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Rwanda

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National Budget Brief

Investing in children in Rwanda

2020/21

National Budget Brief: Investing in children in Rwanda
2020/2021

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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 the macroeconomic performance and the size and composition of budget allocations to priority sectors for children, namely Health (including nutrition), Education, Social Protection, and Water and Sanitation for the fiscal year 2020/21. The budget brief aims to synthesize complex macroeconomic 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.

Key Highlights

- **The Rwandan economy recorded an annual growth rate of 9.4 percent in 2019, however growth will decelerate to 2 percent in 2020 as a result of the COVID-19 pandemic.** To facilitate recovery, there is a need to continue implementing the pro-growth plans and relief measures outlined in the Economic Recovery Plan (ERP) as approved by Cabinet in April 2020.
- The government has been very successful in raising additional funding from international finance institutions and negotiating the re-programming of donor funds in the first few months of the COVID-19 crisis. Going forward, the government should develop a medium-term strategy for resource mobilization to steer the country towards recovery.
- **The budget allocations for priority sectors for children (Education, Health including nutrition, Social Protection and WASH) have increased** from FRW 752.9 billion in the 2019/20 revised budget to FRW 968.0 billion in 2020/21. This is equivalent to a 28.6 percent increase in nominal terms. However, the WASH sector needs further prioritization in budgeting given the proven contribution of good hygiene and frequent hand washing in the prevention of COVID-19. Furthermore, there is a need to strengthen the capacity of the Health Sector to be able to deal with the COVID-19 crisis while simultaneously safeguarding the provision of other health services for the population.
- **The government response to the COVID-19 pandemic is expected to cost about 3.3 percent of the national GDP. The size of domestic taxes and non-tax revenue is expected to decline when compared to 2019/20 targets,**



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from FRW 1,825.2 billion to FRW 1632.2 billion reflecting a decrease of 10.5 percent. This, therefore, constrains the fiscal space amidst the increased demand for government interventions to sustain socio-economic resilience, and calls for more innovations in resource mobilizations, as well as increased public and private partnership to implement pro-poor and growth-inducing strategies in the short and medium term.

- **Despite the high performance of national budget outlays (93.7 percent) in 2019/20, most child-focused sectors continue to experience low level budget execution relative to the national average of budget execution.** There is a need to strengthen budget absorption capacity among social sectors, through stronger investment in planning, budgeting and monitoring, as well as timely procurement.

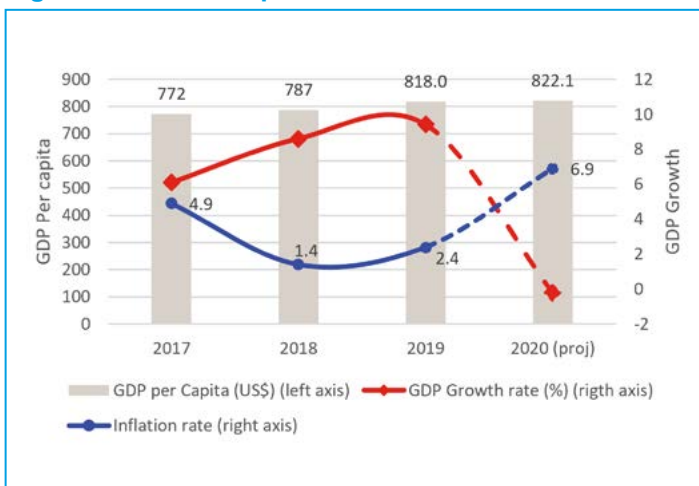
1. Introduction

1.1. Rwanda Macroeconomic Performance

With the exception of the recent outbreak of COVID-19 which halted the pace of economic growth, the Rwandan economy has recorded a strong and inclusive growth rate over the past two decades. In 2019, the recorded annual growth rate was 9.4 percent, the highest rate within the past decade, beating the forecasted growth of 8.5 percent at the beginning of 2019. However, the International Monetary Fund (IMF)'s growth forecast as of June 2020 shows that in the context of COVID-19, the Rwandan economy will contract by 0.2 percent in 2020 and rebound to 6.2 percent in 2021. All sectors of the economy, including the domestic revenue collection, will experience shocks, with the services sector being the hardest hit. GDP per capita growth will also decelerate to US\$822.1 in 2020, slightly up from US\$818 in 2019. Rwanda's inflation level is also expected to upsurge from 2.4 percent in 2019 to 6.9 percent in 2020, **Figure 1**. There is a need to continue implementing monetary measures to contain inflation at low level (less than 5 percent) to prevent a negative effect on the poorest and other vulnerable households.

To strengthen macroeconomic stability in the medium term, the Government of Rwanda in collaboration with the IMF has, since 2019, been implementing a Policy Coordination Instrument (PCI) programme which focuses on creating budget space for the implementation of Rwanda's National Strategy for Transformation (NST1).

Figure 1: Economic performance



Source: MINECOFIN Macroeconomic Framework data



1.2. The Government Response to the COVID-19 Crisis

To prevent heavy socio-economic tolls from COVID-19, the Government of Rwanda has (i) put in place and strongly enforced health and other preventive measures to contain the spread of the virus, and (ii) developed and implemented an

economic recovery fund and economic recovery plan. The latter includes a costed social protection response to support poor households and other vulnerable groups to cope with income shocks.



Box 1: Summary of implemented COVID-19 containment and prevention measures

March 21st – May 1st, 2020: Lockdown period

- Closure of all non-essential businesses throughout the country,
- Places of worship were closed,
- Schools and higher education institutions (both public and private) were closed,
- All employees (public and private) were required to work from home and embrace technology, except those providing essential services,
- Farming activities continued in preparation for the agricultural season B while observing guidelines from health authorities,
- Large gatherings such as weddings and sporting events were postponed, and the number of people attending burial ceremonies minimized (no more than 15),
- Businesses and restaurants were allowed to continue, but only providing take-away services,
- Unnecessary movements were to be avoided,
- Travel between different cities and districts of the country was not permitted, except for medical reasons or essential services,
- Transport of food and essential goods was permitted,
- Land and areal borders were closed except for except for goods and cargo, as well as returning Rwandan citizens and legal residents, who were subject to a mandatory 14-day quarantine at designated locations,
- Use of electronic payments and online banking services were encouraged whenever possible.

Lockdown measures were gradually lifted from May to August 2020. To cater for COVID-19 cluster areas, the government has been also implementing a series of localized lockdown measures targeting certain districts, as well as villages in Kigali where the majority of infections occurred.

As the lockdown measures were eased, the economy also started to recover. However, full recovery will depend on the trend of new infections as well as the early discoveries of effective therapeutics and/or vaccines.

a. Economic Recovery Plan

The Organisation for Economic Co-operation and Development OECD² (2020) has estimated that the government's Economic Recovery Plan (ERP) in response to the pandemic is valued at about 3.3 percent of GDP. On 30th April 2020, Rwanda's Cabinet adopted the ERP for the period of May to December 2020 which sets out a coordinated response to mitigate the socio-economic impact of COVID-19. The following are the key priority areas of the ERP:

- Contain the pandemic and strengthen the health system by 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 that is not dependent on what is happening in the rest of the world,
- Support businesses and protect jobs.

The total cost of COVID-19 on economic recovery is so far estimated at FRW 882 billion over the two fiscal years 2019/20 and 2020/21 and will contribute to an increase of the fiscal deficit of about 4.4 percent of GDP on average per year. There is a need for continued innovations for more resource mobilizations, as well as new strategic public private partnerships to implement pro-poor and growth enhancing strategies.



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b. The Prioritization Principles in the 2020/21 Budgeting Process

In his presentation of the draft budget law to the Parliament in June 2020, the Minister of Finance and Economic Planning highlighted to the Parliamentarians from both Chambers that the government would prioritize spending on activities that will boost the economy as part of a broader effort to respond to the impact of COVID-19. Broadly, the 2020/21 Budget Framework Paper highlighted that in preparation of the budget, the priorities were mostly placed on the interventions aimed at supporting economic recovery from the strain of the national lockdown. In addition, policies and strategies to implement medium-term development goals, as guided by the National Strategy for Transformation (NST1), were also given due consideration. The following are the listed guiding principles applied in the budgeting process:

- Strengthening the health system,
- Increasing agriculture and livestock productivity,
- Scaling up social protection coverage,
- Creation of employment opportunities through investment in public works and support to micro, small, medium and large enterprises affected by COVID-19.

Given the complex nature of the crisis created by COVID-19, there is a need to set up a special mechanism for a budgeting approach that is responsive to the effects of the pandemic across different sectors. This approach will enlighten the financing gap and lay the groundwork for more resource mobilization.



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

2. National Budget Trends

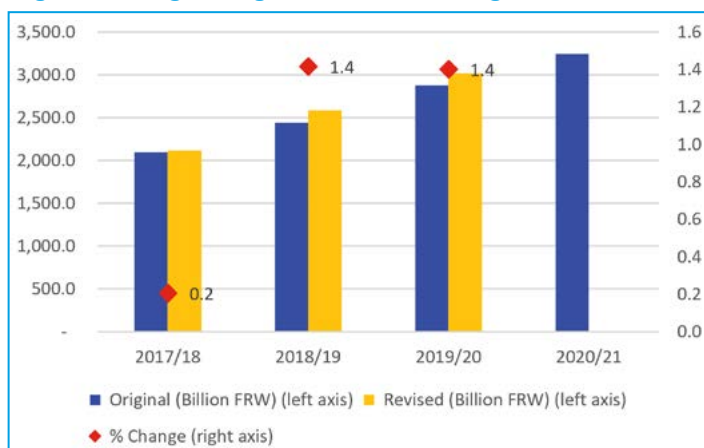
2.1. Rwanda's National Budget Continues to Expand in Real Terms.

For 2020/21, the total national budget in nominal terms amounts to FRW 3,245.7 billion compared to FRW 3,201.7 billion, as per the revised budget law of 2019/20. This reflects a real budget increase of 5 percent when compared to the revised budget of 2019/20 (**Figure 2**). The trend analysis of the past four years (2017/18 - 2020/21) shows that the national budget has been recording an annual positive increase. This indicates the government's ability to mobilize more resources to finance priority programs.

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

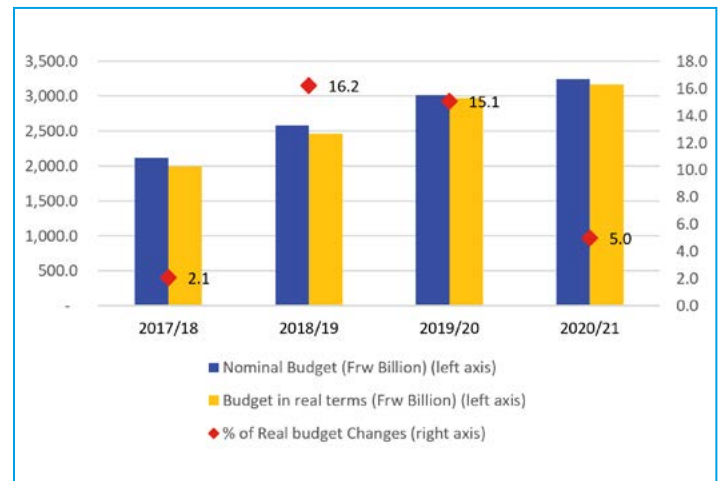
Article 41 of the Organic Law¹ N° 12/2013/OL of 12/09/2013 on State Finances and Property states that “the Minister of Finance may submit the revised draft budgets to the Chamber of Deputies [...]”, thus, in January the national budget is revised and most of the sectors have registered budget changes. The revised budget is the final budget as it captures the emerging priorities during the financial year and new donors' financing which comes in during the budget implementation cycle. A comparison of the originally approved and revised budgets indicates that, over the past four years, the national budget was consistently revised upward. In 2019/20, the budget was incremented by 1.4 percent from FRW 2876.9 billion to FRW 3017.1 billion (**Figure 3**). The upward budget revision is an indication of expanding fiscal space to finance the emerging priorities throughout implementation of government plans.

Figure 3: Original against revised budget trends



Source: State finance laws

Figure 2: Budget allocations trends: nominal against real budgets and % changes



Source: State finance laws



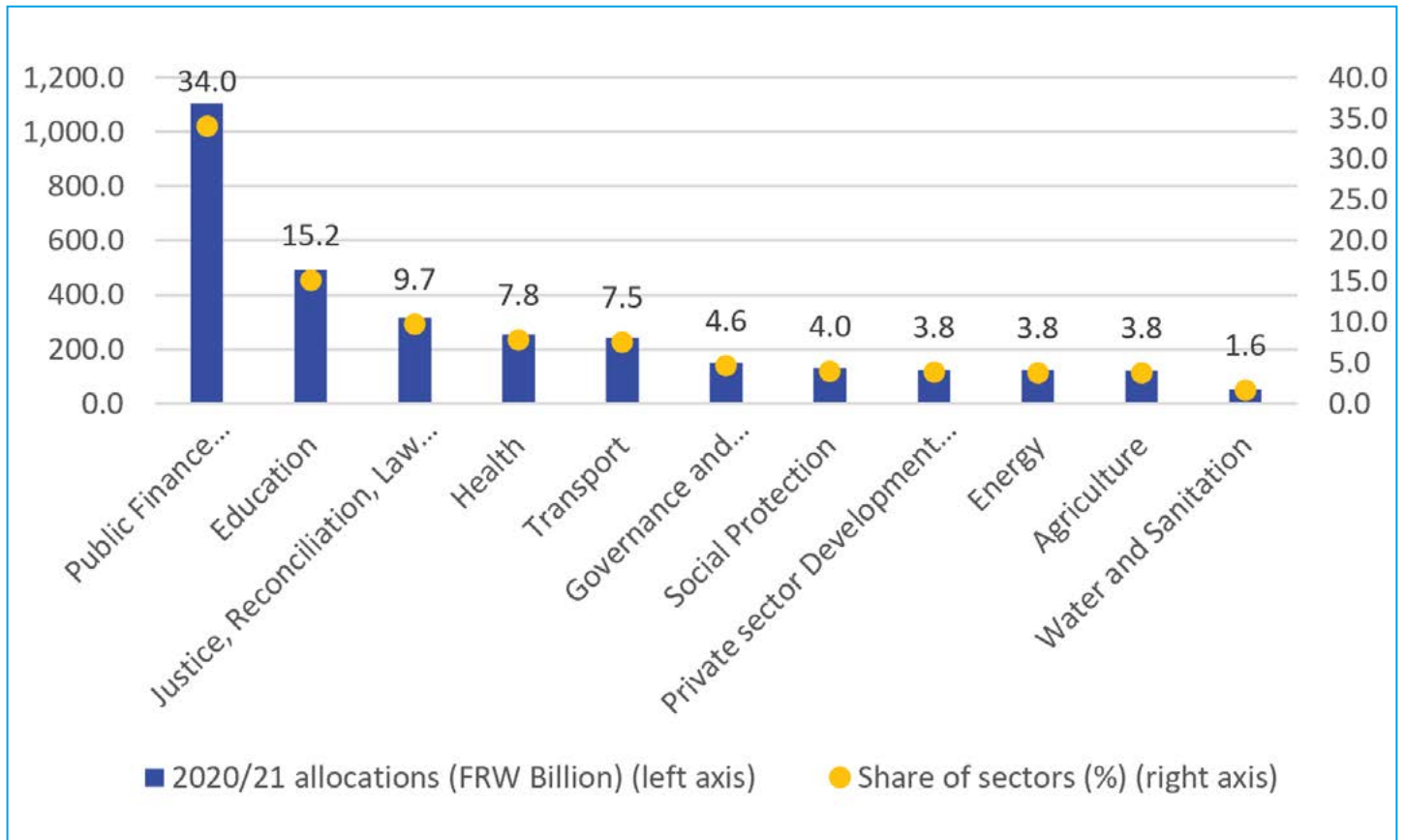
3. Budget Allocations by NST pillars and NST Sectors

The budget for the financial year 2020/21 responds to the financing needs to implement the National Strategy for Transformation priorities to reach the mid-year targets. Among three pillars, the Economic Transformation pillar was allocated 55.5 percent, the Social Transformation pillar which includes most of the priority sectors for children was allocated 29.6 percent, the highest rate in recent years, and the Transformational Governance pillar was allocated 14.9 percent. **Figure 4** shows that the Public Financial Management (PFM)ⁱⁱ sector was allocated 34 percent, followed by the Education sector with 15.2 percent, and the Justice, Reconciliation, Law and Order sector (which includes public defence, national police and justice) accounting for 9.7 percent. The health sector is the 4th priority sector receiving an allocation of 8.8 percent of the national budget.



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Figure 4: Budget allocations by key areas of NST1 2020/21

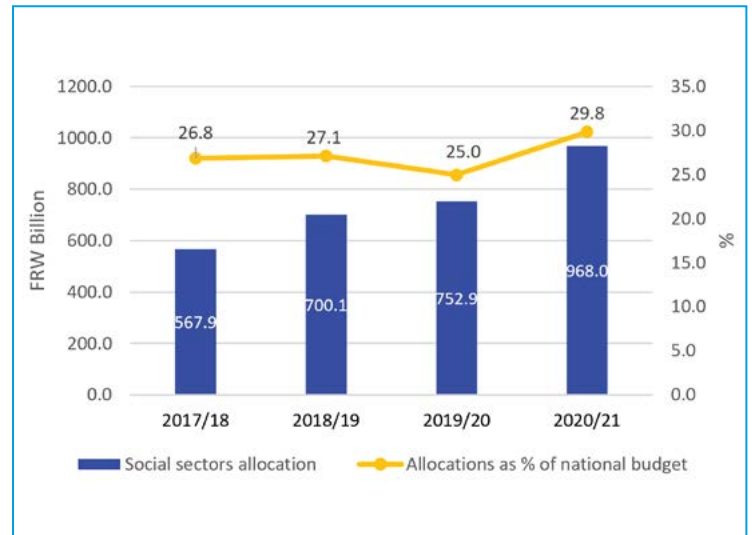


Source: State finance laws

4. Budget Trends by Priority Sectors for Children

Nominally, the budget allocated to priority sectors for children (Education, Health including Nutrition, Social Protection and WASH) has increased from FRW 752.9 billion in the 2019/20 revised budget to FRW 968.0 billion in 2020/21, reflecting an increase of 28.6 percent. Furthermore, allocations to these sectors as a share of the national budget have increased from 25 percent in 2019/20 to 29.8 percent (Figure 5). The overall increase of the budget to social sectors translates into action the development priorities outlined in the Economic Recovery Plan and the acceleration of the National Strategy for Transformation agenda. However, the WASH sector needs further prioritization in the budgeting given the high importance of good hygiene and frequent handwashing for COVID-19 containment and prevention.

Figure 5: Budget allocations by priority sectors and as a share of total national budget



Source: State finance laws

Note:

In 2020/21 the Government of Rwanda has allocated FRW 52.6 billion to different public institutions contributing indirectly to education. This represents 10.7 percent of the education budget (direct). Thus, a combination of direct and indirect budget for education increases the education budget as a share of the national budget to 16.8 percent.

Allocations for social protection cut across different sectors such as health. Therefore, the allocations shown in the national budget brief are lower than those outlined in the social protection budget brief to avoid double counting.



5. Decentralization of Social Sector Budgets

In nominal terms, the budget allocations to decentralized entities (districts) increased from FRW 249 billion in 2019/20 to FRW 332.7 billion in 2020/21. In addition, there is a slight increase of the decentralized budget of social sectors as a share of the overall budget for social sectors as it increased from 33.1 percent to 34.3 percent (**Figure 6**) There is a need to strengthen financial decentralization of social sectors services in order to increase public budget efficiency and quality service delivery.

6. Financing the National Budget

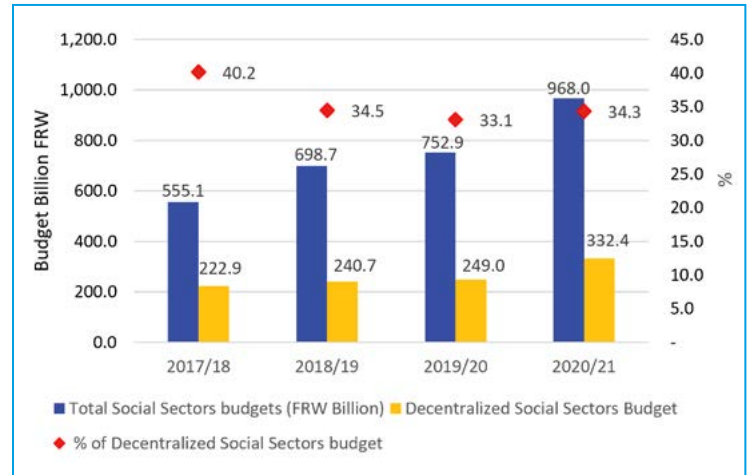
The national budget is mainly financed through domestic resources at 44 percent and external borrowing accounts for 24 percent, while external grants will contribute 15 percent in 2020/21.

The data presented in state finance laws for 2020/21 show that resources to be mobilized domestically. Tax and non-tax revenues, domestic borrowing, drawdown from government reserves account for 61 percent of the national budget, while the external financing (external borrowing and external grants) will contribute 39 percent.

However, **Figure 8** shows that the domestic taxes and non-tax revenues are expected to decline when compared to 2019/20 from FRW 1,825.2 billion to FRW 1,632.2 billion, reflecting a decrease of 10.5 percent. This decline is attributed to the effect of the COVID-19 pandemic which has heavily affected the business activities under service and industry sectors.

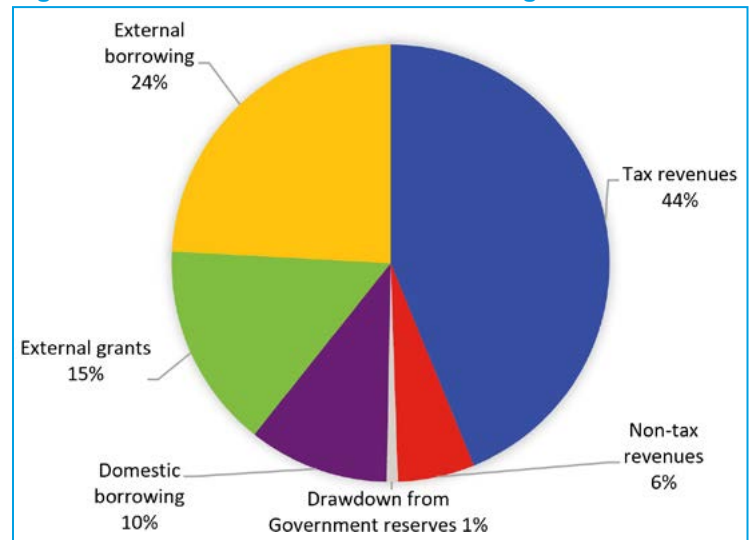
Furthermore, government borrowing will continue to rise from FRW 788.8 billion in 2019/20 to FRW 1,120.9 billion reflecting an increase of 42.1 percent. The fiscal space continues to narrow, which requires new innovative financing mechanisms to mobilize more resources to accommodate and deal with the impact of the COVID-19 pandemic. However, the IMF recent debt and sustainability analysis for Rwanda shows that the risks of external and overall public debt distress are **moderate**ⁱⁱⁱ but the country has still **adequate** capacity for debt servicing.

Figure 6: Decentralized budget for social sectors



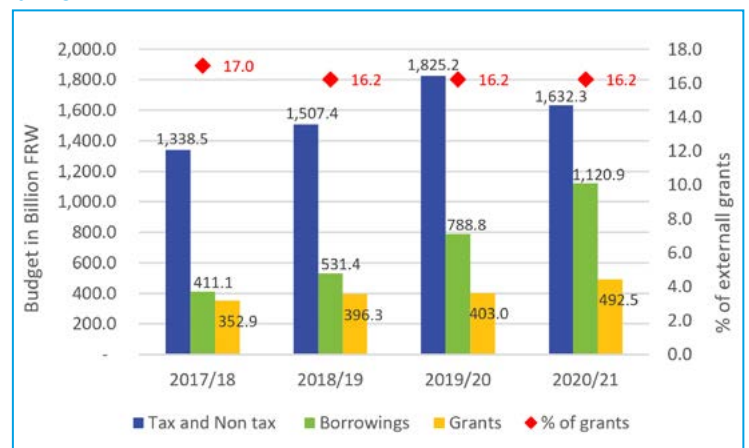
Source: State finance laws

Figure 7: Revenue sources National budget in 2019/20



Source: State finance law 2019/20

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



Source: State finance laws

Box: Financing commitments from Development partners

Institution	Amount committed (Million US\$)	Type of financing/sector
The World Bank	14.25	Fast-track package: COVID-19 Emergency Health sector budget support
The IMF	218.4	Rapid Credit Facility (RCF) for general budget support
The IMF	27.9	Debt Services Cancellation (Fiscal space strengthening)
African Development Bank (AfDB)	97.675	Loan for COVID-19 Response Facility general budget support
KfW	12.5	Grant to support for employment creation in recovery through private sector
European Union	61.36	Re-prioritization for social protection sector support
USAID	4	Emergency funding (Grant) for COVID-19 response

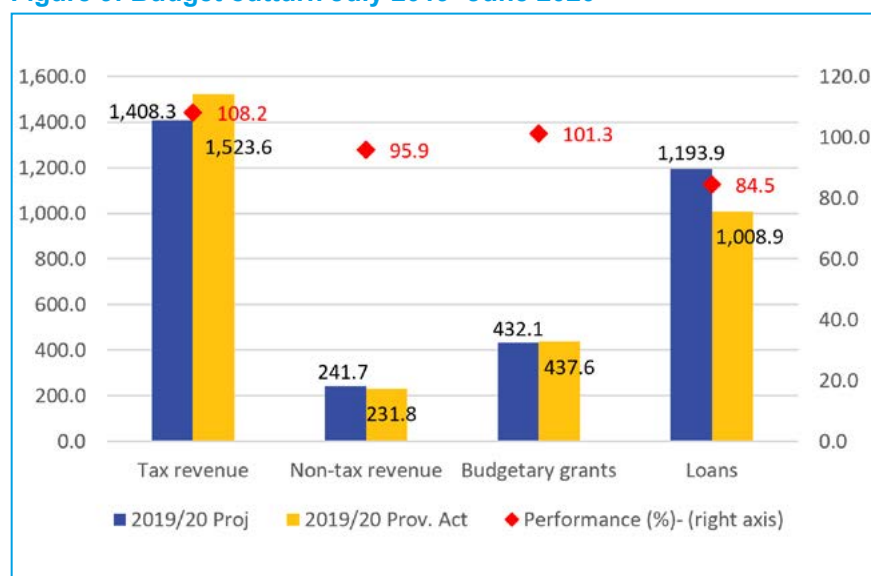
Source: Compiled by author

7. Budget Execution

7.1. Revenue Collection Performance: Budget Outturn

Tax revenue collection has upbeat initial expectations from a planned FRW 1408.3 billion to FRW 1523.6 billion 2019/20, reflecting a performance of 108.2 percent, while non-tax revenue performance was achieved at 95.9 percent (the total collections non-tax revenues amount to 231.8 billion against forecast of FRW 241.7 billion). Budgetary grants and public borrowing recorded the performance of 101.3 percent and 84.5 percent respectively (**Figure 9**). The good performance in tax collection is attributed to strong economic growth recorded before the Coronavirus outbreak and the early reopening of the economy after almost two months of economic lockdown.

Figure 9: Budget outturn July 2019 -June 2020



Source: MINECOFIN- Budget execution report 2019/20



7.2. Outlay Performance by Broad Categories

Overall, there have been higher budget outlays compared to projected expenditure. **Figure 10** shows that total expenditure and net lending reached 93.7 percent. The current expenditure recorded a performance of 96.4 percent, while capital expenditure performance was 92.2 percent. The low performance is attributed to the lockdown measures implemented during the 4th quarter of the financial year.

7.3. Budget Execution Among Priority Sectors for Children

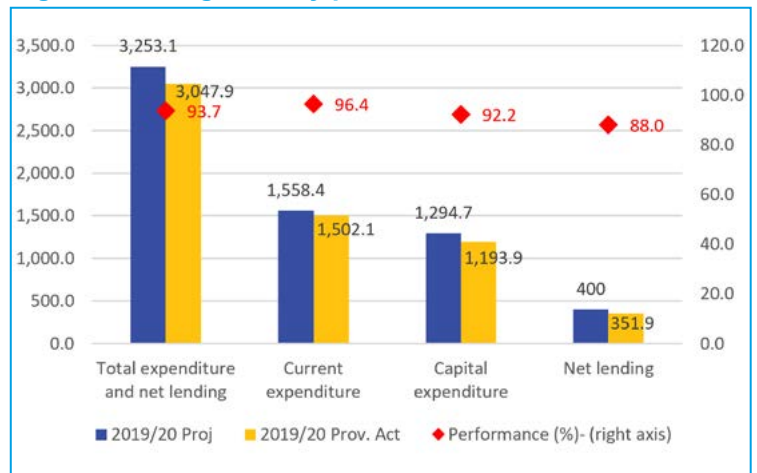
Despite the high national budget outturn and outlay performance in 2019/20, the budget execution rate among priority sectors for children is relatively low and has declined in two sectors (Education and WASH) when compared to 2018/19. The Health and Social protection sector budgets were executed at 83.3 percent and 69.4 percent respectively, while the Education Sector budget execution declined to 81.5 percent (recording a decrease of 9.5 percent). Water and Sanitation faced a massive slowdown at 61.6 percent compared to 80.4 percent in 2018/19 (**Figure 11**). A low budget execution rate is a critical challenge as it also undermines the efforts made by the government to increase budget allocations to most social sectors. There is, therefore, a need to strengthen budget absorption capacity through stronger investment planning and monitoring, as well as timely procurement. Due to COVID-19, the government response between March and June 2020 amounts to FRW 109.3 billion, distributed in different sectors as follow:

Table 1: COVID-19 related expenditure: March-June 2020

Sector	Expenditure: FRW billion
Health	26
Social protection and agriculture	59.3
Education	0.745
Trade facilitation	10.8
Water supply and sanitation facilities	0.5
State Owned Enterprises	12
The total COVID-19 related expenditure	109.3

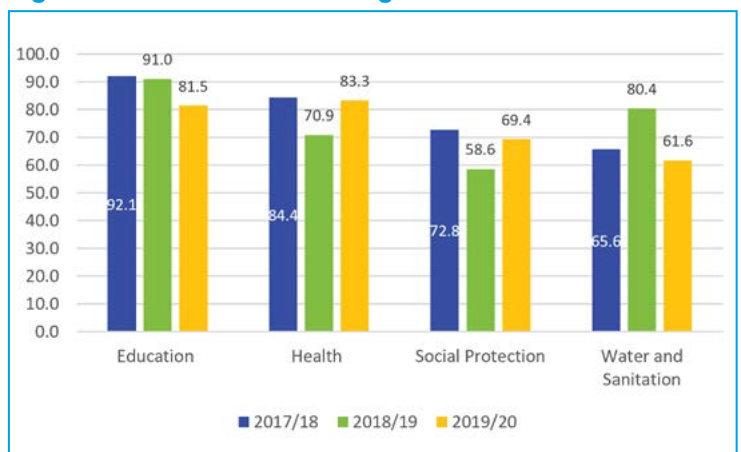
Source: MINECOFIN

Figure 10: Budget outlay performance for 2019/20



Source: MINECOFIN- Budget execution report 2019/20

Figure 11: Social sectors budget execution



Source: MINECOFIN's budget execution reports



8. Public Finance Management (PFM)

Over the past decade, Rwanda's PFM sector has undergone a series of reforms, ranging from institutional strengthening to individual capacity building within central and decentralized entities. A new Public Financial Management Sector Strategic Plan (PFM SSP 2018-2024) was developed to support the implementation of NST1.

The PFM SSP is defined by three high-level results articulated around the pillars of NST-1; (i) efficient and accountable use of public resources, (ii) effective service delivery and investments by districts and subsidiary entities,

and (iii) effective and responsible resource mobilisation and sound investment decisions.

Public budget transparency has also recently increased. The Open Budget Survey² (OBS) 2019 shows that Rwanda has achieved a score of 39 out of 100, up from the score of 22 within 2017, or a change of 77.3 percent during the same period. The increasing budget transparency index is an indication of the government's commitment to promoting greater openness in public finance, thus increasing budget efficiency.



8.1. Public Financial Management and External Oversight

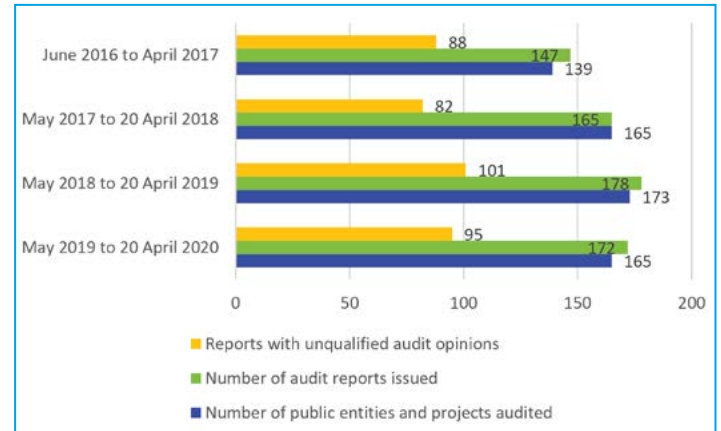
The Office of the Auditor General (OAG) is the Supreme Audit Institution (SAI) of Rwanda. The OAG was created in 1998 and became a SAI in 2003 with the mandate to annually audit revenues and expenditures of the State, including local administrative entities, public enterprises, parastatal organisations and government projects. The Auditor General covers compliance, performance, financing and IT (Information and Technology Audits). The Auditor General presents his report to Parliament within nine months after the end of the Fiscal Year (April).

The coverage of audited government finances has been expanding for the past years. However, due to the national lockdown implemented between March and May 2020, audit activities were also affected. As a result, the number of public institutions audited reduced from 173 in 2018/19 to 165 in 2019/20, and the number of generated audit reports reduced from 178 to 172 during the same period. This translated to a reduction of audit coverage from 86.6 percent to 80 percent of audited government expenditure.

The number of audit reports receiving an unqualified (clean) opinion reduced from 101 to 95 (**Figure 12**) for the FY 2018/19. The implementation of the Auditor General's recommendations remains low as it declined from 49 percent to 44 percent (**Figure 13**). Low level of execution of the OAG recommendations hinders the improvement in compliance with financial and other regulations during the execution of public funds, thus affecting the PFM efficiency and effectiveness. There is a need to establish a stronger framework for monitoring the implementation of auditor's recommendations.

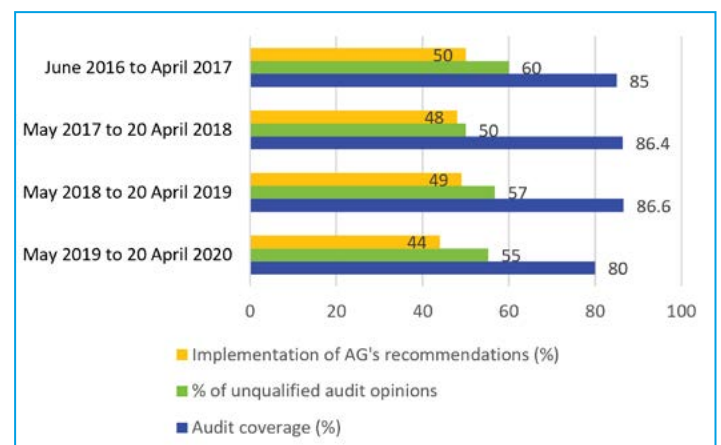
Regarding the OAG findings by type of audit, the 2018/19 report revealed that among the financial audit reports, 55.2 percent and 34.3 percent of audited institutions recorded a clean audit report in financial audits and compliance audits respectively (**Figure 14**).

Figure 12: Audit trends, reports and opinions



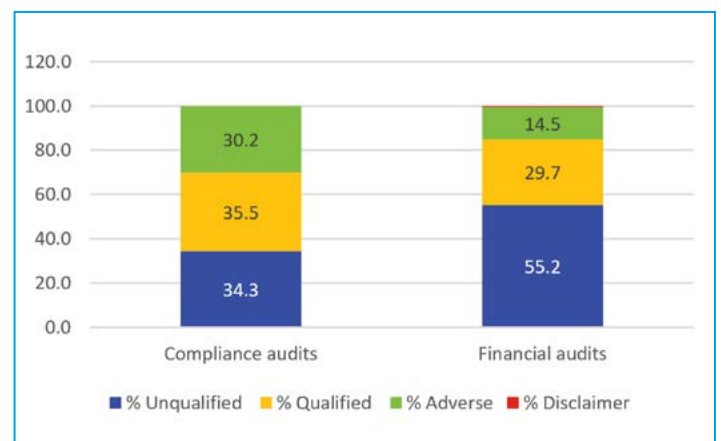
Source: Calculated using OAG Reports

Figure 13: Audit coverage, clean audit and implementation of OAG recommendations



Source: Calculated using OAG Reports

Figure 14: Auditors General's findings by audit types in 2018/19



Source: Calculated using OAG Reports

In recent years, the Government of Rwanda has realised commendable improvements in the utilization of public funds across different sectors. However, under priority sectors for children (Education, Health & Nutrition, WASH, Social Protection), the 2019 OAG report highlights some PFM issues needing priority consideration to increase efficiency. These include;

- Idle assets (Early Childhood Development Centers, health posts, health equipment in district hospitals),
- Delays in distribution of Fortified Blended Food (FBF) and milk to the children beneficiaries,
- Delays in the payment of VUP program beneficiaries and delays in transfers of capitation grant to the schools,
- Inefficiencies and irregularities in the implementation of the competence-based curriculum in primary and secondary schools, distribution of textbooks and mismanagement of ICT equipment in schools,
- Incomplete financial statements reported by the Water and Sanitation Corporation (WASAC).

There is a need to continue strengthening the capacity in budget efficiency improvement across social sectors and to increase the oversight by Parliament and district councils.

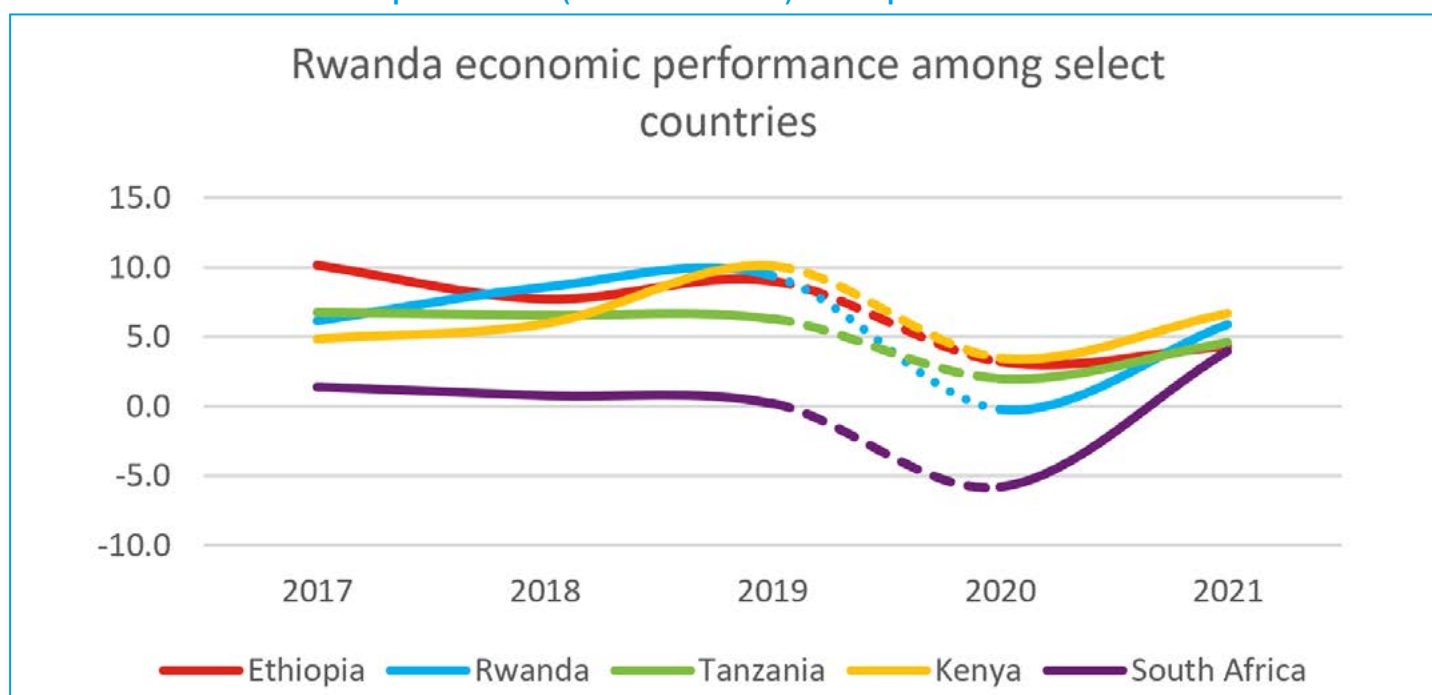


Annexes

Annex 1: Key development indicators: 2019/2020

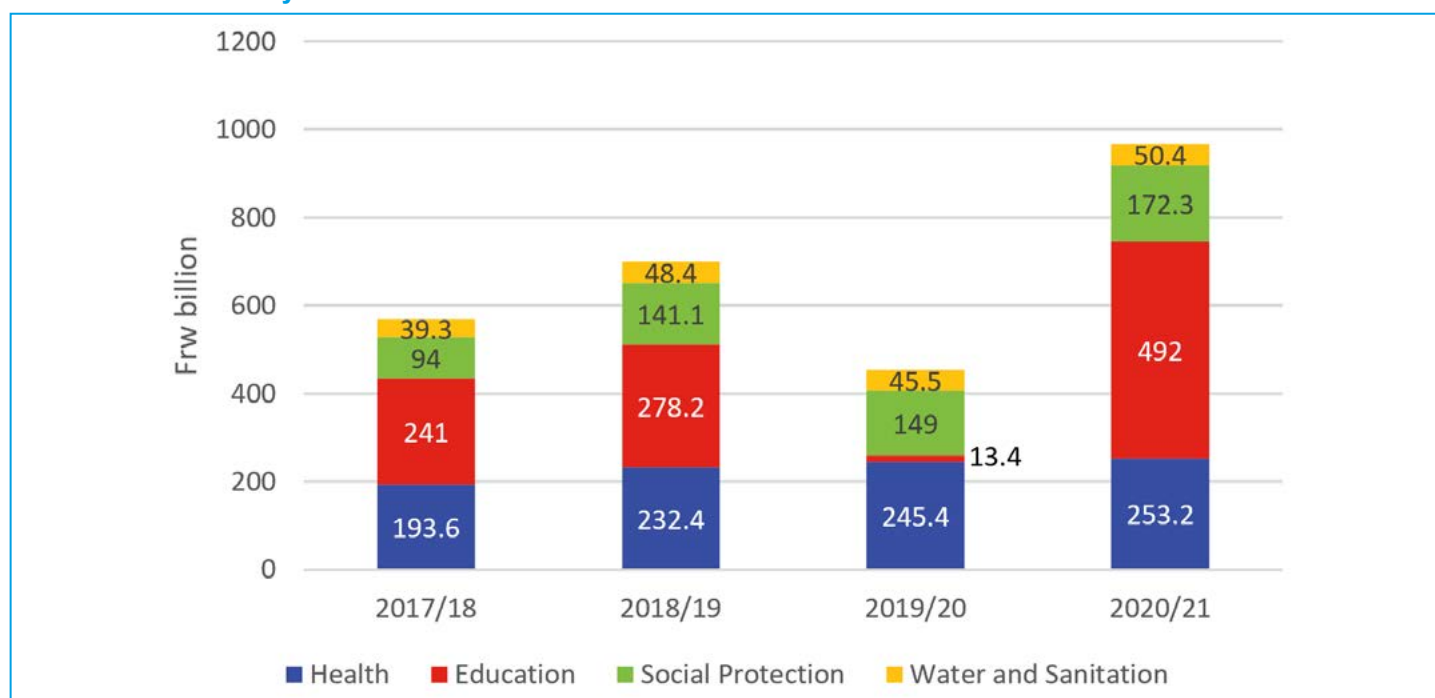
Indicators	
Total population (2020, projection)	12,663,116
Child population < 0–17 years (2018, projection)	5,640,570
Share of child population (0–17 years old) to total population	44.5%
GDP per capita (2019)	US\$ 818
Poverty rate	38.2%
Extreme poverty rate	16.0%
Multidimensional poverty rate	29%
Total government expenditure as a percent of GDP	28.8 %
Total social expenditure as a percent of national budget	29.8 %
Share of budget deficit (2020/21) to GDP	- 9.1%
Share of external finance to national budget (grants and loans combined) (2019/20)	39%
Share of tax and non-tax revenues to national budget	61.0%
Public debt to GDP ratio including grantees (2018)	49.0%
External public debt ratio to GDP	55.0 %
Inflation rate (2019)	2.4%

Annex 2: Rwanda's economic performance (GDP Growth rate) in comparison to the select countries



Source: IMF Economic outlook data 2020

Annex 3: Allocation by social sectors



Source: IMF Economic outlook data 2020

Annex 4: 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

Endnotes

- i http://www.minecofin.gov.rw/fileadmin/_migrated/content_uploads/Law_on_State_Finances_and_Property.pdf
- ii 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.
- iii <https://www.imf.org/en/Publications/CR/Issues/2020/04/16/Rwanda-Request-for-Disbursement-Under-the-Rapid-Credit-Facility-Press-Release-Staff-Report-49343>



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