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Rwanda

National Budget Brief

Investing in Children in Rwanda
2022/2023

Preface

This national budget brief explores the extent to which the Government of Rwanda's (GoR) 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 such as Health and Nutrition, Education and Early Childhood Development, Social Protection and Water and Sanitation for the fiscal year 2022/23. 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 offers recommendations on how the government can improve investments in children and their wellbeing.

Key messages and Recommendations

The national budget for fiscal year 2022/23 amounts to FRW 4,658.4 billion up from FRW 4,440.6 billion in the revised budget of 2021/22, reflecting a nominal budget increase of around 5 percent. Across priority sectors for children (Education, Health including Nutrition, Social Protection and WASH) the allocations have increased from FRW 1,122 billion in the 2018/19 revised budget to FRW 1,189.3 billion in 2022/23, reflecting an increase of 6 percent over five years. While all social sectors have recorded a nominal budget increase for the past five years, there is a need for a comprehensive review of the social sectors to evaluate the extent to which budgets contribute to achieving national development targets, as well as develop the integrated costing and financing required to reach SDGs targets by 2030.

The share of the domestic budget from both tax and non-tax revenues increased to nearly 50 percent in 2022/23 up from 48 percent in previous fiscal years. Furthermore, external grants from foreign governments and international organizations have risen sharply from FRW 637.7 billion in 2021/22 to FRW 907 billion between 2021/22 and 2022/23. This significant increase in external grants is an indication that Rwanda still has potential to mobilise more budgetary resources from Official Development Assistance (ODA) and concessional financing to expand the fiscal space. There is a need to review the ODA strategy and other concessional financing mechanisms to understand trends and future prioritisation of donor governments and organizations versus national development priorities.

According to the available data, there is a high budget execution rate within the social sectors, ranging between 109 percent for the education sector and 140 percent for water supply. However, the budget execution data does not include information on the externally mobilized budget. Expanding the scope of budget execution data by including both domestic and external finances in budget execution reports would provide a more complete picture of spending trends and help monitor

budget absorption capacity across social sector programs to identify bottlenecks and foster further efficiency improvements.

The rising inflation and increase in food prices call for further scale-up of social protection safety nets and sustained investments in social services (to be set in bold). Additional focus on income generation, job creation and climate resilience initiatives supporting local farmers will also be critical.



1. Introduction

1.1. Rwanda's macro-economic performance

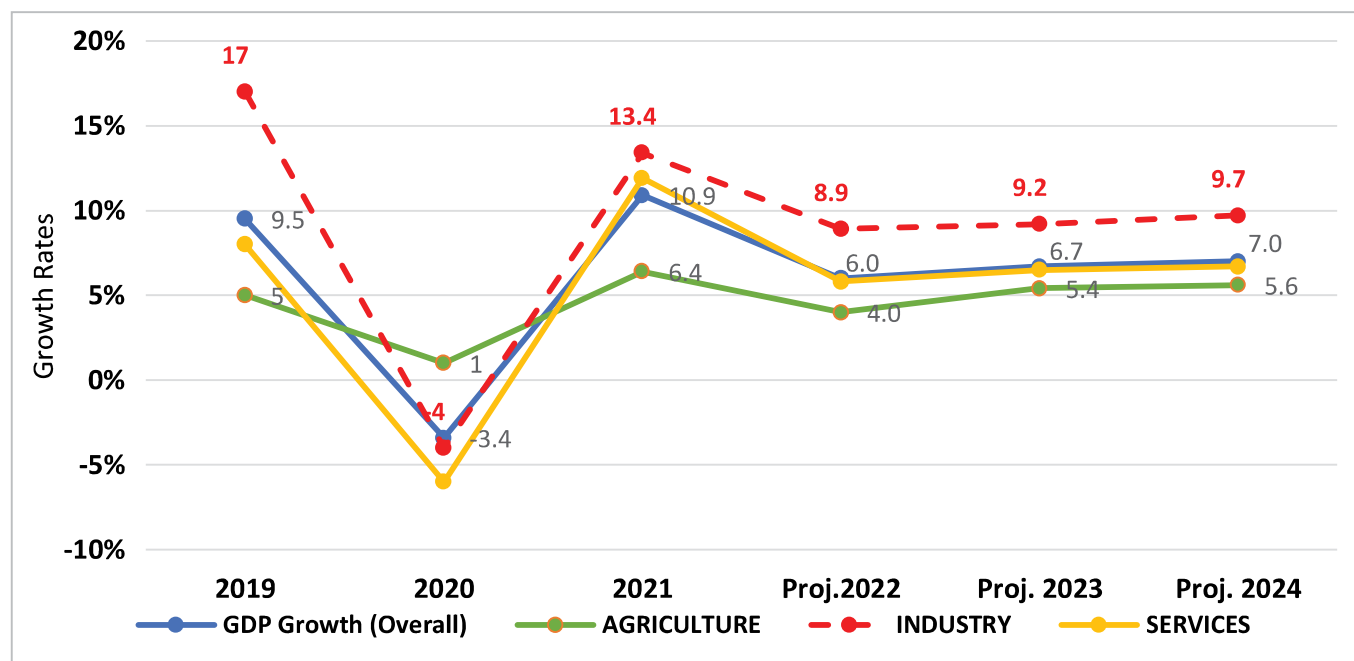
The IMF's World Economic Outlook (April 2022) shows that global growth was 6.1 percent in 2021 and is projected to decline to 3.6 percent in 2022. The current global setbacks relate to a narrowing fiscal space caused by higher COVID-19-related spending and lower tax revenues in 2020-2021, as well as the cost-of-living crisis resulting from the global price increase in energy and food from the start of 2022.

Rwanda's economy recorded strong performance in 2021 with a GDP growth rate of 10.9 percent following a contraction of 3.4 percent in 2020. This shows that the economy has been adaptable and resilient to COVID-19-related shocks. Growth

picked up in all sectors as the government eased COVID-19 prevention measures with the acceleration of the COVID-19 vaccination programme.

Across the economic sectors, agriculture sector growth increased by 6 percent, industry grew by 13 percent, while service sector growth recorded a 12 percent increase. The economic forecast shows that in the medium-term, economic growth will be moderate with a GDP growth of 6.0 percent in 2022 and will further grow to 6.7 percent and 7.0 percent in 2023 and 2024 respectively (**Figure 1**).

Figure 1: Economic performance and projections



Source: MINECOFIN, BFP 2022/23-2024/25

The IMF review (May 2022) found that spillovers from the war in Ukraine are compounding pandemic challenges by weighing down growth, increasing inflationary pressures and social needs, and straining fiscal balances amid high uncertainty and rising concerns about food insecurity.

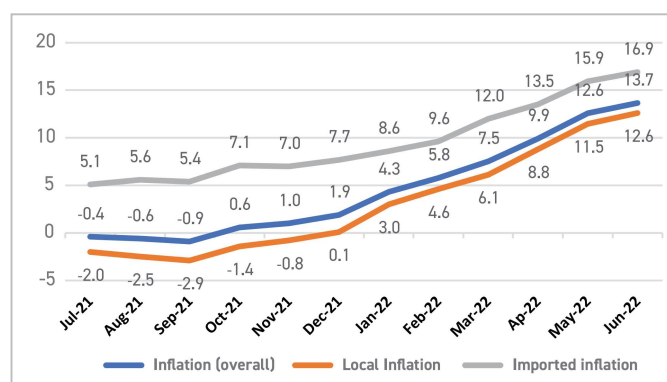
1.2. Inflation Trends

Inflation remained low during the first nine months of 2021 with an average of 0.7 percent driven by low food prices and base effect. However, it started to increase in the last quarter (2021, Q4) as well as in 2022, largely due to the impact the Russia-Ukraine war is having on global supply chains and commodity prices (imported inflation). It is expected that inflationary pressures will remain elevated in 2022 and beyond. By June 2022, the overall inflation stood at 13.7 percent, with imported

inflation as the main driver at 15.9 percent and the local inflation at 12.6 percent (**Figure 2**).

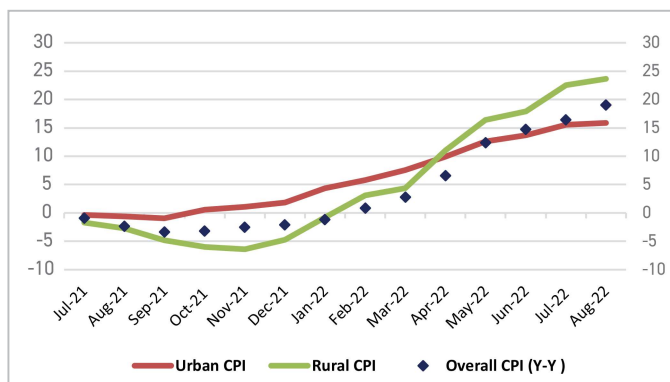
The analysis of the Consumer Price Index (CPI) shows that, while 2021 was characterised by lower price indices, from January 2022 to date, price levels started to increase gradually both in urban and rural areas from just -1.2 percent in January to 19 percent in August 2022 (Overall CPI) (**Figure 3**).

Figure 2: Inflation rate trends (%)



Source: MINECOFIN: Macro-framework database

Figure 3: CPI trends: July 2021- August 2022



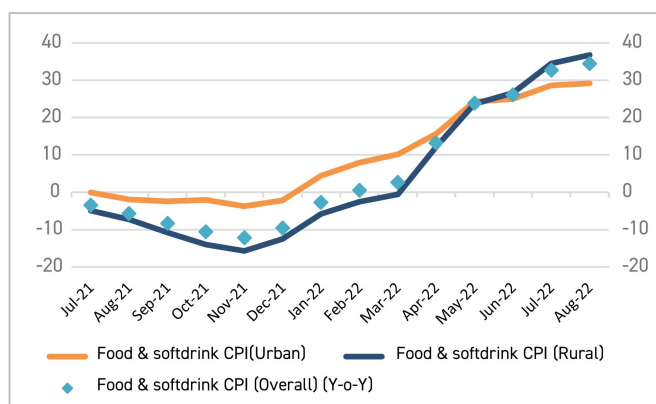
Source: NISR: CPI Statistics

Food and non-alcoholic beverages inflation

Domestic food inflation remains high around the world. The World Bank report (September 2022) estimates that 93.3 percent of low-income countries, 90.9 percent of lower-middle-income countries, and 93 percent of upper-middle-income countries have seen inflation levels above five percent with many experiencing double-digit inflation as of August 2022. In Rwanda, the latest data (August 2022) shows that the food and non-alcoholic beverage inflation (measured by CPI) stood at 29.2 percent in urban areas and 36.8 percent in rural areas. The overall food price inflation is at 34.4 percent (**Figure 4**). The recent food price increase is mainly explained by (i) the poor performance of domestic agricultural harvest resulting from unfavourable weather conditions and supply chain issues surrounding inputs including fertilizers, and (ii) the increase in international commodity prices.

The National Bank of Rwanda estimates that the average (CPI) will reach 12.1 percent by the end of 2022 before falling back to the benchmark band of 2.0 to 8.0 percent in the second half of 2023.

Figure 4: Food and non-alcoholic beverages price trends: July 2021- August 2022



Source: NISR: CPI Statistics

1.3. Exchange Rate and Currency Depreciation

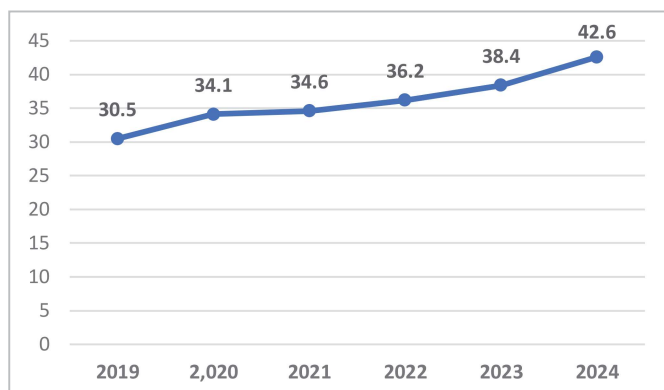
The Rwandan Franc (FRW) depreciated by 3.8 percent against the US Dollar as of December 2021 compared to a depreciation of 5.4 percent in 2020. The currency depreciation can partly be explained by a gradual improvement in foreign currency inflows and the growing need for imports to support economic recovery from COVID-19. However, the monetary policy stance is expected to be less accommodative in 2022. Monetary aggregates will grow at a lower rate than the previous year, affected by the international economic environment conditions and exchange pressure which will remain very high throughout 2022.

In 2021, BNR continued to implement an accommodative monetary policy supporting the economic recovery from COVID-19. In February, the Monetary Policy Committee (MPC) raised the policy rate to 5.0 percent from 4.5 percent, and a further upwards revision (6.0 percent) was decided upon in August 2022. The BNR communicated that the increase of bank rates was due to heightened food prices, lower domestic agriculture output and global supply challenges. Thus, the increase will cushion the inflation pressure and preserve consumers' purchasing power.

1.4. Fiscal stance and public debt

Overall, Rwanda's public debt remains sustainable with a moderate risk of debt distress and the debt carrying capacity is still classified as strong. The debt sustainability analysis (DSA) of March 2022 shows that Rwanda's debt sustainability has improved compared to March 2021. In nominal terms, Rwanda's total public debt stood at 73.3 percent of GDP as of the end December 2021 and, in net present value terms (NPV), the year 2021 ended with a debt level at 34.6 percent of GDP. This represents less than 37.4 percent of GDP projected in 2020 (**Figure 5**). Going forward, Rwanda's debt management will continue to be guided by the debt path, maximizing concessional funding, domestic market development and boosting exports to build buffers for debt sustainability.

Figure 5: PV-External Public Debt as share (%) of GDP



Source: BFP 2022/23- 2024/25 analysed

1.5. The Prioritization Principles in the 2022/23 Budgeting Process

The National Budget for FY 2022/23 is aligned with the ongoing economic recovery plan to respond to the impact of the COVID-19 pandemic under the theme of "Accelerating Economic Recovery and Enhancing Productive Sectors for Improved Livelihood." According to the Budget Framework Paper (BFP) 2022-2025, the following factors guided budget allocations for 2022/23:

- a. Priorities for enhanced delivery of NST1 and Vision 2050.
- b. Consideration of interventions of the Economic Recovery Plan and NST1 interventions lagging behind.
- c. Prioritisation of ongoing projects over new ones.
- d. Prioritising Presidential pledges and decisions from high-level forums such as:
 - National Umushyikirano
 - National Leadership Retreat
- e. Emphasis on transformation and sustainability.
- f. Enhanced private sector and civil society engagement.
- g. Community resilience to shocks as well as resilience of socio-economic infrastructure to climate change.
- h. Leveraging the use of ICT and promoting research, development and innovation.

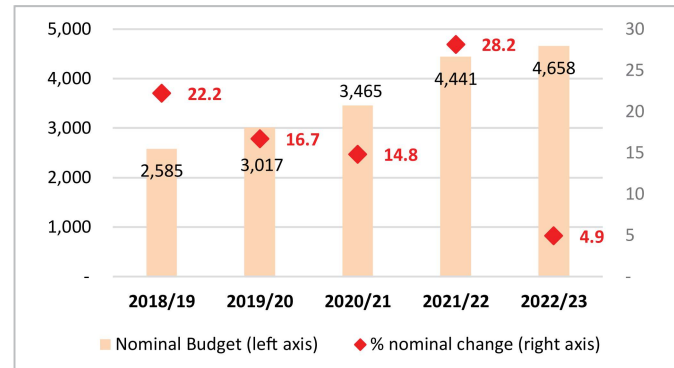


2. National Budget Trends

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

For the fiscal year 2022/23, the total national budget amounts to FRW 4,658.4 billion compared to FRW 4,440.6 billion in the revised budget of 2021/22. This reflects a nominal budget increase of around 5 percent (**Figure 6**). The analysis of the past five years (2018/19-2022/23) shows that the national budget has recorded a positive annual increase. However, the pace of the increase as expressed in nominal changes shows an overall decreasing trend. Fiscally-sustainable measures, such as increased domestic mobilisation, efficiency improvement and innovating financing, are needed to expand the fiscal space.

Figure 6: National budget trends

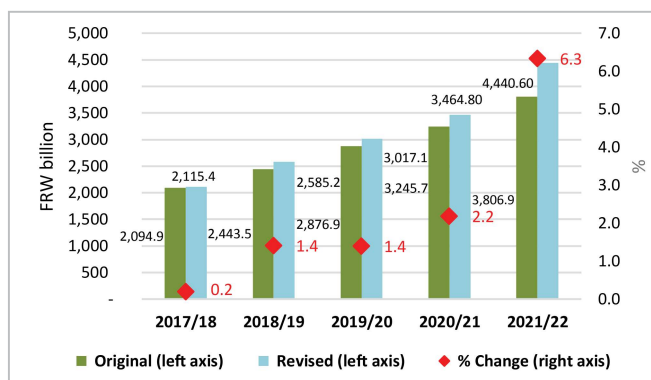


Source: State finance laws

2.2. There has been an Upward Budget Revision for the Past Five 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 budget to the Chamber of Deputies [...]. In February 2022, the national budget was revised and most of the sectors registered changes in allocations. The revised budget is considered a definitive budget to the sectors as it accommodates emerging priorities during the financial year as well as new financial commitments from donors. A comparison of the original 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 percent while in 2021/22 the budget increased by 6.3 percent from RWF 3,806.9 billion to RWF 4,440.6 billion (**Figure 7**). This recent budget increase is mainly explained by the funds raised from the Eurobond and the ability to mobilize domestic revenues from taxes and non-tax sources.

Figure 7: Original against revised budget trends



Source: State finance laws



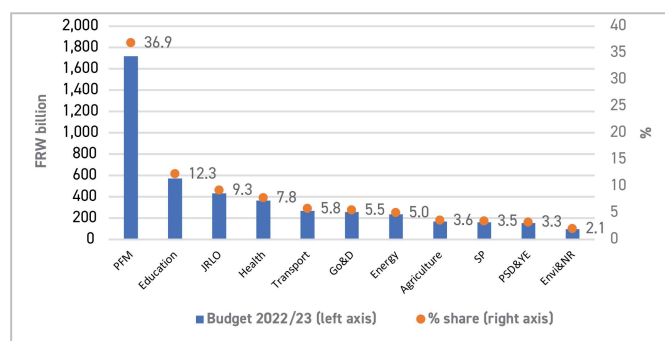
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In comparison with the planned amounts at the beginning of the fiscal year, the data from budget execution reports show that during FY 2021/22, the national treasury recorded an excess of 1.5 percent in tax revenues and 17.7 percent in external grants.

3. Budget Allocations by NST Sectors

The budget for the financial year 2022/23 addresses the financing needs to achieve the development targets outlined under the National Strategy for Transformation (NST1). Among the three pillars, the Economic Transformation pillar was allocated 58.5 percent of the total budget, the Social Transformation pillar (which includes most of the priority sectors for children) was allocated a share of 26.3 percent, while the Transformational Governance pillar was allocated 15.2 percent of the total national budget. **Figure 8** shows that, across NST1 sectors, the Public Financial Management (PFM) sector was allocated 36.9 percent of the total budget, followed by the Education sector with 12.3 percent, and the Justice, Reconciliation, Law and Order (JRLO) sector (which include public defence, national police, and justice) with 9.3 per cent. The Education and Health sectors are reflected among the top five budget priorities, demonstrating the commitment of the GoR to continue strengthening human capital development.

Figure 8: Budget allocations by key areas of NST1 2022/23



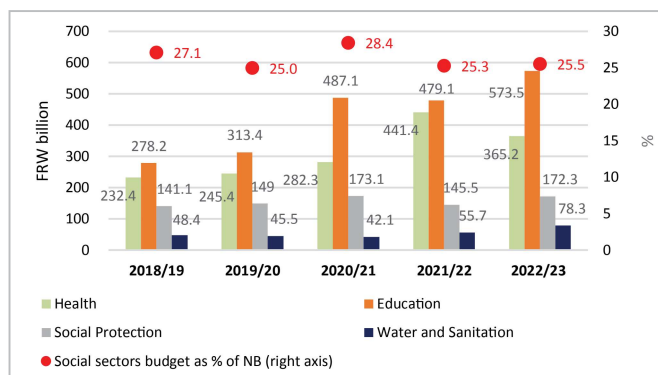
Source: State finance laws



4. Budget Trends in 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 700.1 billion in the 2018/19 to FRW 1,189.3 billion in 2022/23, reflecting an increase of 70 percent over the past five years. However, the budget for these sectors as a share of the national budget has hovered at 25 percent over the same period (**Figure 9**). While all social sectors have recorded a budget increase for the first five years of the NST1 period, a comprehensive review at sector level is needed to evaluate the extent to which budgets contribute towards national development targets and develop integrated costing and financing options required to reach SDGs targets by 2030.

Figure 9: Budget trends in social sectors

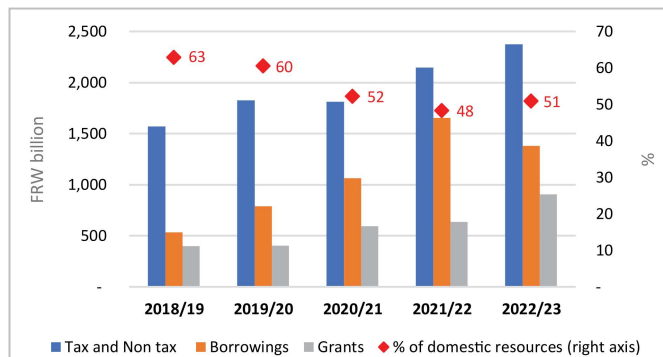


Source: State finance laws

5. Financing the National Budget

The share of the domestic budget in the national budget increased to around 50 percent in 2022/23, up from 48 percent in 2021/22. Domestic resources through tax and non-tax revenues have been the main source of financing for the national budget in recent years. In 2022/23, tax and non-tax revenues are set to increase from FRW 2,147.8 billion to FRW 2,372.4 billion from the previous year, reflecting an increase of about 10 percent. External borrowing is expected to decrease to FRW 1,379.2 billion, down from FRW 1,655.1 billion in 2021/22. However, the external grants are set to rise from FRW 637.7 billion in 2021/22 to FRW 907 billion in 2022/23, representing an increase of 42 percent (Figure 10). This is an indication that Rwanda still has the potential to mobilise more budgetary resources from Official Development Assistance (ODA) to expand the fiscal space. There is a need to review the ODA strategy and other concessional financing mechanisms to understand trends and future prioritisation of donor governments and organizations versus national development priorities.

Figure 10: Financing trends of the national budget in FRW billion



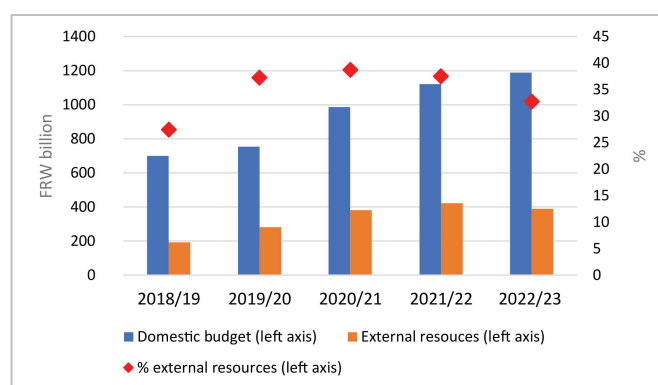
Source: State finance laws

5.1. Financing of Social Sectors: Domestic vs. External Resources

Overall, domestic financing (including budget support) dominates allocations to the social sectors. Domestic resources have been rising from FRW 700 billion in 2018/19 to FRW 1,189.3 billion in 2022/23, reflecting an increase of nearly 70 percent. External financing for social sectors increased from around FRW 192 billion in 2018/19 to FRW 390 billion in 2022/23 and currently contributes to 33 percent of the total social sector budget in Rwanda (Figure 11). The GoR is embarking on fiscal consolidation measures in the medium term to harness fiscal space constraints and elevated external public debt, and so there is a need to protect the budget for social sectors to sustain the recent gains and accelerate the delivery of national and SDG targets.

IMF (June 2022) recommends that to ensure macroeconomic stability and financing, there is a need to fast track medium-term fiscal discipline through a credible and growth-friendly fiscal consolidation plan. This includes stepping up efforts to broaden the tax base, phasing out tax exemptions, enhancing tax compliance, and identifying cost-savings, including through digitalization, efficiency gains, and prioritizing implementing measures to contain fiscal risks and enhance fiscal transparency.

Figure 11: Financing trends of social sectors in FRW billion and %



Source: State finance laws

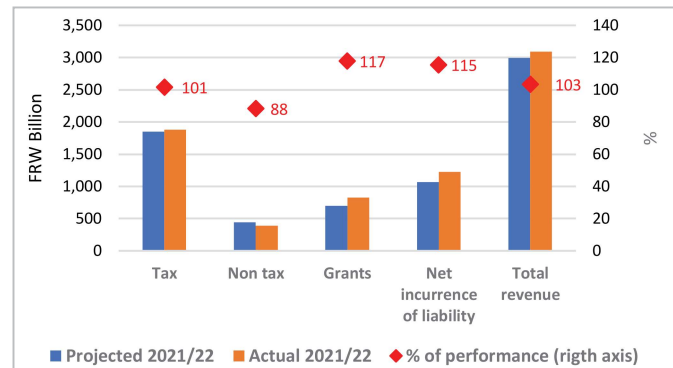


6. Budget Execution

6.1. Revenue Collection Performance and Budget Outturn

Tax revenue collection in 2021 surpassed initial expectations from the planned FRW 1,849.1 billion to FRW 1,876.8 billion by the end of the fiscal year 2021/22. This reflects a performance of 101.5 percent. Non-tax revenue performance was achieved at 88 percent. Non-tax revenue collected amounts to FRW 390.2 billion against a forecast of FRW 442.5 billion. The budgetary grants and public borrowing recorded a performance of 117 percent and 115 percent respectively (**Figure 12**). Good performance in tax collection is mainly attributed to (i) the catch-up of economic activities as the country continues to recover from COVID-19, (ii) strengthened revenue administration measures, including increased inspections on tax stamp usage, the introduction of a control system on income tax declaration, and enforced usage of Electronic Billing Machines (EBM). The lower performance on non-tax revenue is mainly explained by delayed reimbursements from the United Nations (UN) for peacekeeping operations and shortfalls in road tolls.

Figure 12: Budget outturn July 2021 - June 2022



Source: MINECOFIN- Budget execution report 2021/22

The IMF review of June 2022 shows that tax revenues as a share of GDP remained around 15.8 percent in 2021, a relatively similar level to the past 5 years. The projections show that in 2022, the tax to GDP ratio will be 15.7 percent.



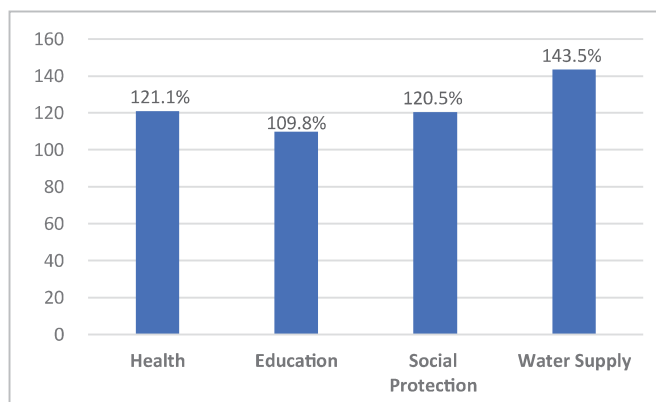
6.2. Budget Execution among Priority Sectors for Children

Available data shows a high rate of budget execution across all social sectors. In 2021/22, the WASH sector budget was executed at 143.5 percent. The budget for the social protection sector was executed at 120.5 percent, with the health and education sector budgets executed at 121.5 percent and 109.8 percent respectively (Figure 13). However, the annual budget execution report excludes externally mobilized resources. It will be important to strengthen the budget monitoring function by availing information on both domestic and external financing in budget execution reports. This will help identify bottlenecks and improve budget absorption capacity and efficiency measures where required.

6.3. COVID-19 Spending

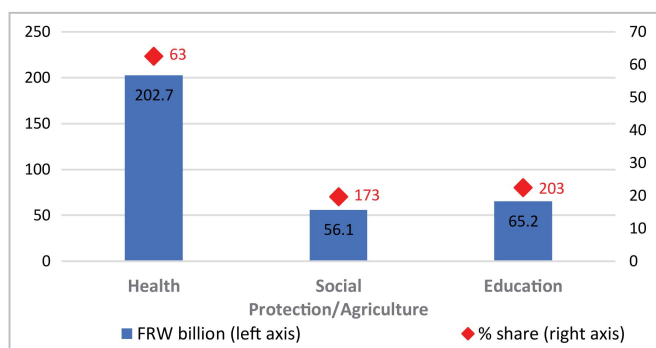
The COVID-19 outbreak and its declaration as a global pandemic required additional government spending towards the health sector and other priorities to address issues identified under Rwanda's April 2020 Economic Recovery Plan. Between July 2021 and June 2022, the GoR incurred a total of FRW 324 billion for COVID-19-related expenditure. This represents 7.3 percent of the revised budget of the fiscal year 2021/22. Most COVID-19 related spending was recorded under the health sector with FRW 202.7 billion (63 percent) allocated for COVID-19 related expenditure, followed by education which accounted for FRW 65.2 billion and social protection including agriculture with FRW 56.1 billion (Figure 14). As the Rwandan economy continues to recover from the COVID-19 pandemic, more investments are needed in inclusive programs to ensure that growth is broad-based, and that the health system is strengthened to enhance its resilience to deal with future pandemics.

Figure 13: Social sectors budget execution 2021/22



Source: MINECOFIN- Budget execution report 2021/22

Figure 14: Government Spending on COVID-19 in 2021/22



Source: MINECOFIN- Budget execution report 2021/22



7. Public Finance Management (PFM): Budget Oversight

Over the past decade, the GoR has invested heavily in the development of a modern Public Financial Management system through: (i) institutional strengthening, (ii) capacity building at central and decentralized levels, and (iii) digitalization of PFM processes through the Integrated Financial Management System (IFMIS) and e-Procurement.

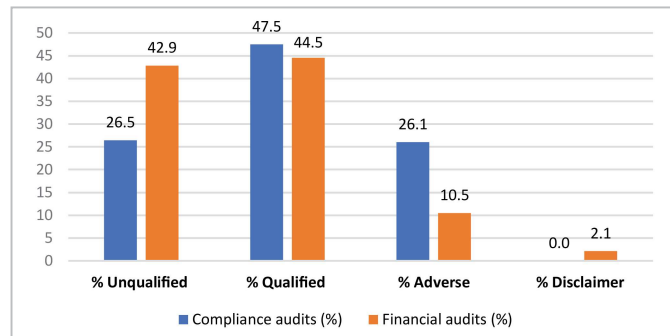
The Office of the Auditor General (OAG) conducts annual audits of public revenue and expenditure in public institutions. The audit covers central and local administrative entities, public boards, State Owned Enterprises (SOEs), parastatal organisations and government projects. The OAG has been covering financial, compliance, performance, and IT (Information & Technology) audits. The audit reports are submitted and presented to Parliament within nine months of the end of the fiscal year.

In 2021/22, the Auditor General's report covered 206 public entities and projects comprising of 64 projects, 18 central government institutions, eight ministries, 11 boards, ten Government Business Enterprises (GBEs), seven other direct investments by entities (private companies), 28 districts, 30 public hospitals and 30 former districts pharmacies.

The coverage of audited government finances has been expanding over the past years. The total amount of audited public expenditure for the fiscal year ending 30th June 2021 was worth FRW 3,562 billion, equivalent to 91 percent of the consolidated public expenditure (FRW 3,181.3 billion). From these audits, 238 audit reports were issued to support the audit opinion on state consolidated financial statements.

In the 2020/21 annual report, the Auditor General concluded that 42.9 percent of financial audit reports presented a clean (unqualified) audit opinion on financial statements, 44.5 percent a non-clean (qualified) audit opinion, and 26.1 percent presented an adverse audit opinion meaning the auditor concluded that material and pervasive misstatements were found in financial statements. Regarding compliance audits, the annual OAG report found that 26.5 percent of reports were clean, 47.5 percent obtained qualified audit opinion, while 26.1 percent received an adverse opinion, indicating the existence of material and pervasive instance of non-compliance with prevailing laws and regulations (**Figure 15**).

Figure 15: Auditor General's Findings



Source: Auditor General Report, 2021

The following issues constrain public institutions from obtaining clean audit opinions and affect financing under priority sectors for children in Rwanda:

Education Sector

- Coordination challenges in the implementation of the smart classrooms program: a total of 96.5 percent of schools were not inspected or assessed prior to delivering ICT equipment, resulting in an oversupply or shortage of devices. There was also a lack of a maintenance framework of IT devices at the school level.
- Overcrowded classrooms: despite the recent completion of new classroom construction, there are still overloaded classrooms across the country relative to the standards established by the GoR.
- Delays to transfer capitation grants and school feeding funds to schools: the capitation grant which helps the functioning of schools and school feeding funds are not disbursed in a timely manner. The delays range between 7 to 8 months. These delays negatively affect the wellbeing of students and ultimately the quality of education.

Health Sector

- Significant problems in the management of Emergency Obstetric and Neonatal Care (EmONC) in public health facilities: these are mainly linked with a lack of specialists in gynecology and obstetrics and insufficient equipment like ambulances, infant incubators, radiant warmers, and Continuous Positive Airway Pressure (CPAP) machines.
- Shortfalls in the implementation of the malaria programme due to (i) stock-outs of antimalarial medicines at the community level and (ii) gaps in data quality.
- Persistent unpaid medical services and products which may threaten service delivery in hospitals: this is mainly attributed to the absence of a funding mechanism of social cases (cases of vulnerable people who cannot afford their medical bill) which negatively impacts the financial sustainability of service delivery in hospitals.

Social Protection

- Gaps in the implementation of the Vision 2020 Umurenge Program (VUP) financial services: the main issues identified are related to funds allocation, loans disbursement, service delivery to potential beneficiaries and reporting on programme achievements.
- Delays in verification and payments of invoices from health facilities by the Rwanda Social Security Board (RSSB).
- Delays in transferring Nutrition Sensitive Direct Support (NSDS) income support to beneficiaries.

Water and Sanitation

- Water treatment plants operating significantly below capacity and those requiring rehabilitation: among the sampled water treatment plants, the data show that the majority operate below capacity ranging between 38 per cent and 72 percent.
- A significant number of non-operating boreholes and irregularities in the rehabilitation of non-functional rural water supply systems.

8. PFM reforms: Revising the Organic Law Governing State Finances and Property

The Government of Rwanda (GoR) has introduced changes in the organic law governing State Finances and Property enacted in September 2013. The following elements among others shall be strengthened in the revised law:

- **Emergency budget revisions and spending:** Introduced the rules on emergency budget revisions for expediting response to the future crisis, including disasters and pandemics such as Covid-19.
- **The oversight of public finance:** The scope of the organic law has been expanded to include all public sector entities, and new planning and Budget Outlook paper.
- **Creation of fiscal risks committee:** The committee is expected to strengthen the fiscal risk management and enhance fiscal transparency.

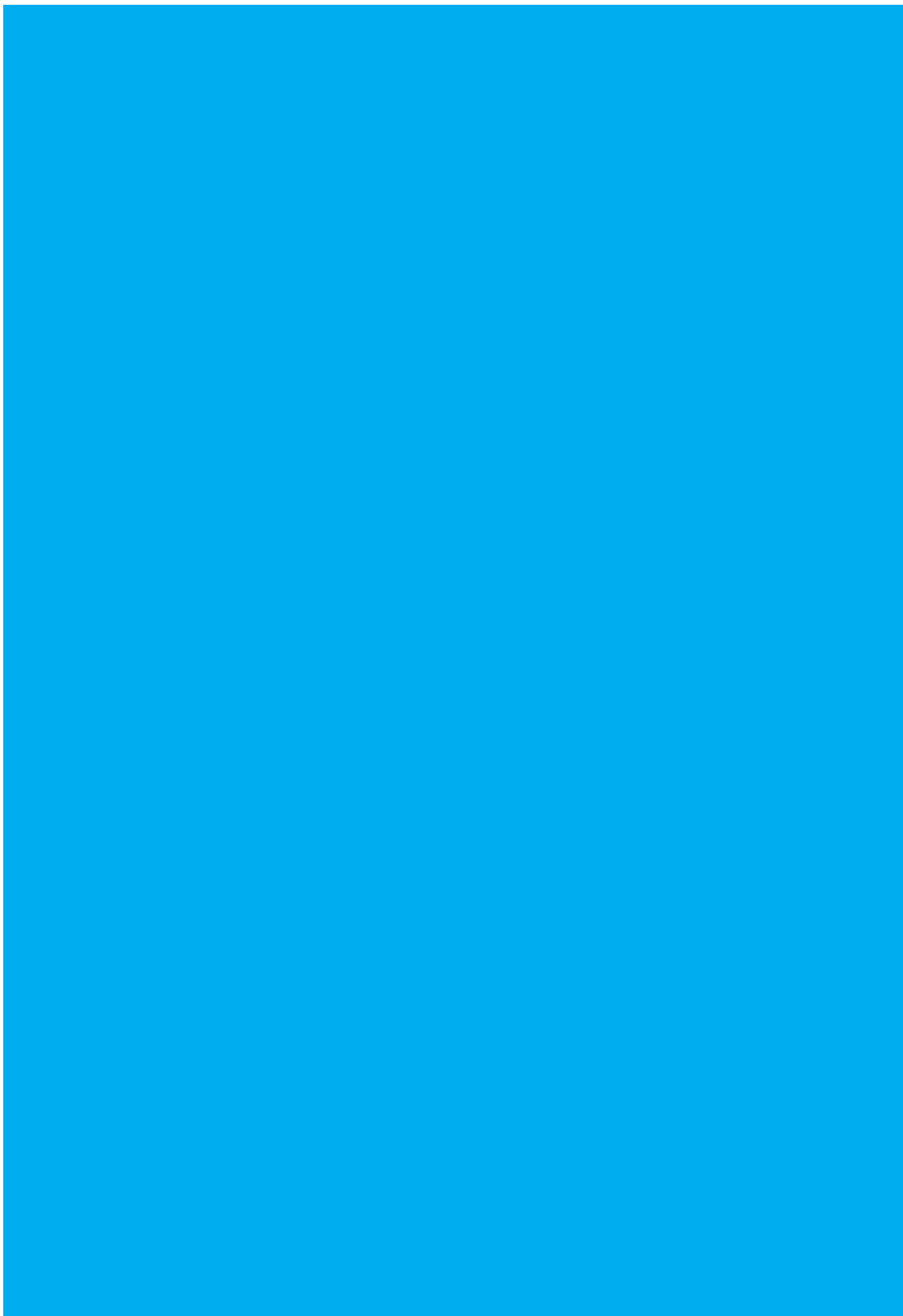


Annex 1: Key events in the budget calendar

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	<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 (MINE-COFIN).
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.

Endnotes

ⁱ This includes the allocation to support (i) Administration, operation, or support of executive and legislative organs, (ii) Administration of fiscal affairs and services, (iii) Management of public funds and debt, (iv) the operations of treasury, the national budget office, planning and statistical services, (v) the administration of the external affairs and services.



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