employment. The indigenous culture prevents the full participation of women in the decision making in the home, the community and in political and economic affairs. As Rwanda recovers from the economic and social impacts of the genocide and civil war, many women find themselves in vulnerable positions, as widows and single heads of households. However, many of these women find themselves without the tools and the enabling environment to meet the challenges ahead.

49. The Government recognizes that the role of women is critical to the development of Rwanda. In 1991, the Ministry of Family and Women was created to strengthen families and improve the status of women in the country. The Ministry has prepared a draft law to eliminate gender discrimination, which has been presented to and discussed by the cabinet.
After consultations with other government departments and the civil society, this draft will be finalized and presented to the National Assembly where it is expected to be adopted by the middle of 1997. The Ministry of Family and Women plans an IEC campaign to sensitize women of their rights and encourage compliance and enforcement of those rights.

**Environment**

50. In 1991, Rwanda produced a National Environmental Action Plan (NEAP) as a framework for conservation and management of its fragile resource base, as a foundation for sustainable development. The underlying strategy acknowledged the country’s geographical limitations, the immense pressure on the resource base due to the high growth of the population, the fragility of the soils, and the need to meet the food needs and build sustainable livelihoods. The war of 1994 prevented the National Environmental Action Plan (NEAP) from being translated into action, while the destruction of war and the massive displacements of population exacerbated the environmental problems. The ongoing efforts to resettle previously displaced populations poses the threat of further environmental degradation.

51. The Government is conscious of the need for the resettlement process to be carried out in a way that does not damage further the resource base and subject protected areas to unmanaged settlement. The need to protect, restore, and effectively manage the natural resource base is paramount. The environmental management institutions are being strengthened to assist in the environmental assessment in the resettlement process and define government strategies, policies, and action plans. A national forestry policy is under preparation. This will help to protect and manage the nation's endangered forestry resources. The Government intends to review and update the NEAP to provide the long-term framework for environmental restoration, protection and management.

**IV. EXTERNAL DEBT**

52. At end-1996, Rwanda's external debt was estimated at approximately US$1,117 million, equivalent to about 84 percent of GDP. Over 80 percent of the debt is highly concessional and owed to multilateral creditors. Except for the balance of payments support being requested from the Fund under the emergency assistance policy, the government will avoid contracting or guaranteeing any loans on nonconcessional terms with a grant element of less than 35 percent. Moreover, to strengthen the management of external debt, the government has established foreign debt management units in the Ministry of Finance and the NBR and will be entrusting the primary responsibility for the contracting of debt and negotiation of debt relief to the Ministry of Finance. Rwanda will be seeking debt relief from the Paris Club in 1997, and comparable relief from commercial and other bilateral creditors. A comprehensive approach to the external debt problem would also require a refinancing of the accumulated arrears and current maturities to multilateral creditors.
V. EXTERNAL FINANCING REQUIREMENTS

53. Rwanda’s balance of payments will continue to be characterized by large imbalances during 1997–98, and exceptional financing will therefore be required. Taking into account the potential impact of the policies outlined above, the export volume (comprising mostly coffee and tea) is expected to recover at an average rate of some 7 percent during 1997/98. Meanwhile, total imports are projected to increase at a yearly average rate of 14 percent, reflecting imports for relief and reconstruction programs. Over this period, the terms of trade are expected to improve by about 1 percent a year on average. Moreover, the overall deficit for the service accounts is projected to widen slightly.

54. Based on these projections, the cumulative external current account deficit (excluding official transfers) is projected at about US$552 million during 1997–98. Taking into account scheduled amortization, Fund repayments, and the need to maintain gross official reserves at the equivalent of at least four months of imports, the financing requirements during 1997/98 are projected at US$620 million. This total is expected to be met through grants (US$352 million); loans, including those from the World Bank (US$126 million); and minimal direct capital inflows, leaving a residual financing gap of nearly US$151 million for the period. This gap is expected to be covered through debt relief from the Paris Club (on Naples terms) and other creditors and from ESAF disbursements. For 1997, the financing requirement of US$319 million is expected to be covered by grants (US$163 million) and loans (US$63 million), leaving a residual financing gap of US$101 million (excluding the liquidation of arrears). In order to cover this gap, Rwanda will need external assistance in connection with the central government budget and balance of payments support from the Fund. Moreover, the government will continue to collaborate with the staffs of the Bretton Woods institutions with a view to developing a program that could be supported under an ESAF arrangement before year-end.

VI. TECHNICAL ASSISTANCE REQUIREMENTS

55. During 1997/98, Rwanda will need to make further progress in capacity and institution building in the areas of macroeconomic management and public administration and in the line ministries. The training of a large number of newly appointed government officials will also be required. The effectiveness of the technical assistance efforts will require close collaboration between the government and the international community, including the support of the Fund in coordinating the ongoing activities in the NBR, the Ministries of Finance and Planning, and the compilation of financial and economic statistics.
Table 1 (continued). Rwanda: Summary and Timetable of Policy Actions, 1997–98

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<th>Policy Area</th>
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<tr>
<td><strong>1. Public Sector Management</strong></td>
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<tr>
<td>i. Strategic Framework and Action Plan</td>
<td>To define the role and institutional framework of the State.</td>
<td>Establish a public service reform commission to conduct studies and consultations on the role of the State and its institutional structure and capacity building, and propose an action plan for restructuring government and reforming the civil service.</td>
<td>Ongoing</td>
<td>WB, UNDP</td>
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<tr>
<td>ii. Public Sector Employment</td>
<td>To control public sector employment</td>
<td>Revoke the authority of ministries to employ new staff and all new recruitment be carried out by MINIFOP using established procedures. Accelerate the removal from the civil service of unqualified staff.</td>
<td>1997</td>
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<tr>
<td>iii. Civil Service Pay</td>
<td>To improve incentives in the civil service.</td>
<td>Conduct a study to develop options for improving pay and incentives in the civil service.</td>
<td>June 1997</td>
<td>UNDP</td>
</tr>
<tr>
<td>iv. Civil Service Reform</td>
<td>To build an efficient and effective civil service</td>
<td>Begin implementation of agreed aspects of civil service reform.</td>
<td>1998</td>
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<td><strong>2. Resource Mobilization and Management</strong></td>
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<tr>
<td>i. Fiscal Policies</td>
<td>Reduce the structural fiscal imbalance by improving the primary current budgetary balance by 5 percentage points of GDP during 1997-98</td>
<td>Strengthen the tax effort by rationalizing the taxation of corporate entities, establishing a special tax unit for large enterprises, and enlarge the tax base. Improve the Tax and Customs departments.</td>
<td>March 1997</td>
<td>IMF, WB</td>
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<tr>
<td>ii. Capacity Building</td>
<td>To improve the effectiveness of managing public resources</td>
<td>Design and implement training programs for the ministries of finance and planning and for the NBR</td>
<td>Ongoing</td>
<td>IMF, WB, UNDP</td>
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<tr>
<td>iii. Public accountability</td>
<td>Accountability in the use of public resources.</td>
<td>Create an independent body to audit and publish government accounts.</td>
<td>1997-98</td>
<td></td>
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<tr>
<td>iv. Military Demobilization</td>
<td>To reduce the burden of military expenditures on public resources.</td>
<td>Elaborate and implement, with the assistance of the World Bank, a program for the demobilization of soldiers.</td>
<td>Ongoing</td>
<td>WB</td>
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<tr>
<td>3. External sector</td>
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<tr>
<td>i. Trade policy</td>
<td>Reduce export-bias and effective protection</td>
<td>Lower external tariffs by adopting the new tariff code. Lower further external tariffs in keeping with the provisions of the Cross-Border Initiative.</td>
<td>June 1997</td>
<td></td>
</tr>
<tr>
<td>ii. Foreign exchange market</td>
<td>Improve the efficiency of the foreign exchange market</td>
<td>Eliminate the surrender requirement on coffee and tea export receipts.</td>
<td>End-1997</td>
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<tr>
<td>4. Private Sector Development</td>
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<tr>
<td>i. Regulatory and Incentive Framework</td>
<td>Improve the environment for the private sector.</td>
<td>Simplify and liberalize the requirements for forming and functioning of business enterprises. Adopt the code of commerce, reactivate the Commercial Chamber of the Civil Court and create a Tribunal of Commerce. Revise the labor code to eliminate discriminatory gender provisions and restrictions on labor mobility and the determination of wages; clarify the rules governing overtime; and reduce the number of various mandatory paid leaves.</td>
<td>Sept. 1997</td>
<td>WB</td>
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<td>Promote foreign and domestic investment.</td>
<td>Adopt the tax code which includes the elimination of dividend taxation, official schedules of depreciation allowance and a five year tax-credit allowance for operating losses of business firms.</td>
<td>End-1997</td>
<td></td>
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<tr>
<td>i. Regulatory and Incentive Framework (concluded)</td>
<td></td>
<td>Review options for the promotion and facilitation of investments including the establishment of an investment facilitation unit (guichet unique).</td>
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<tr>
<td>ii. Land Tenure</td>
<td>Ensure equitable and efficient land use</td>
<td>Conduct studies and workshops on land rights, land tenure and recommend reform measures.</td>
<td>Ongoing</td>
<td>WB</td>
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<td></td>
<td></td>
<td>Adopt new land tenure and land use measures</td>
<td>Dec. 1997</td>
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<tr>
<td>5. Financial Sector</td>
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<tr>
<td>i. Public Debt</td>
<td></td>
<td>Regularize the payment of interest and principal on the outstanding treasury instruments held by the commercial banks.</td>
<td>June 1997</td>
<td></td>
</tr>
<tr>
<td>ii. Legal and Regulatory Framework</td>
<td>Improve the legal and regulatory framework for banking</td>
<td>Adoption by Parliament of a new NBR law that provides more independence to NBR in the conduct of monetary policies and the supervision of the banks.</td>
<td>End-June 1997</td>
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<td>Adoption by Parliament of a revised banking law that gives the NBR the authority to amend and issue prudential regulations when necessary.</td>
<td>End-June 1997</td>
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<td>Require banks to provide for nonperforming assets and exempt the provisioned amounts from income tax.</td>
<td>Ongoing</td>
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<tr>
<td>iii. Financial Institutions</td>
<td></td>
<td>Implement the action plans for improving the financial position of the commercial banks.</td>
<td>Ongoing</td>
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<tr>
<td>6. Privatization of Public Enterprises</td>
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<tr>
<td>i. Financial Support to Enterprises</td>
<td>Arrest the drain on the budget and improve budget</td>
<td>Minimize transfers from the budget to public enterprises and limit government guarantees of</td>
<td>Ongoing</td>
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<tr>
<td>i. Privatization and Liquidation of PEs</td>
<td>Improve public sector resource utilization</td>
<td>Establish the Privatization Commission empowered to oversee the privatization of public enterprises in all sectors of economy.</td>
<td>Implemented</td>
<td></td>
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<tr>
<td>ii. Privatization and Liquidation of PEs (concluded)</td>
<td></td>
<td>Strengthen the technical support unit to the Privatization Commission.</td>
<td>June 1997</td>
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<td></td>
<td></td>
<td>Privatization of 34 enterprises in the 1st phase of the program.</td>
<td>End-1998</td>
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<td></td>
<td></td>
<td>Prepare action plans for privatization of major PEs such as in tea, coffee, and financial sectors, water and electricity and telecommunications</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>7. Sectoral Strategies, Policies, and Actions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>i. Agriculture</td>
<td>Establish a framework for rapid and sustainable growth</td>
<td>Formulate a sector strategy and action plan based on stakeholder consultation.</td>
<td>June 1997</td>
<td>WB</td>
</tr>
<tr>
<td>iii. Tea</td>
<td>Efficient production processing and marketing</td>
<td>Conduct a study on the reform of the tea sector, including options for the privatization of tea production, processing and marketing and the regulatory framework for the sector.</td>
<td>Dec. 1997</td>
<td></td>
</tr>
<tr>
<td>iv. Rice</td>
<td>Efficient production, processing, and marketing.</td>
<td>Privatize the rice mills.</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>v. Education</td>
<td>Establish a framework for the sector.</td>
<td>Revise the sector strategy and formulate an action plan.</td>
<td>June 1997</td>
<td>WB</td>
</tr>
<tr>
<td>vi. Health</td>
<td>Establish a framework for the sector.</td>
<td>Update the sector strategy and actions plans.</td>
<td>June 1997</td>
<td>WB</td>
</tr>
<tr>
<td>Policy Area</td>
<td>Objectives and Targets</td>
<td>Strategies and Measures</td>
<td>Implementation</td>
<td>TA Requirements</td>
</tr>
<tr>
<td>-------------</td>
<td>------------------------</td>
<td>-------------------------</td>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>vii. Environment and Resettlement</td>
<td>Avoid environmental damage (of protected areas, forests, wetlands) by resettlement.</td>
<td>Survey sites designated for resettlement, undertake environmental assessments and prepare mitigation plans.</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>viii. The Status and Role of Women</td>
<td>To establish a framework for the development of women.</td>
<td>Develop strategies and policies and an action plan to improve the status of women in the society and promote their full participation in socio-economic and political affairs.</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>ix. Telecommunications</td>
<td>Reform the sector to improve the provision of services.</td>
<td>Develop an overall telecommunications sector policy, regulatory structure and legislation to liberalize the sector, permit private sector participation in the sector and privatize Rwandatel.</td>
<td>Sept. 1997</td>
<td>WB</td>
</tr>
<tr>
<td>xi. Water Supply and Sanitation</td>
<td>Improve access to water supply and sanitation services in urban and rural areas.</td>
<td>Elaborate the sectoral strategy and draft a sectoral policy paper.</td>
<td>Ongoing</td>
<td>WB</td>
</tr>
<tr>
<td>xii. Transport</td>
<td>Protect capital investment in roads.</td>
<td>Reform the law on the road fund, strengthen the management of the fund, and contract out road maintenance.</td>
<td>June 1997</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Improve sector management</td>
<td>Reform the road directorate and build capacity for planning, supervision, and resource mobilization.</td>
<td>June 1997</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Improve road safety</td>
<td>Review and revise the traffic code and improve traffic control.</td>
<td>June 1997</td>
<td></td>
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</tbody>
</table>
Table 1 (concluded). Rwanda: Summary and Timetable of Policy Actions, 1997–98

<table>
<thead>
<tr>
<th>Policy Area</th>
<th>Objectives and Targets</th>
<th>Strategies and Measures</th>
<th>Implementation</th>
<th>TA Requirements</th>
</tr>
</thead>
<tbody>
<tr>
<td>8. Social Policy-Social Reintegration</td>
<td>Foster conditions for peaceful co-existence of all social groups and the accelerated reintegration of refugees.</td>
<td>Assist returned new and old case refugees settlement and economic and social reintegration. Develop resettlement sites and provide basic services such as primary education and health care and safe sanitary conditions at these resettlement centers.</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>i. National Reconciliation</td>
<td>Publicize the institutional and legal framework for addressing issues relating to double-occupancy of properties.</td>
<td>Create a community development fund to provide rural communities with the resources and opportunities to participate actively in their own development.</td>
<td>Ongoing</td>
<td></td>
</tr>
<tr>
<td>Build community spirit and solidarity and reduce rural poverty.</td>
<td>Implement</td>
<td>Establish a demobilization, reintegration, and reconciliation Commission (DRRC) under a civilian authority to coordinate the program.</td>
<td>Implemented</td>
<td></td>
</tr>
<tr>
<td>ii. Reintegration of Demobilized Ex-Combatants</td>
<td>To reintegrate and demobilize ex-combatants into productive and peaceful civilian life.</td>
<td>Provide short-term reinsertion assistance to demobilized ex-combatants and provide long term assistance for economic and social integration and counseling and conflict mediation services.</td>
<td>1997-2000</td>
<td></td>
</tr>
<tr>
<td>iii. Vulnerable Groups</td>
<td>Protect vulnerable groups</td>
<td>Devise assistance and social safety nets targeted at the victims of the war (orphans, widows, handicapped, and unaccompanied children) and other vulnerable groups.</td>
<td>Ongoing</td>
<td></td>
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</table>
Table 2. Rwanda: Selected Economic and Financial Indicators, 1994-2000

<table>
<thead>
<tr>
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<tbody>
<tr>
<td>GDP</td>
<td>-49.0</td>
<td>24.6</td>
<td>11.0</td>
<td>9.3</td>
<td>13.3</td>
<td>12.7</td>
<td>12.2</td>
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<tr>
<td>Consumer prices (average)</td>
<td>64.0</td>
<td>22.0</td>
<td>15.0</td>
<td>15.0</td>
<td>8.9</td>
<td>7.0</td>
<td>6.0</td>
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<tr>
<td>Exports, f.o.b. (in U.S. dollars)</td>
<td>-52.5</td>
<td>59.0</td>
<td>10.5</td>
<td>22.3</td>
<td>32.5</td>
<td>3.5</td>
<td>7.3</td>
</tr>
<tr>
<td>Imports, f.o.b. (in U.S. dollars)</td>
<td>32.6</td>
<td>-36.4</td>
<td>52.4</td>
<td>33.5</td>
<td>4.6</td>
<td>22.3</td>
<td>1.9</td>
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<tr>
<td>Export volume</td>
<td>-54.0</td>
<td>0.9</td>
<td>28.4</td>
<td>22.7</td>
<td>40.5</td>
<td>-1.8</td>
<td>14.8</td>
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<tr>
<td>Import volume</td>
<td>29.1</td>
<td>-54.0</td>
<td>50.7</td>
<td>29.4</td>
<td>1.3</td>
<td>24.4</td>
<td>3.0</td>
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<tr>
<td>Terms of trade (deterioration -)</td>
<td>0.7</td>
<td>39.0</td>
<td>-14.9</td>
<td>-3.4</td>
<td>-8.6</td>
<td>7.3</td>
<td>-5.6</td>
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<tr>
<td>Revenue and grants</td>
<td>-82.9</td>
<td>715.2</td>
<td>57.2</td>
<td>58.1</td>
<td>15.3</td>
<td>26.9</td>
<td>26.2</td>
</tr>
<tr>
<td>Revenue</td>
<td>-76.7</td>
<td>283.4</td>
<td>57.1</td>
<td>43.7</td>
<td>70.9</td>
<td>25.8</td>
<td>21.9</td>
</tr>
<tr>
<td>Total expenditure and net lending</td>
<td>-60.5</td>
<td>161.5</td>
<td>71.3</td>
<td>82.0</td>
<td>41.1</td>
<td>36.4</td>
<td>9.2</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>-49.0</td>
<td>89.6</td>
<td>16.2</td>
<td>16.6</td>
<td>35.6</td>
<td>7.7</td>
<td>6.5</td>
</tr>
<tr>
<td>Domestic credit 3/</td>
<td>-7.8</td>
<td>-2.4</td>
<td>26.8</td>
<td>18.1</td>
<td>-2.6</td>
<td>15.1</td>
<td>12.6</td>
</tr>
<tr>
<td>Government 3/</td>
<td>-1.6</td>
<td>-35.1</td>
<td>8.5</td>
<td>8.5</td>
<td>-2.8</td>
<td>6.9</td>
<td>5.7</td>
</tr>
<tr>
<td>Economy 3/</td>
<td>-6.1</td>
<td>32.7</td>
<td>18.3</td>
<td>9.6</td>
<td>0.2</td>
<td>8.1</td>
<td>6.9</td>
</tr>
<tr>
<td>Money and quasi-money (M2)</td>
<td>-7.4</td>
<td>71.5</td>
<td>23.6</td>
<td>21.0</td>
<td>8.3</td>
<td>20.6</td>
<td>19.8</td>
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<tr>
<td>Reserve money</td>
<td>9.3</td>
<td>38.7</td>
<td>16.1</td>
<td>18.0</td>
<td>22.6</td>
<td>28.0</td>
<td>...</td>
</tr>
<tr>
<td>Velocity (ratio of GDP to M2)</td>
<td>4.5</td>
<td>5.2</td>
<td>4.4</td>
<td>5.2</td>
<td>6.0</td>
<td>5.9</td>
<td>5.8</td>
</tr>
<tr>
<td>Interest rate (one-year savings deposit)</td>
<td>9.0</td>
<td>12.0</td>
<td>...</td>
<td>...</td>
<td>11.6</td>
<td>...</td>
<td>...</td>
</tr>
<tr>
<td>Total revenue and grants</td>
<td>4.6</td>
<td>18.8</td>
<td>23.1</td>
<td>24.7</td>
<td>17.4</td>
<td>18.6</td>
<td>20.0</td>
</tr>
<tr>
<td>Total revenue</td>
<td>3.7</td>
<td>7.1</td>
<td>8.7</td>
<td>8.4</td>
<td>9.7</td>
<td>10.3</td>
<td>10.7</td>
</tr>
<tr>
<td>Total expenditure and net lending</td>
<td>16.1</td>
<td>21.2</td>
<td>28.4</td>
<td>32.0</td>
<td>24.0</td>
<td>27.7</td>
<td>25.6</td>
</tr>
<tr>
<td>Current expenditure</td>
<td>13.4</td>
<td>12.9</td>
<td>...</td>
<td>12.4</td>
<td>14.0</td>
<td>12.7</td>
<td>11.5</td>
</tr>
<tr>
<td>Primary fiscal deficit</td>
<td>-5.3</td>
<td>-3.4</td>
<td>...</td>
<td>-2.7</td>
<td>-2.7</td>
<td>-0.9</td>
<td>0.6</td>
</tr>
<tr>
<td>Overall deficit (commitment basis)</td>
<td>-12.4</td>
<td>-14.1</td>
<td>-19.8</td>
<td>-23.6</td>
<td>-14.3</td>
<td>-17.4</td>
<td>-14.9</td>
</tr>
<tr>
<td>Excluding grants</td>
<td>-11.5</td>
<td>-2.4</td>
<td>-5.3</td>
<td>-7.4</td>
<td>-6.6</td>
<td>-9.0</td>
<td>-5.6</td>
</tr>
<tr>
<td>External current account (deficit -)</td>
<td>-53.3</td>
<td>-21.8</td>
<td>-27.7</td>
<td>-29.0</td>
<td>-14.3</td>
<td>-18.6</td>
<td>-15.9</td>
</tr>
<tr>
<td>Excluding official transfers</td>
<td>-6.1</td>
<td>4.9</td>
<td>-6.4</td>
<td>-6.0</td>
<td>-3.9</td>
<td>-7.8</td>
<td>-4.8</td>
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<tr>
<td>External debt (outstanding at end of period)</td>
<td>126.1</td>
<td>94.5</td>
<td>80.4</td>
<td>86.7</td>
<td>83.8</td>
<td>83.4</td>
<td>78.7</td>
</tr>
<tr>
<td>Debt service ratio 4/</td>
<td>80.4</td>
<td>56.6</td>
<td>44.1</td>
<td>49.6</td>
<td>49.3</td>
<td>44.8</td>
<td>43.1</td>
</tr>
<tr>
<td>Gross official reserves</td>
<td>1.3</td>
<td>5.0</td>
<td>3.3</td>
<td>3.2</td>
<td>5.1</td>
<td>4.4</td>
<td>4.5</td>
</tr>
<tr>
<td>Nominal GDP (in RF billions)</td>
<td>165.1</td>
<td>327.5</td>
<td>418.1</td>
<td>394.2</td>
<td>408.1</td>
<td>482.8</td>
<td>568.8</td>
</tr>
</tbody>
</table>

Sources: Data provided by the Rwandese authorities; and staff estimates and projections.

1/ As envisaged in March 1996.
2/ As revised by the Article IV mission in August 1996.
3/ As a percent of beginning-of-period money stock.
4/ In percent of exports of goods and nonfactor services.
Table 3. Rwanda: External Financing Requirements and Sources, 1994-2000

(In millions of U.S. dollars)

<table>
<thead>
<tr>
<th></th>
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<tbody>
<tr>
<td>Est.</td>
<td>-391.6</td>
<td>-343.5</td>
<td>-239.3</td>
<td>-319.2</td>
<td>-300.8</td>
<td>-329.9</td>
<td>-333.6</td>
</tr>
<tr>
<td>Projections</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- **External financing requirements**
- **Current account, excluding net official transfers**
  - 1994: -400.0
  - 1995: -245.8
  - 1996: -215.0
  - 1997: -279.8
  - 1998: -272.1
  - 1999: -294.2
  - 2000: -298.1
- **Amortization**
  - 1994: -22.9
  - 1995: -22.4
  - 1996: -22.9
  - 1997: -22.4
  - 1998: -21.2
  - 1999: -21.2
  - 2000: -21.2
- **Change in arrears**
  - 1994: 34.5
  - 1995: -2.1
  - 1996: 14.1
  - 1997: 0.0
  - 1998: 0.0
  - 1999: 0.0
  - 2000: 0.0
- **Change in reserves (excluding IMF)**
  - 1994: -3.1
  - 1995: -73.2
  - 1996: -15.4
  - 1997: -14.4
  - 1998: -5.0
  - 1999: -5.0
  - 2000: -5.0
- **IMF repurchases**
  - 1994: 0.0
  - 1995: 0.0
  - 1996: 0.0
  - 1997: -2.6
  - 1998: -2.5
  - 1999: -9.1
  - 2000: -9.1

- **Disbursements of existing commitments**
  - 1994: 391.6
  - 1995: 343.5
  - 1996: 239.3
  - 1997: 211.2
  - 1998: 250.7
  - 1999: 267.4
  - 2000: 281.9

- **Grants**
  - 1994: 354.1
  - 1995: 300.7
  - 1996: 163.3
  - 1997: 162.7
  - 1998: 189.4
  - 1999: 201.6
  - 2000: 199.9

- **Loans**
  - 1994: 11.8
  - 1995: 52.8
  - 1996: 61.4
  - 1997: 62.7
  - 1998: 63.3
  - 1999: 67.6
  - 2000: 81.9

- **Bilateral creditors**
  - 1994: ...
  - 1995: ...
  - 1996: ...
  - 1997: 1.5
  - 1998: 0.2
  - 1999: 0.0
  - 2000: 81.9

- **Multilateral creditors**
  - 1994: ...
  - 1995: ...
  - 1996: 34.0
  - 1997: 54.2
  - 1998: 63.1
  - 1999: 27.6
  - 2000: 11.9

- **Of which**
  - 1994: 11.8
  - 1995: 36.5
  - 1996: 23.9
  - 1997: 30.3
  - 1998: ...
  - 1999: ...
  - 2000: ...

- **World Bank**
- **Private creditors**
- **IMF**
  - 1994: 0.0
  - 1995: 13.6
  - 1996: 0.0
  - 1997: 0.0
  - 1998: 0.0
  - 1999: 0.0
  - 2000: 0.0

- **Direct investment**
  - 1994: 2.0
  - 1995: 3.0
  - 1996: 3.0
  - 1997: 3.0
  - 1998: 3.0
  - 1999: 81.9
  - 2000: 3.2

- **Other capital (including errors and omissions)**
  - 1994: 25.7
  - 1995: -35.8
  - 1996: 11.6
  - 1997: -10.0
  - 1998: -5.0
  - 1999: -5.0
  - 2000: -3.0

- **Debt relief**
  - 1994: 0.0
  - 1995: 10.2
  - 1996: 0.0
  - 1997: 0.0
  - 1998: 0.0
  - 1999: 0.0
  - 2000: 0.0

- **Financing gap**
  - 1994: 0.0
  - 1995: 0.0
  - 1996: 0.0
  - 1997: 101.1
  - 1998: 50.2
  - 1999: 62.1
  - 2000: 51.5

Sources: Data provided by the authorities; and Fund and Bank staff estimates and projections.
MAP SECTION