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Rwanda

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National Budget Brief

Investing in Children in Rwanda
2021/2022

Preface

This national budget brief explores the extent to which the Government of Rwanda's budget addresses the needs of children under 18 years of age through the national budget. The brief analyses Rwanda's macro-economic performance, as well as the size and composition of budget allocations to priority sectors for children, namely Health, Education, Social Protection and Water and Sanitation and Nutrition for the fiscal year 2021/22. The budget brief aims to synthesize complex macro-economic and public budget information with a bearing on the implementation of children's rights in Rwanda, as well as offer recommendations on how the government can improve investments in children and their wellbeing.

Key Highlights

The Government of Rwanda plans to spend FRW 3,806.9 billion in 2021/22, up from FRW 3,464.8 billion as per the revised budget law of 2020/21. This reflects a nominal budget increase of 9.9 per cent. The trend analysis shows that while the national budget has been recording a positive increase annually, the pace of the increase has been declining over the past four years which signals a narrowing fiscal space. *There is a need to accelerate growth enhancing policies to regain the fiscal space to finance the national budget and advance progress on Rwanda's development goals.*

The budget invested in priority sectors for children (Education, Health including Nutrition, Social Protection and WASH) continues to depict a nominal increase with allocations growing from FRW 567.9 billion in the 2017/18 revised budget to FRW 1,035 billion in 2021/22. However, when compared to the financing needs outlined in the Water and Sanitation Strategic Plan 2017-2024, the WASH sector remains the least funded compared to other social sectors. *More reprioritization of WASH in public budgeting is needed to achieve the ambitious government targets under the WASH sector.*

Domestic revenues (taxes and non-tax revenues) are expected to contribute 65 per cent of the total national budget in 2021/22 and the proceeds from borrowing are estimated to reduce from FRW 1,061.2 billion in 2020/21 to FRW 718.9 billion in 2021/22. The government's ability to finance the budget through borrowing has substantively narrowed amidst the COVID-19 crisis. *To ensure fiscal sustainability and accelerate implementation of country's development agenda, there is a need to strengthen medium-term measures for domestic resource mobilization and enhance innovative financing through Public Private Partnerships (PPPs) and blended financing.*

The COVID-19 pandemic has necessitated a public spending shift towards the Health sector and other priorities to support the critical sectors identified under the Economic Recovery Plan. Between July 2020 and June 2021, the Government of Rwanda incurred a total of FRW 366.4 billion in COVID-19 related expenditure, representing 11 per cent of total government expenditure in 2020/21, or 3.7 per cent of GDP. *More public resources are needed to accelerate economic recovery whilst ensuring investments in COVID-19 vaccination continue to reach targets of vaccinating 60 per cent of the adult population by mid-2022.*

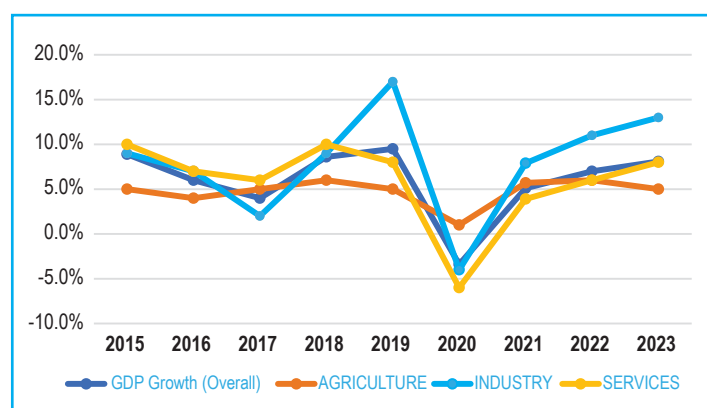


1. Introduction

1.1. Rwanda Macro-economic Performance

Like in many other countries across the globe, the COVID-19 pandemic has had a profound and direct impact on Rwanda's economy. The country's annual economic growth rate contracted by 3.4 per cent of GDP in 2020 compared to a growth rate of 9.5 per cent in 2019. Except for agriculture which experienced a 1 per cent increase, other economic sectors recorded a contraction, with the economic output in industry dropping by 4 per cent and services by 6 per cent. The recovery is projected to take three years, with 5.1 per cent growth estimations for 2021, 7.0 per cent in 2022, and 8.1 per cent in 2023 (**Figure 1**). However, these economic projections are dependent upon the continued decrease of COVID-19 cases as a result of vaccination, stronger macroeconomic stability, and limited external vulnerabilities.

Figure 1: Economic performance and projections 2015-2023



Source: MINECOFIN, BFP 2021/22-2023/24

1.2. Inflation and Currency Depreciation

According to the National Bank of Rwanda's (BNR) Monetary and Financial Stability Statement of February 2021, headline inflation increased to an average of 7.7 per cent in 2020, up from the 2.4 per cent recorded in 2019. This sharp rise in prices was due to supply shocks from (i) agricultural production, (ii) COVID-19 affecting transport fares, (iii) shocks from administered electricity tariffs, and (iv) regulations for environmental protection. However, projections indicate that average headline inflation will decline to 2.4 per cent by the end 2021 owing to reduced demand, before picking up to 5 per cent in 2022.

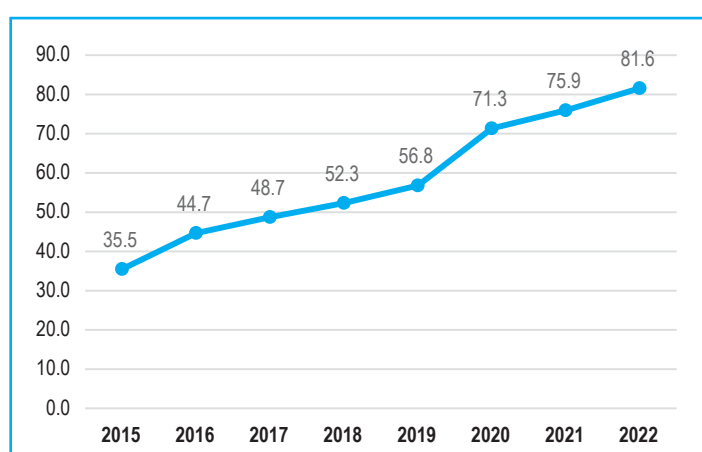
Following from a depreciation of 4.9 per cent in December 2019, BNR reported that the Rwandan Franc (FRW) depreciated by 5.4 per cent year-on-year against the US dollar in December 2020. The pressure on the Rwandan Franc was observed during the second

half of the year 2020, following the resumption of economic activities and the uptake in the demand for foreign currencies amid low foreign inflows. The foreign exchange market is expected to remain stable as foreign exchange reserves are foreseen to be adequate in 2021 and beyond. In June 2021, the exchange reserves held by the BNR could cover 5.1 months of the import bill against the threshold of four months import cover of exchange reserves.

1.3. Fiscal Stance and Public Debt

The COVID-19 pandemic in Rwanda has had direct consequences on the state of public finances, leading to heightened fiscal deficits and increasing levels of public debt. As agreed between the Government of Rwanda (GoR) and the International Monetary Fund (IMF), this calls for fiscal consolidation beginning FY2022/23 to avoid unaffordable debt accumulation in the future. The overall fiscal deficit as a percentage of GDP increased from -8.1 per cent in 2019 to -8.5 per cent in 2021, and is projected to further increase to -8.6 per cent in 2022. This has also triggered the increase of the size of public debt as a share of GDP from 56.8 per cent in 2019 to 71.3 per cent by the end of 2020. The public debt level is projected to increase to 75.9 per cent of GDP in 2021 and further to 81.6 per cent in 2022 (**Figure 2**). In April 2021, the IMF reported that Rwanda's public debt situation remains at a *moderate risk of debt distress level*, while recognizing the diminished buffers and limited room to accommodate any additional shocks on the economy.

Figure 2: Public Debt as % of GDP



Source: MINECOFIN Debt stock database

1.4. COVID-19 and Economic Recovery Plan

The OECD (2020) estimated that the Rwanda's Economic Recovery Plan (ERP) in response to the pandemic is valued at about 3.3 per cent of GDP. Since April 2020, the Government of Rwanda has been

implementing the ERP, with the Economic Recovery Fund (ERF) established to support the recovery of businesses hardest hit by COVID-19. This enables businesses to survive, resume operations and safeguard employment, thereby cushioning the economic effects of the pandemic. Specifically, the following are the key priority areas of the ERP:

- *Contain the pandemic and strengthen the health system through improving health sector infrastructure, Human Resource for Health, and IT systems,*
- *Mitigate the impact of the COVID-19 economic crisis on households' income by scaling-up Social Protection,*
- *Ensure food self-sufficiency by increasing agriculture production (agriculture is the only sector, which is not dependent on what is happening in the rest of the world),*
- *Support businesses and protect jobs.*

In 2021, the GoR replenished the Economic Recovery Fund from US\$ 150 million to US\$ \$300 million with resources from the World Bank and Asian Infrastructure Investment Bank. Up to July

2021, a total of 2,623 micro-businesses, 138 hotels, and 143 other businesses were supported by the fund. Under the ERF, 46 loans owned by public transport companies were restructured and many of these companies received compensation for revenue loss due to low tariffs, low number of passengers, and shutdown of operations during periods of lockdown. The ERF has further helped schools to manage their debt providing 11 private schools with financial support.

1.5. The Prioritization Principles in the 2021/22 Budgeting Process

The National Budget adopted for FY 2021/22 aims to foster economic recovery through “*industrialization and inclusive growth*”. In his presentation of the budget to the two Chambers of Parliament on 22nd June 2021, the Minister of Finance and Economic Planning indicated that the *budget preparation was guided by priorities contributing towards the achievement of development goals as reflected in the National Strategy for Transformation (NST1), the priorities outlined under COVID-19 Economic Recovery Plan, and the presidential pledges to the community.*



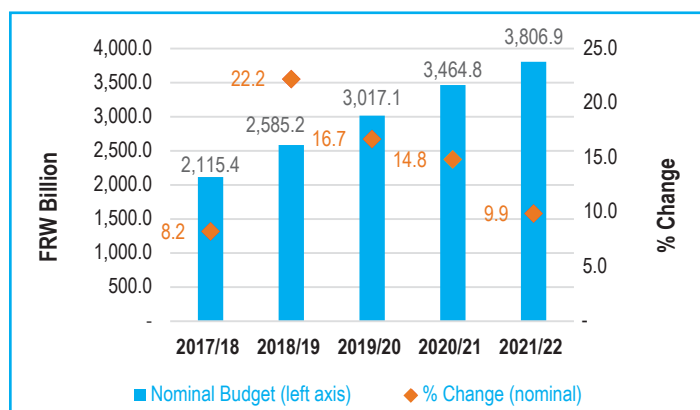
¹<https://www.oecd.org/coronavirus/country-policy-tracker/>

2. National Budget Trends

2.1. Rwanda's National Budget Continues to Expand in Real Terms

For the 2021/22 fiscal year, the total national budget amounts to FRW 3,806.9 billion compared to FRW 3,464.8 billion as per the revised budget law of 2020/21. This reflects a nominal budget increase of 9.9 per cent (**Figure 3**). The trend analysis of the past five years (2017/18-2021/22) shows that the national budget has recorded a positive annual increase but the pace of this increase has declined over the past four years, signalling a narrowing fiscal space and inability to continually increase the budget in the short run. *Faster economic recovery from the COVID-19 crisis is needed to regain the fiscal space to finance the national budget and implement the development priorities foreseen in NST1 and SDGs.*

Figure 3: National budget trends

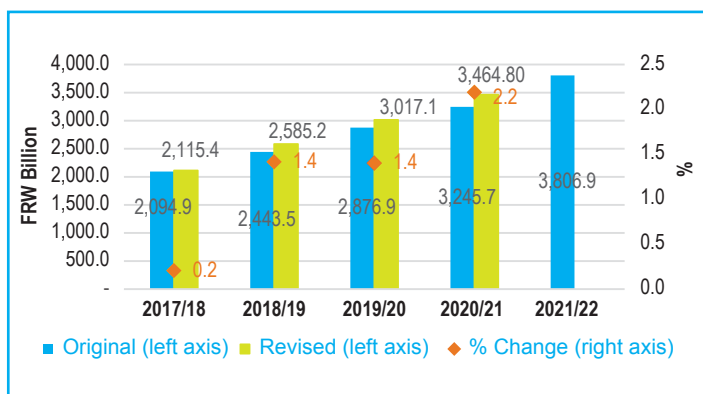


Source: State finance laws

2.2. There has been an Upward Budget Revision for the Past Years

Article 41 of the Organic Law N° 12/2013/OL of 12/09/2013 on State Finances and Property provides that the Minister of Finance may submit the revised draft budgets to the Chamber of Deputies [...]. In January 2020, the national budget was revised and most of the sectors registered budget allocation changes. The revised budget is considered a definitive budget allocation to the sector as it accommodates emerging priorities during the financial year as well as new financial commitments from donors which may come during the budget implementation cycle. A comparison of the originally approved and revised budgets indicates that, over the past four years, the national budget has been consistently revised upward. In 2020/21, the national budget was incremented by 2.2 per cent from FRW 3,245.7 billion to FRW 3,464.8 billion (**Figure 3**). An upward budget revision indicates that the Government of Rwanda has been able to mobilize additional resources to support the implementation of government priorities throughout the budget execution process.

Figure 4: Original against revised budget trends



Source: State finance laws

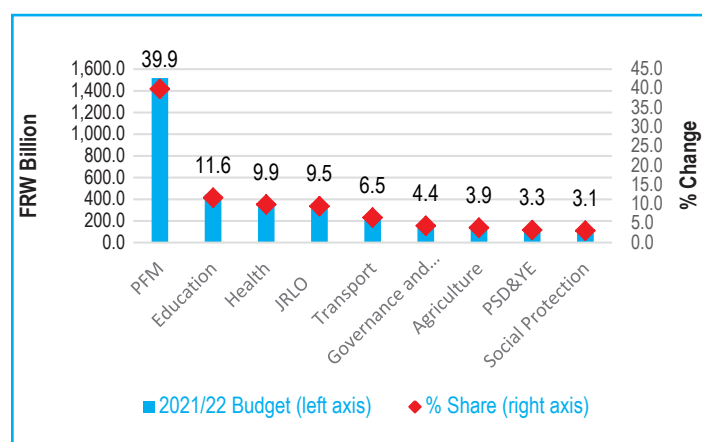


3. Budget Allocations by NST Sectors

The budget for the financial year 2021/22 is responsive to the financing needs associated with achieving the development targets outlined under the (NST1. Among the three pillars, the Economic Transformation pillar was allocated 58.7 per cent of the total budget, the Social Transformation pillar which includes most of the priority sectors for children (Health, Education, Social Protection) was allocated a share of 27.2 per cent, while the Transformational Governance pillar was allocated 14.1 per cent.

Figure 5 shows that the Public Financial Management (PFM) sector was allocated 39.9 per cent of the total budget followed by the Education sector with 11.6 per cent. The Health sector received a share of 9.9 per cent and the allocation to the Justice, Reconciliation, Law and Order (JRLO) sector (which includes public defence, national police and justice) accounts for 9.7 per cent of the total budget. The Education and Health sectors are among the top five budget priorities, demonstrating the commitment by the GoR to continue investing in human capital development.

Figure 5: Budget allocations by key areas of NST1 2021/22

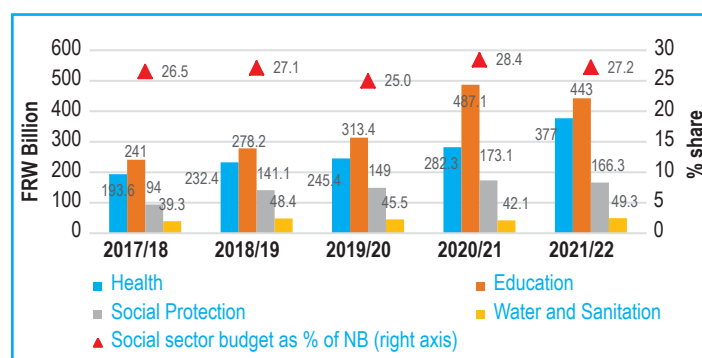


Source: State finance laws

4. Budget Trends by Priority Sectors for Children

The budget allocated to priority sectors for children (Education, Health including Nutrition, Social Protection and WASH) continues to depict a nominal increase. Budget allocations to social sectors grew from FRW 567.9 billion in the 2017/18 revised budget to FRW 1,035 billion in 2021/22, reflecting an increase of 82.3 per cent over the past five years. However, budget allocations to these sectors as a share of the national budget have floated around 27 per cent in the same period. In 2021/22, the budget for social sectors as a share of the total national budget is 27.2 per cent which is a slight reduction from 28.4 per cent in 2020/21 (**Figure 6**). However, when compared to the needed financing outlined in the Water and Sanitation Strategic Plan 2017-2024, the WASH sector remains the least funded among other social sectors. There is therefore a need to further reprioritize the WASH sector in the budgeting process given the ambitious WASH sector government targets and high importance of good hygiene, frequent hand washing in COVID-19 containment and prevention.

Figure 6: Budget allocations by priority sectors and as a share of total national budget



Source: State finance laws

Note: In 2021/22, the Government of Rwanda has allocated FRW 42.4 billion to different public institutions contributing indirectly to Education. Furthermore, a combination of direct and indirect budget allocations for education increases the budget share of the sector in the total national budget to 12.7 per cent.

Social protection budget allocations cut across different sectors such as health and agriculture, and therefore allocations shown in the national budget brief are lower than those outlined in the social protection budget brief to avoid double counting.



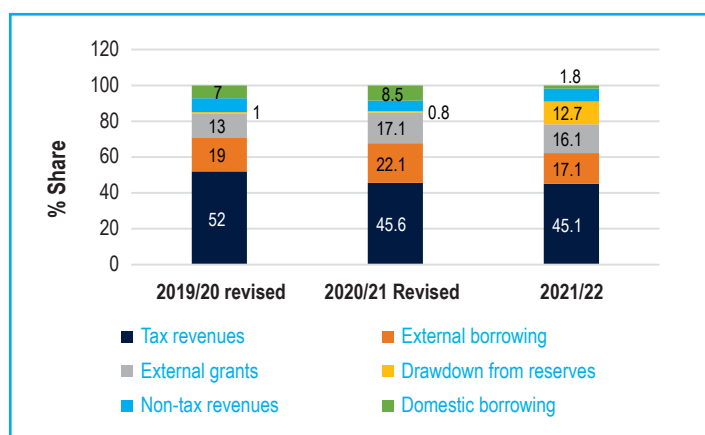
5. Financing the National Budget

Domestic resources through Tax revenues have been the main source of financing of the national budget in recent years. However, they show a decreasing trend for the past three years from 52 per cent in the 2019/20 revised budget to 45.1 per cent in 2021/22. External borrowing accounts for 17.1 per cent in 2021/22 down from 22.1 per cent in 2020/21, while external grants account for 16.1 per cent and represent 17.1 per cent of the budget sources in 2021/22 (**Figure 7**).

As indicated in **Figure 8**, the domestic revenues comprising taxes and non-tax revenues will contribute 65 per cent towards the total

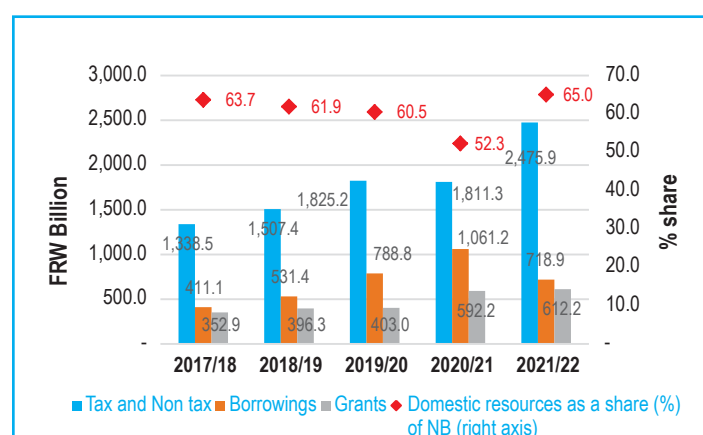
budget in 2021/22. Nominally, the external grants will increase from FRW 592.2 billion in 2020/21 to FRW 612.2 billion in 2021/22, reflecting an increase of 3.3 per cent. However, the proceeds from external borrowing are estimated to reduce from FRW 1,061.2 billion in 2020/21 to FRW 718.9 billion in 2021/22. As indicated earlier, the government's ability to finance the budget through borrowing has substantively narrowed, and there is therefore a need to strengthen medium term measures for domestic resource mobilization and innovative financing through Public Private Partnerships (PPPs), alongside blended financing to ensure fiscal sustainability and accelerate implementation of the national development agenda.

Figure 7: Sources of financing of National budget in 2021/22



Source: State finance laws

Figure 8: Financing trends of the National budget in FRW billion



Source: State finance laws



6. Budget Execution

6.1. Revenue Collection Performance— and Budget Outturn

Tax revenue collection in 2020/21 surpassed initial expectations from a planned FRW 1,594 billion to FRW 1,622 billion in 2020/21, reflecting a performance of 101.8 per cent to the projections. Non-tax revenue performance was achieved at 107.2 per cent. The collections of non-tax revenues amount to 385.4 billion against a forecast of FRW 360 billion. The budgetary grants and public borrowing recorded a performance of 98.1 per cent and 82.2 per cent respectively (**Figure 9**). The strong performance around tax collection is attributed to the early resumption of economic activities after lockdown in the second half of 2020, while the low performance of budgetary loans was attributed to delayed disbursement by (i) the World Bank for the Transformation of Agriculture Sector Program, (ii) the African Development Bank for the Energy sector programme, and (iii) OPEC Fund for International Development (OFID) for the Economic Recovery Fund.

6.2. Outlay Performance by Broad Categories

Overall, there have been higher budget outlays in 2020/21 compared to projected expenditure. **Figure 10** shows that total expenditure and net lending reached 100.5 per cent. The current expenditure recorded a performance of 101.7 per cent, while capital expenditure performance was at 98.5 per cent. The high performance across different expenditure categories is attributed to public wages and salaries of employees in the newly established public agencies, procurement of goods including COVID-19 vaccines, increased interest payments and subsidies to the State-Owned Enterprises (SOEs).

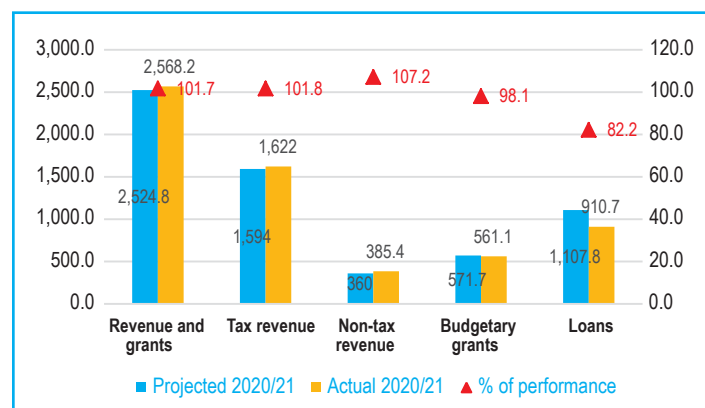
6.3. Budget Execution among Priority Sectors for Children

Available data shows a higher rate of budget execution across all social sectors. The WASH budget was executed at 114 per cent, the Health sector budget at 102.6 per cent, while the Education sector executed 97.6 per cent of its budget (**Figure 11**). A high budget execution rate is a strong indicator of budget credibility and one of the tools to measure sector performance. There is therefore a need to further disaggregate information on budget execution to include both domestic and externally finances.

It is worth noting that the Budget Execution Report was presented in the GFSM 2014 format as against the usual GFSM 1986 economic classification format. The new GFSM 2014 format has been adopted in agreement with the IMF under the Policy Coordination Instrument (PCI) program and also to respect the implementation of the new chart of accounts of Government in the context of the implementation of the roadmap to accrual accounting adopted by

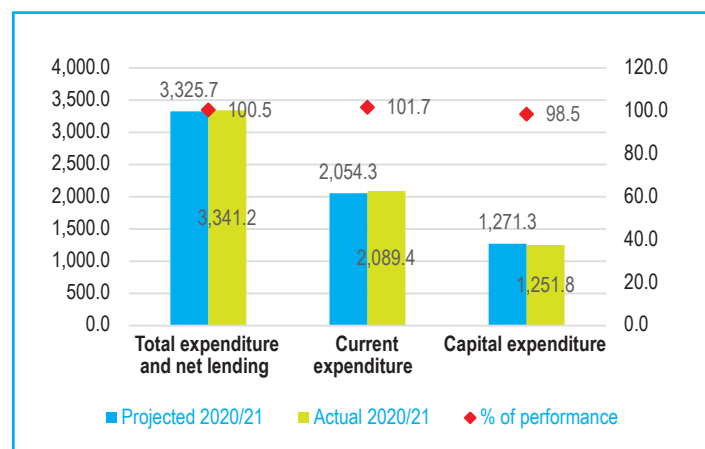
Government, however, the budget execution excludes the externally financed budget.

Figure 9: Budget outturn July 2020 -June 2021



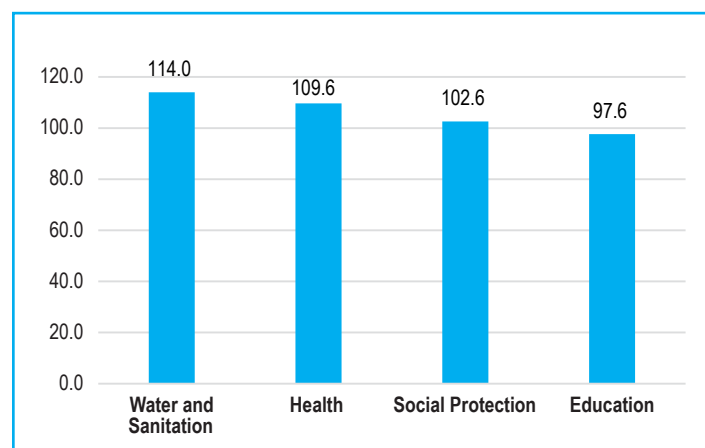
Source: MINECOFIN- Budget execution report 2020/21

Figure 10: Budget outlay performance for 2020/21



Source: MINECOFIN- Budget execution report 2020/21

Figure 11: Social sectors budget execution 2020/21

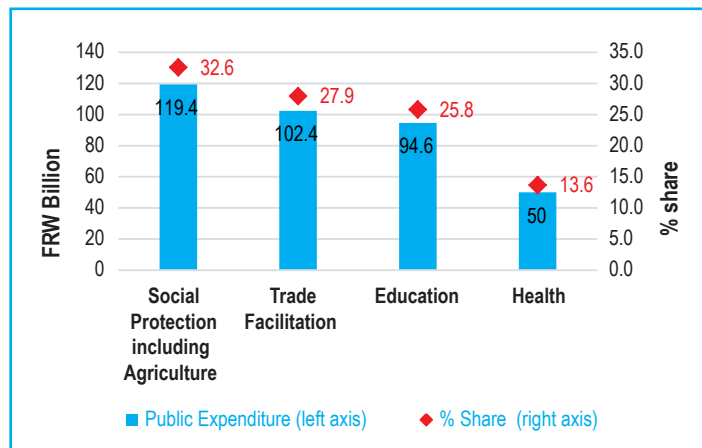


Source: MINECOFIN- Budget execution report 2020/21

6.4. COVID-19 Spending

The COVID-19 outbreak and its declaration as a global pandemic necessitated a shift in government spending towards health sector and other priorities to support emerging issues identified under Rwanda's Economic Recovery Plan. Between July 2020 and June 2021, the GoR incurred a total of FRW 366.4 billion for COVID-19-related expenditure. This represents 11 per cent of total government expenditure in 2020/21, or 3.7 per cent of GDP. **Figure 12** shows that the majority of COVID-19 spending was allocated to the Social Protection sector which also includes agriculture programmes. Total spending amounted to FRW 119.4 billion (32.6 per cent of total spending). Trade facilitation spending accounted for 27.9 per cent, the Education sector took a share of 25.8 per cent, while the health sector consumed FRW 50 billion representing 13.6 per cent of COVID-19 spending. As the government embarks on nationwide vaccination and the second phase of economic recovery, more public resources are needed to accelerate economic activity and ensure the vaccination of over 60 per cent of the adult population against COVID-19 by 2022.

Figure 12: Government Spending on COVID-19 in 2020/21



Source: MINECOFIN- Budget execution report 2020/21



7. Public Finance Management (PFM): Budget Oversight

Over the past decades, the Government of Rwanda has invested in improving national PFM systems through; (i) Institutional strengthening, (ii) Capacity building at central and decentralized levels, and (iii) Digitalization of PFM processes through Integrated Financial Management System (IFMIS) and e-Procurement.

The Office of the Auditor General (OAG) is the Supreme Audit Institution (SAI) of Rwanda and conducts an annual audit of public revenues and expenditures of public institutions, including central and local administrative entities, Public Boards, State Owned Enterprises, parastatal organisations and government projects. The OAG has been covering financial, compliance, performance, and IT (Information & Technology) audits, and audit reports are submitted and presented to Parliament within nine months after the end of the Fiscal Year.

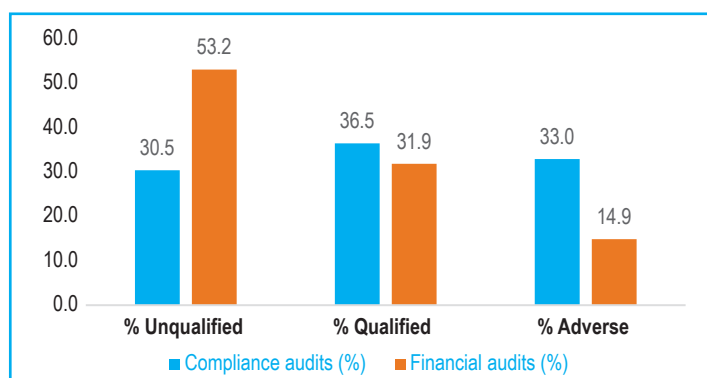
The coverage of audited government finances has been expanding for the past years. The total audited public expenditure for the fiscal year ending 30th June 2020 amounted to FRW 2,793.0 billion, equivalent to 87.8% of consolidated public expenditure (FRW 3,181.3 billion). This is an increase from 80.0% of audited public expenditure for the year ending 30th June 2019.

In his latest report, the Auditor General concluded that across the financial audits, 53.2 per cent received a clean (unqualified) audit opinion on financial statements, 31.9 per cent a clean (qualified) audit opinion, and 14 per cent an adverse audit opinion meaning the auditor has issued the conclusion that there are material and pervasive misstatements found in financial statements. Regarding compliance audits, the annual OAG report found that 30.5 per cent of reports were clean, 36.5 per cent obtained a qualified audit opinion, while 33 per cent received an adverse opinion, indicating the existence of material and pervasive instance of non-compliance with prevailing laws and regulations.

For the year ending 30th June 2020, the Auditor General observed the following issues which constrain public institutions from obtaining clean audit report and affect priority sectors for children in Rwanda:

- Weak contract and project management leading to wasteful expenditure and limited value for money.
- Sustainability concerns around implemented programmes in the Social Protection sector, such as within the income generating activities supported by the Genocide Survivors Support and Assistance Fund (FARG). This is due to a lack of strong monitoring and follow-up mechanisms, as well as persistent delays in recovering loans under the Vision *Umurenge* Programme (VUP) Financial Services scheme.
- Loss of value in scholastic materials due to frequent policy shifts in the Education sector.
- Unreliable financial statements, overstatement of income and other accounting errors found in some of the audited institutions such as WASAC Ltd and District Hospitals.

Figure 13: Auditor General's Findings



Source: Auditor General Report, 2021



Annexes

Annex 3: Key Events in the Budget Calendar

Month	Activities
October	<ul style="list-style-type: none"> • Issuing of planning and budgeting guidelines at central and decentralized government levels • Training of Ministries, Districts and Agencies (MDAs) on planning and budget requirements, including training on IFMIS planning module and data entry in IFMIS
November/December	<ul style="list-style-type: none"> • Inter-sectoral consultations, including Districts and the private sector • Joint planning session between central and local governments, including infrastructure needs • Submissions of planning documentations to Ministry of Finance and Economic Planning (MINECOFIN)
January	<ul style="list-style-type: none"> • Planning consultations (ministers present sector plans) • Public investment committees • Dissemination of the second Planning and Budget Call Circular • Budget revision of the previous fiscal year
February	<ul style="list-style-type: none"> • Preparation of budget proposals, including earmarked transfers to Districts • Budget submissions in Smart IFMIS and organization of budget consultations
April/May	<ul style="list-style-type: none"> • Conduct Forward-Looking Joint Sector Reviews (FLJSR) • Submission of Budget Framework Paper (BFP) to the Parliament and parliamentary budget hearings • Preparation of Imihigo
June	<ul style="list-style-type: none"> • Approval of finance law by Parliament • Finalization of performance contracts



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