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The Acting Chairman's Summing Up at the Conclusion of the 2000 Article IV Consultation with Rwanda Executive Board Meeting 00/128—December 20, 2000

Executive Directors agreed with the thrust of the staff appraisal. They noted the further progress made in 1999-2000—as evidenced by the continued low inflation and relatively robust economic growth—but raised concern about missed macroeconomic policy targets despite the remedial measures taken by the authorities. Directors emphasized the need to address the causes of deviations from policy targets urgently in 2001.

Directors noted that the fiscal program of the authorities for 2001 includes a broad range of measures—such as widening the tax base and improving customs administration, addressing issues of fraud, evasion, and corruption, and implementing the VAT—all of which are aimed at strengthening Rwanda's revenue collection capacity. Directors encouraged the authorities to strictly enforce these measures together with the existing tax laws and regulations, as this would facilitate achievement of the revenue targets of the 2001 budget. They urged the authorities to strengthen the Rwanda Revenue Authority.

Directors welcomed the large increase and improved composition of anti-poverty expenditures envisaged for 2001, which in part is to be achieved through reallocation of resources from defense expenditure—in line with commitments of the authorities to reduce defense expenditure over the medium term. Directors encouraged the authorities to monitor carefully expenditures, and especially to track the use of resources that are freed up as a result of HIPC debt relief.

Directors encouraged the authorities to bring about greater transparency in government operations. They stressed that good governance is critical for the management of public finances and for achieving Rwanda's development and anti-poverty objectives, and urged the authorities to implement the wide range of measures envisaged in this area. In this regard, Directors expressed concern over the extrabudgetary expenditures, especially those relating to military spending, and welcomed the authorities' intention to bring them into the 2002 budget. Directors welcomed the strengthening of the office of the Auditor General, the audits of the four ministries, and the closure of the bank accounts of ministries as important steps in improving fiscal governance.

Directors noted the authorities' efforts to address the domestic arrears problem, and welcomed their commitment to implement reforms in budget implementation, including monitoring and control of expenditure to avoid the reemergence of arrears.

Directors also commended the authorities for introducing their first Medium-Term Expenditure Framework (MTEF) (including a new functional budget classification) with the 2001 budget. They urged the government to continue its efforts to improve the MTEF, including by linking it with the recommendations arising from the PRSP process.

Directors urged the National Bank of Rwanda (NBR) to expand its monetary policy instruments and use them more actively toward achieving its monetary policy targets. They welcomed the decision of the NBR to introduce a system of auctions of foreign exchange and urged the authorities to implement the new system without delay.

Directors stressed the need to accelerate structural reforms, as these are essential for diversifying the economy and enhancing its supply response. In the civil service area, they encouraged the authorities to complete reforms that are underway and to limit new recruitment to the replacement of unqualified staff, other than meeting the needs of the social/antipoverty and justice areas. They also noted the importance of an early adoption of the civil servants' code. Directors underscored the need for the government to proceed rapidly with its plan for privatization of the telecommunications and electricity companies and tea estates, as well as to implement a privatization plan for other public enterprises.

Directors commended the authorities' efforts in improving the soundness of the financial system and stressed the need to further strengthen the central bank's supervisory capacity, improve non performing loan recovery, and restructure the savings and loan cooperatives.

Directors noted that the authorities' medium-term macroeconomic framework is consistent with the goal of achieving high sustainable economic growth and poverty reduction. In this context, they welcomed the authorities' aim to put in place a macroeconomic framework that reduces the fiscal and external imbalances over time, preserves the debt sustainability that would be provided via application of the enhanced HIPC Initiative, and promotes private sector savings and investment, while increasing antipoverty spending and investment in both physical and human capital.

Directors noted that there are important data weaknesses with regard to most macroeconomic statistics and sociodemographic indicators, and urged the authorities to make improvements in this area a priority. They thus encouraged the authorities to expedite the implementation of the recommendations made by recent Fund statistics missions.

It is expected that the next Article IV consultation with Rwanda will be held on the standard 12-month cycle.

The Acting Chairman's Summing Up of Points Relating to Rwanda's Request for the Third Annual Arrangement Under the Poverty Reduction and Growth Facility ; Interim Poverty Reduction Strategy Paper (I-PRSP); and Decision Point Under the Enhanced Initiative for Heavily Indebted Poor Countries (HIPC) Executive Board Meeting 00/128—December 20, 2000

Poverty Reduction and Growth Facility (PRGF)

Executive Directors noted that performance had been mixed during 2000 and expressed concern about the large number of nonobserved performance criteria at end-September 2000. They also took note of the remedial measures taken by the authorities to improve the fiscal performance. However, Directors expressed concern about the overall quality of adjustment and the still high level of defense spending. They considered that, in order to strengthen Rwanda's track record, the authorities need to address the causes of deviations from program targets urgently and to implement the 2000/01 program fully and strictly.

The fiscal program for 2001 includes a broad range of measures—in the area of tax administration and policy—aimed to shore up the capacity to collect revenue. Directors urged the authorities to implement the envisaged revenue measures and strictly enforce the existing tax laws and regulations, as this would facilitate the achievement of revenue targets envisaged in the 2001 budget.

Directors welcomed the large increase in antipoverty expenditure envisaged for 2001, which in part is to be achieved through reallocation of resources from defense expenditure. They stressed that the authorities should clearly specify and monitor the use of resources freed under the enhanced HIPC Initiative.

Directors welcomed the authorities' decision to repay by the end-2002 all verified arrears and urged them to follow through with their commitments to put in place mechanisms to avoid the reemergence of arrears.

Directors urged the National Bank of Rwanda (NBR) to expand its monetary policy instruments and use them more actively toward achieving its monetary policy targets. They welcomed the decisions of the NBR to introduce a system of auctions of foreign exchange, and urged the authorities to implement the new system without delay.

Directors stressed the need to accelerate structural reforms, particularly in the civil service area, privatization, and the financial system—as described in the Article IV Consultation summing up. They urged the authorities to fully implement the wide range of governance measures envisaged, which are an important pillar of the PRGF-supported program.

Directors welcomed the authorities' aim to put in place a medium-term macroeconomic policy framework that reduces the fiscal and external imbalances over time, preserves the debt sustainability that would be provided via application of the enhanced HIPC Initiative, and permits private sector savings and investment to improve consistently, while allocating an increasing amount of fiscal resources to antipoverty spending and to investment in both physical and human capital.

Interim Poverty Reduction Strategy Paper (I-PRSP)

Directors noted that the I-PRSP reaffirms the commitment of the authorities to sustainable poverty reduction and presents a bold first step in formulating a poverty reduction strategy, on the basis of preliminary consultations with civil society. Directors felt that the I-PRSP is comprehensive, as it explores poverty reduction options and possible growth sources; provides an analysis of the characteristics of poverty; discusses the constraints on effective poverty reduction; and sets out the way forward for economic and socio-political transformation. They welcomed the measures in the I-PRSP to enhance national reconciliation and policies to create an enabling environment for sustainable private sector-led economic development.

Directors agreed that the I-PRSP provides a sound basis for the development of the full PRSP, for Fund concessional assistance, and for reaching the decision point under the enhanced HIPC Initiative.

Directors considered that the full PRSP should be formulated through a broad-based participatory process and should prioritize clearly those reforms critical for poverty reduction and growth. They encouraged the authorities to update their Poverty Reduction Strategy on an ongoing basis as more and better data become available.

Enhanced HIPC Initiative—Decision Point

Directors agreed that Rwanda has reached the decision point under the enhanced HIPC Initiative and that it would reach the floating completion point when the conditions contained in Box 4 of the HIPC Decision Point Document (EBS/00/265) have been met. Directors also approved the provision of interim assistance. A few Directors felt that reaching the decision point was premature at the current stage given the significant slippages under the program. A few Directors considered it important to introduce measures to regenerate and sustain agricultural production. Measures to stimulate micro finance were also seen as helpful. In view of the projected hump in the net present value (NPV) of debt-to-exports ratio, Directors urged the authorities to pursue a very prudent debt strategy and avoid borrowing on nonconcessional terms.